Monthly Markets

October 2015

October was a positive month for most growth assets. This was largely driven by positive economic news out of the US.

The first major positive news was the US Federal Open Market Committee (FOMC) statement from Janet Yellen. Although there was no announcement on the first interest rate hike in the US in almost a decade, the statement itself was positive on US economic prospects. Two areas noted to have improved since their last meeting were household spending and business fixed investment. Equity markets reacted positively to the announcement.

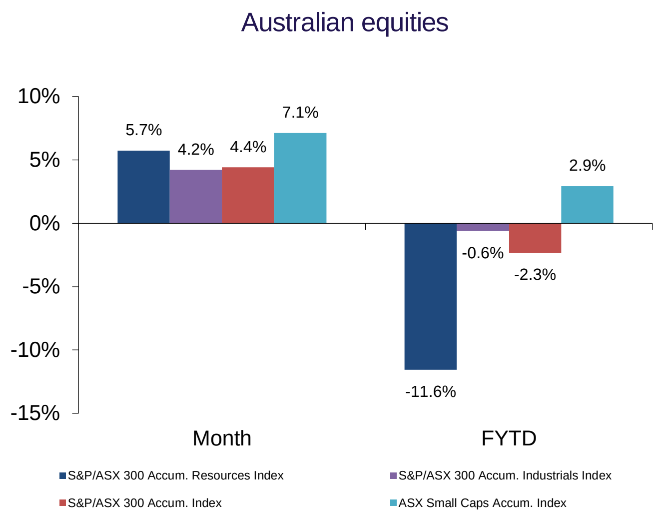
The second major positive news was the October nonfarm payroll report. The US labour market added 271,000 new jobs in October beating expectations by a wide margin. This brought the US unemployment rate down from 5.1% to 5.0%. More importantly, the wage growth data released in the same report saw wage growth for October increase to 0.4% which was higher than expected.

The result of these two announcements is that the market has now priced in around a 60% probability for the US interest rate “lift off” to occur at the FOMC’s December meeting. The market has reacted positively to this because investors are reading the potential US interest rate hike as driven by solid growth.

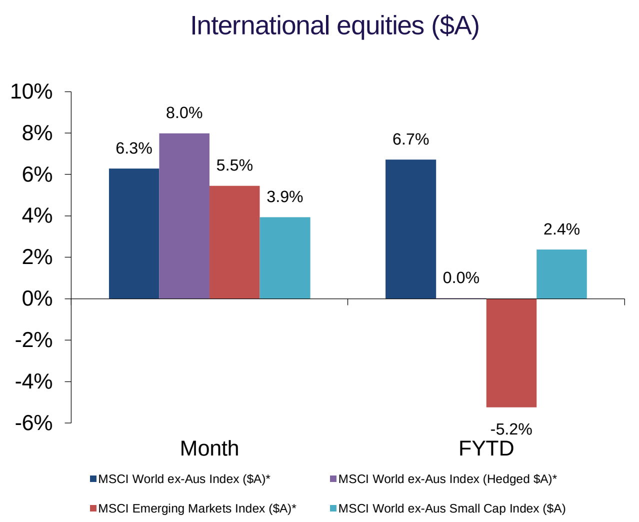
While the US is flirting with tightening their monetary policy, the Europeans look more likely to do further easing. Although the European Central Bank (ECB) made no changes to their official interest rates or quantitative easing (QE) programme at their October meeting, ECB President Mario Draghi did signal to the markets in his statement that further easing is being considered for their December meeting. The key concerns for the ECB continue to be weak growth in emerging markets and the persistence of the extremely low inflation. The annual inflation rate in the Eurozone is currently at 0.1%. Potentially foreshadowing the ECB’s own action, the Riksbank (Sweden’s central bank) announced for a fourth time since February an expansion of their own bond-buying programme by 65 billion Swedish krona ($US7.6 billion) to 200 billion krona ($US23.5 billion) by the end of June 2016.

In China, the People’s Bank of China (PBoC) attempted to further stimulate its economy with another cut to both their benchmark interest rates and the required reserve ratio. The Chinese government also had their Fifth Plenum in October where a draft of the new five-year plan was revealed. The announcement restated the government’s commitment to doubling real GDP between 2010 and 2020. This means China’s growth rate over the next five years must at least be 6.5% on average – a high growth target given China is trying to also transition their economy towards the services sector. Additionally, the Chinese government also included in their statement the abolishment of the one-child policy allowing all couples now to have two children. This is a positive development given China’s declining working age population.

In Australia, recent solid employment numbers suggest growth fears here may be too pessimistic. In fact, key business surveys such as that produced by the National Australia Bank, suggest that Australian activity will likely improve from current levels. This outlook is consistent with the RBA leaving rates unchanged at 2.0% at their November Board meeting.



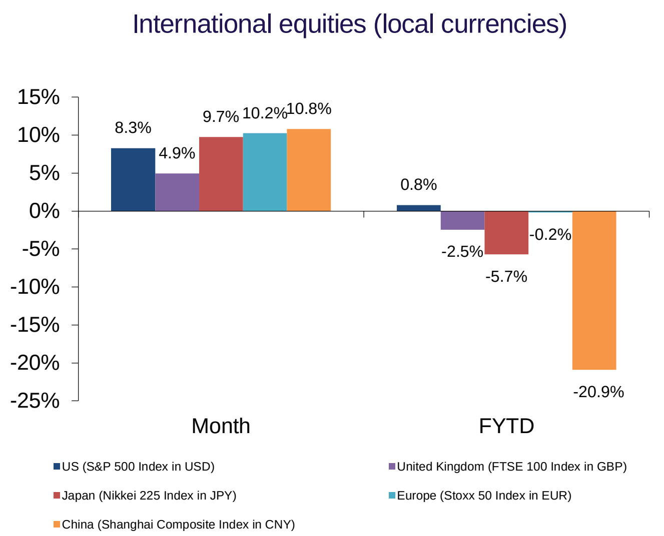
Following the selloff in September, Australian equities rebounded in October by 4.4%. Energy (8.0%) was the best performing sector over the month with Telecommunications (-2.8%) being the only sector to perform negatively in October.



The rally in growth assets in October was widespread with both developed market and emerging market equities performing positively.

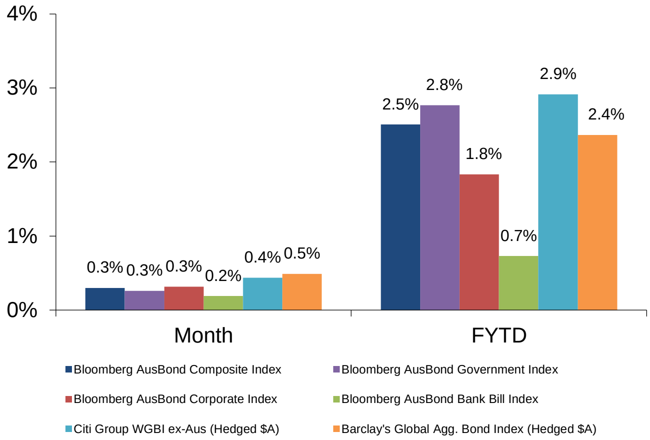
In developed markets, US equities was the key contributor to performance followed by Japan. In emerging markets, Chinese equities was the top contributor followed by South Korea.

Hedged developed market equities outperformed its unhedged counterpart over October as the Australian dollar strengthened.



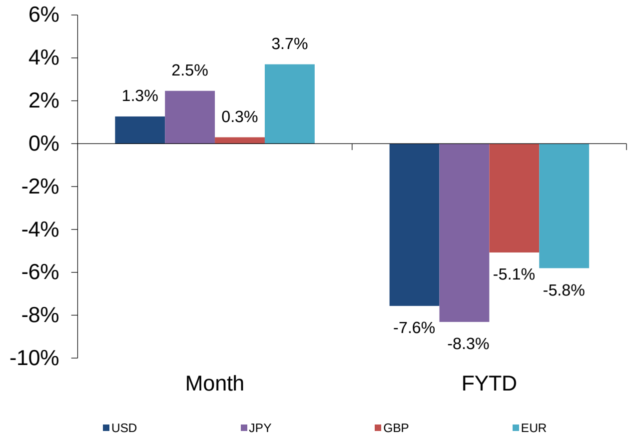
The bias towards further easing of monetary policies in Europe, Japan and China assisted in their respective local equity market's positive performance over the month while positive economic data in the US drove its own equity markets higher.

Fixed income



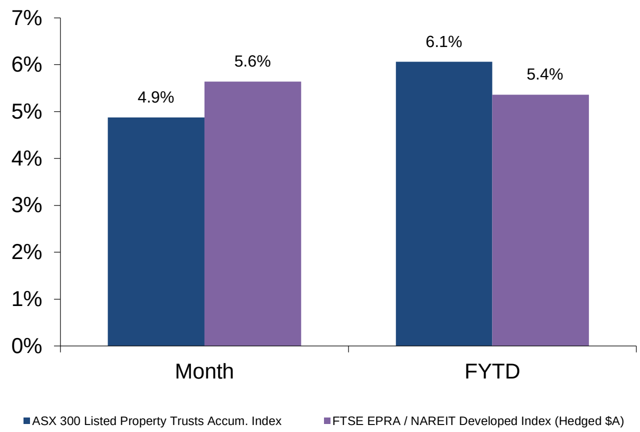
Domestic and global bonds etched out a slight positive performance in October. Although US sovereign bond yields broadly rose this was offset by the fall in German sovereign bond yields over the month – reflecting the divergence in each country's monetary policy.

Australian dollar against major currencies



The Australian dollar strengthened along with other risks assets over the month against the other major currency pairs. It strengthened most against the Japanese Yen and Euro given the expectations of further monetary policy easing in those regions.

Property



Both local and global listed property trusts performed positively in October.

Monthly Markets

31-October-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	46,779	4.4%	-6.4%	-2.3%	-0.5%
S&P/ASX 300 Accum. Industrials Index	97,606	4.2%	-5.8%	-0.6%	4.6%
S&P/ASX 300 Accum. Resources Index	15,787	5.7%	-9.7%	-11.6%	-22.9%
ASX Small Caps Accum. Index	5,509	7.1%	1.4%	2.9%	2.4%
International equities					
MSCI World ex-Aus Index ($A)*	7,287	6.3%	0.1%	6.7%	26.3%
MSCI World ex-Aus Index (Hedged $A)*	1,253	8.0%	-2.7%	0.0%	8.0%
MSCI Emerging Markets Index ($A)*	510	5.5%	-2.7%	-5.2%	5.3%
MSCI World ex-Aus Small Cap Index ($A)	452	3.9%	-1.7%	2.4%	24.6%
US (S&P 500 Index in USD)	2,079	8.3%	-1.2%	0.8%	3.0%
United Kingdom (FTSE 100 Index in GBP)	6,361	4.9%	-5.0%	-2.5%	-2.8%
Japan (Nikkei 225 Index in JPY)	19,083	9.7%	-7.3%	-5.7%	16.3%
Europe (Stoxx 50 Index in EUR)	3,418	10.2%	-5.1%	-0.2%	9.8%
China (Shanghai Composite Index in CNY)	3,383	10.8%	-7.7%	-20.9%	39.8%
AUD versus …					
USD	0.71	1.3%	-2.7%	-7.6%	-19.4%
JPY	86.12	2.5%	-4.8%	-8.3%	-11.2%
GBP	0.46	0.3%	-0.8%	-5.1%	-15.8%
EUR	0.65	3.7%	-3.0%	-5.8%	-7.5%
Property					
ASX 300 Listed Property Trusts Accum. Index	38,568	4.9%	0.4%	6.1%	18.2%
FTSE EPRA / NAREIT Dev. Index (Hedged $A)*	2,236	5.6%	0.8%	5.4%	8.7%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,608	0.3%	1.2%	2.5%	6.2%
Bloomberg AusBond Government Index	8,982	0.3%	1.3%	2.8%	6.4%
Bloomberg AusBond Corporate Index	8,720	0.3%	1.0%	1.8%	5.5%
Bloomberg AusBond Bank Bill Index	8,335	0.2%	0.5%	0.7%	2.4%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	0.4%	1.4%	2.9%	6.0%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.5%	1.1%	2.4%	5.2%
Oil and Commodities					
Crude Oil ($/bbl)	47	3.3%	-1.1%	-21.7%	-42.2%
Copper Spot ($/tonne)	5,130	-0.9%	-1.8%	-10.9%	-24.1%
Gold Spot ($/ounce)	1,141	2.3%	4.2%	-2.8%	-2.9%

Fixed income (yields) as at …	**31-Oct-15**	**30-Sep-15**	**31-Jul-15**	**30-Jun-15**	**31-Oct-14**
Australia Bank Bill	2.07	2.16	2.14	2.13	2.72
Australia 10 Year Government Bond	2.61	2.61	2.76	3.01	3.29
US 10 Year Government Bond	2.14	2.04	2.18	2.35	2.34
UK 10 Year Government Bond	1.92	1.76	1.88	2.02	2.25
Germany 10 Year Government Bond	0.52	0.59	0.64	0.76	0.84
Japan 10 Year Government Bond	0.31	0.36	0.42	0.47	0.46

* Net dividends reinvested