Market Update

NOVEMBER 2016

- In October equity and bond markets were both a little weaker as investors worried about higher US interest rates and the outcome of the US elections.
- Crude oil prices were about 3% weaker as oil producer nations failed to agree to production cuts.
- Chinese economic data was relatively good helped by infrastructure and housing construction activity.
- The US economy continues to grow moderately with some evidence that wages growth is picking up.
- The Eurozone economy continues to grow in line with long term trend rates and business sentiment in both the manufacturing and services sectors has improved.
- Australia's economy is still somewhat mixed with softness in retail spending and low inflation but the recent lift in iron ore and coal prices should help provide support into 2017.

October market performance

Equity Markets – Price Indices	Index	At Close 31/10/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5402.44	-2.2%	2.2%
Japan	Nikkei	17425.02	5.9%	-8.7%
Hong Kong	Hang Seng	22934.54	-1.6%	1.3%
UK	FTSE 100	6954.22	0.8%	9.3%
Germany	DAX	10665.01	1.5%	-1.7%
US	Dow Jones	18142.42	-0.9%	2.7%
EMU*	Euro 100	1041.38	1.4%	-8.6%
World**	MSCI – Ex Aus (Gross) (Hedged)	1310.76	-0.7%	-0.4%

Property – Price Index	Index	At Close 31/10/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1294.98	-7.7%	1.5%

Interest Rates	At Close 31/10/2016	At Close 30/09/2016	At Close 31/10/2015
Aust 90 day Bank Bills	1.74%	1.74%	2.10%
Australian 10 year Bonds	2.34%	1.91%	2.61%
US 90 day T Bill	0.30%	0.27%	0.08%
US 10 year Bonds	1.82%	1.60%	2.14%

Currency***		At Close 31/10/2016	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.76	-0.56%	6.66%
British pound	A$/STG	0.62	5.80%	34.92%
Euro	A$/euro	0.69	1.94%	7.48%
Japanese yen	A$/yen	79.96	3.19%	-7.12%
Trade-weighted		65.00	1.72%	7.79%

* Top 100 European stocks trading on the FTSE
** Price Index (Source: msci.com)
*** All foreign exchange rates rounded to two decimal places (Source: FactSet)
Past performance is not a reliable indicator of future performance.

Global economies

In another relatively uneventful month for economic data, investor attention was directed at rising interest rates and bond yields and election uncertainty in the United States. Economic indicators were on the whole relatively good showing that the global economy continues to expand at a moderating pace.

Market Update

US

In the United States, the initial estimate of third quarter GDP growth came in ahead of expectations showing annualised growth of 2.9%. Although this was the strongest growth rate in two years, the result was boosted by a very large one-off rise in soy bean exports and a build-up of business inventories.

The October non-farm payroll figures were also relatively robust with some evidence of higher wages growth and the broader U-6 measure of unemployment falling to a new post financial crisis low of 9.5% October. This means that the US Fed should feel sufficiently confident to raise interest rates at next month's meeting, all else being equal.

Europe

In Europe, economic indicators have been relatively good recently. GDP growth in the third quarter was as expected, at 1.6% year-on-year. However, purchasing manager indices for both the manufacturing and services sectors were better than expected. Industrial production in Germany, France and Spain grew more strongly than expected and consumer price inflation, which had been very weak, appears to have picked up in countries such as Spain.

China

In China, the economy grew at an annual rate of 6.7% in the third quarter, which was in line with expectations. Economic growth is being supported by fixed asset investment which grew 8.2% year-on-year in September, helped by strong credit growth and a booming property market, which policymakers are now attempting to reign in.

Asia region

Japanese economic data continues to show an economy gripped by price deflation and consumers who are reluctant to spend. Household spending fell 2.1% over the past year and core inflation is running at -0.5% nationwide, despite the unemployment rate falling from 3.1% in August to 3.0% in September.

At its most recent meeting, the Bank of Japan acknowledged it is behind schedule in lifting inflation. It lowered its inflation forecasts and pushed back the timing that it expects inflation to reach its 2% target by two years to the year ended March 2019.

Australia

In Australia, employment fell for the second consecutive month in September and the trend continues to show weakness in full-time employment partly offset by strength in part-time jobs. Although the unemployment rate fell to 5.6%, the employment data continues to show that there is some spare capacity in the labour market which is keeping a lid on wages growth. Soft wages growth is also helping to hold down the rate of inflation. CPI data for the third quarter showed that the underlying rate of inflation was 1.5% per annum, which is below the RBA's 2-3% target range

Market Update

EQUITY MARKETS

- The China Shanghai Composite Index rose by 3.2% in October.
- Emerging market shares returned 0.6% in local currency terms.
- The German DAX Index rose 1.5%.
- The broader Euro 100 was 1.4% higher.
- The Japanese Nikkei Index rose 5.9%.
- The US Standard & Poor's 500 Index fell 1.8% over the month.
- Australia's S&P/ASX All Ordinaries Index lost 2.2% in October.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	6.33%	3.91%	9.00%	6.44%
	S&P/ASX 50 Acc.	4.35%	2.69%	9.21%	6.60%
	S&P/ASX Small Ordinaries Acc.	14.90%	4.42%	2.69%	2.24%

The S&P/ASX 200 Accumulation Index lost 2.2% in October with most sectors experiencing large losses except the financials and materials sectors. Materials sector returned 1.2% for the month to be the best performing sector, helped by higher bulk commodity prices. Healthcare stocks fell 8.1% after hospital group Healthscope reported weaker industry revenues for the quarter. Small cap shares underperformed larger companies again with a loss of 4.7%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	-2.0%	0.4%	-4.0%
Materials	1.2%	6.9%	20.2%
Industrial	-4.1%	-8.4%	7.1%
Consumer Discretionary	-6.1%	-6.3%	13.8%
Consumer Staples	-3.8%	-0.5%	7.4%
Health Care	-8.1%	-11.3%	9.0%
Financials (ex Property)	0.7%	-0.1%	2.0%
Info Tech	-6.6%	-0.9%	7.6%
Telcos	-4.3%	-14.1%	-3.6%
Utilities	-3.0%	-11.5%	8.4%
Property	-7.7%	-14.0%	6.4%

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BIG MOVERS THIS MONTH

Going up

⇑ Materials 1.2%

⇑ Financials 0.7%

Going down

Information Technology -6.6%

Property -7.7%

Healthcare -8.1%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	-4.82%	12.58%	17.46%	11.97%
	MSCI World Ex Aus (Gross) in Local	2.26%	7.22%	12.12%	10.53%
	MSCI World Small Cap ($A)	-1.88%	12.15%	18.17%	14.04%
Emerging	MSCI Emerging Mkts Free	8.20%	3.55%	5.61%	5.69%
	MSCI AC Far East Free (ex Japan)	6.50%	3.17%	5.71%	0.06%

In October global equities lost 0.6% in local currency terms. Shares in the United States lost 1.8% while Japanese shares rose 5.9%. Healthcare stocks fell 5.9% as investors worried about the potential impact on pharmaceutical prices if Hillary Clinton wins the US presidential election. Financials rose 3.8% boosted by the prospects of a higher interest rate which tends to benefit bank net interest margins.

In an absolute sense Price-Earnings ratios are full, but compared with returns from bonds or cash valuations do not seem excessive. Moderate economic growth should be sufficient to support mid-to-high single digit earnings growth for the key US and European indices in 2017.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	6.39%	13.59%	16.81%	12.06%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	3.84%	9.76%	13.59%	13.62%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) lost 7.7% in October as the rotation away from yield sensitive stocks continued. Excluding distributions the S&P/ASX 300 A-REIT Index also lost 7.7% over the month and remains just 1.5% higher over the past year.

Over one, three, five and seven years, A-REITs have outperformed Global REITs. Currency-hedged global property securities, as represented by the FTSE EPRA/NAREIT Index, were up 3.8% over a one-year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	4.03%	5.77%	5.82%	6.42%
	Australian 90 Day Bank Bill	2.08%	2.35%	2.78%	3.33%
Global	BarCap Global Aggregate Index	-1.00%	8.48%	7.83%	4.72%
	BarCap Global Agg. Index Hedged	6.71%	6.63%	6.76%	7.49%

Australian bonds lost 1.28% in October after government bond yields rose materially in most of the major bond markets. The two-year Australian Commonwealth Government bond yield rose from 1.55% to 1.65% per annum and the ten-year bond yield rose from 1.97% to 2.36% per annum.

Internationally, the Barclays Global Aggregate Bond Index (A$ hedged) lost 0.90% as bond yields rose in the United States, United Kingdom, Germany and Japan. In the US, 10-year Treasury bond yields rose from 1.61% per annum to 1.84% as investors worried about higher US interest rates and less monetary stimulus in Europe and Japan. Credit markets were little changed and credit spreads fell marginally in both the investment grade and high yield sectors of the US bond market.

Australian dollar

The Australian Dollar fell 0.4 US cents to US$0.7610 and the US Dollar was stronger against the Yen, Euro and British Pound.

Against the US Dollar, the Australian Dollar fell 0.6% for the month, and on a Trade-Weighted Index basis, the Australian Dollar was 1.7% stronger.