FINANCIAL PLANNING – Economic Updates

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 # Economic Update Summary

Cautious markets await outcome of US Debt Ceiling

Markets remained cautious while focusing on the ongoing negotiations surrounding the lifting of the United States (US) debt ceiling but once the threat of a US default came to an end markets lifted.

Eurozone gradual recovery continuing

Europe continues to point to a gradual recovery in the region, with Spain emerging from a two-year recession. A Further fall in the Euro area inflation rate paved the way for the European Central Bank (ECB) to once again loosen monetary policy.

China economy stabilising

In China, recent data has been generally positive, suggesting that the economy is stabilising following the softness in the first half of the year.

Australia's easing cycle coming to an end?

With a spike in the September inflation number and growing talk that the housing market may be overheating, many investors expect that the current easing cycle has come to an end. However, the Australian economy added a disappointing 1,100 new jobs over October, falling short of market expectations. The seasonally adjusted unemployment rate remained steady at 5.7%.

Investment Outlook by asset class

Australian Equities – The Australian equity market experienced another strong month, finishing 3.9% higher. Small Caps (+2.7%) underperformed their Large Cap (+4.2%) counterparts but outperformed Mid Cap (+2.2%) stocks. The defensive sectors had mixed performance over the month with Property Trusts, Consumer Staples and Utilities underperforming the broader market, while Healthcare and Telecom Services performed particularly strongly.

The best performing sectors were Financials (excluding property trusts) (+5.9%), Healthcare (+4.5%) and Telecom Services (+4.2%). The weakest performing sectors included Energy (+0.2%), Utilities, (+1.1%) and Industrials (+1.9%). On a stock level, ANZ (+10.4%), CBA (+6.8%) and BHP (+5.7%) made the largest contribution to the return of the index. On the other hand, Newcrest Mining (-11.9%), Qantas (-15.6%) and Worley Parsons (-9.0%) were the most significant detractors from the performance of the index.

International Equities – Global equity markets were generally stronger over October. The broad MSCI World ex Australia Index rose 4.1% in hedged terms and 2.6% in unhedged terms, as the Australian dollar gained against all of the major currencies. Based on the relative performance of the S&P Developed ex-Australia Large & Mid cap indices, Global Growth (+2.3%) underperformed their Value (+2.8%) counterparts in A$ terms. The strongest performing sectors were Telecommunication Services (+5.4%) and Consumer Staples (+3.3%), while Materials (+1.1%) and Utilities (+1.9%) were the worst performers. In Australian dollar terms, the Global Small Cap sector rose 1.8%, while Emerging Markets returned 3.5% in October.

In the US, the S&P 500 Composite Index rose 4.6% during October, the NASDAQ returned 3.9% and the Dow Jones Industrial Average gained 2.9%, all in local currency terms. European markets were stronger, with the DAX 30 (Germany) jumping 5.1%, the FTSE 100 (UK) returning 4.3% and the CAC 40 (France) gaining 3.8%. Asian markets were mixed over the month, with the Indian BSE 500 soaring 9.1%, and the Hang Seng rising 1.7%, while the Japanese TOPIX finished the month flat and the Chinese Shanghai Composite Index lost 1.5%.

Property – Real Estate Investment Trusts (REITs) performed well over the month; domestic REITs (as measured by the S&P/ASX 300 A-REIT Index) advanced 2.6%, while Global REITs (as measured by the FTSE EPRA/NAREIT Global Developed Index) gained 3.0% on a fully hedged basis. The unlisted property sector (as measured by the Mercer/IPD Australia Monthly Property Fund Index) returned 1.0% over September on the back of solid returns from Retail Funds (+1.4%).

Fixed Interest – Global Sovereign Bond yields generally fell across the major markets over the month. Ten-year bond yields fell: in Japan (-9bps to 0.60%), the US (-7bps to 2.54%) and Germany (-5bps to 1.68%); however, rose in the United Kingdom (UK) (+9bps to 2.62%). Two-year bond yields were lower in Germany (-2bps to 0.13%) and the US (-2bps to 0.30%). Global bond indices saw positive returns over the month, with both the Citigroup World Government Bond (ex-Australia) Index and the Barclays Capital Global Aggregate Bond Index returning 1.1%, both on a fully hedged basis. The Australian 10-year bond yield increased by 13bps to 3.94% and the five year bond yield rose 16bps to 3.33%. Australian bonds produced generally weak returns over October, with the UBS Credit Index returning 0.2%, UBS Semi-Government Index rising 0.1% and the UBS Treasury Bond Index finishing flat for the month.

Currencies – The Australian dollar continued to climb against all of the major currencies in October. The Australian dollar rose 1.3% relative to the US dollar, finishing the month at US$0.947. Against other currencies, the A$ appreciated 2.1% against the Pound Sterling, 1.3% relative to the Yen and 0.8% versus the Euro. On a trade weighted basis, the local currency gained 1.3% over the month.

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