RHODES DOCHERTY & CO
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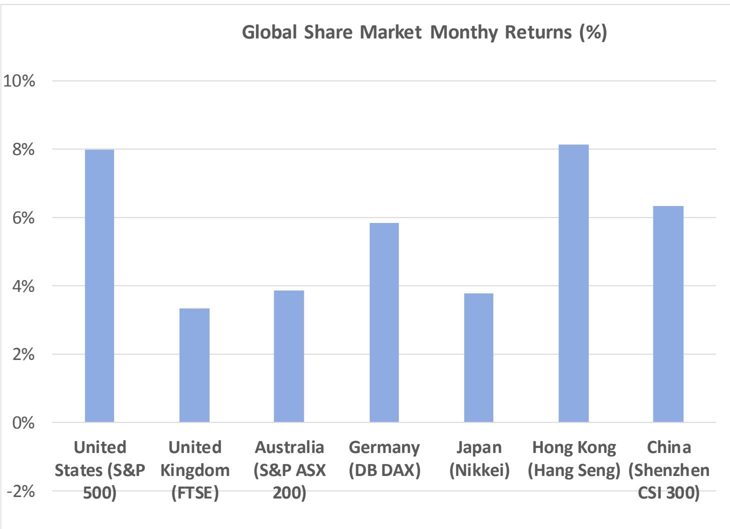
January 2019 Review – Share markets bounce back strongly

A strong recovery on global equity markets over January saw approximately half of the December quarter decline reversed. Highlights for the month were as follows:

- A significant bounce back occurred across all major world share markets.
- Bond yields continued to drift lower as the U.S. Federal Reserve appeared to soften its stance.
- Lower bond yields resulted in significant gains on listed property and infrastructure markets.
- Commodity prices strengthened as the oil price slide reversed and iron ore jumped suddenly.

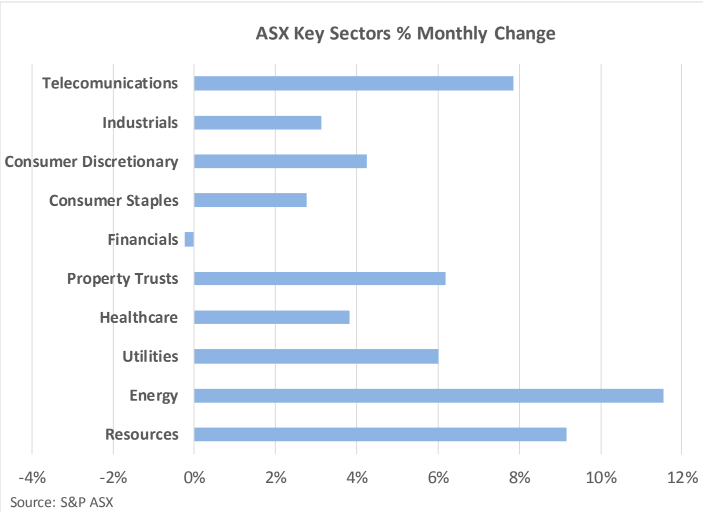
Asset Class Return	Jan-19	3 Months	Annual
Australian Equities	3.9%	1.5%	2.7%
Global Equities - Unhedged	4.1%	-2.2%	3.8%
Global Equities - Hedged	7.1%	-0.6%	-4.7%
Australian Listed Property	6.2%	7.5%	9.5%
Global Listed Property	10.0%	7.0%	6.7%
Global Listed Infrastructure	7.5%	6.1%	-1.3%
Australian Fixed Interest	0.6%	2.4%	4.7%
Global Fixed Interest	1.0%	2.9%	2.9%
Cash	0.1%	0.4%	1.5%

In a particularly strong post-Christmas global share market rally, equity markets averaged gains of 7.1% over January. Once again, it was the U.S. market that led the direction of other markets, with the U.S. Federal Reserve offering a more "dovish" and patient tone in its communications around future interest rate settings. Commentary from the Federal Reserve was interpreted by financial markets as implying a softened commitment to raising cash interest rates over 2019. As a result, positive sentiment returned to the U.S. equity market, with the S&P 500 Index jumping 8.0% over the month. Other developed markets also advanced strongly; although not to the same extent as the U.S. The continued lack of resolution to the United Kingdom Brexit process may have weighed on sentiment across Europe, with the U.K. market being amongst the weaker performers with a 3.6% increase. Japan's Nikkei Index also continued to lag the global average, rising by just 3.8%. Over the past quarter, the Japanese market has performed relatively poorly, with its strong currency contributing to 5.2% decline.

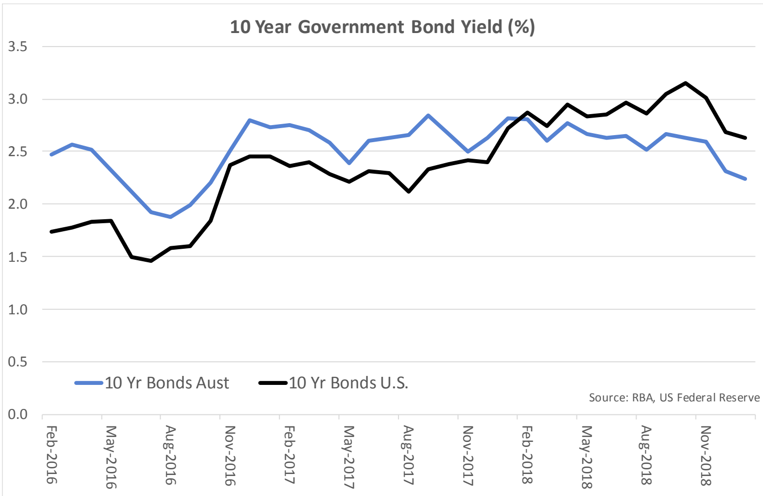


January was also a strong month for share markets in emerging economies. News that Chinese authorities were implementing various forms economic stimulus following a string of weaker economic data was well received. The Shenzhen CSI 300 Index increased 6.3%. Other Asian markets followed China's lead with Korea posting a strong gain of 10%. India was the exception, however, finishing flat for the month.

Headlines on South American markets were dominated by a tragic dam collapse in a Brazilian iron mine. Shares in Vale, the company operating the mine (who is also the world's largest iron ore miner), fell 25% in the days following the dam collapse. Despite this, the Brazilian share market still finished the month 10.7% higher. The mine collapse also led to a spike in the spot price of iron ore, which finished the month 21% higher. Other commodities were also generally strong over the month, with oil reversing half of its 38% decline from the December quarter in positing a rise of 19% last month. Overall, the Reserve Bank's Commodity Price Index advanced 1.2% over January.



Higher commodity prices contributed to the 3.9% increase in the local S&P ASX 200 Index last month. Energy (up 11.5%) and resources (up 9.2%) were the two strongest sectors. In contrast, the market's largest sector, financials, finished in slight negative territory ahead of February's release of the Royal Commission recommendations. Export orientated stocks may have been negatively impacted by the stronger Australian dollar. Healthcare, for example, marginally lagged the broader market with a 3.8% rise. Against the $US, the $A rose by U.S. 2.1 cents to finish the month at U.S. 72.7 cents. The $US dollar was weaker against most currencies as the softer outlook for interest rates made the currency less attractive to global investors.



The change in tone around U.S. monetary policy had a wide ranging impact, with bond yields falling around the globe for the third consecutive month. The U.S. 10-year Treasury Bond yield fell from 2.69% to 2.63%, with Australian bond yields dropping 0.08% to 2.24%. The ongoing fall in bond yields triggered a significant rally in listed property and infrastructure investments. With yields on these asset classes becoming more attractive on a relative basis, valuations on global listed property markets jumped 10.0%, with global listed infrastructure rising by 7.5%. Domestically, listed property trusts were 6.2% higher, bringing the annual gain to 9.5%. Australian listed property is now the best performed of the major asset classes over the past year.

Outlook

The strong rally across global equity markets over January was in response to a change in the outlook for interest rates, rather than being associated with any change in the outlook for economic growth or earnings. With the global interest rate outlook unlikely to continue to soften from here, further growth in equities will likely require some improvement in the general earnings outlook. The February reporting season may provide a useful reference point for an assessment of this outlook.

January's share market rally does add to the potential for the equity market to be negatively impacted should interest rates revert to the upward trend that dominated much of 2018. With labour market conditions in the U.S. still particularly tight, the prospect for inflationary pressures to re-emerge remains. Should inflation pick up from current levels, the central bank in the U.S. will have little option other than to raise cash interest rates, which are still slightly shy of a longer-term neutral position. Given the possibility of this scenario, we continue to remain cautious around net exposure levels to equities and interest rate sensitive assets more broadly.

Important Information

The following indexes are used to report asset class performance: ASX S&P 200 Index, MSCI World Index ex Australia net AUD TR (composite of 50% hedged and 50% unhedged), FTSE EPRA/NAREIT Developed REITs Index Net TRI AUD Hedged, Bloomberg AusBond Composite 0 Yr Index, Barclays Global Aggregate ($A Hedged), Bloomberg AusBond Bank Bill Index, S&P ASX 300 A-REIT (Sector) TR Index AUD, S&P Global Infrastructure NR Index (AUD Hedged).