Month in Review

ISSUE DATE: 11-01-2016

Market Moves — as at 31•12•2015

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 200 ACCUMULATION INDEX	2.73	6.48	-0.53	2.56	9.19	6.97	5.64
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	3.91	11.32	6.98	10.16	1.69	-2.51	1.43
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	-2.49	1.62	2.37	11.64	24.02	15.78	5.63
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	-1.98	3.32	5.80	14.04	29.61	20.56	7.39
FTSE100 ACCUMULATION INDEX (A$)	-4.15	-2.60	-3.62	4.92	15.13	10.97	3.32
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	-2.94	-3.08	-12.43	-4.35	5.29	2.23	4.01
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	4.04	6.02	7.22	14.38	15.87	15.25	1.96
FTSE EPRA/NAREIT DEVELOP NR INDEX (A$ HEDGED)	0.66	5.06	4.77	4.28	11.67	11.82	5.93
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.33	-0.25	1.95	2.59	4.73	6.62	6.19
BLOOMBERG AUSBOND BANK BILL INDEX	0.19	0.55	1.09	2.33	2.63	3.37	4.52
BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A	-0.10	0.60	2.48	3.35	5.27	7.17	7.33

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 equity market, as measured by the S&P/ASX 200 Accumulation Index, fell heavily in the first half of the month, dragged down by global equities as well as collapsing commodity prices. However, starting mid-month, the domestic market staged a substantial rally, rising almost 8% to finish the month up 2.7% in local currency terms. This result was one of the best performing markets globally, closing the year at 5295.5 points. With the exception of Energy (-3.5%) and Industrials (-0.1%), value was added across the remaining sectors, led by Financials (+17.6%), Consumer Staples (+5.0%) and Discretionary (+3.1%). The standout ASX 200 performer for the 2015 calendar year was Blackmore’s which gained 519.4%; Slater & Gordon took the biggest loser trophy – down -86.3%.

The S&P/ASX Small Ordinaries Accumulation Index outperformed its large cap counterpart, gaining 3.9% in December. Over the calendar year small-sized companies outperformed the S&P/ASX 200 by 7.6%. The small Autos & Components sector grew fastest out of 21 ASX sub-industries.

Global equities

The two big drivers of activity on global sharemarkets in December were the oil price and the US Federal Reserve meeting. Oil prices continued to fall after the International Energy Agency warned that the global oil oversupply could worsen next year, while the market spent the first half of the month burdened by the expectation of an expected rise in the federal funds rate – which finally occurred on 16 December with an increase of 25 basis points. Although investors appeared to greet the decision positively on the day of the announcement, US sharemarkets gave back the gains of December 15 and 16 in the subsequent two days. The S&P 500 Accumulation Index finished the month down -2.0%. The key Asian regional benchmarks were mixed over December: Nikkei 225 (-3.6%), Shanghai Composite (+4.6%), and Hong Kong Hang Seng (-0.4%).

In 2015, the major countries that are still stimulating their economies saw the best sharemarket gains: the German DAX rose by 9.6% while the Japanese Nikkei rose 9.1%.

REITs

The Australian REIT sector, as measured by the S&P/ASX 300 A-REIT Accumulation Index, returned 4.0% in December, outperforming its global counterpart and the broader Australian large cap market. The major corporate action for the month saw Dexus Property Group (DXS) and Investa Office Fund (IOF) announce an agreement under which Dexus would acquire Investa. DXS and IOF shares rose 1.0% and 7.3% respectively on the day of the announcement.

Gains for global REITs were not as strong with the FTSE EPRA/NAREIT Developed Index gaining just 0.6% for the month. New Zealand was the top performing region in USD terms (+4.3%). The worst performing region over the month was the UK (-4.6%).

Fixed interest

Domestically, the Bloomberg AusBond Composite Index gained 0.33% in December while the Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, gained 0.19%.

Month in Review

Globally, government bond yields were little changed during the month. More concerning for fixed income investors was fear of a possible 'crash' in the junk bond market following a spike in yields on junk bonds. Third Avenue Management announced that it was suspending investor withdrawals from its junk bond fund, soon followed by similar announcements from several other funds. The Barclay Global Aggregate Index (Hedged A$) lost -0.1% for the month.

The Federal Open Markets Committee raised its target federal funds rate to 0.25-0.50% at its December 16 meeting after years of market anticipation. Also, Fitch Ratings lowered Brazil's sovereign credit rating to BB+ with a negative outlook to December 2016, citing a deeper-than-expected recession, fiscal instability and political uncertainty. This moved the bonds from investment grade to high yield.

ASX 200 Stock Movements

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

BEST PERFORMERS		WORST PERFORMERS	
MAYNE PHARMA GROUP	+37.56%	SLATER & GORDON	-70.22%
METCASH	+37.51%	CARDNO	-51.97%
TECHNOLOGY ONE	+30.79%	BRADKEN	-50.00%
BEGA CHEESE	+27.59%	SPOTLESS GROUP	-49.77%
MYER HOLDINGS	+24.48%	DICK SMITH	-48.92%

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

BEST PERFORMERS		WORST PERFORMERS	
EVOLUTION MINING	+135.12%	BRADKEN	-89.75%
DOMINO'S PIZZA	+132.30%	SLATER & GORDON	-85.91%
MAYNE PHARMA GROUP	+123.38%	DICK SMITH	-81.91%
NORTHERN STAR RESOURCES	+90.83%	MMA OFFSHORE	-77.67%
TREASURY WINE ESTATES	+81.57%	ARRIUM	-73.02%

Economic News

Australia

The Reserve Bank of Australia (RBA) kept the cash rate unchanged at 2.0% in December. The statement accompanying this decision was largely unchanged from the previous month. The RBA still sees some improvement in economic conditions, but repeated that low inflation may afford scope for further easing.

Employment data was again very strong, rising 71,000 in November and beating analyst forecasts – one of the largest rises on record. The unemployment rate fell to 5.8%.

Q3 GDP printed at 0.9% q/q - bouncing back after a weak June quarter. The current account deficit was wider than expected in Q3, printing at $18.1 billion; the trade deficit widened to $3.3 billion in October, up from a deficit of $2.4 billion in September; the NAB job advertisements rose 1.3% m/m in November – the fourth consecutive m/m increase; and the NAB Business Conditions Index was steady at +10 in November.

Global

The US Manufacturing ISM Index for November fell to a worse-than-expected 48.6 – the first sub-50 reading indicating contraction since November 2012 and the lowest reading since June 2009. However, the Non-Manufacturing ISM Index for November stayed unchanged at a strong 56.1. More importantly, non-farm payrolls for November rose 211,000 – beating analyst forecasts of 200,000. Labour force participation also increased by 0.1% to 62.5%. The unemployment rate remained unchanged at 5.0%.

The Global Manufacturing Purchasing Managers Index (PMI) declined modestly to 51.2 in November, nearly unchanged from the five-month high reached in October and remaining above the 50-level indicating continued expansion in manufacturing activity. Global manufacturing output has risen for 36 consecutive months.

In the Eurozone, core inflation decreased to 0.9% y/y in November. The Eurozone Manufacturing PMI rose to 52.8 in November, from 52.3 the previous month, the highest reading since April 2014. The Services PMI also increased, to 54.2 in November from 54.1 in October. The ECB cut its deposit rate by 10 basis points to -0.30% and extended the length of its asset purchases program another six months to March 2017, though it refrained from expanding the size of the asset purchase program, which currently stands at €60 billion a month. This disappointed some who had expected a more aggressive move.

Month in Review

China's Caixin Manufacturing PMI remained in contractionary territory, posting at 48.6 in November, up slightly from October.

In Japan, the manufacturing PMI increased to 52.6 in November, from 52.4 in October, registering a twenty-month high. Nationwide core CPI (ex-fresh food) was unchanged from the previous month at -0.1 y/y in October. The unemployment rate declined -3.1%. The Bank of Japan, like its European counterpart, refrained from increasing the size of its QE program, though it did make some minor adjustments, including lengthening the maturity of Japanese government bonds that it is buying and adding ¥300 billion to its existing ¥3 trillion a year program of buying exchange-traded funds.

The UK saw core (ex-auto fuel) retail sales increase by 3.0% y/y in October. The UK Manufacturing PMI increased to 55.7 in November, from an October reading of 55.5.

As widely expected, the Reserve Bank of New Zealand cut its cash rate by 25 basis points to 2.5%

Commodities

The oil price collapsed once again, hitting new multi-year lows with the Brent crude price particularly hard hit, as OPEC effectively abandoned its official production ceiling – a ceiling that has been in place since 1982.

The iron ore price had a tumultuous month, falling -13.2% to a new multi-year low of US$37/Mt before staging an equally large rally to finish the month little changed. However, it was not all bad news as aluminium and lead posted gains for the month.

Currency

The Australian dollar fell against the US dollar in the first half of the month before rallying to finish the month flat at 73 US cents (AUD/USD +0.94%). The Australian dollar also weakened against the euro (AUD/EUR -1.90%), the New Zealand dollar (AUD/NZD -2.86%) and the Japanese yen (AUD/JPY -1.55%).