# Market Update

## December 2012

- China continues to show signs of economic improvement
- Eurozone back in recession after another quarter of contraction
- Official cash rate cut to 3.00%, equal to lowest levels seen during the GFC.

## What's inside?



## November market performance

| Equity Markets – Price Indices | Index | At Close 30/11/12 | % Change 1 Month | % Change 12 Months |
|---|---|---|---|---|
| Australia | All Ordinaries | 4518.03 | -0.38% | 7.97% |
| Japan | Nikkei | 9446.01 | 5.80% | 11.99% |
| Hong Kong | Hang Seng | 22030.39 | 1.80% | 22.46% |
| UK | FTSE 100 | 5866.82 | 1.45% | 6.56% |
| Germany | DAX | 7405.50 | 2.00% | 21.62% |
| US | Dow Jones | 13025.58 | -0.54% | 8.13% |
| EMU* | Euro 100 | 2296.69 | 1.81% | 11.70% |
| World** | MSCI – Ex Aus (Gross) | 925.98 | 1.32% | 11.67% |
| **Property – Price Index** | **Index** | **At Close 30/11/12** | **% Change 1 Month** | **% Change 12 Months** |
| Listed Trusts | S&P/ASX 300 A-REITS | 946.75 | -1.28% | 18.40% |
| **Interest Rates** | | **At Close 30/11/12** | **At Close 31/10/12** | **At Close 30/11/11** |
| Aust 90 day Bank Bills | | 3.26% | 3.26% | 4.48% |
| Australian 10 year Bonds | | 3.16% | 3.16% | 3.67% |
| US 90 day T Bill | | 0.08% | 0.08% | 0.01% |
| US 10 year Bonds | | 1.62% | 1.62% | 1.88% |
| **Currency***** | | **At Close 30/11/12** | **% Change 1 Month** | **% Change 12 Months** |
| US dollar | A$/US$ | 1.04 | 0.47% | 1.37% |
| British pound | A$/STG | 0.65 | 1.23% | -0.53% |
| Euro | A$/euro | 0.80 | 0.26% | 4.97% |
| Japanese yen | A$/yen | 85.98 | 3.81% | 7.69% |
| Trade-weighted Index | | 77.20 | 0.92% | 3.49% |

* Top 100 European stocks trading on the FTSE ** Price Index – Source: www.msci.com
*** All foreign exchange rates rounded to two decimal places
**Source:** Iress Market Technology
Past performance is not a reliable indicator of future performance.

## Global economies

Over the last month, business survey indicators pointed to sluggish overall global economic growth.

This was despite the US activity, which was seen to be expanding, and because economies in Western Europe and Japan continued to slow.

It wasn't all bad news, as emerging markets lead the charge and were seen to be driving most of the expansion in economic activity in November.

In the East, China continued to show signs of economic improvement, with the HSBC Purchasing Managers Index (PMI) back above 50 for the first time in 13 months. This is positive news for the Asian powerhouse, as a reading above 50 indicates expansion in manufacturing activity, while a reading below 50 indicates contraction.

Across the sea, Bank of Japan (BoJ) board member Sayuri Shirai warned of looming risks to Japan's economic outlook.

Shirai, a former International Monetary Fund (IMF) economist, is of the opinion that consumer inflation will steadily approach the central bank's target of 1% by 2015. However, she warns the growing pain from Europe's debt woes, slowing Chinese growth and US fiscal changes, may delay Japan's progress in overcoming deflation.

A quick look to Europe, and November provided confirmation the Eurozone is back in recession, notching up another quarter of contraction.

Over the year to September, the Eurozone economy is down 0.6%, despite marginally better than expected gross domestic product (GDP) reports for France and Germany. While both nations recorded 0.2% growth for quarter 3, and narrowly escaped negative growth, the periphery of Europe is still struggling.

The effects of the recession were widespread throughout Europe last month. The latest figures show Greece's economy has shrunk 7.2% over the year to quarter 3, Portugal by 3.4%, Italy by 2.4%, and Spain by 1.6%. Even the Netherlands recorded a 1.4% decrease.

## US Economy

The latest information from the US Federal Reserve described the US economy as expanding at a "measured" pace.

While most districts reported modest growth in November, New York's Hurricane Sandy caused mass disruption to the state's financial, geographic and political landscapes.

Looking ahead, the US economic forecast for 2013 is positive, as there appear to be some fading headwinds on the horizon. State and local spending are showing signs of stabilisation, as household balance sheets also continue to improve.

In more good news for the US, the housing sector is expecting strong growth over the coming months, as inventory of new homes remains low while sales continue to rise. This growth is further supported by the expectation that interest rates will remain low.

## Europe

In Europe, the European Union (EU) has committed to supporting the Spanish banking system to the tune of €37 billion (3.4% of Spanish GDP).

Meanwhile, Spanish retail sales continue to struggle, with volumes down 9.7% year on year to October. In contrast, Ireland is reporting some growth, as sales improved by 3.1% year on year.

Based on National Australia Bank's (NAB) estimates in November, the Eurozone Purchasing Managers Index (PMI) points to a quarter 4 contraction between 0.4% and 0.8%, following the 0.1% dip in quarter 3.

While the estimates showed the PMI was stronger than expected, it remained below the 50 'breakeven' level and has done so for most of this year.

## Australia

On Tuesday 4 December, the Reserve Bank of Australia (RBA) cut the official cash rate for the fourth time this year. The cash rate began the year at 4.25% and now stands at 3.00%; a historical low for Australia (GFC level).

RBA governor Glenn Stevens citied the following regarding the main drivers of the rate cut: "Global growth is forecast to be a little below average for a time. Risks to the outlook are still seen to be on the downside, largely as a result of the situation in Europe. [The] uncertainty over the course of US fiscal policy is also weighing on sentiment at present".

To housing, and new home sales rose 3.4% in October; this was encouraging given the 3.7% decline in September. The positive growth rate was mainly due to unit/apartment sales, which increased by 31.3%.

However, the free-standing home sales market remains on the defensive, down by 2.0% in October after a 3.5% September decline.

NAB's latest Online Retail Sales Index has valued online sales in Australia, in the year to October 2012, at $12.3 billion. The rate of online growth has strengthened considerably over the past six months, growing by 26% year on year, compared with just 14% year on year in May.

The Index found that online sales were equivalent to 5.6% of traditional retail spending for the year to September 2012, up from 4.9% in February.

Commenting on the findings, NAB Chief Economist Alan Oster, said the pick-up in online sales across recent months has largely been driven by growth in domestic sales, which grew by 28% year on year in October.

## Equity markets

**Most major markets posted positive returns during November, with Japan being the standout, posting a return of 5.8%.**

**Of the majors to perform poorly, the US and Australian markets took honours, both finishing down at the end of the month; 0.54% and 0.38% respectively.**

## Australian equities

| | Index/Benchmark (% pa) | 1 Yr | 3 Yrs | 5 Yrs | 7 Yrs |
|---|---|---|---|---|---|
| Australian | S&P/ASX 300 Acc. | 14.21% | 2.91% | -2.97% | 4.61% |
| | S&P/ASX 50 Acc. | 16.84% | 3.71% | -1.77% | 5.40% |
| | S&P/ASX Small Ordinaries Acc. | -1.20% | -1.48% | -7.97% | 1.48% |

The Australian market lost a small amount of territory during November with the S&P/ASX All Ordinaries losing 0.38%.

Over the year, the S&P/ASX All Ordinaries Price Index returns have been good, providing investors with around an 8% capital gain. Add the dividends to this and returns go up by approximately 6%.

For the year to 30 November, the S&P/ASX 300 Accumulation Index posted a return of 14.21%, while the S&P/ASX 50 Accumulation Index returned nearly 17%.

At the sector level, Health Care, Telcos and Consumer Discretionary were the top performers for November, returning 6.1%, 3.8% and 3.4% respectively.

Four sectors posted losses during November; Energy, Materials, Industrials and Property.

Over the 12 months to 30 November, Telcos and Health Care continued their stellar run, with both sectors returning over 45%.

The only sectors to be in the red over the 12 month period continue to be Energy and Materials. This is despite Materials having a solid last three months.

## Big movers this month

↑ Health Care +6.1%

↓ Energy –2.7%

| Sector | 1 Mth | 3 Mths | 1 Yr |
|---|---|---|---|
| Energy | -2.7% | -2.3% | -6.9% |
| Materials | -0.7% | 9.9% | -6.0% |
| Industrial | -1.1% | 2.9% | 3.9% |
| Consumer Discretionary | 3.4% | 6.0% | 14.4% |
| Consumer Staples | 1.3% | 3.2% | 23.4% |
| Health Care | 6.1% | 11.5% | 46.2% |
| Financials (ex Property) | 0.5% | 4.5% | 25.5% |
| Info Tech | 0.8% | 2.8% | 22.1% |
| Telcos | 3.8% | 11.7% | 47.1% |
| Utilities | 1.8% | 1.3% | 21.7% |
| Property | -1.3% | 5.2% | 25.8% |

## Global equities

| | Index/Benchmark (% pa) | 1 Yr | 3 Yrs | 5 Yrs | 7 Yrs |
|---|---|---|---|---|---|
| Global | MSCI World Ex Aus Acc. ($A) | 13.94% | 6.90% | -1.83% | 3.04% |
| | MSCI World Index Hedged ($A) | 14.67% | 7.62% | -2.52% | 1.87% |
| | MSCI World Small Cap ($A) | 13.53% | 10.98% | 1.03% | 3.40% |
| Emerging | MSCI Emerging Mkts Free | 9.65% | -0.10% | -4.98% | 4.63% |
| | MSCI AC Far East Free (ex Japan) | 17.60% | 3.24% | -3.48% | 5.53% |

The MSCI World Index was positive for November, up by 1.3%. This was due to most major markets posting reasonable returns, with the exception of the US and Australia.

The Dow Jones Industrial Average was again the poorest performer of the majors, losing 0.54% in November. However, over the 12 months to 30 November, the Dow Jones has performed reasonably, giving investors a return of 8.13%.

In the UK, the FTSE 100 finished up 1.5% for the month. While in mainland Europe, the German DAX posted a gain of 2.0%, with the Euro 100 posting around 1.8%.

The standout performer for November was Japan’s Nikkei which produced 5.8%. This result propelled the Nikkei to around 12% for the last 12 months, which is a solid return.

## Australian dollar (AUD)

In November, the Australian Dollar (AUD) gained ground against the Japanese Yen, gaining 3.81% over the month to close at 85.98 Yen.

The AUD also gained 0.47% against the US dollar during November, closing at US$1.0426.

It's interesting to note following the RBA interest rate announcement, the AUD was trading higher at $1.0480, which means that the market had already factored in the rate cut.

Against the Euro, the AUD made a very small gain of 0.26% and closed the month at 0.8029 Euro.

## Property

| | Index/Benchmark (% pa) | 1 Yr | 3 Yrs | 5 Yrs | 7 Yrs |
|---|---|---|---|---|---|
| Australian | S&P/ASX 300 A-REIT Acc | 25.80% | 9.28% | -10.42% | -2.66% |
| Global | UBS Global Investors Index | 20.21% | 9.93% | -3.40% | -0.61% |

After the outstanding performance seen in October, the Australian listed property market lost ground in November. However for the year to 30 November, Australian property has returned 25.80%, which is an excellent result for investors.

A small loss in November saw the S&P/ASX 300 A-REIT Accumulation Index underperform the UBS Global Investors Index.

Over a one year period, Australian listed property continues to outperform global property, however is still lagging over longer timeframes.

## Fixed Interest

| | Index/Benchmark (% pa) | 1 Yr | 3 Yrs | 5 Yrs | 7 Yrs |
|---|---|---|---|---|---|
| Australian | UBS Composite 0 + Years | 8.35% | 8.14% | 8.19% | 6.96% |
| | Australian 90 Day Bank Bill | 3.87% | 4.46% | 4.80% | 5.22% |
| Global | BarCap Global Aggregate Index | 3.76% | -0.49% | 2.02% | 0.70% |
| | BarCap Global Ag,. Index Hedged | 11.36% | 9.46% | 9.34% | 8.46% |

Australian bonds were again very flat last month, with the UBS Composite Bond All Maturities Index gaining just 0.01%.

Hedged global bonds, as measured by the Barclays Global Aggregate Index Hedged, performed well with an increase of 0.74%, while the unhedged equivalent posted a loss of 0.61%.

On a 12 month comparison, hedged global bonds are still outperforming Australian bonds, returning 11.36% against 8.35%.

Unhedged global bonds are still underperforming both Australian bonds and global hedged bonds over a 12 month period.