Cumberland Council
Economic and Investment Portfolio Commentary
March 2019

Global issues:

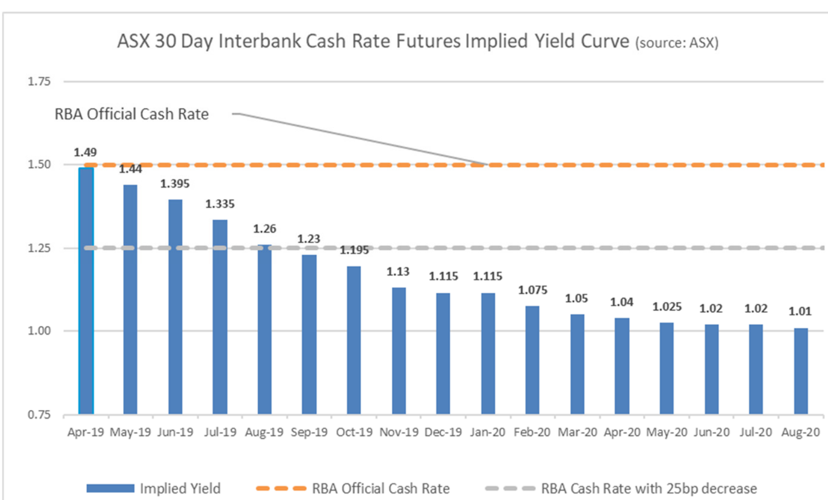
- Continued progress in the US/China trade talks and central banks' statements confirming no rate increases are on the horizon helped share markets record a strong March quarter. Global and US shares recorded gains of 11% and 12%, respectively while the Australian market gained 10%. Despite the gains, there is growing concern that the US is showing early signs of a possible recession.
- In the US, long term bond yields have dropped below short term rates creating an inverted yield curve. While this can be a sign of an impending recession, economists are calling for calm as recent data releases have been sound and many of the factors leading to past recessions have not been present.

Domestic issues:

- In Australia, the latest GDP data revealed the economy had only grown by 2.3% for the year ending December with most of the slowdown occurring over the most recent quarters. Australia's GDP on a per person basis has now declined for two consecutive quarters, the first 'per capita' recession since 2016.
- The poor housing market, particularly in Sydney and Melbourne, continues to be a key factor in the economic slowdown. Banks tightening their lending criteria; a record supply of apartments; a sharp collapse in foreign demand; and fears that a change in government could bring in policies that hamper negative gearing and capital gains tax arrangements have all contributed to the decline in housing prices.

Interest rates

- Market interest rates dropped sharply over the months off the back of the poor GDP figures, ongoing house price declines and RBA's neutral stance on interest rates. The Cash Rate Futures is now pricing in a full 25bp rate cut by this September and a further cut to 1.00% in mid/late 2020:



- Term deposit rates followed the market lower with sharp declines across all maturities. The best indicative 3-month TD from an Australian major at month end was 2.45%, down over 10bps from February and over 20bps since January. Likewise, the major banks' best 12 month rate was at 2.48%, down from 2.65% the month prior. The best rates among the lower rated banks were largely in the 2.55%-2.70% area across 3-12 months range.

Investment Portfolio Commentary

Council's investment portfolio posted a return of 3.82%pa for the month of March versus the bank bill index benchmark return of 1.96%pa. For the financial year to date, the investment portfolio returned 2.95%pa, exceeding the bank bill index benchmark's 2.03%pa by 0.92%pa.

The sharp drop in interest rates has resulted in solid marked-to-market gains in Council's long term bond portfolio, particularly the fixed rate holdings. As these gains eventually go back to par value by maturity, opportunities to lock in the gains by selling before maturity will continue to be considered providing equal or better outcomes can be achieved with the proceeds.

Without marked-to-market influences, Council's investment portfolio yielded 2.92%pa for the month. This is based on the actual interest rates being received on existing investments and excludes the underlying changes to the market value of the securities/deposits.

During March, Council's investment portfolio had $9m in 3mo and 1yr term deposits mature with a weighted average rate of approximately 2.65%pa. The full $9m was reinvested in 3mo, 4mo and 2yr deposits at an average rate of 2.71%pa, a sound result given the sharp drop in interest rates over the month.

Council has a well-diversified portfolio invested among a range of term deposits and floating rate notes from highly rated Australian ADIs. 80% of the portfolio is spread among the top three credit rating categories (A long term/A2 short term and higher) and NSW T-Corp cash managed funds. It is expected that Council can continue to achieve above benchmark returns with prudent investment selection for its short and long term holdings.

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