Month in Review

ISSUE DATE: 8-10-2015

Market moves — as at 30•09•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	-2.96	-6.58	-12.69	-0.68	9.35	6.55	5.34
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	-0.53	-3.90	-7.78	-4.90	-1.22	-2.54	0.41
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	-2.20	0.74	0.04	18.89	24.44	16.08	6.21
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	-3.23	0.65	0.32	21.72	27.38	20.44	7.51
FTSE100 ACCUMULATION INDEX (A$)	-4.76	-3.44	-1.12	7.83	16.81	11.09	3.77
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	-1.52	-9.65	-9.97	0.93	8.36	3.14	5.49
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	-0.28	1.13	-1.22	20.08	16.21	13.64	2.04
FTSE EPRA/NAREIT DEVELOPED NR INDEX (AUD HEDGED)	1.39	-0.27	-7.22	10.39	12.43	11.99	6.06
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.25	2.20	0.17	6.91	4.89	6.64	6.41
BLOOMBERG AUSBOND BANK BILL INDEX	0.18	0.54	1.10	2.47	2.73	3.51	4.61
BARCLAY GLOBAL AGGREGATE INDEX HEDGED $A	0.76	1.88	0.18	5.73	5.64	6.94	7.38

Data source: IRESS & Financial Express. Returns greater than one year are annualized
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 200 Accumulation Index, once again underperformed its global peers-down -3.0% in September as the market reacted to heightened volatility in global markets. Driven by the broad sell-off in commodity prices, the Energy and Resources sectors were amongst the worst performing sectors in September, shedding 12.5% and 6.6% respectively. Other sectors that lost further pace over September were Banks and Healthcare. The top performing sectors for September were the IT and Industrial sectors, with both sectors recording gains of 5.3% and 1.4% for the month.

The S&P/ASX Small Ordinaries Accumulation Index continued to modestly outperform its large cap counterpart for the month, down -0.53%. However, when compared over the one year period to September, the 'large cap market' is still outperforming the small companies benchmark by 4.2%.

Global Equities

The sell-off in global equities resumed in September following heightened volatility in the global markets caused by a quick succession of major events. Prolonged concerns surrounding China's weakening economy, timing of US interest rate hikes and rout in commodity prices were the main contributors to the sharp decline in global equity prices for the month.

September's headlines were dominated by the US Federal Reserve's decision to leave interest rates on hold, citing the weakness in the global economy and benign domestic inflation. In passing down the decision, the central bank has also left the door open for a hike before year-end following continued improvement in its labour market and economic growth.

Most indices retreated over September, with the S&P Accumulation Index ending the month -3.2% lower, despite a late month-end rally. Eight out of ten sectors declined led by the materials (-7.6%) and energy (-6.8%) following the subdued outlook for commodities. Major world indices followed the same trajectory with the Japanese Nikkei (-8.0%) German DAX (-5.8%) and UK FTSE (-3.0%) posting losses for the month.

Emerging markets continued to underperform as measured by the MSCI Emerging Markets Index, which was down 1.5% for the month. Detractors at the economy level included Argentina (-11.0%), Russia (-5.3%) China (-4.8%) and Brazil (-3.4%). South Korea (+1.1%) and Malaysia (+0.51) were amongst the few emerging markets to outperform in the month of September.

REITs

The S&P/ASX 300 A-REIT Accumulation Index lost -0.3% in September, yet continues to outperform general equities, in a low growth, low bond yield environment. Following a sell-off in August, property valuations continue to remain robust with the sector trading on a 3% discount to Net Asset Value and a 27% premium to Net Tangible Asset of late. The Index returned 20.1% in FY15, aided by rising asset value and corporate activity over the past year.

The G-REIT market, as measured by the FTSE EPRA/NAREIT Developed Index (A$) Hedged posted a positive return of 1.4% in September, outperforming its Australian counterpart over the month.

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Fixed Interest

The Australian bond market ended the month higher due to a rise in risk aversion, stemming from uncertainties surrounding global growth and the timeliness of the Fed Reserve rate hike. The Australian Government 10-year bond yield ended the month lower at 2.6%, indicating an increase in demand for "safe haven" assets in the backdrop of plummeting equity prices. The Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index returned 0.3% and the Bloomberg AusBond Bank Bill Index (which comprises of lower risk and shorter dated securities) finished 0.2% higher. Consistent with its Australian peer, the Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A$) was also up 0.8%.

ASX 200 Stock Movements

S&P/ASX 200 Stock Performance for the Month of September 2015

BEST PERFORMERS		WORST PERFORMERS	
PACIFIC BRANDS LTD	69.05%	LIQUEFIED NATURAL GAS LTD	-60.16%
REGIS RESOURCES LTD	37.31%	BEACH ENERGY LTD	-53.33%
NORTHERN STAR RESOURCES LTD	28.37%	AWE LTD	-50.79%
EVOLUTION MINING LTD	25.50%	SANTOS LTD	-46.22%
OZFOREX GROUP LTD	19.20%	ORIGIN ENERGY LTD	-46.21%

S&P/ASX 200 Stock Performance for the Year to September 2015

BEST PERFORMERS		WORST PERFORMERS	
QANTAS AIRWAYS LTD	167.63%	BRADKEN LTD	-76.47%
NORTHERN STAR RESOURCES LTD	114.46%	ARRIUM LTD	-76.16%
EVOLUTION MINING LTD	93.14%	MMA OFFSHORE LTD	-73.32%
SELECT HARVESTS LTD	79.35%	SENEX ENERGY LTD	-72.73%
NUFARM LTD/AUSTRALIA	65.11%	SANTOS LTD	-70.89%

Economic news

Australia

Domestically, June Q2 2015 national accounts revealed a sustained slowdown in growth, with the Australian economy recording its lowest quarterly increase in GDP since Q1 2011. GDP for Q2 2015 rose by just 0.2% following a decrease in mining and construction activity, as well as a decline in export volumes in June. However, domestic final demand recorded positive growth for the quarter, with household and government final consumption rising by 0.5% and 2.2% respectively over the June quarter.

In the housing market, the value of home loans for the month of July rose by 0.5% despite continued regulatory pressures on banks to reduce investment lending growth. The rise was driven by the increase in both owner occupied and investor loans by 0.8% and 0.1% respectively. In its latest Statement, the RBA noted the steady growth in lending to the housing market in recent months and the strong sustained rise in dwelling prices in Sydney.

The RBA left its cash rate unchanged at a record low 2.0% for the fifth consecutive month at its latest September policy meeting. Underpinning the RBA's decision to leave interest rates on hold is the expectation of confined inflationary pressures and the likelihood of an extended period of spare capacity in the economy.

Australia's budget deficit narrowed to $2.46 billion in July, driven primarily by an increase in export earnings over the period. Exports edged 2% higher, buoyed by a 62% increase in the value of gold exports, while the value of imports remained relatively flat.

Retail sales figures in July declined by 0.1% to $2.43 billion, in what proved to be the worst quarterly start to retail trade in three years. Sales have fallen well short of market expectations following the strong growth in June that was driven by government stimulus measures.

Global

September 2015 proved to be a tumultuous month for global equities marred by continuous concerns surrounding global growth, particularly that of China and emerging world economies. Despite a modest recovery in advanced economics such as the US, Europe and Japan, investors saw almost US$11 trillion erased from the value of global equities, in what proved to be the worst quarter since 2011. The reason for the slump was a culmination of developments in two of the world's largest economies: U.S and China. In what was termed by economists as the 'most eagerly awaited' decision in recent memory, the U.S Federal Reserve

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announced that it will keep the cash interest rate on hold, as concerns surrounding an increasingly fragile global economy outweighed confidence in the US economic recovery.

However, the central bank later fuelled confusion over its 'dovish' policy direction as it indicated its willingness to raise rates before the end of the year, adding to continued uncertainty surrounding the timing of the first rate hike.

Economic readings in the U.S pointed to improving momentum in economic growth, driven by consumer and housing activity. The final reading of Q2 real GDP revealed that the world's largest economy grew by 3.9%, indicating a strong rebound from its sluggish contraction of -0.2% in Q1 during a severe winter period. Inflation of 0.2% on the other hand, remains subdued in the 12 months ended August 2015 and is well below the central bank's target of 2%.

US housing activity in August has indicated a further sustained strengthening marked by rising housing permits, rising home sales and higher prices. Building permits were up by 2.7% in July, accompanied by higher than expected growth in new home sales of 5.7%. In turn, the persistent gains in confidence has resulted in the rise of the September National Association of Homebuilders' Index to 62, its highest level of recovery thus far.

In China, September's economic readings suggest that growth continues to weaken despite the continued efforts by its central bank to lower interest rates and reserve requirement ratios. The latest Caixin/Markit Manufacturing PMI for September fell to 47.2 from 47.3– the weakest figure since March 2009 and the seventh straight reading below the 50-point level, which separates growth in activity from contraction. August's industrial production of 6.1% was slightly higher than July's 6.0%, but remains below the forecasted 6.6% y/y.

Additionally, China's fixed investment growth grew at the slowest pace in 15 years, falling short of the projected median of 11.2% by 0.3%.

Earlier in the month, it was revealed that China's reserves have fallen by a record USD 93.9 billion, as a result of stabilizing the yuan following its devaluation in August. The accelerating decline in China's foreign currency reserves have seen reserves fall from a peak of nearly $4 trillion in June 2014 to $3.56 trillion as at the end of August 2015.

Commodities

Concerns surrounding the health of the global economy, led by China have dragged prices of most commodities for the month. The WTI oil price resumed its roller-coaster ride, with prices reverting to the US$45 mark in September subsequent to the short-cover rally in late August. The iron ore price extended its retreat to USD 56/tonne from its earlier high of USD 58.5/tonne, following steep falls in the global markets that saw most base metals being heavily sold off towards the end of the month. Consistent with its status as a 'safe haven', gold prices briefly rallied to USD 1,146 per ounce following global economic uncertainty and Federal Reserve's decision to leave interest rates unchanged.

Currency

The USD Index ended the month 0.5% higher at 96.48. The USD made headlines as it was sold off following the Federal Reserve's announcement to keep interest rates unchanged, but losses were restrained as the central bank revealed that it was open to rate hikes before year end. The AUD/USD was down 1.3% for September to close at AUD 0.7018. The AUD also deteriorated against the Euro (-1.0%), NZD (-2.3%) and Yen (-2.4%) in September. Noticably, the AUD strengthened against most emerging market currencies including BRL (+7.6%), MYR (+3.4%) and IDR (+2.8%).

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