

## ASSET CLASS PERFORMANCE: A MONTH OF TWO HALVES

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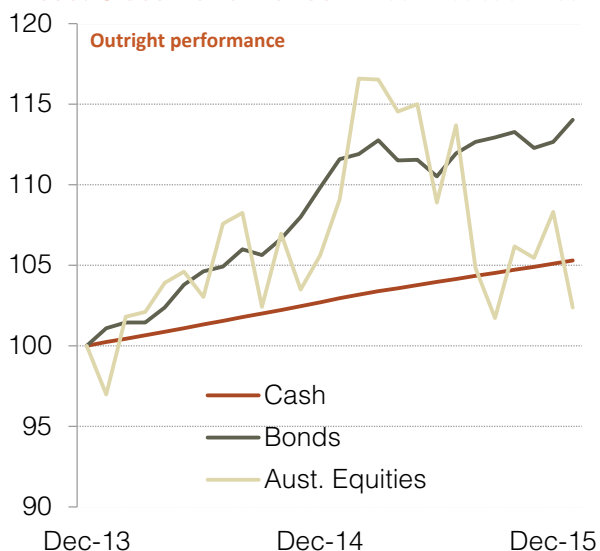
### Return Performance\*

### Performance Rank

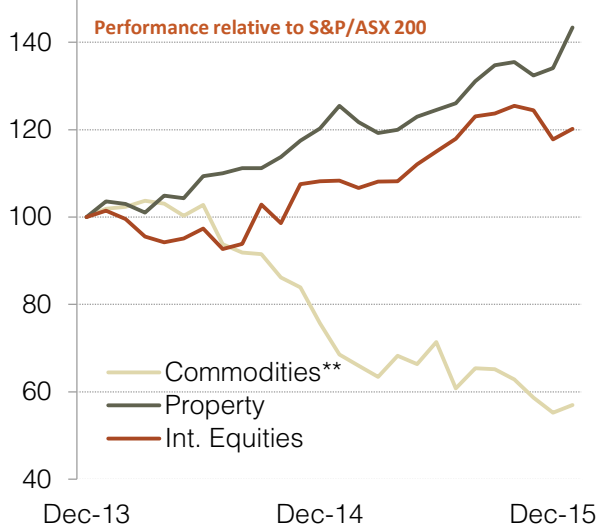
	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.2%	0.6%	1.1%	2.2%	3	3	3	3
Aust. Bonds	1.0%	2.6%	2.3%	3.0%	2	2	2	2
Aust. Property	2.9%	8.1%	9.8%	6.4%	1	1	1	1
Aust. Equities	-1.8%	-4.6%	-4.0%	-13.7%	6	4	4	5
Int. Equities*	-1.4%	-7.4%	-5.9%	-2.4%	5	6	5	4
Commodities**	-0.5%	-6.2%	-15.2%	-24.5%	4	5	6	6
Int. Equities**	-1.4%	-9.2%	-4.9%	-9.7%				
World currencies vs \$A	0.0%	1.9%	-1.0%	8.1%				

- Global equity markets eased further in February after a major slump during January, but it was really a month of two halves. After bottoming around mid-month, equity markets enjoyed a strong bounce over the remainder of February due to reassuring United States economic data, and more talk of monetary stimulus in Japan and Europe.
- Markets are now more confident the US will not suffer a recession anytime soon, and that central banks have more ammunition to fight deflation if need be through “negative” interest rates.
- Along with the rebound in equity markets, commodity prices and the \$A have also generally rebounded since mid-February. The \$A was flat over the month, with Australian equities marginally underperforming international equities on both a hedged and unhedged basis.
- For the month as a whole, however, the best performing asset class was listed property, followed by Australian bonds. Over the past year, Australian property remains the best performer, followed by Australian bonds, with commodities the worst.

Asset Class Performance\*: Index=100 at 31-Dec-13



\*\$A, total gross returns \*\*\$US



Source: Betashares, S&P, MSCI, Bloomberg

### 2016 MARKET OUTLOOK: GOING DEFENSIVE

#### Asset Class Tactical Views: March 2016

	Underweight	Neutral	Overweight
<b>Growth vs. Defensive</b>			
<i>Aust. Equities vs. Bonds</i>	✓		
<b>Defensive</b>			
<i>Cash vs. Bonds</i>		✓	
<b>Growth</b>			
<i>Aust. Property vs. Aust. Equities</i>			✓
<i>Int. Equities* vs. Aust. Equities</i>			✓
<i>Commodities** vs. Aust. Equities</i>	✓		

\*Unhedged \*Hedged

- Despite the rebound in risk markets over the second half of February, our broad asset allocation themes held up well during the month – with equities down for the month as a whole, and international equities and listed property outperforming the Australian equity market. Commodities were also down in February.
- Although risk markets have rebounded in recent weeks, moreover, **we are inclined to view this as a corrective rally in what is still a longer-term downtrend**. Indeed, although risk of a US recession has abated, markets have yet to price back in the associated risk of multiple Federal Reserve rate hikes – which still seem likely given very low US unemployment and some lift in price and wage inflation. At the same time, US earnings remain under downward pressure, and the rally in stock prices has already pushed US price-to-earnings valuations back to levels seen at Wall Street's peak in early 2015.
- Similarly, commodity markets and the \$A dollar have rebounded on very little fundamental justification. Indeed, the outlook is still that of supply expansion and soft demand across a number of commodity markets, including iron ore.
- At present, markets seem to be betting that the Fed will remain on hold despite ongoing growth in the US economy, and that both Europe and Japan will aggressively move into negative interest rate territory to ward off the risks of deflation. Such central bank generosity does raise the risk of a further valuation-driven rise in equity prices, but barring an (unlikely) associated upturn in global growth and/or corporate earnings, such a rise seems unsustainable – and raises the risk of a bigger correction later.
- We accordingly leave our asset allocation preferences unchanged again this month.

#### ASSET BENCHMARKS

**Cash:** UBS Bank Bill Index; **Australian Equities:** S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **International Equities:** MSCI World (developed market) Index, unhedged \$A terms; **Commodities:** S&P GSCI Light Energy Index, \$US terms



## BetaShares Product Offerings across Asset Class Types

Asset Class	Investment Exposure	BetaShares Fund	ASX Ticker	MER(%)
Australian Cash	Australian Cash	Australian High Interest Cash ETF	AAA	0.18%
Foreign Currencies	U.S. Dollars	U.S. Dollar ETF	USD	0.45%
	Euro	Euro ETF	EEU	0.45%
	British Pounds	British Pound ETF	POU	0.45%
Australian Equities	Largest 200 Australian companies by fundamental weight	FTSE RAFI Australia 200 ETF	QOZ	0.40%
	Largest 200 Australian companies by market cap. with risk management overlay	Managed Risk Australian Share Fund (managed fund)	AUST	0.49%
	Financials Sector excluding A-REITS	S&P/ASX 200 Financials Sector ETF	QFN	0.39%
	Resources Sector	S&P/ASX 200 Resources Sector ETF	QRE	0.39%
	S&P/ASX 20 + Equity Income strategy	Equity Yield Maximiser Fund (managed fund)	YMAX	0.79%
	S&P/ASX 50 + Dividend Income strategy	Australian Dividend Harvester Fund (managed fund)	HVST	0.90%
	Geared exposure to Australian Equities	Geared Australian Equity Hedge Fund	GEAR	0.80%
	Short Australian Equities	Australian Equities Bear Hedge Fund	BEAR	1.38%
	Short Australian Equities	Australian Equities Strong Bear Hedge Fund	BBOZ	1.38%
International Equities	US S&P 500 Index + Equity Income Strategy	S&P 500 Yield Maximiser Fund (managed fund)	UMAX	0.79%
	Largest 1000 US companies by fundamental weight	FTSE RAFI US 1000 ETF	QUS	0.40%
	Largest 100 Nasdaq companies by market-cap weight	NASDAQ 100 ETF	NDQ	0.48%
	Geared exposure to US Equities	Geared US Equity Fund -Currency Hedged (hedge fund)	GGUS	0.80%
	Short US Equities	US Equities Strong Bear Hedge Fund - Currency Hedged	BBUS	1.38%
	Largest 1,500 global companies by market cap with risk management overlay	Managed Risk Global Share Fund (managed fund)	WRLD	0.54%
Commodities	Gold Bullion (US\$)	Gold Bullion ETF - Currency Hedged	QAU	0.59%
	S&P GSCI Crude Oil Index	Crude Oil Index ETF – Currency Hedged (synthetic)	OOO	0.69%
	S&P GSCI Index (Light Energy)	Commodities Basket ETF – Currency Hedged (synthetic)	QCB	0.69%
	S&P Agriculture Enhanced Select Index	Agriculture ETF – Currency Hedged (synthetic)	QAG	0.69%

Other costs may apply. Please refer to relevant PDS for more information.

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