

Monthly Market Snapshot

OCTOBER 2018

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets

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Market Commentary

Financial markets have experienced an increase in volatility in October. Similar to the February market correction, the recent market movement appears to have been triggered by an increase in the US 10-year bond yield, expectation of accelerating US wage growth/inflation and US monetary policy tightening. US interest rates are higher than in Australia, which is not the norm historically.

Equity markets fell by nearly 10% peak to trough, although they did start to rebound in the last few days of the month. Equity market falls were broad based across markets, with small companies falling further. Listed property and infrastructure returns were negative in October, but to a much lesser extent when compared to the broad equity market.

Over the month, the Australian dollar depreciated against the US dollar and Japanese Yen, which provided some downside protection to foreign currency returns. However, there were a number of days during the month that the Australian dollar increased. The UK pound and the Euro increased in value over the month.

Amid the global equity sell-off in October, the global economic environment remains solid. The US in particular, is producing strong economic growth, with the unemployment rate at historically low levels and wage growth picking up. Positive economic growth is flowing through to robust equity earnings growth, with a large majority of S&P 500 companies reporting earnings above expectations in the recent reporting season.

Within the Eurozone, there are signs of further slow down with economic growth declining and consumer and business sentiment falling. The Purchasing Manager Index (PMI) survey of the manufacturing sector has continued to fall since

the start of the year but is still above the threshold which indicates expansion. A weaker trend in new orders and exports contributed to the decline.

Italy continues to pose a financial risk to the EU and government sovereign bond yields have risen. The Italian Government had proposed a large expansion of fiscal spending, but it has been recently asked to revise its spending plans as the initial draft budget was rejected by the European Commission for breaching EU budget rules. Angela Merkel announced that she will step down as German Chancellor in 2021. This increases the political risk within the Eurozone at a crucial time with Brexit and Italy.

In China, economic growth is at the lowest reported level since the global financial crisis. In response to slowing growth and trade tensions Chinese authorities appear to be moving to support the domestic economy. The People's Bank of China (PBOC) announced during October another reserve ratio cut supporting banks to release additional funding into the economy.

The RBA kept the cash rate in Australia unchanged at 1.5% at its latest monetary policy meeting. Headline annual inflation has fallen below the RBA target range minimum of 2% for this quarter, while the unemployment rate has dropped to 5%, a 6.5-year low. The Australian housing market is experiencing a fall in prices led by declines in Sydney and Melbourne, which will make it difficult for the RBA to raise rates in the near-term.

President Trump announced sanctions on Iran that contributed to the significant rise in oil prices in 2018. However, in October in the lead up to the sanctions coming into effect in November, the oil price fell more than 10% as supply increased, particularly within the US.

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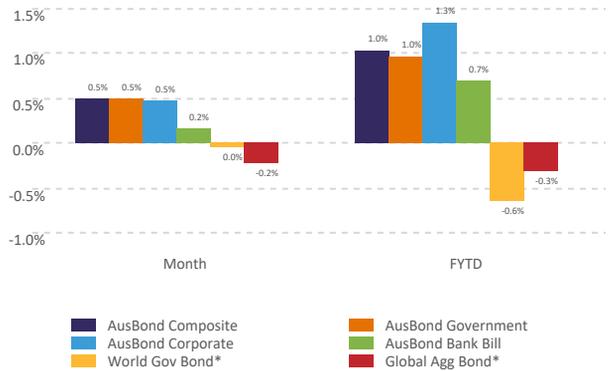
Australian Equities



Source: Thomson Reuters Datastream



Fixed Income



Source: Thomson Reuters Datastream *Hedged A\$



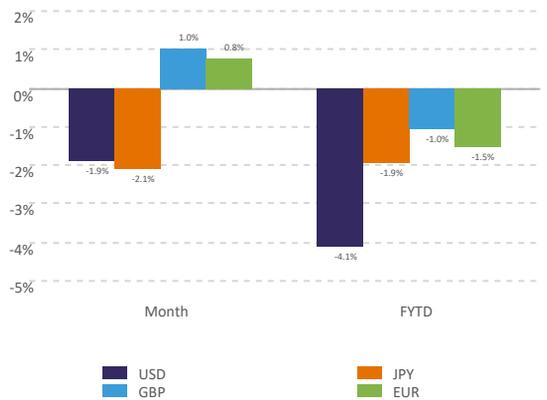
International Equities (\$A)



Source: Thomson Reuters Datastream *Hedged A\$



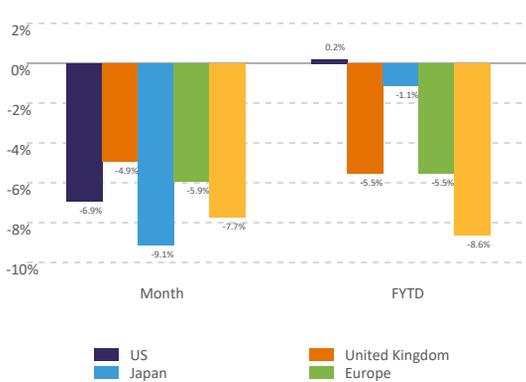
Australian Dollar



Source: Thomson Reuters Datastream



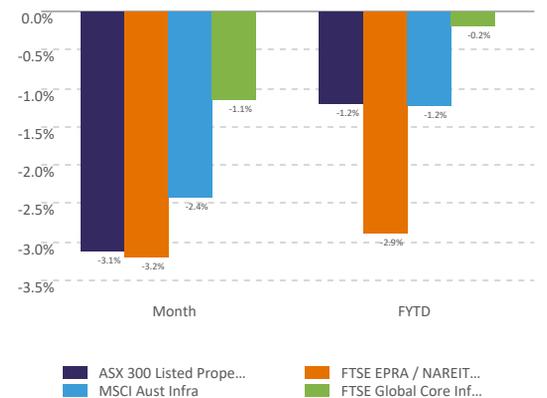
International Equities



Source: Thomson Reuters Datastream



Property



Source: Thomson Reuters Datastream *Hedged A\$

Details of the indexes are in the table on the next page

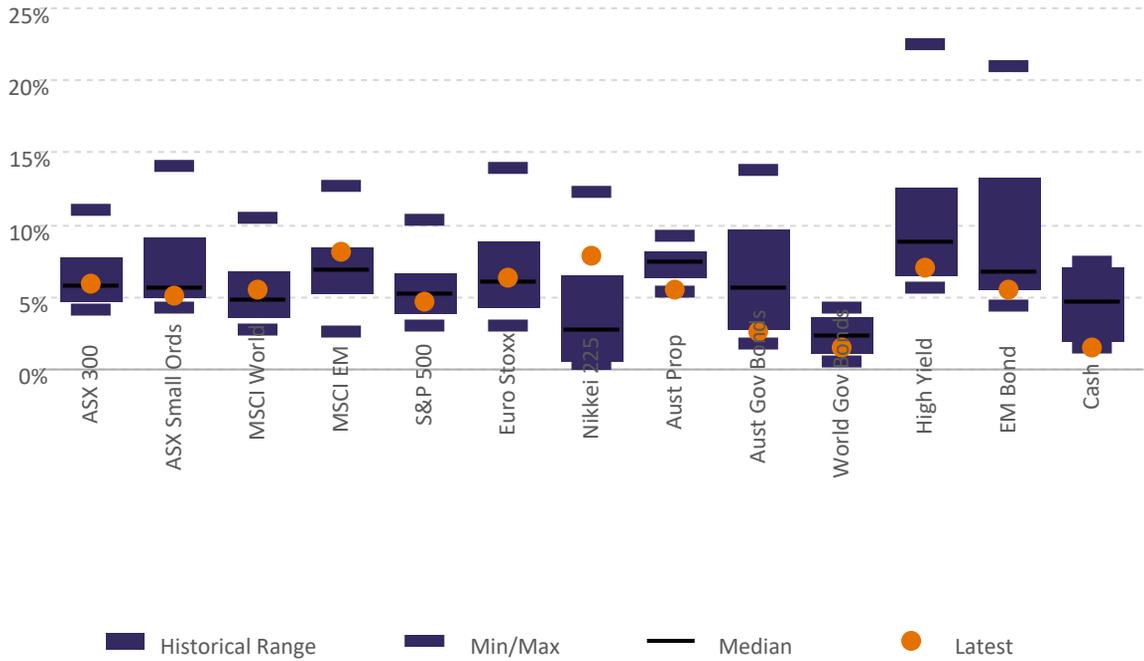
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	Index value	Month	3 months	FYTD	1 year	
Australian Equities						
	S&P/ASX 300 Accum. Index	59,319	-6.2%	-6.0%	-4.7%	2.9%
	S&P/ASX 300 Accum. Industrials Index	117,602	-6.1%	-5.9%	-4.4%	0.2%
	S&P/ASX 300 Accum. Resources Index	25,587	-6.5%	-6.0%	-6.0%	15.5%
	ASX Small Caps Accum. Index	7,440	-9.6%	-7.7%	-8.6%	2.6%
International Equities						
	MSCI World ex-Aus Index (\$A)*	9,217	-5.4%	-0.9%	1.6%	9.6%
	MSCI World ex-Aus Index (Hedged \$A)*	1,632	-6.9%	-4.7%	-1.7%	2.4%
	MSCI Emerging Markets Index (\$A)*	620	-6.8%	-7.3%	-5.9%	-5.4%
	MSCI World ex-Aus Small Cap Index (\$A)	559	-8.1%	-5.1%	-4.6%	4.4%
	US (S&P 500 Index in USD)	2,712	-6.9%	-3.7%	-0.2%	5.3%
	United Kingdom (FTSE 100 Index in GBP)	7,128	-5.1%	-8.0%	-6.7%	-4.9%
	Japan (Nikkei 225 Index in JPY)	21,920	-9.1%	-2.8%	-1.7%	-0.4%
	Europe (Stoxx 50 Index in EUR)	3,198	-5.9%	-9.3%	-5.8%	-13.0%
	China (Shanghai Composite Index in CNY)	2,603	-7.7%	-9.5%	-8.6%	-23.3%
AUD versus ...						
	USD	0.71	-2.1%	-4.8%	-4.5%	-7.6%
	JPY	80.23	-2.1%	-3.0%	-1.9%	-7.6%
	GBP	0.56	1.0%	-1.5%	-1.0%	-4.1%
	EUR	0.62	0.8%	-1.5%	-1.5%	-5.3%
Property						
	ASX 300 Listed Property Trusts Accum. Index	47,814	-3.1%	-2.1%	-1.2%	7.3%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,517	-3.2%	-3.8%	-2.9%	2.1%
Oil and Commodities						
	Crude Oil (\$/bbl)	65	-10.8%	-5.0%	-11.9%	20.1%
	Copper Spot (\$/tonne)	6,037	-3.6%	-3.9%	-8.9%	-11.4%
	Gold Spot (\$/ounce)	1,215	1.6%	-1.5%	-4.1%	-6.2%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	9,383	0.5%	0.9%	1.0%	3.1%
	Bloomberg AusBond Government Index	9,723	0.5%	0.9%	1.0%	3.1%
	Bloomberg AusBond Corporate Index	9,754	0.5%	1.1%	1.3%	3.4%
	Bloomberg AusBond Bank Bill Index	8,827	0.2%	0.5%	0.7%	1.9%
Global Fixed Interest						
	FTSE WGBI ex-Aus (Hedged \$A)	2,287	0.0%	-0.4%	-0.6%	0.5%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	-0.2%	-0.3%	-0.3%	0.2%
Fixed Income (yields) as at ...						
		30-Oct-18	31-Sep-18	30-Jul-18	30-Jun-18	30-Oct-17
	Australia Bank Bill	1.91	1.93	1.96	2.10	1.69
	Australia 10 Year Government Bond	2.63	2.67	2.65	2.63	2.67
	US 10 Year Government Bond	3.14	3.06	2.96	2.86	2.38
	UK 10 Year Government Bond	1.44	1.57	1.33	1.28	1.33
	Germany 10 Year Government Bond	0.39	0.47	0.44	0.30	0.36
	Japan 10 Year Government Bond	0.13	0.13	0.06	0.04	0.07

*Net dividends reinvested

Asset Class Yields Relative to History

Current Yields (equities earnings)



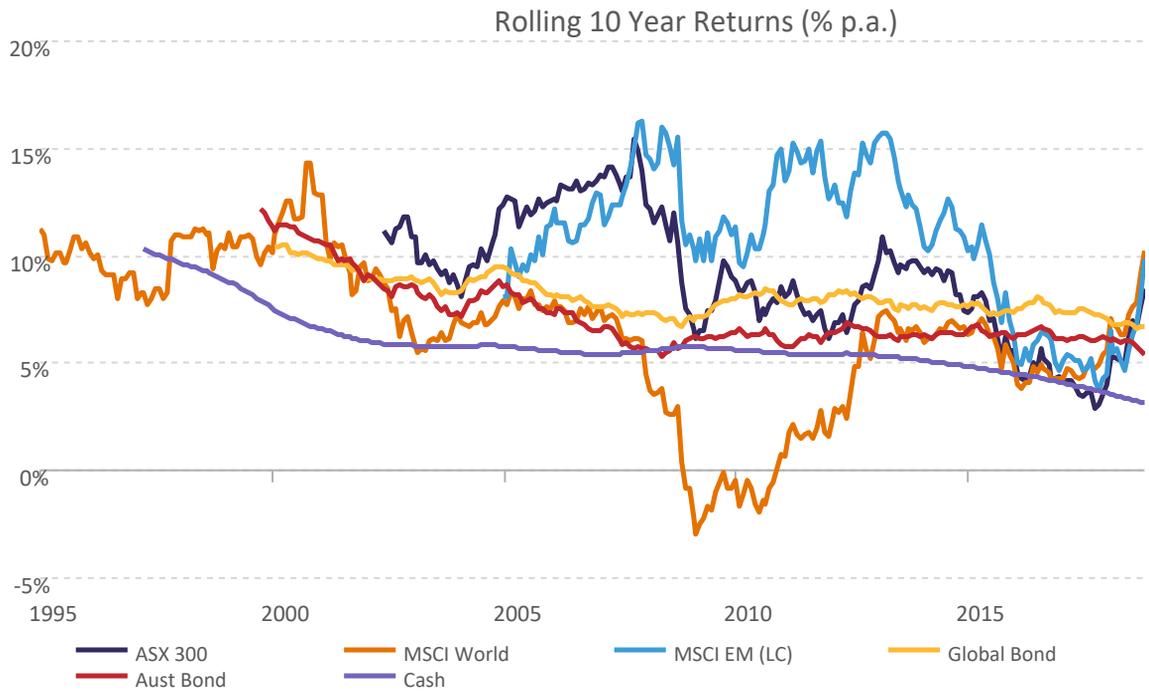
Source: Thomson Reuters Datastream

Relative Yields (vs bond or cash yield)

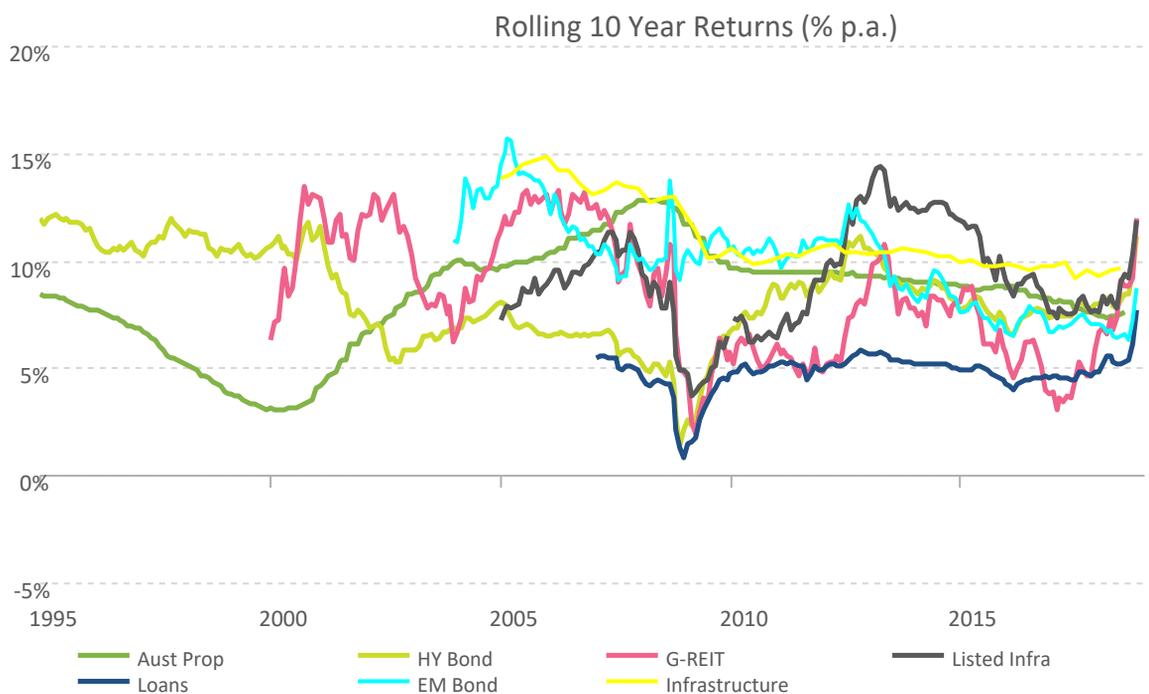


Source: Thomson Reuters Datastream

Asset Class Long-Term Returns



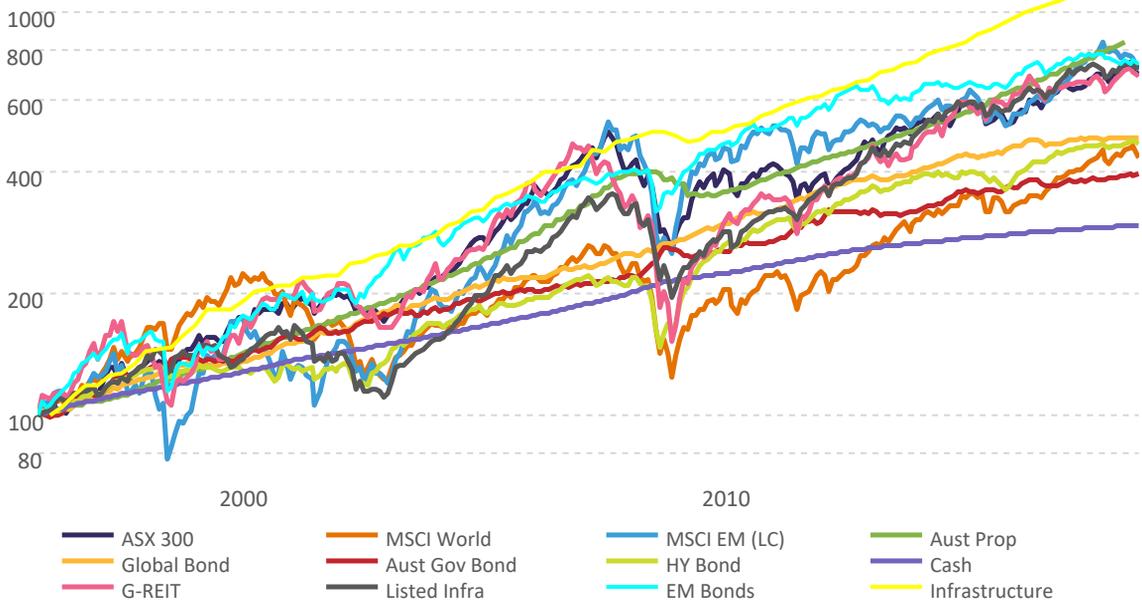
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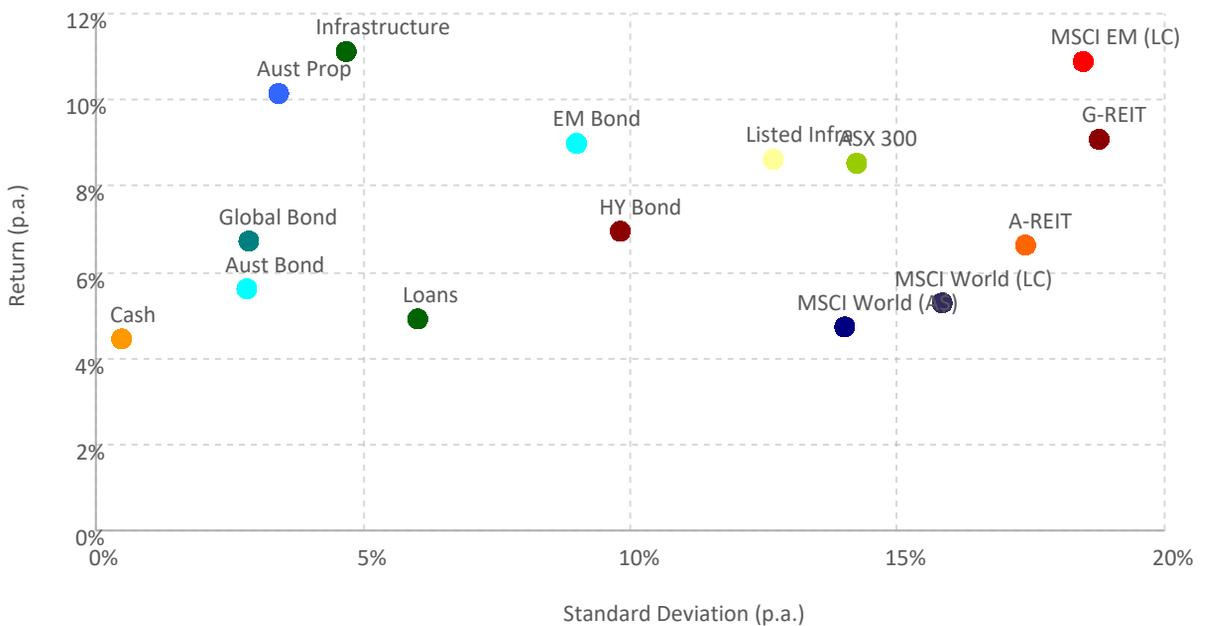
Asset Class Long-Term Returns

Cumulative Values since 1/1/1996 (\$100 reinvested)



Source: Thomson Reuters Datastream

Return-Risk Profile over 20 Years (p.a.) to Oct 18



Source: Thomson Reuters Datastream

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