Q1 2019 Cross Asset Performance Report: Risk assets and Bond Proxies rebound very strongly after Q4-2018 sell-off

by

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Key Insights

In the latest cross-asset review produced by Foresight analyst, we highlight 4 key themes.

1. Risk assets quickly recover their Q418 losses, Small and mid-caps lead

- After a notable volatility and drawdown of capital from growth assets in Q32018, markets rallied quite strongly in the March quarter 2019. The risk on behavior of investors was triggred by the shift in the monetary policy stance of the Federal Reserve Bank of United States.
- The level of strength in performance turnaround across the growth assets means many of the asset classes have recovered their Q4 2018 losses.
- Small and mid-cap companies globally and in Australia led the growth asset pack to deliver returns well in excess of 12 percent for the quarter.
- Broad global equities indices (MSCI ACWI) delivered 11.2% return, slightly ahead of Australian Equities return of 11 percent.
- Global equities returns in AUD were quite strong despite the slight headwind faced from the rising AUD.

2. Bond Proxy assets advance strongly on the back of policy shifts by Fed, GREITs - EM and AREITs standout

- Bond proxy assets such as REITs and Infrastructure deliver strongest returns over the quarter
- GREITs – Emerging markets and Australian REITs were the best performing asset classes over the quarter, delivering 15% and 14.4% returns, respectively.
- GREITs – Developed markets also delivered strong returns of 13.6 % and are expected to be up 22.3 % for the 12-month period.
- Global listed infrastructure also produced very strong returns over the quarter, clipping 12.8%, to be 17% higher over the 12 months.
- Global Emerging market infrastructure was one of the laggards, delivering returns of 2.6% over the quarter.

3. Negative currency effects noted across major growth assets over the latest quarter

- Australian Dollar Index strengthened against the major currencies over the quarter.
- The biggest gains were noted against the Euro (+2.9%), Korean Won (+2.7%) and Swiss Franc (+2.04%).
- The biggest falls were noted against the Canadian Dollar (-1.51%) and British Pound (-1.47%).
- The FX moves over the quarter and translated into negative currency effects for most growth assets that are generally unhedged.
- The currency headwind for Global equities (ACWI) was -1.05%, -1.1% for Global Infrastructure and -0.96% for GREITs – DM.

4. Analysis of correlations and volatilities continue to demonstrate the benefits of multi-asset diversification for investors

- Longer-term volatility trend continues to rise for growth and long-duration assets such as GREITs and Infrastructure.
- The most volatile asset over the past 12 months in AUD was GREIT -EM, followed by Global small caps and Australian small caps.
- The least volatile outside of Cash was Australian and Global Bonds. The realised 12-month volatility for Australian bonds was 2.3% while for Global bonds (Aggregate), it was 2.4%.
- The Global listed infrastructure – DM, had the lowest volatility (9.4%) among growth asset classes.
- Evidence from correlation analysis shows that multi-asset investors continue to benefit from cross-asset diversification with most defensive and bond proxy growth assets continuing to offer good diversification benefits against the most dominant holdings for most investors – Australian shares.

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