

# Quarterly Market Review

## THEMES FOR THE QUARTER

- Solid 7% Unhedged Returns from Developed Equity Markets, Led by US
- Modest 1.5% Return from Australia Market; New Zealand Gained 4.5%
- Healthcare, IT, and Telecoms Among Top Sectors Globally
- Materials Lagged in Australia and Other Developed Markets
- Size Premium Negative Across Board; Profitability Mixed
- Value Premium Positive in EM and Australia; Negative in Global Developed
- In Fixed Interest, Term Premium was Negative, Credit Premium was Positive
- AUD and NZD Fell Versus USD and Most Major Currencies in Quarter



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.

**THIRD QUARTER AS AT 30 SEPTEMBER 2018**
**GLOBAL MARKETS SUMMARY**

Global developed equity markets outside Australia were the star performers on an unhedged basis in the third quarter of 2018, although much of this was due to broad-based weakness in the Australian and New Zealand dollars.

A theme for the quarter was an appreciating US dollar. In September, the Federal Reserve raised its benchmark lending rate for the eighth time in three years, citing an improving economy and forecasting another five moves within two years.

The heavyweight US equity market was the standout globally, with the benchmark S&P-500 index rising more than 7% in local currency terms to register its best quarter in five years.

The Australian market delivered a more modest return of 1.5%, held back by its heavyweight financial and materials sectors, but offset by strong gains by Telstra. The New Zealand market gained more than 4% for the quarter and almost 18% for the past 12 months.

In terms of the return dimensions, the only globally consistent theme was a negative size premium. While the value premium was negative in developed markets, it was positive both in emerging markets and in Australia, for the most part. Profitability was mixed.

In fixed interest markets, the main theme was a negative term premium alongside a positive credit premium. Yields rose in most major markets, although Australia was an exception this past quarter. Corporate bonds outperformed government bonds.




In listed property, real estate investment trusts delivered market-like returns in Australia, though lagged the broad market elsewhere.

- *Headlines in the quarter were dominated by trade tensions between the US and China. The Trump administration imposed tariffs on nearly \$US200 billion of Chinese imports and then threatened more levies if China retaliated. China hit back with tariffs on about \$60 billion of US imports.*
- *In the UK, the major focus was continuing efforts by Prime Minister Theresa May, leading a divided Conservative Party, to finalise a Brexit deal with the European Union. Britain is due to leave the EU on 29 March 2019.*
- *Elsewhere, Italian financial markets were under strain as the country's coalition government clashed with the EU Commission over its budget plans.*
- *In Australia, Malcolm Turnbull was ousted as prime minister in a three-way Liberal Party leadership battle. His place was taken by Scott Morrison—the fifth change of leader in eight years. Turnbull immediately left politics, forcing a byelection and threatening the government's one-seat majority.*
- *The Hayne Royal Commission into misconduct in financial services released its interim report, finding that big banks and wealth managers had pursued profit ahead of their customers' interests. The report also accused regulators of being lax in punishing poor behaviour.*






**MARKET MOVEMENTS**

Quarter End

**CASH AND BONDS**

	Australian Cash	0.52%
	Australian Bond Market	0.54%
	Global Bond Market	-0.07%

**STOCKS**

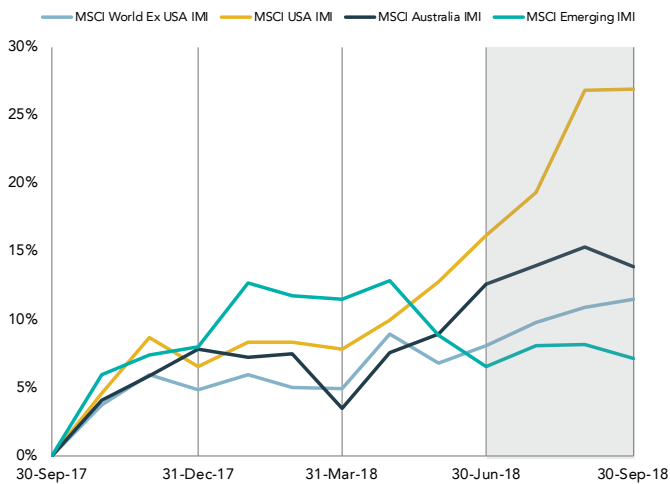
	Australia	1.50%
	Developed Unhedged	7.35%
	Emerging Unhedged	1.00%
	REITs Unhedged	2.17%
	Hedging Premium	-1.75%

Performance is shown in AUD. Past performance is not indicative of future results. Australian Cash – Bloomberg AusBond Bank Bill Index, Australian Bonds – Bloomberg AusBond Composite 0+ Yr Index, Global Bonds – Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD), Australian Stocks – S&P/ASX 300 Index (Total Return), Developed Stocks – MSCI World ex Australia Index (net div., AUD), Emerging Stocks – MSCI Emerging Markets Index (net div., AUD), REIT Stocks – S&P Developed REIT Index (net div., AUD), Hedging Premium – MSCI World ex Australia Index (net div., hedged to AUD) minus MSCI World ex Australia Index (net div., AUD).

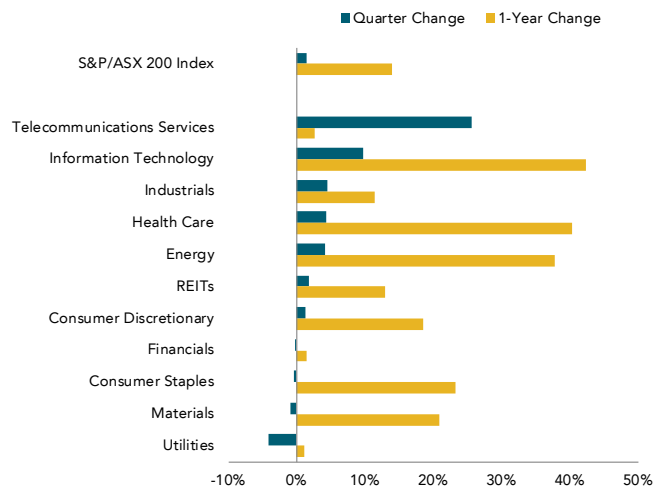
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

GLOBAL MARKETS SUMMARY (CONT'D)

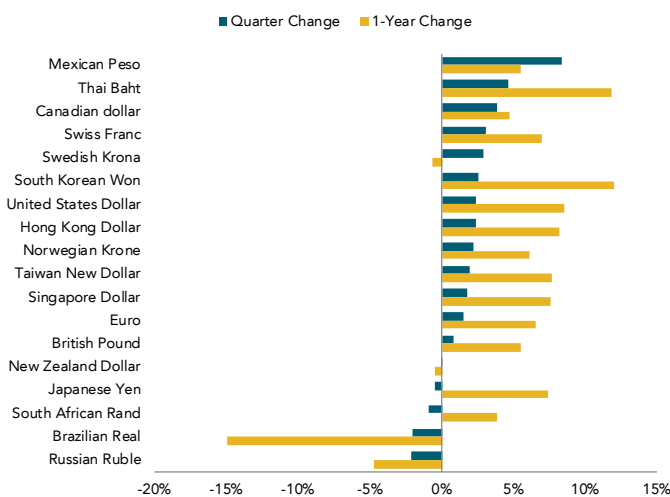
**FIGURE 1**  
INVESTMENT CLIMATE GLOBAL EQUITIES



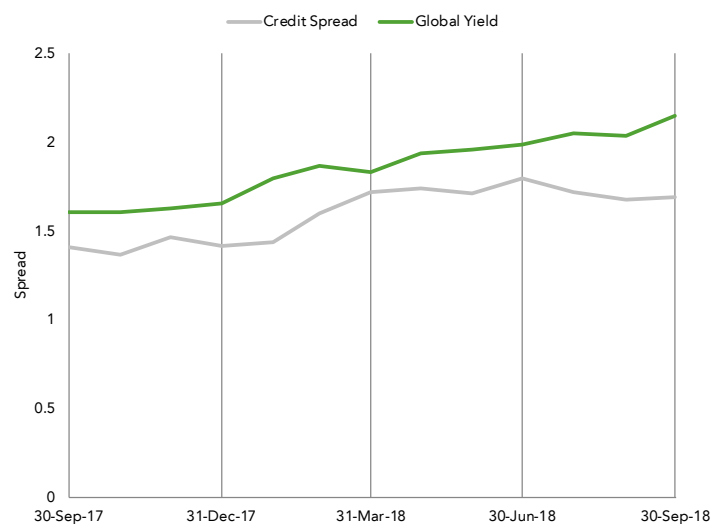
**FIGURE 2**  
INVESTMENT CLIMATE AUSTRALIAN SECTORS



**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 2018, 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 copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global, 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 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 Global Aggregate Corporate Yield to Worst minus Bloomberg Barclays Global Aggregate Treasuries Yield to Worst. Global Yield is defined as Bloomberg Barclays Global Aggregate Yield to Worst. Past performance is not indicative of future results. 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.

**THIRD QUARTER AS AT 30 SEPTEMBER 2018**
**WORLD INDICES WRAP UP**
**QTR 1 YR**
**MARKET RETURNS**
**FIXED INTEREST**

Bloomberg AusBond Bank Bill Index	0.52%	1.87%
Bloomberg AusBond Composite 0+ Yr Index	0.54%	3.72%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	-0.07%	0.89%

**AUSTRALIAN EQUITIES**

S&P/ASX 300 Index (Total Return)	1.50%	14.03%
S&P/ASX Small Ordinaries Index (Total Return)	1.10%	20.32%
S&P Australia BMI Value Index (gross div., AUD)	1.62%	11.80%
S&P Australia BMI Growth Index (gross div.)	1.34%	18.04%

**GLOBAL EQUITIES**

MSCI World ex Australia Index (net div., AUD)	7.35%	20.82%
MSCI World ex Australia Index (net div., hedged to AUD)	5.61%	12.89%
Hedging Premium	-1.75%	-7.93%
MSCI World ex Australia Small Cap Index (net div., AUD)	4.19%	19.53%
MSCI World ex Australia Value Index (net div., AUD)	6.38%	14.34%
MSCI Emerging Markets Index (net div., AUD)	1.00%	7.56%

**REAL ESTATE**

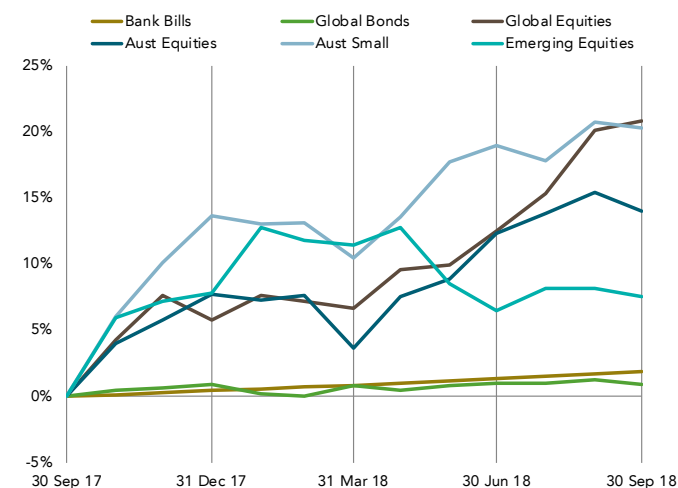
S&P/ASX 300 A-REIT Index (Total Return)	1.98%	13.25%
S&P Developed REIT Index (net div., AUD)	2.17%	11.99%

**WORLD MARKETS**

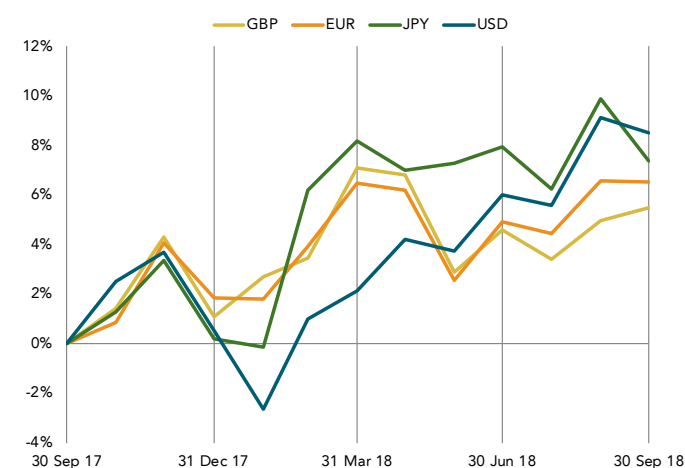
S&P 500 Index	9.99%	27.87%
MSCI United Kingdom Index (net div.)	0.42%	11.56%
MSCI Europe ex UK Index (net div.)	3.92%	6.83%
Japan Nikkei 225 Average Index (price-only)	7.68%	27.34%
Shanghai Stock Exchange Composite Index	-2.57%	-11.80%

**CURRENCIES (RELATIVE TO AUD)**

British Pound	0.85%	5.48%
Euro	1.52%	6.53%
Japanese Yen	-0.50%	7.40%
United States Dollar	2.38%	8.51%



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 2018. S&P/ASX data copyright 2018 S&P Dow Jones Indices LLC, a division of S&P Global, all rights reserved. MSCI data copyright MSCI 2018, 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).

**THIRD QUARTER AS AT 30 SEPTEMBER 2018**

DIMENSIONAL STRATEGIES	QTR	1 YR
<b>FIXED INTEREST</b>		
Short Term Fixed Interest Trust	0.48%	1.71%
Two-Year Diversified Fixed Int. Trust AUD Class	0.43%	0.89%
Five-Year Diversified Fixed Int. Trust AUD Class	0.25%	0.61%
Global Bond Trust AUD Class	0.04%	1.03%
Global Bond Sustainability Trust AUD Class	-0.02%	N/A
<b>AUSTRALIAN EQUITIES</b>		
Australian Large Company Trust	1.58%	13.12%
Australian Value Trust	2.51%	14.70%
Australian Small Company Trust	1.87%	15.51%
Australian Core Equity Trust	1.59%	14.79%
Australian Core Imputation Trust	1.96%	11.36%
<b>GLOBAL EQUITIES</b>		
Global Large Company Trust	7.20%	20.62%
Global Value Trust	5.86%	16.39%
Global Small Company Trust	3.68%	17.05%
Global Core Equity Trust Unhedged Class	5.73%	17.80%
Global Core Equity Trust AUD Hedged Class	4.09%	9.67%
Global Sustainability Trust Unhedged Class	7.59%	21.28%
Global Sustainability Trust AUD Hedged Class	5.89%	12.64%
Emerging Markets Trust	4.53%	11.75%
<b>GLOBAL REAL ESTATE</b>		
Global Real Estate Trust Unhedged Class	2.08%	12.43%
<b>WORLD ALLOCATION</b>		
World Allocation 50/50 Trust	1.83%	7.28%
World Allocation 70/30 Trust	2.48%	9.94%
World Equity Trust	3.50%	13.92%

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**

The standout performer in the September quarter among Dimensional's local equity strategies was the Australian Value Trust, which beat its benchmark by a full percentage point.

The main driver of this outperformance was the Trust's focus on value within mid-cap and small-cap stocks. The same factor helped it eclipse its benchmark by around two thirds of a percentage point over the 12 months to 30 September.

While the size premium was negative in Australia, the Australian Small Company Trust still managed to beat the S&P/ASX Small Ordinaries index by around three quarters of a percentage point, thanks to its mid-cap exposure.

Another strong relative performer was the Australian Core Imputation Trust, whose focus on franking yield and exposure to Telstra and mid-cap financial stocks helped it beat its benchmark net of fees by almost half a percentage point.

Elsewhere, the Australian Core Equity Trust delivered a performance in line with its benchmark, with a slightly positive profitability contribution offsetting a drag from the negative size premium.

**GLOBAL EQUITIES**

Outside Australia, a standout relative performer was the Global Sustainability Trust, which beat its benchmark by about a quarter of a percentage point thanks in part to its sustainability-driven underweight to energy stocks.

Elsewhere, the negative value premium accounted for the Global Core and the Global Value Trusts lagging their benchmarks, although their respective absolute returns of 5.73% and 5.86% were still solid.

With the size premium negative, the Global Small Company Trust delivered a more modest 3.68%. The Trust also lagged its benchmark by half a percentage point due to its emphasis on smaller companies than those in the index.

The Global Large Company Trust performed broadly in line with its benchmark, with a return of 7.20%

Unlike in developed markets, the value premium was positive in emerging markets. This helped the Emerging Markets Trust to a quarterly return of 4.53%, well outpacing its benchmark by three and a half percentage points. Its outperformance over the year was even more impressive at just over four percentage points.

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**THIRD QUARTER AS AT 30 SEPTEMBER 2018**

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**FIXED INTEREST**

With yield curves rising around the world, it was a difficult quarter for fixed interest investors. The broad market, as measured by the Bloomberg Barclays Global Aggregate bond index, was slightly negative for the quarter.

Still, all but one of Dimensional's fixed interest strategies delivered positive, albeit modest, returns for the quarter.

The negative term premium meant the best performing strategy was the cash-like Short-Term Fixed Interest Trust, which delivered returns in line with cash.

Elsewhere, an exposure to two-to-three-year USD bonds dragged on relative returns in the Two-Year Diversified Fixed Interest Trust, though this was cushioned by a positive credit premium. This Trust invests in the full investment grade spectrum.

There was no such offset for the Five-Year Diversified Fixed Interest Trust, which is restricted to AA-quality bonds or better. In this case, exposure to four-to-five-year Euro-denominated bonds affected relative returns.

While delivering a flat outcome for the quarter overall, the Global Bond Trust - an intermediate duration strategy - still managed to slightly outperform its benchmark thanks to underweights to US dollar and Japanese yen bonds.

**PROPERTY**

Returns from listed property in Australia were broadly in line with the overall market in the September quarter, while lagging in developed markets outside Australia and in emerging markets.

The Global Real Estate Trust performed in line with its composite benchmark, with a quarterly return of just over 2%.

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