Market Update

OCTOBER 2016

- In September equity and bond markets were dominated by investor concerns around the timing of the next US interest rate hike.
- Crude oil prices rose 8% on talks from producer countries of possible cuts to oil production levels.
- Chinese economic data continued to show that economic growth is being supported by strong housing construction and government stimulus measures.
- The US economy is growing at a modest rate but the rate of employment growth has tapered off in recent months as the economy approaches full employment.
- The Eurozone economy is performing in line with expectations but more recently investors have been concerned with the health of some of the banks, particularly in Italy.
- Australia's economy has been benefiting from strong housing construction and growth in the services sector but consumers have become more cautious in recent months.

September market performance

Equity Markets – Price Indices	Index	At Close 30/09/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5525.15	-0.1%	9.2%
Japan	Nikkei	16449.84	-2.6%	-5.4%
Hong Kong	Hang Seng	23297.15	1.4%	11.8%
UK	FTSE 100	6899.33	1.7%	13.8%
Germany	DAX	10511.02	-0.8%	8.8%
US	Dow Jones	18308.15	-0.5%	12.4%
EMU*	Euro 100	1027.04	-0.4%	-0.8%
World**	MSCI – Ex Aus (Gross) (Hedged)	1320.31	0.0%	8.3%

Property – Price Index	Index	At Close 30/09/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1403.00	-4.4%	15.3%

Interest Rates	At Close 30/09/2016	At Close 31/08/2016	At Close 30/09/2015
Aust 90 day Bank Bills	1.74%	1.73%	2.19%
Australian 10 year Bonds	1.91%	1.83%	2.61%
US 90 day T Bill	0.27%	0.33%	-0.01%
US 10 year Bonds	1.60%	1.58%	2.04%

Currency***		At Close 30/09/2016	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.77	1.82%	8.97%
British pound	A$/STG	0.59	2.66%	27.07%
Euro	A$/euro	0.68	0.91%	8.24%
Japanese yen	A$/yen	77.49	-0.31%	-7.86%
Trade-weighted Index		63.90	1.11%	6.68%

* 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 what was a relatively uneventful month for economic data, investor attention turned to the timing of US interest rate rises while economic indicators over the past month have continued to point to a world that is growing – albeit at a moderating pace.

Market Update

US

In the United States, the economy has continued to perform reasonably well. September's non-farm payrolls report showed 156,000 jobs were created, which was a little weaker than expected, but strong enough for policymakers to lift interest rates again, most likely in December - assuming that the next couple of employment reports show no material weakness.

Last month's sharp falls in the ISM manufacturing and services indices proved to be one-offs as many commentators had suggested. In September the ISM manufacturing index climbed back above 50 and the services ISM rose to 57.1, which is the highest level since October last year.

Europe

Tex In Europe, Germany saw a very large rise in IFO business climate index as concerns over the UK's Brexit decision receded. The Business Climate Index rose 3.2 points to a seasonally-adjusted 109.5 in September, the highest level since July 2014.

In the UK, economic conditions following the June Brexit vote have held up reasonably well. The unemployment rate has remained unchanged at 4.9% and headline inflation was higher than expected in September rising 1.0% year-on-year, the highest rate in two years.t

China

In China, the economy continues to be supported by strong new home price growth and robust housing construction in the major cities. Chinese economic indicators for August were stronger than expected. Growth in industrial production was up 6.3% year-on-year in August compared with 6.0% in July. Urban investment was steady at 8.1% year-on-year and retail sales rose 10.6% year-on-year, which was up from the 10.2% growth rate in July.

Asia region

Japanese economic data continues to show that the economy is struggling to generate growth. June quarter GDP growth was revised up to 0.7% annualised from 0.2% previously due to a much smaller decline in business spending, however, overall spending growth remained subdued despite the best efforts of policymakers.

In September the Bank of Japan introduced another iteration of its monetary stimulus program where it will aim to keep the 10-year Japanese Government bond yield at around zero until inflation exceeds 2%.

Australia

In Australia, the economy continues to perform reasonably well, helped by the housing and services sectors. Although employment fell by 3,900 jobs in August, which was weaker than expected, the unemployment rate fell from 5.7% to 5.6%, which is the lowest rate in three years.

However consumers have become relatively more cautious about spending in recent months despite the two interest rate cuts this year. Annualised growth in retail sales has been trending lower, from around 6% growth in mid-2014, to 2.8% recently.

Market Update

EQUITY MARKETS

- The China Shanghai Composite Index fell 2.6% in September.
- Emerging market shares returned 0.5% in local currency terms.
- The German DAX Index was down 0.8%.
- The broader Euro 100 was 0.4% lower.
- The Japanese Nikkei Index fell 2.6%.
- The US Standard & Poor's 500 Index was flat in September.
- Australia's S&P/ASX All Ordinaries Index lost 0.1% for the month.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	13.50%	6.03%	11.02%	6.46%
	S&P/ASX 50 Acc.	9.93%	4.66%	11.01%	6.52%
	S&P/ASX Small Ordinaries Acc.	29.16%	7.07%	5.27%	2.78%

The S&P/ASX 200 Accumulation Index returned 0.5% in September with mixed performance across the sectors. The materials sector returned 5.7% for the month to be the best performing sector while the yield sensitive sectors (utilities, telecommunications and property) posted negative returns of 3-4%. Small cap shares outperformed larger companies again with a total return of 1.5%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	0.1%	2.7%	5.8%
Materials	5.7%	13.9%	24.3%
Industrial	-0.3%	2.3%	17.3%
Consumer Discretionary	0.3%	8.7%	28.7%
Consumer Staples	1.6%	12.4%	12.2%
Health Care	-0.3%	3.3%	25.9%
Financials (ex Property)	0.6%	5.2%	6.3%
Info Tech	1.5%	10.2%	15.9%
Telcos	-4.0%	-6.4%	-2.0%
Utilities	-3.2%	-2.3%	19.4%
Property	-4.3%	-1.9%	20.9%

Market Update

BIG MOVERS THIS MONTH

Going up

⇑	Materials	5.7%
⇑	Consumer Staples	1.6%
⇑	Information Technology	1.5%

Going down

⇓	Utilities	-3.2%
⇓	Telecommunications	-4.0%
⇓	Property	-4.3%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	2.57%	14.06%	17.99%	11.52%
	MSCI World Ex Aus (Gross) in Local Currency	11.13%	8.85%	14.14%	10.27%
	MSCI World Small Cap ($A)	5.43%	14.01%	19.50%	13.52%
Emerging	MSCI Emerging Mkts Free	13.37%	4.71%	7.33%	5.53%
	MSCI AC Far East Free (ex Japan)	14.83%	4.44%	7.85%	0.06%

In September developed share markets returned 0.2% and emerging market shares returned 0.5% in local currency terms. Asia ex-Japan was the best performing region again with a gain of 1.7% for the month. Energy shares were the best performing global sector, helped by an 8% rise in oil prices in September.

In an absolute sense Price-Earnings ratios are full, but compared with returns from bonds or cash valuations do not seem excessive. 2016 earnings growth is estimated at just 0.8% for the US and 1.8% for Europe, but improved energy and commodity prices should boost earnings in 2017. Bottom up consensus estimates are for 13.3% growth in both the US and Europe in 2017.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	20.88%	17.68%	19.58%	11.83%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	14.64%	12.46%	16.99%	14.27%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) lost 4.3% in September as the rotation away from yield sensitive stocks continued. Excluding distributions the S&P/ASX 300 A-REIT Index lost 4.3% over the month but remains 15.3% 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 14.6% over a one-year period.

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Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	5.69%	6.21%	5.97%	6.60%
	Australian 90 Day Bank Bill	2.11%	2.38%	2.83%	3.36%
Global	BarCap Global Aggregate Index	-0.13%	9.19%	6.72%	4.78%
	BarCap Global Agg. Index Hedged	8.22%	7.34%	7.02%	7.70%

Australian bonds lost 0.22% in September after government bond yields rose marginally in September. The two-year Australian Commonwealth Government bond yield rose from 1.45% to 1.55% per annum, and the ten-year bond yield rose from 1.89% to 1.97%.

Internationally, the Barclays Global Aggregate Bond Index (A$ hedged) returned just 0.07% as bond yields rose in the United States and United Kingdom but fell marginally in Germany and Japan. In the US, 10-year Treasury bond yields finished four basis points higher at a yield of 1.61% after trading as high as 1.74% intra-month before the September Federal Reserve meeting where officials elected to keep interest rates on hold. Credit markets were subdued, like equity markets, with little change in credit spreads during the month.

Australian dollar

On currency markets, the Australian Dollar rose by 1.4 US cents to 76.53 US cents and the Yen and Euro were also a little stronger against the US Dollar.

Against the US Dollar, the Australian Dollar rose 1.8% for the month, and on a Trade-Weighted Index basis, the Australian Dollar was 1.1% stronger.