# Month in Review

ISSUE DATE: 11-11-2014

## Market moves — as at 31•10•2014

| 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 | 4.43 | -0.57 | 2.95 | 6.39 | 13.76 | 8.20 | 8.53 |
| S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX | -0.54 | -3.79 | -0.10 | -3.26 | -1.01 | -0.15 | 2.86 |
| **GLOBAL EQUITIES** | | | | | | | |
| MSCI WORLD ACC INDEX WITH GROSS DIV (A$) | 0.04 | 5.91 | 8.12 | 17.58 | 22.41 | 12.52 | 5.76 |
| S&P 500 COMPOSITE ACCUMULATION INDEX (A$) | 1.98 | 11.11 | 14.07 | 26.33 | 27.52 | 17.34 | 6.46 |
| FTSE100 ACCUMULATION INDEX (A$) | -2.73 | -1.54 | -1.90 | 8.04 | 16.43 | 9.14 | 4.21 |
| MSCI EMERGING MARKETS FREE W/GROSS DIV (A$) | 0.56 | 1.34 | 9.69 | 8.68 | 10.25 | 5.44 | 9.09 |
| **REITS (LISTED PROPERTY SECURITIES)** | | | | | | | |
| S&P/ASX 300 A-REIT ACCUMULATION INDEX | 6.53 | 2.75 | 11.49 | 16.53 | 20.02 | 12.02 | 2.18 |
| UBS GLOBAL INVESTORS TR HEDGED (A$)* | 7.92 | 5.46 | 11.18 | 19.62 | 18.78 | 18.51 | N/A* |
| **FIXED INTEREST** | | | | | | | |
| BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX | 0.96 | 1.64 | 4.17 | 7.09 | 6.29 | 6.94 | 6.32 |
| BLOOMBERG AUSBOND BANK BILL INDEX | 0.23 | 0.67 | 1.35 | 2.66 | 3.29 | 3.87 | 4.91 |
| BARCAP GLOBAL AGGREGATE INDEX HEDGED $A | 0.95 | 2.28 | 4.52 | 7.95 | 7.29 | 8.10 | 7.62 |

Data source: IRESS & Financial Express. Returns greater than one year are annualised
* Please note that the UBS Global Investors TR Hedged (A$) performance history does not extend 10 years.

### Australian Equities

The Australian 'broad cap' equity market, as measured by the S&P/ASX 200 Accumulation Index, returned 4.4% in October. When assessed over 12 months the Index has returned 6.4%.

The Australian 'small cap' equity market, as measured by the S&P/ASX Small Ordinaries Accumulation Index, retracted by -0.5% in October. The index has been weighed down by the recent turbulence within hard commodity markets. Over 12 months the Index has declined by -3.2%.

### Global Equities

European equity markets were challenged in October, as market participant's concerns regarding subpar economic growth became more pronounced. The German DAX, French CAC and U.K. FTSE fell by -2.3%, -4.9% and -2.5% respectively (returns are measured using local currency).

The U.S. equity market, as measured by the S&P 500, returned 2.3% in October. The U.S. equity market remained relatively upbeat as investors gained further clarity that the U.S. economy was embarking on a sustainable growth trajectory.

The Japanese equity market edged down slightly in October by -0.8%. However other key bourses in the region, notably the Shanghai Composite Index and Hong Kong's Hang Seng Index inclined by 2.8% and 4.8% respectively.

### REITs (Listed Property Securities)

The S&P/ASX 300 A-REIT Accumulation Index, a proxy for the local REIT market, rebounded strongly after its sharp fall in the preceding month. The index has now returned 16.5% over the past 12 months.

The GREIT market, as measured by the UBS Global Investors TR Hedged (A$), outperformed its local counterpart in October by 1.4%. When assessed over 12 months the index returned 19.6%.

### Fixed Interest

The Australian fixed interest market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, had a stellar month reporting a 1.0% incline. The Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A$), finished up by a comparable margin. Fixed interest markets were assisted by rallying credit markets in October.

The Bloomberg AusBond Bank Bill Index, which comprises of lower risk and shorter dated securities, finished the month of October up 0.2%.

ISSUE DATE: 11-11-2014

# Month in Review

## Economic Indicators

### S&P/ASX 200 Stock Performance for the Month of October 2014

| BEST PERFORMERS | | WORST PERFORMERS | |
|---|---|---|---|
| TRANSFIELD SERVICES LTD | 27.95 | BEADELL RESOURCES LTD | -37.00 |
| QANTAS AIRWAYS LTD | 20.86 | BC IRON LTD | -33.44 |
| SIRTEX MEDICAL LTD | 18.29 | MEDUSA MINING LTD | -28.74 |
| ECHO ENTERTAINMENT LTD | 15.85 | RESOLUTE MINING LTD | -28.09 |
| UGL LTD | 14.29 | ATLAS IRON LTD | -20.24 |

### S&P/ASX 200 Stock Performance for the Year to October 2014

| BEST PERFORMERS | | WORST PERFORMERS | |
|---|---|---|---|
| LIQUEFIED NATURAL GAS LTD | 1010.45 | LYNAS CORPORATION | -80.87 |
| SIRTEX MEDICAL LTD | 108.92 | BC IRON LTD | -78.19 |
| DOMINOS PIZZA ENTERPRISES | 73.81 | BEADELL RESOURCES | -72.58 |
| CALTEX AUSTRALIA LTD | 67.51 | ARRIUM LTD | -72.17 |
| TECHNOLOGY ONE LTD | 65.52 | MEDUSA MINING LTD | -70.25 |

## Economic News

September total dwelling approvals were released in October and came in much weaker than expected, with an 11% fall that was concentrated in Victoria but included significant declines in most states and segments. This shocked the market as analysts' forecasts had estimated a 1% drop. It should be noted, September figures rolled off August's 3% gain - attributed to the heavy concentration in the New South Wales and Victorian residential units sector. September's figures may be pointing to a turn in the cycle from an apparent peak at the start of the year. However, actual dwelling construction is likely to remain strong as the previous backlog of approvals comes through, with the slowdown expected to take effect well into 2015.

The Australian September retail report was much stronger than expected with both monthly sales and Q3 real retail sales coming in well above expectations. Retail sales rose 1.2% in September which was the strongest monthly gain since November 2009. Real retail sales were up 1% over the quarter, beating analysts' predictions by 50 bps.

Australia's trade deficit widened sharply in September to $2.3 billion, up from $1.0 billion for August. The September outcome was weaker than expected, with imports and exports up 5.6% and 1.0% respectively. The surprise result for exports was attributable to a gold rush, where the month's exports excluding gold declined 1.3%.

The National Australia Bank's September Business Survey was announced in October, with sentiment reaching its lowest level since the national election. The business conditions index dropped 2 points in September, following a 5 point decline in the previous month to reach +1 index points. Lower commodity prices, excess capacity and cautious spending behaviour were the likely factors for the weaker figures. Furthermore, the business confidence index dropped 2 points to +5, with outcomes varying significantly across industries. Mining and wholesale were hardest hit, falling 22 and 3 points respectively.

The Westpac Institute of Consumer Sentiment is now in 'cautiously pessimistic' territory as it rose by 0.9% in October to 94.8. This is the eighth consecutive month that the index has printed below 100, indicating that pessimists have outnumbered optimists by 5.2%. Furthermore, since the survey was taken in September, the Australian dollar has fallen by around 6% against the U.S. dollar and the Australian share market has come down by approximately 6.5%.

There was better news around the labour market. The Westpac Institute Unemployment Expectations Index fell by 3.9% over the month. A fall in this index indicates that respondents are feeling more comfortable with respect to job security or employment prospects. The index now sits at 9.6% after the recent high in March this year.

The latest Australian labour figures available show unemployment remained steady at 6.2% in October. The number of employed persons increased by 24,100 in October following a decrease of 23,700 persons in the previous month. New South Wales and Western Australia performed strongly, while Queensland produced the largest absolute decrease in seasonally adjusted employment – down 8,900 persons.

As was widely expected by economic commentators, the Reserve Bank of Australia (RBA) maintained the status quo and left the cash rate on hold at 2.5% for the 14th month in a row. Rates have been on hold since August 2013, when they were lowered to their current levels

# Month in Review



from a high of 4.75% in November 2011. Governor Stevens said that while the exchange rate had fallen, mainly because of the strengthening U.S. dollar, it was still “high by historical standards”. The RBA continued to flag a greater use of prudential measures to slow troubling areas in the housing market.

Volatility gripped financial markets last month. Weaker-than-expected economic data in Germany and a retail sales report in the U.S. that missed expectations raised concerns about the growth prospects for both Europe and the U.S. Continued conflict in the Middle-East and Ebola fears added to investor jitters. Equities rebounded in the second half of the month as growth receded and U.S. earnings provided positive sentiment. Also aiding the turnaround, Fed Chair Yellen was said to have voiced confidence in the durability of the U.S. economic expansion in the face of slowing global growth at a closed-door meeting.

As noted above, weaker-than-expected retail sales data in the U.S. mid-month sparked the biggest intra-day fall for the S&P500 since November 2011. U.S. retail sales for September fell 0.3% - the first monthly decline in seven months. Yet labour market indicators were exceptionally strong for September. Payrolls rose by 248,000 and the unemployment rate fell by 20 bps to 5.9%. As expected by the market, the U.S. Federal Reserve announced the end of its Quantitative Easing program after six years and US$3.5 trillion in balance sheet expansion.

There was a surprising lift in euro area momentum as measured by the October flash PMIs, with the composite series increasing 0.2 bps to 52.2. While economic activity across the euro area has disappointed of late, the PMI series continues to point to a gradual recovery in growth, albeit at a modest pace. France and Italy are beginning to embrace meaningful economic reforms, however it is too early for these policies to have had a positive impact on economic activity during October. France remains a notable laggard, with its flash composite PMI deteriorating in October to 48, signalling a mild contraction in overall activity. In Germany, the labour market remains strong with 41.01 million people employed in August – a new record high.

The Australian Dollar recorded gains against its major peers in October, advancing against the U.S. Greenback (0.6%), the Japanese Yen (1.3%), the Euro (1.4%) and the U.K. Sterling (2.3%).