View from the hill

NOVEMBER 2015

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 October 2015.**

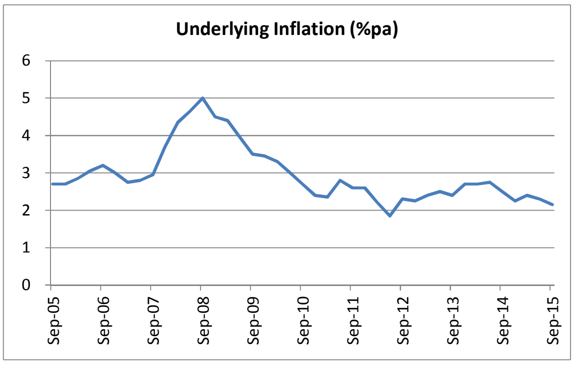
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	4.4	-6.6	-0.7	9.8
Smaller companies	7.1	1.4	2.4	0.6
International shares (unhedged)	6.3	0.1	26.3	27.0
International shares (hedged)	8.0	-2.7	8.0	17.6
Emerging markets (unhedged)	5.2	-3.2	5.6	10.4
Property - Australian listed	4.9	0.4	18.2	16.0
Property - global listed	5.6	2.1	12.1	15.0
Australian fixed interest	0.3	1.2	6.2	5.0
International fixed interest	0.5	1.2	5.2	5.6
Australian cash	0.2	0.6	2.4	2.7

Overview & Outlook

Some confidence returned to financial markets over October. Economic data in the U.S. was favourable and further signs of monetary policy support in Europe and China added to the positive sentiment. This confidence was reflected in stronger share prices over October.

Notwithstanding the correction in equity markets over August and September, the environment continues to be supportive of modest company earnings growth, which is underpinning share price growth. The strengthening of the $US has taken away some momentum from U.S. company earnings, however the majority of non – resource sectors are still recoding earnings growth. The combination of low interest rates, an absence of upward pressure on costs and slow but gradual growth in demand is providing the scope for some improvement in corporate profits.

Locally, the absence of cost pressures was evident in the Consumer Price Index (CPI) results for the September quarter. The CPI rose by 0.5% over the 3 month period, resulting in the annual inflation rate remaining unchanged at 1.5%. After adjusting for "one-off" and "outlier" price movements in certain categories, the underlying rate of inflation is calculated as being 2.2%. This underlying inflation rate is now close to the bottom of the Reserve Bank's 2% to 3% range and is providing scope for the central bank to cut interest rates further should they deem that additional monetary policy stimulus is required.



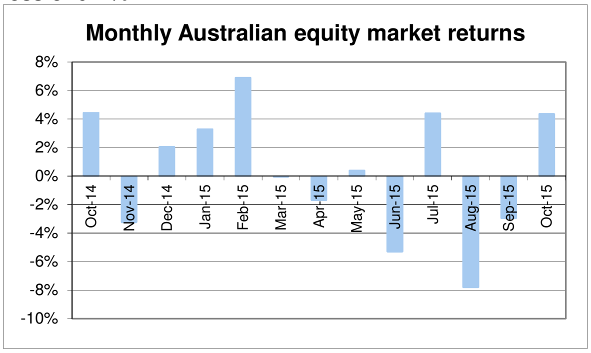
Source: Australian Bureau of Statistics 6401. Hillorss.

Also impacting on the Reserve Bank's assessment of monetary policy positioning are signs that the residential housing market is starting slow. Falling auction clearance rates have been evident in recent weeks. In addition, attempts by the regulator to slow the pace of home lending to investors appear to be having some success. September's 0.5% rise in loans outstanding to residential property investors was the lowest monthly increase since June 2013.

Whereas there has been a marked slowing in credit growth to property investors, lending to the business sector has accelerated. The 6.3% expansion in business credit made available in the year to September was the highest annual growth rate since February 2009.

Share markets

Equity markets bounced back strongly over October, although the gains were not large enough to fully reverse the losses of the previous two months. The local S&P ASX 200 Index rose by 4.4%. Indicative of the recent high levels of volatility, October was the fifth consecutive month in which the movement in share prices has been 3% or above. In annual terms, the return from Australian equities remains marginally in negative territory with a loss of 0.7%.

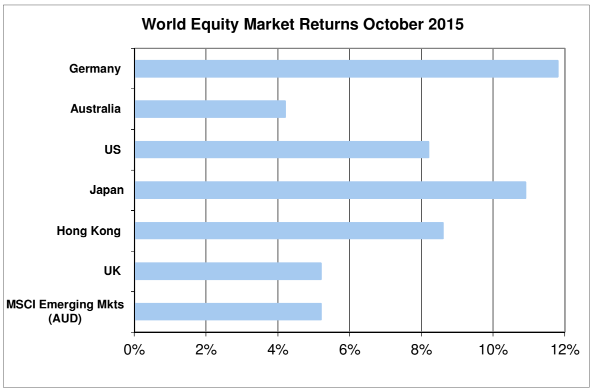


Source: S&P ASX 200 Index

A late month recovery in oil and other commodity prices saw support for the resource sector improve, with resource stocks rising by 5.6%. There was a particularly strong pick-up in smaller resource companies, which rose by 16.2% over the month. However, the sell-off in this sector over the past year has small resources still recording a loss of 21.6% in annual terms.

Banks continued to be the focus of much attention with the impact of new share issues and rising mortgage rates being assessed by the market. The finance sector as a whole performed slightly better than the general market with a 5.0% increase.

Stronger returns were recorded on overseas markets than in Australia last month. The performance of European markets was particularly impressive with Germany (up 11.8%) and France (up 9.5%) making major gains. The strength of European markets reflected expectations of further monetary stimulus from the European Central Bank.



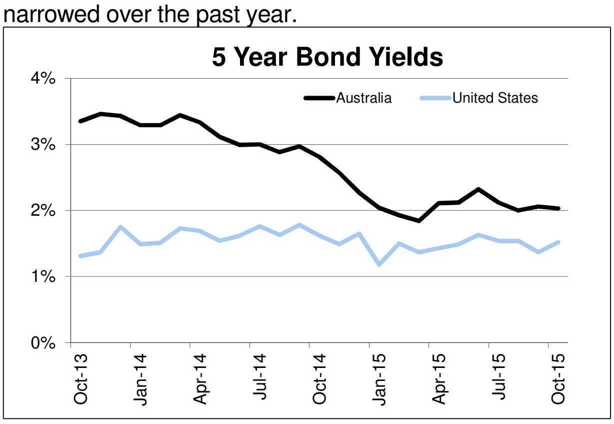
Source: MSCI Indexes.

The $A firmed over the month, rising from U.S. 70.1 cents to U.S. 71.0 cents. As a result, returns received by investors with unhedged currency positions were slightly below those where the currency was hedged. The overall average global equity return for hedged investors in October was 8.0%, with unhedged investors recording a 6.3% gain.

Interest rates

Australian interest rates were once again steady last month. Despite the evidence of lower inflation, there was no change in the target overnight cash rate from the record low of 2%. Longer term yields were also largely unchanged, with the 5-year Government bond yield falling marginally from 2.06% to 2.03% over the month.

Overseas yields, however, did increase as a result of the more optimistic assessment of the economic growth outlook. In the United States, the 5-year U.S. Government bond yield rose late in the month to be 0.15% higher at 1.52%. The chart below shows that the margin between U.S. and Australian bond yields has narrowed over the past year.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Australian listed property performed slightly better than the general equity market, with the A-REIT sector gaining 4.9%. Local listed property is now 18.2% higher in annual terms. Despite higher bond yields, global listed property has also performed well, with a return of 5.6% last month. Annual returns from global property now stand at 12.1%.

Source: S&P ASX 200 A-REIT Acc Index.