Monthly Markets

September 2015

Global markets have been tremendously volatile over the month of September. The Fed's decision to defer "lift off" of US interest rates, the turmoil caused by Glencore and Volkswagen in Europe, and worries about the economic slowdown in China resulted in equity markets suffering their worst quarterly performance since the depths of the Eurozone debt crisis in 2011.

In the US, the Federal Reserve decided to keep the current 0 to 0.25% target range for the federal funds rate unchanged. While the US labour market continued to improve, with solid job gains and declining unemployment, the Fed noted that wage growth in the US was still subdued, and that inflation had continued to run below the Federal Open Market Committee's longer-run objective of 2%.

In addition to US domestic matters, the Fed also gave consideration to recent economic and financial developments abroad. In particular, the Fed was concerned that the slowdown in China and its adverse spill-over effect on other economies could contribute to a further appreciation of the US dollar and depress US exports. The decline in prices of oil and other commodities has also put downward pressure on US inflation in the near term.

On balance, the Fed decided to maintain its policy interest rates unchanged. It judged that a premature tightening might cause more downside risks to the US economic recovery and inflation outlook, and it would like to see further improvement in the US labour market and be reasonably confident that inflation will move back to its 2 percent objective over the medium term before any policy normalisation.

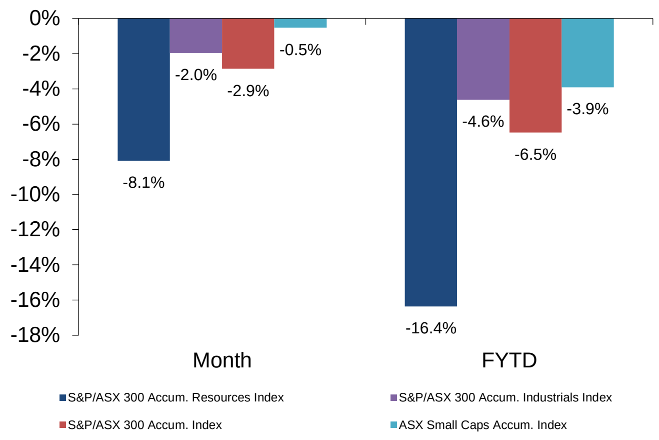
Europe was a mixed bag in September, with macro-economic data further improving but corporate-specific issues driving significant volatility in the markets. On the positive side, Eurozone GDP rose by 0.4% in Q2, the composite PMI (measuring manufacturing and services' sentiment) was 53.6 in September, and consumer sentiment jumped to 97 points in France – its highest level in eight years.

However, European equities plummeted, driven not only by markets' worries about the slowing Chinese economy, but also by idiosyncratic risks including Glencore and Volkswagen. The shares of Glencore (a London-listed mining company) plunged 29 percent in one day and over 50 percent over the month, as its heavy debt caused investors' concerns on the company's solvency in the current weak commodity price environment. The Glencore rout went on to cause a world-wide dive of commodity shares. In Germany, Europe's biggest carmaker, Volkswagen, confessed that it used misleading software that enabled VW cars to cheat diesel tests and, as a result, it would recall over 2 million cars in 2016. This scandal has wiped around 25% off its market value, sending the German DAX index to the lowest point in 2015.

In China, the economic transition and its impact on global growth continued to spark concerns among investors. The latest Caixin PMI (a measure of manufacturing sentiment) showed consecutive contractions of the manufacturing sector, whereas the property market seemed to have stabilised and retail sales are still growing. A slower growing but different and more sustainable growth model will likely be the new "norm" for the Chinese economy going forward.

In Australia, the RBA left the cash rate unchanged at 2% at its October meeting. Its statement was largely the same as the previous one, except that it highlighted potential risks in the Australian residential property sector and that it intended to work with other regulators to assess and contain risks that may arise from the housing market.

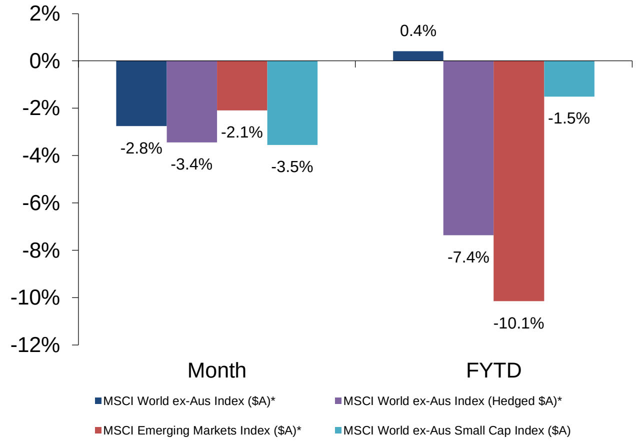
Australian equities



Australian equities had another negative month in September largely driven by continuing concerns about emerging economies such as China and further decline in commodity prices.

Reflecting these concerns, the Resources Index declined by -8.1% over the last month and by -16.4% for the financial year to date.

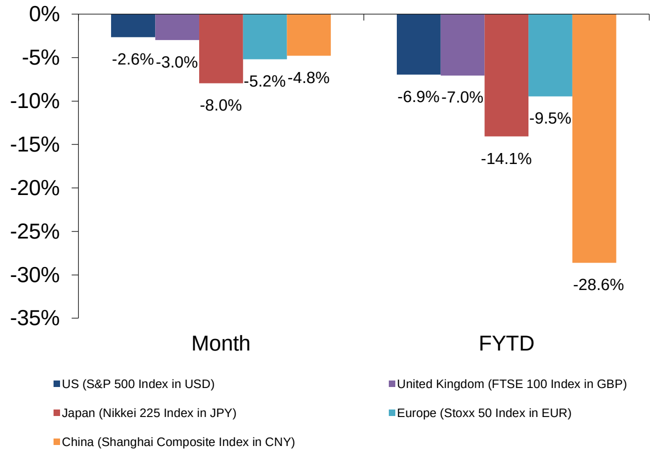
International equities ($A)



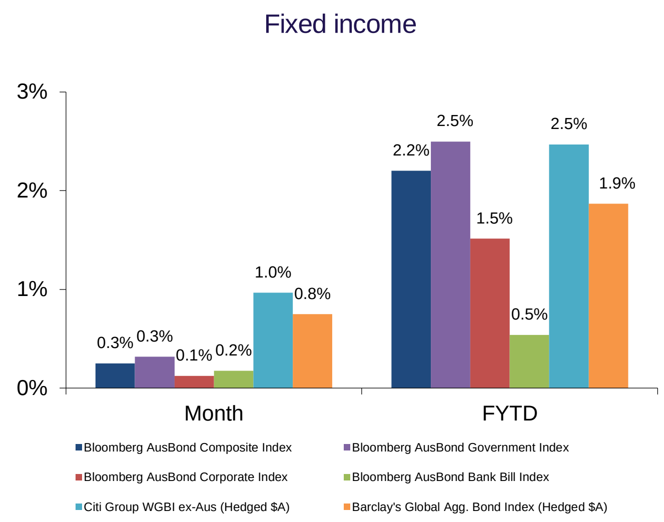
Both developed and emerging market equities finished the month in negative territory. For the financial year to date, emerging markets equities were the worst sector, declining over 10% (measured in AUD).

Unhedged developed market equities outperformed their hedged counterpart as a result of the fall in the Australian dollar during the month.

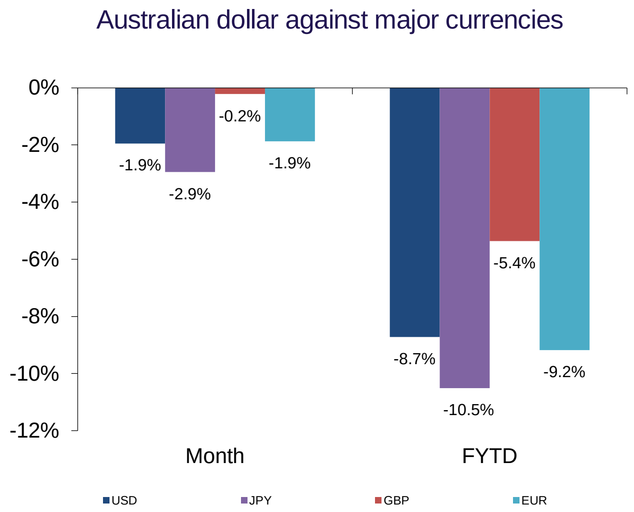
International equities (local currencies)



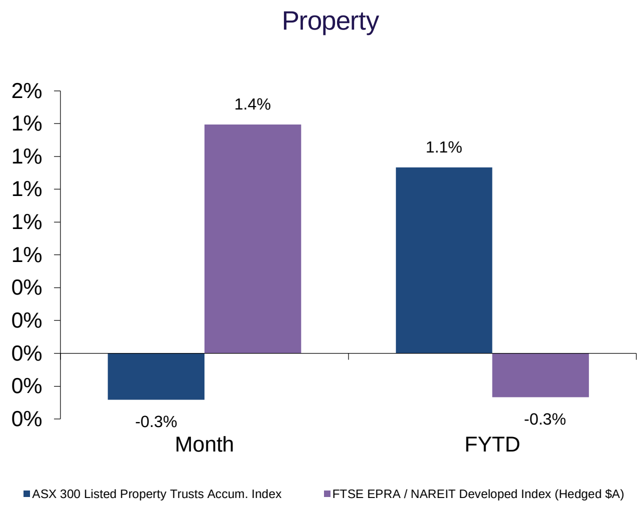
Measured in local currencies, all major equity markets had a negative month, but the US was the best performer for September and for the financial year to date.



Global bonds performed strongly last month, as bonds yields fell following the Fed's decision to keep interests rates unchanged.



The Australian Dollar continued its downward trajectory in September due to global concerns around Chinese growth and the renewed fall in commodity prices.



Similarly to bonds, global listed property outperformed its Australian counterpart, as "yield-seeking" investors were chasing income from the property sector following the decline in global bond yields.

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30-September-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	44,798	-2.9%	-6.5%	-6.5%	-0.7%
S&P/ASX 300 Accum. Industrials Index	93,666	-2.0%	-4.6%	-4.6%	6.1%
S&P/ASX 300 Accum. Resources Index	14,930	-8.1%	-16.4%	-16.4%	-28.6%
ASX Small Caps Accum. Index	5,143	-0.5%	-3.9%	-3.9%	-4.9%
International equities					
MSCI World ex-Aus Index ($A)*	6,856	-2.8%	0.4%	0.4%	18.9%
MSCI World ex-Aus Index (Hedged $A)*	1,161	-3.4%	-7.4%	-7.4%	1.3%
MSCI Emerging Markets Index ($A)*	483	-2.1%	-10.1%	-10.1%	0.6%
MSCI World ex-Aus Small Cap Index ($A)	435	-3.5%	-1.5%	-1.5%	21.3%
US (S&P 500 Index in USD)	1,920	-2.6%	-6.9%	-6.9%	-2.6%
United Kingdom (FTSE 100 Index in GBP)	6,062	-3.0%	-7.0%	-7.0%	-8.5%
Japan (Nikkei 225 Index in JPY)	17,388	-8.0%	-14.1%	-14.1%	7.5%
Europe (Stoxx 50 Index in EUR)	3,101	-5.2%	-9.5%	-9.5%	-3.9%
China (Shanghai Composite Index in CNY)	3,053	-4.8%	-28.6%	-28.6%	29.1%
AUD versus …					
USD	0.70	-1.9%	-8.7%	-8.7%	-19.9%
JPY	84.05	-2.9%	-10.5%	-10.5%	-12.2%
GBP	0.46	-0.2%	-5.4%	-5.4%	-14.1%
EUR	0.62	-1.9%	-9.2%	-9.2%	-9.6%
Property					
ASX 300 Listed Property Trusts Accum. Index	36,776	-0.3%	1.1%	1.1%	20.1%
FTSE EPRA / NAREIT Dev. Index (Hedged $A)*	2,117	1.4%	-0.3%	-0.3%	10.4%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,582	0.3%	2.2%	2.2%	6.9%
Bloomberg AusBond Government Index	8,958	0.3%	2.5%	2.5%	7.4%
Bloomberg AusBond Corporate Index	8,692	0.1%	1.5%	1.5%	5.8%
Bloomberg AusBond Bank Bill Index	8,319	0.2%	0.5%	0.5%	2.5%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	1.0%	2.5%	2.5%	6.5%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.8%	1.9%	1.9%	5.7%
Oil and Commodities					
Crude Oil ($/bbl)	45	-8.4%	-24.2%	-24.2%	-50.5%
Copper Spot ($/tonne)	5,177	0.6%	-10.0%	-10.0%	-23.0%
Gold Spot ($/ounce)	1,115	-1.5%	-5.0%	-5.0%	-8.3%

Fixed income (yields) as at …	30-Sep-15	31-Aug-15	30-Jun-15	30-Jun-15	30-Sep-14
Australia Bank Bill	2.16	2.13	2.13	2.13	2.69
Australia 10 Year Government Bond	2.61	2.66	3.01	3.01	3.48
US 10 Year Government Bond	2.04	2.22	2.35	2.35	2.49
UK 10 Year Government Bond	1.76	1.96	2.02	2.02	2.43
Germany 10 Year Government Bond	0.59	0.80	0.76	0.76	0.95
Japan 10 Year Government Bond	0.36	0.38	0.47	0.47	0.53

* Net dividends reinvested