

Economic update

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Ben reviews events in Australian and overseas markets during April.

How did markets perform in April?

Surprisingly, global markets remained relatively resilient in April. The political tensions simmering in the Ukraine appear to have had little impact on market sentiment, with shares and bonds mostly generating modest returns for investors in April.

In the US, earnings results had a bigger impact on investment markets than geopolitical events. The market there finished flat after recovering from a mid-month sell-off of tech stocks seen as overvalued.

Elsewhere, European markets remained calm, with share markets up 0.7%. Japan's market slid back 2.5% as the yen strengthened slightly, and emerging markets remained under pressure. In Australia, both the Financials and the Materials sector had a good month, helping the domestic market advance 1.7%, and our dollar was flat against the US dollar.

Are US corporate earnings growing?

The US share market is about half way through first quarter earnings results, and although headline numbers look healthy, companies are tending to lower their expectations for full year earnings. Market estimates of annual earnings growth have been wound back to 4.8%, from 7.9% just three months ago.

Slowing margin growth is the main culprit behind the fall-back in earnings momentum. Profit margins, which have expanded since the financial crisis, are now near previous extremes and might be running out of steam. If this is so, companies will need to grow their revenue to maintain earnings. However, this isn't necessarily a bad thing for the US economy, as the pressure on margins could well come from higher wages and an increase in investment.

What is MLC's investment approach?

At MLC, we don't try to second-guess short-term economic or market moves. Instead, we pay attention to fundamentals and think broadly about what might happen. This means that we consider many scenarios, including some in which conditions change and some in which the current market distortions remain dominant for a long period of time. Thinking broadly about all these potential futures puts us in a good position to assess the risk, return and diversification offered by different investments. This in turn helps us manage uncertainty and grow investors' wealth.

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