# Month in Review

ISSUE DATE: 8-12-2015

## Market Moves — as at 30•11•2015

| RETURNS (%) P.A. | 1 MTH | 3 MTH | 6 MTH | 1 YR | 3 YR | 5 YR | 10 YR |
|---|---|---|---|---|---|---|---|
| **AUSTRALIAN EQUITIES** | | | | | | | |
| S&P/ASX 300 ACCUMULATION INDEX | -0.68 | 0.74 | -8.16 | 2.12 | 9.23 | 6.89 | 5.56 |
| S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX | 0.02 | 6.56 | -5.05 | 6.50 | 1.47 | -1.93 | 1.19 |
| **GLOBAL EQUITIES** | | | | | | | |
| MSCI WORLD ACC INDEX WITH GROSS DIV (A$) | -1.70 | 1.92 | 1.85 | 17.42 | 26.04 | 16.55 | 6.21 |
| S&P 500 COMPOSITE ACCUMULATION INDEX (A$) | -1.25 | 3.78 | 5.41 | 21.03 | 31.09 | 20.99 | 7.71 |
| FTSE100 ACCUMULATION INDEX (A$) | -3.72 | -0.81 | -3.39 | 11.09 | 17.74 | 12.02 | 4.15 |
| MSCI EMERGING MARKETS FREE W/GROSS DIV (A$) | -5.10 | -1.67 | -12.68 | -2.00 | 8.20 | 2.96 | 5.01 |
| **REAL ESTATE INVESTMENT TRUSTS (REITS)** | | | | | | | |
| S&P/ASX 300 A-REIT ACCUMULATION INDEX | -2.83 | 1.61 | -1.04 | 14.87 | 15.43 | 14.61 | 2.08 |
| FTSE EPRA/NAREIT DEVELOPED INDEX (A$) HEDGED | -1.21 | 5.82 | -0.48 | 5.07 | 13.00 | 12.71 | 6.30 |
| **FIXED INTEREST** | | | | | | | |
| BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX | -0.88 | -0.33 | 0.67 | 3.97 | 4.68 | 6.56 | 6.25 |
| BLOOMBERG AUSBOND BANK BILL INDEX | 0.17 | 0.53 | 1.07 | 2.37 | 2.66 | 3.41 | 4.55 |
| BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A | 0.20 | 1.45 | 1.49 | 4.22 | 5.42 | 7.19 | 7.45 |

Data source: IRESS & Financial Express. Returns greater than one year are annualised
Commentary regarding equity indexes below references performance without including the effects of currency (unless specifically stated)

### Australian equities

The Australian large cap equity market as measured by the S&P/ASX 300 Accumulation Index fell -0.7% in November. This was in line with weaker global markets through the start of November as expectations around the US Federal Reserve's (Fed) tightening began to firm. By mid-month, the market was on a sharp path to recovery with losses largely recovered by month-end as the Fed ramped up its positive communication and the European Central Bank (ECB) added to the global liquidity equation.

Declines were led by Materials (-12.2%), Resources (-11.9%), Utilities (-1.4%) and Consumer Staples (-1.3%). Healthcare (+5.2%) rose strongly, as did IT (+4.5%) and Financials (+1.6%) on the back of a strong rebound from the banks.

### Global equities

Over the month, divergent signals on global monetary policy resulted in rising volatility, with the CBOE VIX Index up by 6.7%. Investors re-adjusted their interest rate expectations with a December rate hike being priced in as an almost certain outcome. This was supported by higher than expected jobs data in the US and the Fed's Minutes suggesting the economy was strong enough to withstand a start in monetary tightening. This was in contrast to expectations of further stimulus from the ECB and the Bank of Japan in response to weak inflation. The S&P 500 Accumulation Index finished the month down -1.3%, while both key regional Asian benchmarks were up (Nikkei 225 Index +3.5%, Shanghai Composite Index +1.9%).

### Real estate investment trusts (REITs)

The Australian REIT sector returned -2.8% in November, underperforming both its global counterpart and the broader Australian equity market. The best performing sub-sector for November was Industrial, returning +1.0% driven by Industria REIT (+3.9%) and 360 Capital Industrial Fund (+3.8%). Retail stocks reversed recent gains returning -4.8% driven lower by Vicinity (-6.9%) and Westfield Corporation (-6.3%).

Global REITs lost -1.2%, as measured by the FTSE EPRA/NAREIT Developed Index. US results were flat while ex-US was weaker – with listed real estate in developed Asia declining by -2.5% and that of developed Europe falling by more than -5%. The decline in European REIT prices was not a reaction to the terrorist attacks in Paris as shares actually rallied. Instead, a stronger dollar accounted for most of the loss for US investors.

### Fixed interest

Australian bond yields rose after much stronger-than-expected employment data sharply reduced expectations of a near-term rate cut by the Reserve Bank of Australia. However, the Bloomberg AusBond Composite Index finished the month down -0.88%, in contrast to the Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, finishing 0.17% up.

US bond yields rose slightly as markets began to increasingly price in a December "lift-off" for interest rates by the Fed. The Barclay Global Aggregate Index (Hedged A$) inched 0.20% higher. Eurozone bond yields fell in anticipation of further quantitative easing to be announced by the ECB.

# Month in Review

## ASX 200 Stock Movements

### S&P/ASX 200 Stock Performance for the Month of November

| BEST PERFORMERS | | WORST PERFORMERS | |
|---|---|---|---|
| SYRAH RESOURCES | +42.68% | DICK SMITH HOLDINGS | -78.29% |
| MAGELLAN FINANCIAL GROUP | +36.42% | SLATER & GORDON | -68.54% |
| METCASH | +36.41% | LIQUEFIED NATURAL GAS | -58.06% |
| PALADIN ENERGY | +29.41% | MMA OFFSHORE | -55.34% |
| SOUTHERN CROSS MEDIA | +28.51% | MESOBLAST | -48.53% |

### S&P/ASX 200 Stock Performance for the Year to November

| BEST PERFORMERS | | WORST PERFORMERS | |
|---|---|---|---|
| EVOLUTION MINING | +128.43% | DICK SMITH HOLDINGS | -86.69% |
| NORTHERN STAR RESOURCES | +111.53% | BRADKEN | -85.81% |
| DOMINO'S PIZZA | +105.42% | SLATER & GORDON | -83.61% |
| MAYNE PHARMA GROUP | +103.58% | MMA OFFSHORE | -83.29% |
| QANTAS AIRWAYS | +89.18% | ARRIUM | -67.08% |

## Economic News

### Australia

Economic data was generally positive through November, which kept the RBA cash rate on hold at 2.0%. The unemployment rate fell to 5.9% from 6.2% a month earlier, with posted job advertisements in positive territory for the third month in a row. Consumer confidence also rose by a seasonally adjusted 3.9% (a six-month high) to 101.7 according to the Westpac Melbourne Institute Index of Consumer Sentiment. Resource exports were higher than expected, although imports were lower than forecast on the back of weak domestic demand.

Elsewhere economic data was weaker as commodity prices continued to decline; Australia saw a further fall in underlying inflation, wage growth remained at record lows with reductions in construction work by -3.6% and CAPEX by –9.2% in the third quarter (lower than expected) and a cooling housing market (with house prices falling -1.4% - the largest monthly drop in the past five years).

The November AIG Australian PSI report indicated a second consecutive month of contraction in the services sector. Respondents flagged that while a lower Australian dollar continued to benefit the tourism sector to some extent, recent mortgage rate hikes by the major banks (independent of the RBA) had weighed on household spending. On the business side, while the demand for housing-related sectors remained strong, activity in other sectors was more fragile with less commercial projects to support sales.

Retail sales rose 0.5% m/m in October, with growth concentrated in department stores and for household goods. Outside of these components, sales growth remained subdued with the annual rate decelerating to +3.9% y/y.

### Global

US economic data during the month was generally strong enough to affirm expectations of a December rate rise by the Fed. The ISM non-manufacturing survey for October jumped to a much better than expected 59.1 though the manufacturing survey fell to 50.1 – the lowest level since May 2013. Non-farm payrolls for October jumped 271,000, beating expectations, and the unemployment rate fell to 5.0% - the lowest level since April 2008. Real GDP growth for Q3 was revised up to 2.1% q/q annualised from a previous estimate of 1.5%.

Chinese economic data continued to weaken with the official purchasing manager's index for October underperforming expectations at 49.8 – the third month in a row of sub-50 readings suggesting contraction. CPI for October grew 1.3% y/y. Industrial production for October also under delivered on analysts' expectations at 5.6% y/y – the weakest pace since November 2008. However, retail sales for October rose slightly to 11.0%.

Japan slid back into recession – as defined by two consecutive quarters of negative real GDP growth – for the fifth time in seven years. Investors are beginning to question the effectiveness of the government's Abenomics program. The latest recession highlights the need for further structural and fiscal reforms to complement the massive monetary stimulus for the economy that the Bank of Japan has already provided. In saying that, the unemployment rate for October fell to a 20-year low.

The Eurozone economy continued its slow and steady march forward as the region grew by 1.6% y/y in Q3, the fastest rate of growth since 2011. Economic confidence also reached its highest level in over four years in November, suggesting the outlook for the region is improving. Despite relatively good economic data, the ECB's Mario Draghi prepared investors for additional monetary policy easing in December.

German factory orders for September fell -1.7% m/m while German industrial production also declined -1.1% m/m. However, Eurozone GDP for Q3 rose 0.3% q/q while the Eurozone flash composite PMI for November rose to 54.4 – a 54 month high.

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### Commodities

Commodities took another beating with the Bloomberg Commodity Index falling -7.2% to post -23% for the year. Platinum (-15.6%), Nickel (-11.8%) and Copper (-10.3%) were the worst performers. Concerns about China's slowing economy, a larger than expected increase in US oil inventories, warnings from OPEC that its current output could result in a daily surplus of more than 500,000 barrels by next year, and concerns miners are not cutting back production fast enough to compensate for waning Chinese demand were all contributing factors. Oil capped its largest monthly loss since July, with both WTI and Brent down 10%.

### Currency

The AUD generally mirrored the direction of risk trades, trading US$0.7031 before stronger economic data saw it rally strongly into month's end at US$0.7228 (November AUD/USD +1.6%). The USD was stronger over the month against most major currencies (+5.5% EUR), (+3.8% GBP), (+3.4% JPY), with the Bloomberg Dollar Spot Index up 0.2%. The Euro dropped against all major currencies, falling to a seven-month low against the USD (-4.0% MTD USD), (-2.4% JPY) and (-1.9% GBP) based on further easing by the ECB.

November saw the International Monetary Fund (IMF) add the yuan (renminbi) to its elite basket of reserve currencies, a move designed to spur greater liberalisation in the world's number two economy. Effective next October, the decision confers international status on China's currency as the government starts to ease restrictions on its rigidly controlled exchange-rate and financial system. The IMF's decision will put the yuan alongside the US dollar, euro, pound and yen, with more weight given to China's currency than to either the yen or pound.