VISSF
An education industry super fund
GROW WITH US

Market Update

March 2015

Share markets rise

Global share markets made strong gains in the three months ended 31 March. The early part of the period saw stocks rise on the back of the European Central Bank (ECB)'s decision to implement its own US-like quantitative easing program. The ECB said it will purchase EUR60 billion of euro-zone government bonds each month between March 2015 and September 2016 as it tries to combat deflation and revive the ailing euro-zone economy. Share markets were also buoyed by news Greece had struck a deal with its European Union partners to keep the country's government solvent in the near-term, expectations the US Federal Reserve (Fed) will raise interest rates only gradually, a ceasefire between Russia-backed separatists and Ukraine and further stimulus in China. Limiting the gains were some disappointing fourth-quarter US growth data, a surging US dollar (USD) and lingering concerns over the global growth outlook.

Australian shares also had a strong quarter; the local market benefiting largely from the Reserve Bank of Australia (RBA)'s decision to cut interest rates in February. Also contributing to the gains were investors' ongoing search for higher-yielding assets, the ECB's quantitative easing announcement, renewed takeover activity and China's rate cut decision.

The Reserve Bank cuts interest rates

In February, the RBA cut the official cash rate to a historically low 2.25%; the central bank concluding that "taking into account the flow of recent information and updated forecasts... a further reduction in the cash rate was appropriate." The bank also noted that lowering the official cash rate "is expected to add some further support to demand, so as to foster sustainable growth and inflation outcomes consistent with the target." It was the first time since August 2013 that the RBA has cut interest rates; the decision coming against a backdrop of sub-trend growth, falling commodity prices, heightened political uncertainty and a still-high Australian dollar (AUD).

Australian dollar extends decline

The AUD continued to weaken throughout the quarter; the local unit pressured by the RBA's rate cut decision (and speculation of more to come), further USD appreciation and ongoing commodity price weakness, including sharp declines in iron ore and oil. The AUD fell 6.9% against the USD, 6.4% against the Japanese yen and 2.0% against the British pound. It rose 4.8% against the euro while the Australian Trade-Weighted Index[1] closed the period down 4.8%.

VISSF
An education industry super fund
GROW WITH US

Market Update

Domestic growth continues to disappoint

Domestic growth continued to disappoint in the final quarter of 2014 with gross domestic product rising just 0.5% in the three months ended 31 December; slightly less than the 0.6% most economists had been expecting. Contributing to the softer outcome were falls in non-dwelling construction and changes to inventories. On an annual basis, the economy grew 2.5%; down from the 2.7% growth recorded in the 12 months ended 30 September but nonetheless in line with the market consensus.

Looking ahead

Global economies kept investors guessing in 2014. At Russell, we had anticipated the global economic recovery would broaden and strengthen through the course of the year, and this scenario largely played out. Whilst the US began 2014 with a dip in growth, it is now growing strongly and we expect this trend to continue in 2015. However, the US is further down the road in the recovery process than other major economies and this is where the main tensions over the 2015 outlook lie. Exactly when – and just how far – will the Fed need to raise interest rates? And what will be the impact of these interest rate rises on central banks in Japan and Europe who are moving in the opposite direction? We expect it to turn out smoothly with the Fed moving gradually and with clear communication. However, markets could be spooked if inflation pressures emerge and force more aggressive Fed action, or if Europe and Japan fail to respond to additional central bank stimulus.

Economic developments in the Asia Pacific region in 2014 were somewhat idiosyncratic. Major countries in the region have been running their own race with relatively little correlation with each other or the US and euro-zone economies and we expect this will continue in 2015. Our view is that the Chinese, Australian and New Zealand economies will slow this year, albeit in a controlled fashion, and that the recovery will strengthen somewhat in Japan.

[1] The trade-weighted index for the AUD is an indicator of movements in the average value of the AUD against the currencies of our trading partners.