CBHSuper

Investment Report April 2018

Investment markets have experienced increased volatility in the first three months of 2018 with the Australian share market (ASX 200 Accumulation Index) experiencing negative returns in January (–0.45%), positive in February (0.36%) and then back to negative in March (-3.7%). Despite the share market volatility, the global economy continues to strengthen over the first three months of 2018 and growth is expected to remain above trend as major economies continue to build on their positive base. Solid economic data has resulted in good levels of job creation and rising business investment.

While the economy appears solid, share markets have continued to experience large swing due to uncertainty surrounding geo-political issues, trade wars, interest rates and President Trump's tweets. The Australian share market underperformed global peers during March, with the ASX 200 Accumulation Index down -3.7%. The announcement of tariffs on steel and aluminium imports by the US led to concerns about demand for iron ore and its price declined 20% over the month. This in turn affected Resource stocks, which fell -5.7% over the same period. Financials also declined as allegations of misconduct surfaced during the Royal Commission's inquiry into the industry. From a sector perspective, Financials (-2.10%), Materials (-0.60%) and Real Estate (-0.40%) were the largest detractors on the market, while Health Care (+0.47%) was the largest positive contributor.

The global share market also experienced stronger volatility in the first three months of the year. Markets started off positively with share markets up in January 2018. However, this was negated by February which saw a sizable global equity sell off amid concerns about escalating inflation and interest rate hikes despite what was previously indicated by the US Federal Reserve. Part of these concerns revolved around the Trump administration's fiscal plans and the President's ability to get policy changes through Congress and their eventual impact on the economy. March was then a tale of two halves as global equity markets rallied in the first half of the month and then sold off during the second half to finish down -2.3%. The market had priced in US tariffs on steel and aluminium imports, but sentiment quickly deteriorated when a further USD 60 billion in tariffs on Chinese imports were announced, with China retaliating and announcing its own tariffs on US goods. Market sentiment was also negatively impacted by data security concerns at Facebook, resulting in a selloff of the technology sector. Facebook led the markets lower with the company's share down -10%, while Amazon declined -6% after questions were raised about its tax practices.

Elsewhere, the economic situation continues to improve in Europe with the unemployment rate declining further. In Japan, economic data remain positive with business conditions back to pre-GFC levels, economic growth at a reasonable pace of 2% and headline inflation accelerating to 1.5%.

Since the beginning of the year, the US S&P 500 Index is down -1.2%, Euro Stoxx 50 Index down -4.1%, Shanghai Composite Index down -4.2% and the MSCI World ex Australia Accumulation Index down -2.3% in local currency terms and 0.8% in unhedged AUD terms.

The Australian dollar is down -1.7% against the USD since the beginning of the year (US$0.78 to US$0.77).

In Australia, the Reserve Bank has left the cash rate at 1.5% with many expecting the Reserve Bank to keep rates at historically low levels given Australia is experiencing low inflation, low wages growth, tough retail conditions and signs of potential cooling in housing on the east coast.

With rising trade tensions between the US and China unsettling the market sentiment, bonds rallied in this risk-averse environment, with 10-year US Treasury bond yields down to 2.74%, and 10-year Australian government bond yields down to 2.60%.

More recently, there are growing concerns about the conflict in Syria and the tension between the United States and Russia. There appears to be a number of risks that could negatively impact global markets should they escalate. The Fund continues to implement a diversified portfolio approach and monitor market conditions.

Brendan Shepherd

Chief Investment Officer, CBH Super