

Economic update

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Brian reviews events in Australian and overseas markets during April

How did markets fare in April?

April was a terrific month for investors. Domestic and global shares performed very strongly. World share prices rose around 2% in aggregate.

The big winners over the month were shares in some of the peripheral European markets. Share prices in Italy jumped by around 8%, and in Spain and Greece, by around 11%.

Elsewhere, shares in Japan had another great month: prices were up around 12%, and that followed a 7% gain in March. Even though Japan's economy is still struggling, the Bank of Japan announced some impressive measures to inject massive liquidity into the financial system and weaken the Japanese yen. That's really boosted sentiment in Japanese shares.

If we look at the last 12 months, returns from Australian and global shares have been very strong.

Fixed income investors also had a great month. Yields in the major markets fell back and produced some very good gains for bond holders.

What about the local share market?

In March, domestic shares went against offshore markets – global markets did well while our market fell pretty sharply. This month, Australian shares joined in the rally. In fact, our market was one of the better performers, with

prices up by around 4.5%. And that was despite the fact that resources stocks continued to be very weak – it was the banks and real estate trusts that were the stars in April.

How is the global economy faring?

The economic data released around the world during April tended to be quite a lot weaker than markets expected. Despite that, share markets did very well. We seem to be in an environment where weaker economic news is viewed as another reason for the world's central banks to keep their extraordinary monetary policy measures – especially quantitative easing – in place for longer. Markets view that positively.

Certainly the Bank of Japan's quantitative easing announcement was viewed – rightly or wrongly – as something of a game changer for Japan.

What about Australia's economy?

The Australian data have also tended to be slightly weaker than expected. In particular, the labour market still seems to be weakening, with unemployment drifting higher.

And the inflation news has been fairly benign. March quarter inflation data showed inflation won't be any obstacle if the Reserve Bank of Australia feels the need to give the economy more help by lowering interest rates.

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What's the outlook for investment returns?

We're becoming quite concerned that share markets have run too far ahead of stocks' fundamentals – in particular, too far ahead of corporate profits. To justify some of the gains markets have made, we need to see decent profit growth from here.

We still think future share market returns still look considerably better than bonds, cash or residential property. But being in the right shares, and managing risk really well, will be extremely important.

While it's tempting to look for safe havens such as government bonds after such a strong share market run, the reality is future returns from those safe havens look very poor.

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