

# Quarterly Market Review

## THEMES FOR THE QUARTER

- Strong Equity Returns from Australia & Emerging Markets
- Developed Markets Flat on Unhedged Basis as AUD Gains
- Negative Size, Positive Profitability, Mixed Value Premiums
- Positive Term, Credit Premiums Drove Gains in Fixed Interest
- Fed Raises Rates; Signals Steady Increases as Activity Picks Up



Click on each tab below for more information about the last quarter.

[Global Markets Summary](#)[World Indices Wrap Up](#)[Dimensional Strategies](#)

NOTE: This account of economic and market themes in the last quarter is intended as a tool for advisors for talking about the general market environment of the past quarter, not as an explanation for our trusts' performance over this period.

**GLOBAL MARKETS SUMMARY**

Global equity markets delivered mostly positive returns this quarter, led by emerging markets. Australia also was a top performer, though a stronger Australian dollar trimmed gains from other developed markets for unhedged investors.

There was a mixed performance from the various premiums, with size negative in Australia and other developed markets, value positive in Australia but negative elsewhere and the profitability premium mostly positive.

In sectoral terms, information technology stocks, like Apple and Facebook, led the field in developed and emerging markets. Healthcare stocks were also a standout in the Australian and other developed markets

Energy was the laggard. Crude oil fell 6% over the quarter amid doubts over the sustainability of an OPEC-led output deal. Oil producers Norway and Russia were the worst performing developed and emerging markets respectively.

On currency markets, the US dollar was weaker over the quarter as sentiment waxed and waned over the Trump administration's legislative agenda and the likely pace and magnitude of the Federal Reserve's interest rate increases.

Citing increasing confidence in the economy, the US central bank raised interest rates in March for the second time in three months and projected a further two rate increases in 2017 as part of a slow and steady reversal of the stimulus of recent years.

In fixed interest markets, term premium (the difference between long-term and short-term yields) was positive in the Australian Dollar, US Dollar and British Pound, but negative in the Euro. The credit premium (the difference between government and corporate bonds) was broadly positive.

Real Estate Investment Trusts experienced negative returns for a second consecutive quarter, although this came after several years of strong gains.




The quarter's news headlines were dominated by issues arising from the Trump transition and the UK's planned exit from the EU. Upcoming elections in France and Germany also attracted attention.

On the economic front, policymakers globally expressed a cautious welcome for continuing signs of improving activity. The Reserve Bank of Australia noted a pick-up in global trade and industrial production, alongside a tightening of labour markets.

**MARKET MOVEMENTS**

Quarter End

**CASH AND BONDS**

	Australian Cash	0.44%
	Australian Bond Market	1.23%
	Global Bond Market	0.68%

**STOCKS**

	Australia	4.71%
	Developed Unhedged	0.85%
	Emerging Unhedged	5.78%
	REITs Unhedged	-3.84%
	Hedging Premium	4.85%

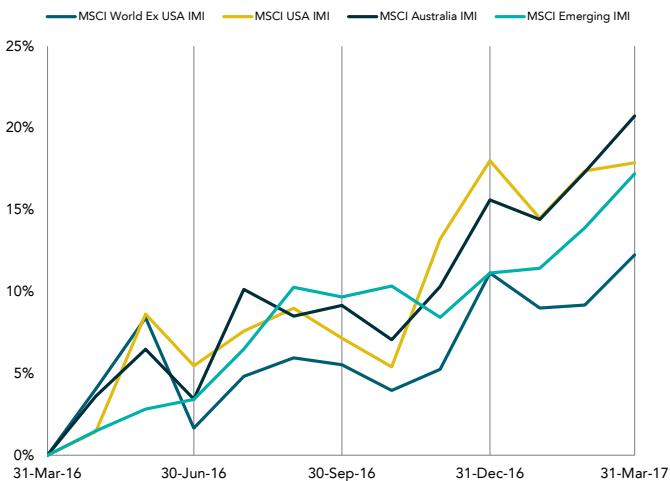
Performance is shown in AUD. Australian Cash—Bloomberg AusBond Bank Bill Index, Australian Bonds—Bloomberg AusBond Composite Bond Index 0+, Global Bonds—Barclays Global Aggregate Bond Index (hedged to AUD), Australian Stocks—S&P/ASX 300 Index (Total Return), Developed Stocks—MSCI World ex Australia Index (AUD, net div.), Emerging Stocks—MSCI Emerging Markets Index (net div., AUD), REIT Stocks—S&P Developed REIT Index (AUD, net div.), Hedging Premium—MSCI World ex Australia Index (hedged to AUD, net div.) minus MSCI World ex Australia Index (AUD, net div.).

Indices are not available for direct investment.

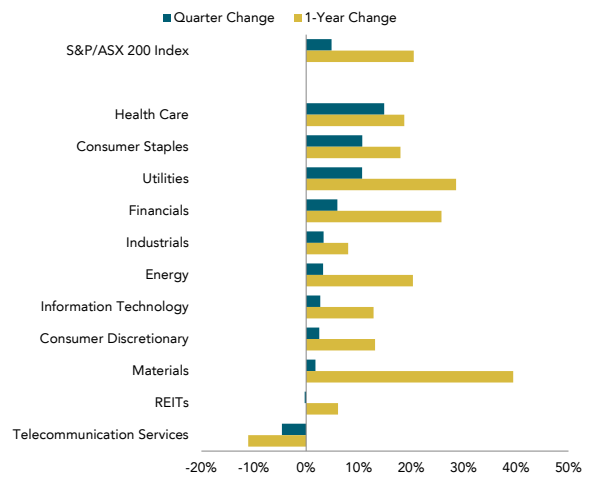
Their performance does not reflect the expenses associated with the management of an actual portfolio.

GLOBAL MARKETS SUMMARY (CON'T)

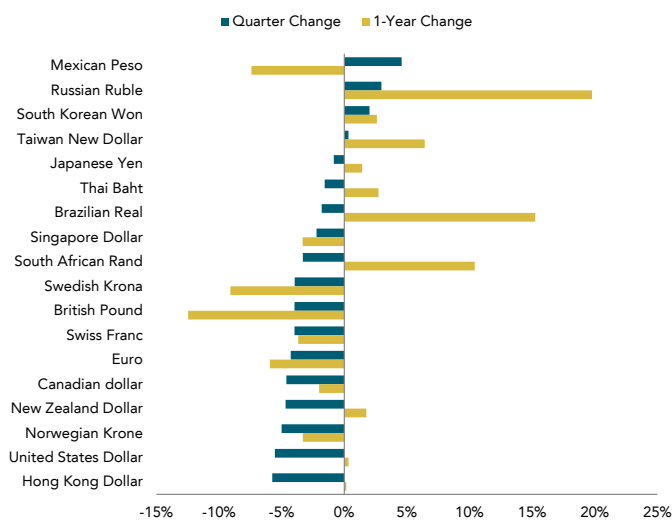
**FIGURE 1**  
INVESTMENT CLIMATE GLOBAL EQUITIES



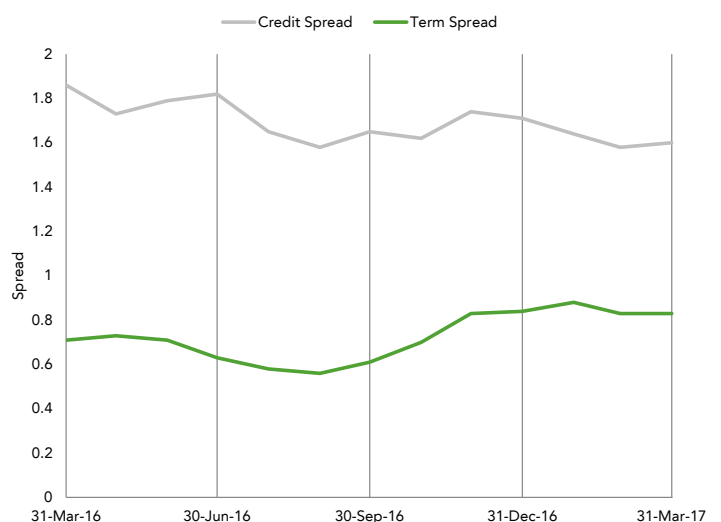
**FIGURE 2**  
INVESTMENT CLIMATE AUSTRALIAN SECTORS



**FIGURE 3**  
INVESTMENT CLIMATE GLOBAL CURRENCY



**FIGURE 4**  
INVESTMENT CLIMATE FIXED INTEREST



**Fig 1.** Performance is shown in AUD and is based on the MSCI World ex USA IMI Index (net div.), MSCI USA IMI Index (net div.), MSCI Australia IMI Index (net div.), and MSCI Emerging Markets IMI Index (net div.). Past performance is not indicative of future results. MSCI data copyright MSCI 2017, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

**Fig 2.** Performance is shown in AUD and is based on the S&P/ASX 200 Index. Past performance is not indicative of future results. S&P/ASX data reproduced with the permission of S&P Index Services Australia. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

**Fig 3.** Performance is shown in AUD. Currency data provided by WM/Reuters. Past performance is not indicative of future results.

**Fig 4.** Credit spread is defined as Bloomberg Barclays Aggregate Corporate Yield to Worst minus Bloomberg Barclays Global Aggregate Treasuries Yield to Worst. Term Spread is defined as Bloomberg Barclays Global Aggregate Yield to Worst minus Bloomberg Barclays Global Aggregate 1-3 Year Yield to Worst. Past performance is not indicative of future results. Bloomberg Barclays data provided by Bloomberg. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

**FIRST QUARTER AS AT 31 MARCH 2017**
**WORLD INDICES WRAP UP**
**FIXED INTEREST**

	QTR	1 Year
Bloomberg AusBond Bank Bill Index	0.44%	1.94%
Bloomberg AusBond Composite 0+ Yr Index	1.23%	2.09%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	0.68%	2.16%

**AUSTRALIAN EQUITIES**

	QTR	1 Year
S&P/ASX 300 Index (Total Return)	4.71%	20.24%
S&P/ASX Small Ordinaries Index (Total Return)	1.46%	13.67%
S&P Australia BMI Value Index (AUD, gross div.)	5.94%	27.64%
S&P Australia BMI Growth Index (gross div.)	3.80%	14.30%

**GLOBAL EQUITIES**

	QTR	1 Year
MSCI World ex Australia Index (net div., AUD)	0.85%	15.55%
MSCI World ex Australia Index (net div., hedged to AUD)	5.70%	18.82%
Hedging Premium	4.85%	3.26%
MSCI World ex Australia Small Cap Index (net div., AUD)	-0.16%	18.88%
MSCI World ex Australia Value Index (net div., AUD)	-1.24%	17.66%
MSCI Emerging Markets Index (net div., AUD)	5.78%	18.20%

**REAL ESTATE**

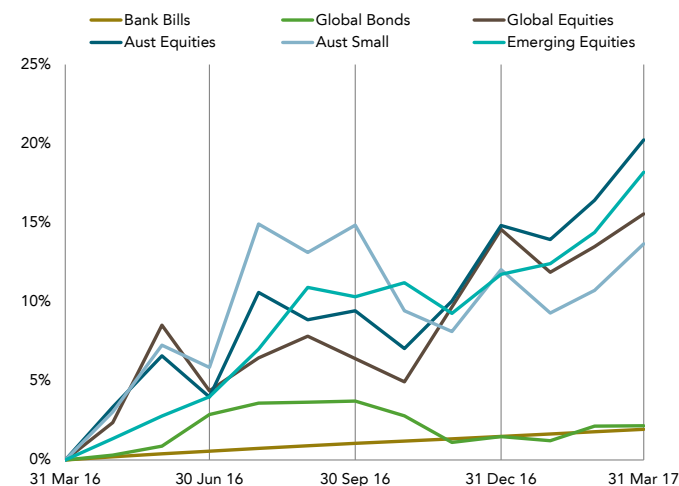
	QTR	1 Year
S&P/ASX 300 A-REIT Index (Total Return)	-0.08%	6.31%
S&P Developed REIT Index (AUD, net div.)	-3.84%	1.20%

**WORLD MARKETS**

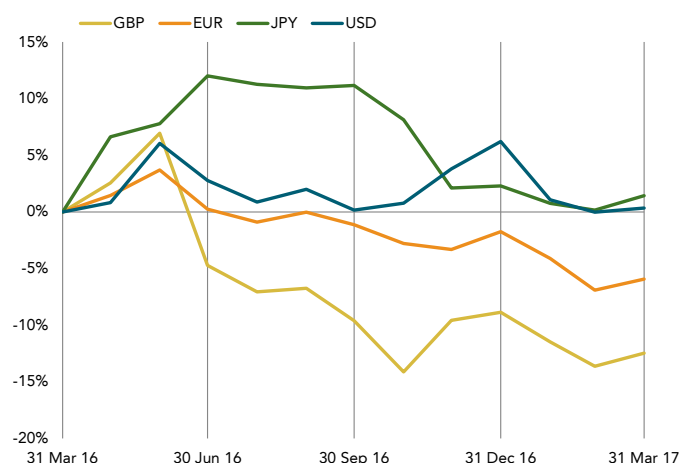
	QTR	1 Year
S&P 500 Index	0.19%	17.56%
MSCI UK Index (net div.)	-0.79%	7.80%
MSCI Europe ex UK Index (net div.)	2.41%	11.05%
Japan Nikkei 225 Average Index (price-only)	-1.90%	14.44%
Shanghai Stock Exchange Composite Index	-1.10%	1.01%

**CURRENCIES (RELATIVE TO AUD)**

	QTR	1 Year
British Pound	-3.97%	-12.47%
Euro	-4.27%	-5.94%
Japanese Yen	-0.84%	1.43%
United States Dollar	-5.54%	0.33%

**MARKET RETURNS**


Source: Bank Bills – Bloomberg AusBond Bank Bill Index, Global Bonds – Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD), Global Equities – MSCI World ex Australia Index (net div., AUD), Aust Equities – S&P/ASX 300 Index (Total Return), Aust Small – S&P/ASX Small Ordinaries Index (Total Return), Emerging Equities – MSCI Emerging Markets Index (net div., AUD).

**CURRENCY RETURNS (Relative to Aud)**


Performance is shown in AUD. Bloomberg indices copyright Bloomberg 2017. The S&P data are provided by Standard & Poor's Index Services Group. MSCI data copyright MSCI 2017, all rights reserved. Individual country stock exchange indices provided by Datastream. Currency data provided by WM/Reuters

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Hedging premium – MSCI World ex Australia Index (net div., hedged to AUD) minus MSCI World ex Australia Index (net div., AUD).

**DIMENSIONAL STRATEGIES**

<b>FIXED INTEREST</b>	<b>QTR</b>	<b>1 Year</b>
Short Term Fixed Interest Trust	0.53%	2.09%
Two-Year Diversified Fixed Int. Trust AUD Class	0.68%	2.14%
Five-Year Diversified Fixed Int. Trust AUD Class	0.99%	2.09%
Global Bond Trust AUD Class	1.08%	3.17%
<b>AUSTRALIAN EQUITIES</b>	<b>QTR</b>	<b>1 Year</b>
Australian Large Company Trust	5.22%	22.02%
Australian Value Trust	4.67%	36.92%
Australian Small Company Trust	1.95%	15.63%
Australian Core Equity Trust	4.11%	23.48%
Australian Core Imputation Trust	4.44%	22.76%
<b>GLOBAL EQUITIES</b>	<b>QTR</b>	<b>1 Year</b>
Global Large Company Trust	0.95%	15.99%
Global Value Trust	-1.20%	22.40%
Global Small Company Trust	-0.62%	19.26%
Global Core Equity Trust Unhedged Class	-0.16%	16.61%
Global Core Equity Trust AUD Hedged Class	4.56%	19.37%
Global Sustainability Trust Unhedged Class	1.29%	—
Global Sustainability Trust AUD Hedged Class	6.04%	—
Emerging Markets Trust	7.07%	23.00%
<b>GLOBAL REAL ESTATE</b>	<b>QTR</b>	<b>1 Year</b>
Global Real Estate Trust Unhedged Class	-2.76%	1.93%
<b>WORLD ALLOCATION</b>	<b>QTR</b>	<b>1 Year</b>
World Allocation 50/50 Trust	1.89%	10.73%
World Allocation 70/30 Trust	2.27%	14.09%
World Equity Trust	2.84%	19.11%

Performance is shown in AUD and is net of fees. Past performance is not indicative of future results. Dimensional does not guarantee the performance of any fund or strategy referred to, the repayment of capital, or particular rates of return.

**DIMENSIONAL TRUSTS OVERVIEW**
**AUSTRALIAN EQUITIES**

Dimensional's Australian equity strategies all delivered positive returns again in the March quarter and remained ahead of their benchmarks over the past 12 months, although were mixed against the respective indices on a quarter-on-quarter basis.

The top performer was the Australian Large Trust, which delivered a return of 5.22%, outpacing the S&P/ASX-100 index and aided by an overweight to mid-cap value stocks. While the size premium was negative in the quarter, the Australian Small Companies Trust also beat its benchmark, helped by its emphasis on profitability.

After a stellar final quarter in 2016, the Australian Value Trust fell back to the pack, delivering returns broadly in line with the index. While a positive value premium helped, this was offset by the negative size premium. Similar influences were at play in the Australian Core Equity Trust and Australian Core Imputation Trust.

**GLOBAL EQUITIES**

In other developed markets, both the value and size premiums were negative although profitability contributed. REITs and utilities, which are excluded from the component trusts, underperformed the broad market.

The standout relative performer for the quarter was the Global Sustainability Trust, which beat the index by 44 basis points. This was mainly due to its underweight to the energy sector (where fossil fuel-related stocks are concentrated).

With the value and size premiums negative for the quarter, each of the Global Value, Small and Core Trusts lagged their relevant benchmarks, although remained ahead of the indices for the year (Global Value in particular).

However, the strongest absolute performer of the global vehicles was the Emerging Markets Trust, which delivered a return of more than 7% for the quarter and 23% for the year, beating its benchmark by 128 and 480 basis points respectively.

Small and mid-cap value names contributed to quarterly performance, with value the main contributor for the year.

**FIXED INTEREST**

Every one of Dimensional's fixed interest offerings beat their benchmarks in the first quarter, helped in part by design improvements made in 2016.

Our enhanced cash strategy, the Short-Term Fixed Interest Trust, benefited from the broadening of its universe to overseas bonds (45% maximum allocation to non-Australian securities) and delivered a return 9 basis points over cash.

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**FIRST QUARTER AS AT 31 MARCH 2017**

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**FIXED INTEREST (CON'T)**

In another consequence of improved design, the Two-Year Diversified Fixed Interest Trust benefited from the broadening of its remit to the full spectrum of investment grade bonds. Its term exposure to 2-3-year USD bonds also contributed.

While the Five-Year Diversified Fixed Interest Trust remains focused on AA or better bonds, it still managed a return of around 1% for the quarter, again due to its term exposure to 4-5-year maturity USD bonds.

However, the top performing fixed interest strategy again was the Global Bond Trust, which beat its benchmark by 40 basis points, helped by its overweight to strongly performing UK bonds, underweight to poorly performing Japanese government bonds, and overweight to corporates.

**PROPERTY**

While a negative quarter overall, the Global Real Estate Trust nevertheless outperformed its benchmark by 57 basis points. The strategy's emerging market exposure contributed, as did its 50% country cap on US REITs.

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