Monthly Markets

November 2015

Global markets were lacklustre in November, with US and European markets moving in opposite directions. Market volatility was largely caused by the expected divergent monetary policy trends between the US Fed and other central banks around the globe.

Following the much stronger than expected US payroll number in October, the market has been anticipating that the Fed is very close to tightening policy rates for the first time in ten years, most likely in December. Recent economic updates reinforced this expectation. US payroll growth continues to be solid, with 211k new jobs created in November (above expectations of 190k) and October payrolls adjusted upwards to nearly 300k. The unemployment rate was unchanged at 5%, despite a slight increase in the participation rate by 0.1% to 62.5%. Meanwhile, Q3 GDP was revised upwards from 1.5% to 2.1% and, in particular, personal consumption expenditure was up by 3%, a positive signal that stronger domestic demand is driving the US economic recovery. Markets are now pricing in a 75% chance that the policy rate will indeed rise after the next FOMC meeting in December.

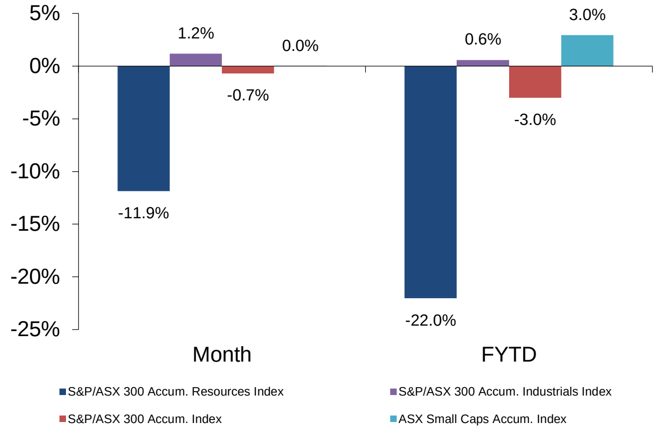
Despite positive economic updates, the US equity market had a roller-coaster month – the S&P 500 was down nearly 3% at one point, and managed to recover to finish the month slightly lower than where it started.

On the other side of the Atlantic, the ECB was widely expected to move in the other direction to that of the Fed, and to loosen monetary policy even further, as the president of the ECB, Mario Draghi, advised that the ECB will "do what they must" when it comes to hitting its inflation target. Before Draghi's announcement in early December, financial markets had already effectively priced in a reduction in the deposit rate of 15 basis points, and also hoped that the ECB would expand its €60 billion per month asset purchase program. The prospect of these additional easing measures from the ECB drove Eurozone equities up by 2.7% in November. However, markets were then disappointed at Draghi's announcement on 3rd December. The ECB cut the deposit rate by just 10bps to -0.3%, and left the monthly asset purchase program unchanged at €60 billion per month. As a result, European stocks tumbled by 3.1% on the day and 3.4% for the week.

In China, we continue to see the impact of the country's economic transition from being primarily manufacturing driven to more consumption and services focused. To illustrate, the latest Caixin Manufacturing PMI was 48.6, still indicating contraction of the Chinese manufacturing sector. But retail sales in China went up by 11% over the past year. Chinese equities market remained volatile in November. The Shanghai Composite Index recovered some losses from prior months, up by around 10% for most of time in November, but finished the month with a 5% sell-off in the last two trading days.

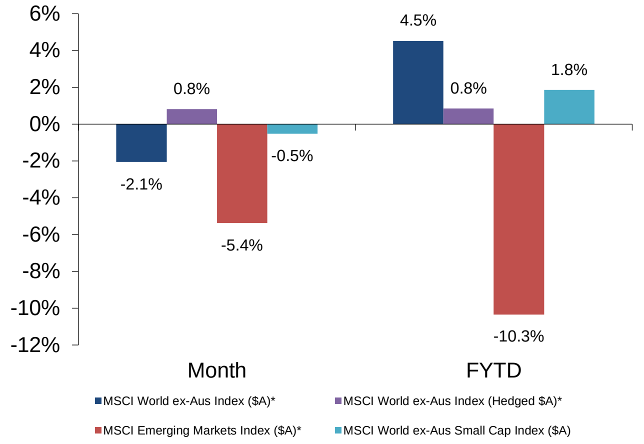
In Australia, economic transition is also happening. Q3 GDP was up by 0.9%, slightly above market expectation, whereas capital spending declined sharply by 9.2% in the same quarter. Overall, the RBA was comfortable with the modest improvement in domestic economic conditions and kept the official cash rate unchanged at 2% in their November and early December meetings.

Australian equities



Australian equities fell by 0.7% in November, largely driven by severe weakness in the resources sector (-12%). The top two performing sectors in November were Health Care (5.2%) and IT (4.5%).

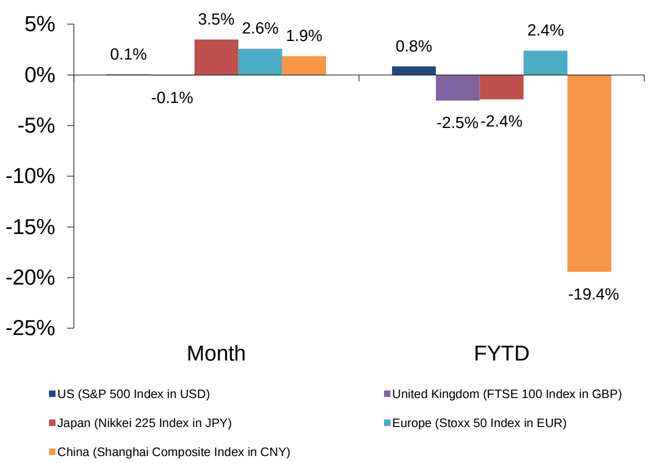
International equities ($A)



Global equities were largely flat in November, with a small rise in developed markets offset by a decline in emerging markets.

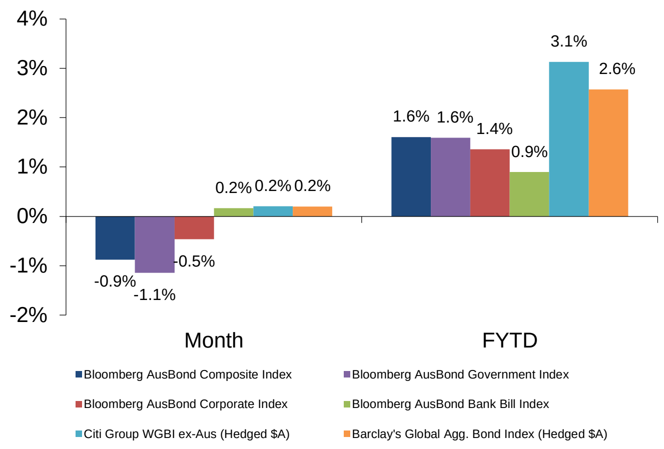
Due to an appreciation of the Australian dollar against major currencies over the month, the unhedged returns of MSCI World Index and MSCI Emerging Markets Index were both negative.

International equities (local currencies)



In terms of individual country performance, the US and UK equity markets remained flat in November. European and Japanese equities both went up, as markets anticipated that the ECB and BoJ would soon increase the magnitude of their stimulatory measures to support growth. Chinese equities recovered moderately from the sell-off in prior months.

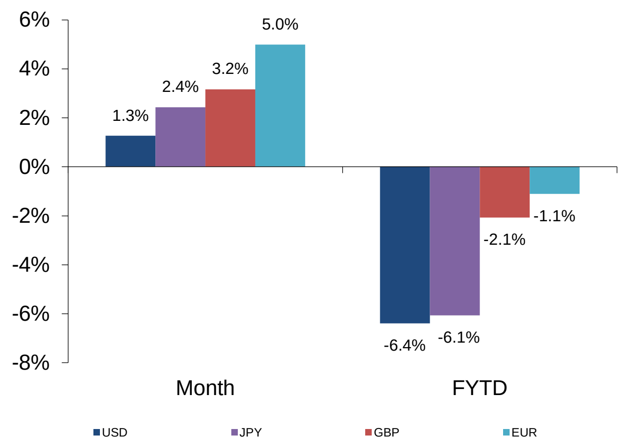
Fixed income



In November, Australian government and corporate bonds delivered negative returns, as longer dated yields rose and rate cut expectations faded following the strong Q3 GDP update.

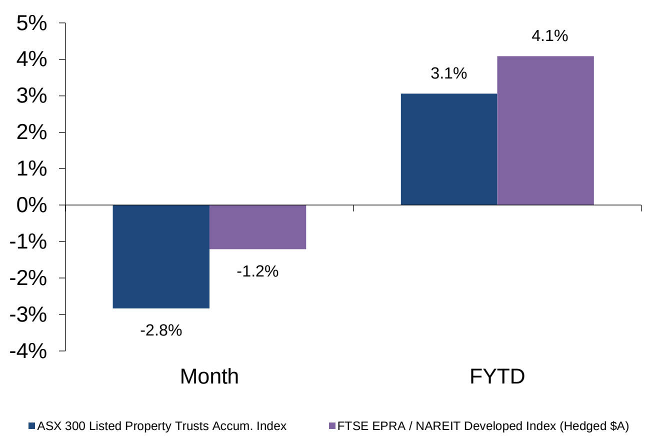
Global bonds' performance was slightly positive in November. Yields increased in the US and fell in Europe, reflecting the expected policy divergence between Fed and ECB.

Australian dollar against major currencies



The Australian dollar strengthened over the month against other major currency pairs. The AUD strengthened most against the Euro given expectations of further monetary policy easing by the ECB.

Property



Both local and global listed property trusts performed negatively in November.

Monthly Markets

30-November-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	46,460	-0.7%	0.7%	-3.0%	2.1%
S&P/ASX 300 Accum. Industrials Index	98,779	1.2%	3.4%	0.6%	7.9%
S&P/ASX 300 Accum. Resources Index	13,916	-11.9%	-14.3%	-22.0%	-25.3%
ASX Small Caps Accum. Index	5,510	0.0%	6.6%	3.0%	6.5%
International equities					
MSCI World ex-Aus Index ($A)*	7,137	-2.1%	1.2%	4.5%	17.4%
MSCI World ex-Aus Index (Hedged $A)*	1,263	0.8%	5.1%	0.8%	5.3%
MSCI Emerging Markets Index ($A)*	482	-5.4%	-2.3%	-10.3%	-2.2%
MSCI World ex-Aus Small Cap Index ($A)	449	-0.5%	-0.3%	1.8%	19.8%
US (S&P 500 Index in USD)	2,080	0.1%	5.5%	0.8%	0.6%
United Kingdom (FTSE 100 Index in GBP)	6,356	-0.1%	1.7%	-2.5%	-5.5%
Japan (Nikkei 225 Index in JPY)	19,747	3.5%	4.5%	-2.4%	13.1%
Europe (Stoxx 50 Index in EUR)	3,506	2.6%	7.2%	2.4%	7.9%
China (Shanghai Composite Index in CNY)	3,445	1.9%	7.5%	-19.4%	28.4%
AUD versus …					
USD	0.72	1.3%	0.6%	-6.4%	-15.3%
JPY	88.22	2.4%	1.9%	-6.1%	-12.2%
GBP	0.48	3.2%	3.3%	-2.1%	-11.5%
EUR	0.68	5.0%	6.8%	-1.1%	-0.5%
Property					
ASX 300 Listed Property Trusts Accum. Index	37,476	-2.8%	1.6%	3.1%	14.9%
FTSE EPRA / NAREIT Dev. Index (Hedged $A)*	2,209	-1.2%	5.8%	4.1%	5.1%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,533	-0.9%	-0.3%	1.6%	4.0%
Bloomberg AusBond Government Index	8,879	-1.1%	-0.6%	1.6%	3.6%
Bloomberg AusBond Corporate Index	8,679	-0.5%	0.0%	1.4%	4.1%
Bloomberg AusBond Bank Bill Index	8,349	0.2%	0.5%	0.9%	2.4%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	0.2%	1.6%	3.1%	4.8%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.2%	1.4%	2.6%	4.2%
Oil and Commodities					
Crude Oil ($/bbl)	42	-10.6%	-15.3%	-30.0%	-37.0%
Copper Spot ($/tonne)	4,599	-10.3%	-10.6%	-20.1%	-28.3%
Gold Spot ($/ounce)	1,065	-6.7%	-6.0%	-9.3%	-9.6%

Fixed income (yields) as at …	**30-Nov-15**	**31-Oct-15**	**31-Aug-15**	**30-Jun-15**	**30-Nov-14**
Australia Bank Bill	2.26	2.07	2.13	2.13	2.74
Australia 10 Year Government Bond	2.86	2.61	2.66	3.01	3.03
US 10 Year Government Bond	2.21	2.14	2.22	2.35	2.16
UK 10 Year Government Bond	1.83	1.92	1.96	2.02	1.93
Germany 10 Year Government Bond	0.47	0.52	0.80	0.76	0.70
Japan 10 Year Government Bond	0.31	0.31	0.38	0.47	0.42

* Net dividends reinvested