

Economic and market monthly update

9 October 2017



Bob Cunneen
Senior Economist and Portfolio Specialist

Bob reviews events in Australian and overseas markets during September.

What drove global markets in September?

Global shares made solid monthly gains of 2.2% in September in local currency terms.

US shares achieved record highs given President Trump's bold tax promises and solid economic activity data. President Trump announced a 'tax plan' in late September which includes a large corporate tax cut from 35% to 20% as well as significant income tax cuts. This was positively received by Wall Street. Solid US economic results featuring encouraging business surveys and job gains also helped US shares. The Federal Reserve (Fed) announced a plan to reduce their holdings of US government bonds and mortgage securities. However the Fed emphasised that this balance sheet reduction as well as further interest rate rises should be 'gradual'.

European shares made sharp gains of 4.3% in September. European economic data has been positive with robust business surveys and solid jobs growth. The German election result on 24 September suggests that Angela Merkel should continue as leader for a fourth term, thereby providing some comfort to investors concerned about political stability.

Asian shares also made solid gains. Solid Chinese business surveys and stable economic data proved supportive of Chinese shares. Japanese shares made strong gains given positive business surveys and despite concerns over North Korea's missile testing.

How about markets in Australia?

Australian shares disappointed in September with a flat return for the S&P/ASX 200 Accumulation Index. There were large falls in the Telecommunications (-4.6%) sector given competitive pressures with Telstra cutting their dividend. Utilities (-3.7%) also fell given concerns over government regulatory scrutiny as well as their sensitivity to higher bond yields. However there were some positive performances from the Health Care (2.2%) and Energy (1.2%) sectors, which helped stabilise the monthly return for Australian shares.

Australia's economy recorded improving data in September. Economic growth rebounded in the June quarter after a soft start to 2017. Jobs growth also picked up speed with the unemployment rate stabilising at 5.6%. Australian government bond yields increased in September with financial markets anticipating that the Reserve Bank of Australia may be raising interest rates next year.

The Australian dollar (AUD) fell slightly in September. The sharp decline in the iron ore price from US\$79 to US\$62 per tonne was a key negative contributor to the AUD.

Have any changes been made to portfolios in September?

We've made a manager change in our fixed income strategies that we believe should improve return potential without a material change to the risk profile of these strategies.

In our MLC Diversified Debt Fund, MLC Horizon portfolios 1 to 5 and MySuper, we've appointed Muzinich & Co Limited (Muzinich) to manage part of our global high yield

bonds and loans allocation. We've removed Oaktree Capital Management, L.P. (Oaktree), our US high yield loans manager since 2005. While Oaktree has been a successful contributor to our funds, we were looking for a broader global strategy.

Muzinich will give us opportunities to invest in high yield loans not only in developed markets (US and Europe), but also emerging markets (Asia, Latin America, Eastern Europe). Muzinich's capabilities extend to high yield bonds.

Important information

This communication is provided by MLC Investments Limited (ABN 30 002 641 661, AFSL 230705) (MLC), a member of the National Australia Bank Limited (ABN 12 004 044 937, AFSL 230 686) group of companies (NAB Group), 105-153 Miller Street, North Sydney 2060.

This information may constitute general advice. It has been prepared without taking account of an investor's objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation and needs.

You should obtain a Product Disclosure Statement (PDS) relating to the financial product mentioned in this communication issued by MLC Investments Limited, and consider it before making any decision about whether to acquire or continue to hold the product. A copy of the PDS is available upon request by phoning the MLC call centre on 132 652 or on our website at mlc.com.au.

An investment in any product referred to in this communication is not a deposit with or liability of, and is not guaranteed by NAB or any of its subsidiaries.

Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. The returns specified in this communication are reported before management fees and taxes. Share market returns are all in local currency.

Any opinions expressed in this communication constitute our judgement at the time of issue and are subject to change. We believe that the information contained in this communication is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made as at the time of compilation. However, no warranty is made as to their accuracy or reliability (which may change without notice) or other information contained in this communication.

This information is directed to and prepared for Australian residents only.

MLC may use the services of NAB Group companies where it makes good business sense to do so and will benefit customers. Amounts paid for these services are always negotiated on an arm's length basis.

working with  nab