News

Much of the Royal Commission evidence that has caused such shock comes not from the banking businesses, but from the financial planning networks.

Meanwhile, the Koreas are looking to end the Korean War, after 65 years of ceasefire and armistice that never ended in a formal peace treaty.

And US bond yields matched the December 2013 peak, equalling the highest since the US shutdown crisis of July 2011 caused bonds to rerate to GFC levels.

Royal Commission – Further Testimony

A "celebrity" financial planner was alleged to have had staff **impersonate a client**.

Commissions were found to create conflicts which resulted in planners giving poor advice (such as churn, and encouraging risky behaviour such as leverage).

A planner was directing the bulk of client money into property – coincidentally, **the advisor owned a property company**.

None of these events will come as any surprise to our clients.

Do not get advice from people who have something to sell you, and who profit from selling products.

Do not get advice from people with competing products. Even if they are not directly selling the products, are they trading against you?

Do not get advice from people paid by commission.

Do not get advice from people who get paid from product manufacturers.

CPG was founded in 1991 to address these conflicts. We do not sell clients products, trade with or against clients, take commission or any external remuneration.

Bonds

At 3.04%, US Treasuries were yielding well over double the post-Brexit lows and touched the highs of the end of 2013.

In 2013, the US had a zero interest rate policy, and was still conducting quantitative easing to loosen monetary conditions further. Today, there is a credible path for US rates to reach 3% by 2019. Bond yields have been lower, but fundamentals are quite different 5 years later in the economic cycle – policy settings, inflation expectations, central bank flows, geo-political conditions.

Even central bank preference appears to be different: A preference for steeper yield curves, rather than driving down borrowing rates.

The Great Crashes of 2009-18

Consider the predictions of global war and/or financial crises and stockmarket collapses since the GFC ended in 2009. **Do not expect to find a needle in this haystack:**

- **Greek debt crises** (2009 downgrades and soaring deficits, false accounting; 2010 austerity and bailouts; 2011 austerity, downgrade to junk bonds, protests and 50% default on debt conversion; 2012 another restructuring; 2013 downgrade to single-C; 2014 government collapse; 2015 revolt against austerity, anti-EU government elected, referendum rejects austerity deal, capital controls imposed, ATM limits of just EUR60 a day.)
- **European debt crisis** (2010 - Greek insolvency results in contagion to Portugal and other countries), resulting in the creation of the European Financial Stability Facility.
- **US government shutdown** as Congress cannot agree on a budget (2011)
- **US bonds downgraded** from AAA (2011), apparently making the collateral for much of the world's derivatives contracts ineligible. The US was days from **defaulting on interest payments** during the standoff, with government employees already stood down and unpaid.
- **Spanish bank collapses** (2012), requiring state aid.
- Major European economies including **France downgraded** (2012), causing the **EFSF itself to be downgraded** to AA+.
- **Cyprus banking crisis** (2013), as the Eurozone refuses to fund sufficient state aid to bail out their banks.
- **Taper Tantrum** (2013), as the Federal Reserve discussed the <u>future</u> end of monetary stimulus.
- **Ukrainian coup** (2014), followed by **annexation of Crimea** by Russia, and retaliatory sanctions – a collapse in the Russian rouble and stockmarket.
- **Oil price collapse** (2015), possibly engineered to strike at the Russian economy. A cycle of downgrades and probable defaults of high yield Energy bonds, and forced selling by rating-constrained strategies including CLOs.
- **Chinese stockmarket crash** (2015), aggravated by ineptly managed controls such as trading halts – these postponed market clearing to the next day.
- **Deutsche Bank crisis** (2016), as it appeared a falling capital ratio would force the bank to skip coupons on hybrids. RBS called it "*reminiscent of 2008*," called for a "*cataclysmic year*" and advised investors to "*sell everything*."
- **UK referendum to exit the EU** (2016).
- **Hillary Clinton loses the unlosable election** (2016).
- Pres-elect Trump to appoint a "hawkish" Fed Chair (2016).
- **US air-strikes on Syria** (2017), to draw the US into a war against Syrian ally and nuclear power Russia.
- **Appointment of Generals** John Kelly (White House Chief of Staff) and Jim "Mad Dog" Mattis (Secretary of Defence) to senior positions, signalling US war stance (2017).
- **Pres Trump tweets taunts and threats** at Marshall Kim Jong-Un (2017).
- As stockmarket falls, **structure product unwind** drives VIX to 50 (2018).
- Italy and Hungary **elect anti-EU governments** (2018).
- **US air-strikes on Syria** (2018), to draw the US into a war against Syrian ally and nuclear power Russia.
- **Appointment of** John Bolton (National Security Advisor) and Mike Pompeo (Secretary of State) to senior positions, signalling US war stance (2018).
- **US Fed** raises rates faster than the yield curve reacts, creating inversion (2018).

Leading Markets

Stocks recovered globally, on Korean peace talks and de-escalation of trade rhetoric. The MSCI World ex-AUS gained +1.89%. The MSCI Emerging Markets Index gained +1.17% (in local currencies) in April as Russia and Turkey weighed on returns.

The Dow Jones, S&P500 and NASDAQ ended +0.34%, +0.38% and +0.08% respectively.

US 10-year yields equalled 7-year highs of 3.04% before closing +21bp at 2.95%.

Other Highlights

The FBI raided Pres Trump's law firm – making a disruptive end more probable.

Some of the US' threatened tariffs may not proceed, relieving some concerns.

The Korean leaders held a peace summit, each crossing the border and targeting a treaty in 2018.

US GDP beat forecasts with a first estimate of +2.3% p.a. for a snowy Q1, taking YoY to +2.9%. Prices fell, but as March 2017 rolled out YoY CPI increased to +2.4%. Core CPI (+2.1%) went above the 2% target for the first time in a year. Wages grew +4.5% YoY. Retail sales grew +0.6%.

US unemployment was steady at +4.1%, as initial jobless claims had a 49-year low week of 209k but a muted non-farm payroll reading (+103k) followed a strong February. Long-term unemployment of 0.82% was the lowest recorded (in a statistic only recently tracked).

EU unemployment (8.5%) and long-term unemployment (4.1%) fell to cyclical lows. Participation equalled its 2008 record. Q4 GDP was confirmed at +0.6%. Still, the central bank has not tightened.

The "tiger economies" soared. India, Turkey, Bangladesh and Vietnam exceeded 7% growth; Ireland continued its miracle recovery with +8.4% GDP YoY and over +40% since 2012. Unemployment is 6.1%.

China's new central bank chief eased policy by cutting the reserve ratio.

In Japan, PM Abe faces a scandal that has weakened his administration but is unlikely to cause a change in direction.

Domestic

The ASX200 finished +3.91% higher.

Australian 10-year bonds lost ground, but did better than US bonds as yields rose +18bp to 2.77%.

The RBA *Minutes* acknowledged that the next rate move is up. Its criteria of 2.5% core CPI, stronger wages and lower unemployment delays this beyond the Q2 markets had been expecting, and was seen as an easing of guidance.

The Treasurer announced that stronger than budgeted tax receipts have removed the need for an NDIS levy. Further tax cuts are also anticipated.

The banks again suffered at the Royal Commission, but Resources were strong.

Q1 CPI of +0.4% gives the RBA no rush to raise rates. The preferred trimmed mean measure was +1.9% YoY. Housing was the only material increase.

Final PPI of +1.7% was kept low by flat import prices.

FY17 saw taxes increase by +5% to $489bn, with income tax receipts +6% *vs* +2% wages, highlighting the effect of bracket creep. Still, the Public sector reported total deficits of -$55.4bn.

Retail sales gained +0.6%, taking trend to a year-high +0.4%.

Trade remained in surplus at +$825m in February (-13% to January).

Unit building approvals were -16.4%, with the trend broadly flat

Unemployment was flat at 5.5% in March, as a poor +4.900 jobs (with fulltime -24,800) was offset by lower participation.

Commodities and Currency

Improving sentiment as investors expected a trade resolution boosted economically sensitive commodities.

WTI oil was higher at $68.57/bbl (+5.59%) and Gold was little changed at $1,320 (-0.19%).

The $A was -1.24% lower at US75.70c.

Iron Ore gained +1.17% to $65.65/t.

Base metals were generally higher in April as Tin (+0.19%), Nickel (+3.63%) Aluminium (+11.35%), Copper (+1.47%) rose. Zinc (-4.82%) fell.

KEY FINANCIAL MARKET DATA – AS AT 30TH APRIL 2018 (UNLESS SPECIFIED)

Interest Rate Markets

Index Performance	1 month	3 months	6 months	1 year	2 year p.a.	3 year p.a.	5 year p.a.
AustBond Bank Bill Index	0.16%	0.44%	0.87%	1.75%	1.82%	1.96%	2.26%

Key Rates	Apr-18	Mar-18	Feb-18
Australian Cash Rate	1.50%	1.50%	1.50%
90 day BBSW	2.04%	2.03%	1.79%
3 Yr Commonwealth Bonds	2.18%	2.12%	2.11%
10 Yr Commonwealth Bonds	2.77%	2.60%	2.81%
CDX North American 5 Yr CDS	61bp	66bp	56bp
iTraxx Europe 5 Yr CDS	54bp	60bp	52bp
iTraxx Australia 5 Yr CDS	65bp	70bp	59bp
US Fed Funds Rate	1.50%-1.75%	1.50%-1.75%	1.25%-1.50%
US 10 Yr Bond Rate	2.95%	2.74%	2.87%

Equity Markets

Domestic	1 month	3 months	6 months	1 year	2 year p.a.	3 year p.a.	5 year p.a.
S&P/ASX 200 Acc. Index	3.91%	0.34%	3.37%	5.46%	11.44%	5.70%	7.53%
S&P/ASX Small Ord Acc. Index	2.75%	0.44%	7.11%	18.45%	14.17%	11.07%	8.05%
A-REIT 200 Acc. Index	4.47%	1.10%	3.18%	1.03%	3.40%	7.32%	9.83%

International	1 month	3 months	6 months	1 year	2 year p.a.	3 year p.a.	5 year p.a.
US: S&P 500 ($US)	0.38%	-5.77%	3.82%	13.27%	15.57%	10.57%	12.96%
US: NASDAQ ($US)	0.03%	-4.66%	5.03%	16.84%	21.64%	12.66%	16.25%
MSCI World Acc. (Local Currency)	1.94%	-3.93%	2.37%	10.75%	14.10%	7.44%	10.51%
MSCI World Acc. (AUD)	2.78%	1.74%	5.03%	12.17%	14.56%	9.13%	16.46%
FTSE (£)	6.42%	-0.32%	0.22%	4.24%	9.68%	2.56%	3.15%
MSCI Emerging Markets ($US)	-0.55%	-7.19%	4.05%	19.07%	17.72%	3.58%	2.30%

Fixed Interest Markets

Bonds	1 month	3 months	6 months	1 year	2 year p.a.	3 year p.a.	5 year p.a.
BarCap Global Agg Acc.	-0.38%	0.22%	-0.04%	1.74%	2.17%	3.17%	4.30%
AusBond Composite Bond Acc.	-0.35%	0.79%	0.86%	2.16%	2.38%	2.71%	3.91%

Data*	Current Period		Previous Period	
Employment Data				
Employment Growth	Mar	4,900	Feb	17,500
Unemployment Rate	Mar	5.50%	Feb	5.60%
Participation Rate	Mar	65.50%	Feb	65.70%
Lending Finance				
Housing Finance	Feb	1.30%	Jan	0.50%
Personal Finance	Feb	0.00%	Jan	4.50%
Commercial Finance	Feb	-2.10%	Jan	0.00%
Lease Finance	Feb	-2.60%	Jan	-6.10%
Other				
Balance on goods and services	Mar	1527m	Feb	825m
Retail Sales	Feb	0.60%	Jan	0.10%
Building Approvals	Mar	2.60%	Feb	-6.20%

*All data is seasonally-adjusted.

Median Fund Manager Returns (Morningstar)	1 month	3 month	6 month	1 year	2 year p.a.	3 year p.a.	5 year p.a.
Australian Equity Large Cap	4.42%	-0.29%	3.36%	5.69%	11.90%	4.78%	7.39%
Australian Equity Small Cap	2.23%	0.95%	7.69%	16.77%	13.35%	10.99%	10.84%
Global Equity Large Cap	2.42%	1.74%	5.07%	12.25%	13.96%	8.11%	15.10%
Global Equity Small Cap	1.27%	2.59%	4.53%	13.02%	15.70%	9.11%	16.90%
Australian Fixed Income	-0.38%	0.57%	0.71%	1.93%	2.16%	2.37%	3.41%
Global Fixed Income	-0.44%	0.00%	-0.15%	1.57%	1.97%	2.59%	3.76%
Australian Listed Property	4.14%	0.45%	2.57%	0.24%	3.54%	6.84%	9.09%
Australian Cash	0.13%	0.36%	0.72%	1.47%	1.50%	1.66%	1.99%
Conservative[1]	0.28%	0.19%	0.84%	2.81%	3.30%	2.66%	3.66%
Moderate[2]	0.72%	0.07%	1.10%	3.06%	4.08%	2.81%	4.42%
Balanced[3]	1.27%	-0.01%	1.82%	4.75%	6.57%	4.02%	6.20%
Growth[4]	1.94%	0.06%	2.49%	6.06%	8.52%	4.83%	7.45%
Aggressive[5]	2.52%	-0.04%	3.19%	7.91%	10.96%	6.10%	9.49%

[1] Growth Assets 0% - 20%
[2] Growth Assets 21% - 40%
[3] Growth Assets 41% - 60%
[4] Growth Assets 61% - 80%
[5] Growth Assets 80%+

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