



- ▶ Heightened geopolitical tensions in Ukraine and the Middle East continue to dominate global equity markets.
- ▶ Economic growth in the US remains strong, with Q2 GDP revised upwards from 4.0% to 4.2%.
- ▶ European data remains weak, particularly impacted by the Ukrainian crisis.
- ▶ A slowdown in Chinese economic growth in Q2 as a result of a weaker performing property sector.
- ▶ Modest improvement in Australian consumer and business confidence and credit growth.

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## August market performance

Equity Markets – Price Indices		Index	At Close 31/08/2014	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries		5624.57	0.0%	9.7%
Japan	Nikkei		15424.59	-1.3%	15.2%
Hong Kong	Hang Seng		24742.06	-0.1%	13.9%
UK	FTSE 100		6819.75	1.3%	6.3%
Germany	DAX		9470.17	0.7%	16.9%
US	Dow Jones		17098.45	3.2%	15.4%
EMU*	Euro 100		1036.59	1.8%	16.1%
World**	MSCI – Ex Aus (Gross)		1263.71	2.5%	18.8%
Property – Price Index		Index	At Close 31/08/2014	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS		1122.59	1.7%	12.9%
Interest Rates			At Close 31/08/2014	At Close 31/07/2014	At Close 31/08/2013
Aust 90 day Bank Bills			2.63%	2.65%	2.59%
Australian 10 year Bonds			3.30%	3.51%	3.90%
US 90 day T Bill			0.03%	0.02%	0.02%
US 10 year Bonds			2.34%	2.56%	2.79%
Currency***			At Close 31/08/2014	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$		0.94	0.60%	5.01%
British pound	A\$/STG		0.56	2.27%	-2.19%
Euro	A\$/euro		0.71	2.19%	5.12%
Japanese yen	A\$/yen		97.16	1.63%	11.19%
Trade-weighted Index			71.90	0.56%	3.90%

\* Top 100 European stocks trading on the FTSE

\*\* Price Index – Source: msci.com

\*\*\* All foreign exchange rates rounded to two decimal places Source: FactSet.

Past performance is not a reliable indicator of future performance.

## Global economies

Despite heightened geopolitical tensions in the Ukraine and the Middle East, as well as weaker manufacturing data in Europe and China, global growth continues to be sustained.

The US economy has continued its trend of recovery, with Q2 GDP revised up to 4.2%, from 4%.

Chinese economic growth was somewhat sluggish in August. Eurozone manufacturing data remains weak and with inflation data at low levels, further stimulus is expected.

There has been a slight improvement in Australian business and consumer confidence, with further momentum across the residential construction sector. The RBA has kept the cash rate at 2.5% in September and it is anticipated that interest rates will remain at this level well into 2015.

## US

Heading over to the US, the improving economic data has continued into Q3, with forecasts for Q3 GDP looking positive.

US Manufacturing PMI data rose to its highest level since April 2010. Notably, new orders improved along with employment growth. Housing activity also increased.

In July, the US Consumer Price Index (CPI) rose modestly, with the annual core CPI at 2%.

The Federal Chairperson, Janet Yellen, commented that 'the labour market has yet to fully recover', but also indicated that the Federal Reserve is becoming comfortable with the timeframe of ending quantitative easing (QE 3) in October 2014, and increasing interest rates in 2015. However, further QE 3 and interest rate increases remains data dependent.

## Europe

In Europe, economic data remains weak, impacted by the heightened geopolitical tensions in the Middle East and the Ukraine. Particularly, economic sanctions have impacted confidence across the Eurozone.

Pressure has increased on the European Central Bank (ECB) to alleviate the threat of falling prices as annual inflation fell to 0.3% in August, from 0.4% in July. Expectations have increased that the ECB will introduce quantitative easing in the near term.

There was a decline in the Eurozone's Markit Flash Purchasing Managers' Index (PMI) data in August, from 51.8 in July to 50.8 in August – a 13 month low. France however, showed signs of improvement relative to the previous three months. The unemployment rate across the Eurozone remained unchanged at 11.5%. The German economy, although continuing to grow, was weaker relative to July.

In the UK, PMI data was weaker; although the credit numbers were better than expected, providing some support for the economy. The unemployment rate across the Eurozone remained unchanged in July at 11.5%.

## China

Over in China, manufacturing growth slowed in August, with manufacturing PMI at 51.1 compared to 51.7 in July. This has been attributed to a weaker property sector and the weakness in the Eurozone as a result of the Ukrainian crisis.

Although Chinese economic growth accelerated to a higher-than-expected 7.5% in the second quarter, up from 7.4% in the previous three months, concerns remain over the weakening property sector with prices continuing to decline through July and August.

It is anticipated that the Chinese government's monetary and fiscal policies will remain accommodative until there is a more sustained recovery in economic activity.

Inflation remains well below target levels, providing further opportunity for the Chinese Government to undertake additional stimulus measures.

## Asia region

The Japanese economy has been emitting mixed signals. It has continued its slow move forward, yet growth data recorded for Q2 has shown its biggest GDP slump since 2011 when the economy was impacted by natural disasters.

The Markit Flash Japan Manufacturing PMI data for August indicated an improvement in manufacturing conditions, with output and new orders rising sharply. This data represented the fastest pick up since the sales tax was increased in April.

Payroll data has also improved and is at its highest point in three months.

Core Inflation remains at 3.3%. However, excluding the impact from the sales tax increase, the core CPI is only 1.3%, well below the 2% inflation target.

## Australia

On the home front, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% at its meeting on September 2nd.

The ASX-listed corporate reporting season for the 2014 financial year had companies deliver results that were generally in line with expectations. Strong capital management initiatives, via enhanced dividend payments and share buybacks were a standout feature. Forecasts for FY 2015 earnings per share growth are currently in the 5-10% range.

In July, private sector credit growth increased by 0.4%, representing an annual growth rate of 5.1%. Business credit growth was at 0.3% with an annual growth rate of 3.4%. Housing credit also improved with a rise of 0.5% to an annual rate of 6.5%, with investors still driving the majority of this growth.

Australian building approvals rose 2.5% in July with private houses up 1.4% and apartments up 5.9%.

## Equity markets

Global equity markets were stronger in August, although quite divergent in performances.

The US S&P 500 equity index had an outstanding month, up 3.7% in August.

UK and Germany also performed well, up 1.3% and 0.7% respectively.

Australia was flat for the month.

The Japanese Nikkei Index was down -1.3%.

## Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Australian</b>	S&P/ASX 300 Acc.	14.15%	14.00%	9.07%	2.80%
	S&P/ASX 50 Acc.	14.17%	15.92%	10.08%	3.97%
	S&P/ASX Small Ordinaries Acc.	7.49%	-0.17%	1.85%	-3.86%

The S&P/ASX 300 Accumulation Index had another positive month in August, increasing by 0.64%. This followed a strong performance in July.

The S&P/ASX 300 Industrials Accumulation Index also had a stellar month, up 1.38%.

The broader S&P/ASX All Ordinaries Index was flat.

For the 12 months to 31 August 2014, the S&P/ASX 300 Accumulation Index posted a solid gain of 14.15%; while the large market caps, represented by the S&P/ASX 50 Accumulation Index, had a similar performance, returning 14.17%.

Interestingly, after a strong performance across all sectors in July, the August sector performances had divergent results. Healthcare, Telecommunications and Energy were the best performing sectors in August, up 6.4%, 4.3% and 4.0% respectively.

On the other hand, Materials and Information Technology were the worst performing sectors, down -3.7% and -0.8% respectively.

Sector	1 Mth	3 Mths	1 Yr
<b>Energy</b>	4.0%	5.0%	11.7%
<b>Materials</b>	-3.7%	2.2%	7.5%
<b>Industrial</b>	2.0%	3.2%	15.6%
<b>Consumer Discretionary</b>	0.5%	2.7%	10.5%
<b>Consumer Staples</b>	-0.4%	-0.5%	5.3%
<b>Health Care</b>	6.4%	6.1%	12.6%
<b>Financials (ex Property)</b>	0.7%	3.1%	18.2%
<b>Info Tech</b>	-0.8%	3.1%	14.2%
<b>Telcos</b>	4.3%	6.8%	20.3%
<b>Utilities</b>	1.8%	3.8%	15.5%
<b>Property</b>	1.7%	10.3%	19.5%

## Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Global</b>	MSCI World Ex Aus (Gross)	21.71%	18.27%	13.16%	4.24%
	MSCI World \$A Hedged (Gross)	21.04%	17.67%	12.91%	3.24%
	MSCI World Small Cap (\$A)	15.41%	22.17%	13.44%	4.57%
<b>Emerging</b>	MSCI Emerging Mkts Free	18.26%	9.23%	8.90%	4.09%
	MSCI AC Far East Free (ex Japan)	16.40%	8.78%	9.04%	0.04%

The MSCI World ex-Australia (unhedged) Index posted a negative return in August, down -1.6%. The MSCI World ex-Australia (hedged) was up 2.5%.

However, the global indices had an extremely divergent month with regards to performance.

## Big movers this month

- ↑ Healthcare  
+6.4%
- ↑ Telecommunications  
+4.3%
- ↑ Energy  
+4.0%
- ↓ Materials  
-3.7%
- ↓ Information Technology  
-0.8%

## Australian dollar (AUD)

In August, the Australian Dollar (AUD) was up relative to all the major international currencies. The AUD appreciated 0.6% against the US Dollar (USD), to finish the month at 94 US cents. Over the past 12 months the AUD has increased 5.01% against the USD.

The AUD continued to gain against the Euro, up 2.19% in August. On a 12 month basis, the AUD was up 5.12% against the Euro.

Against the Japanese Yen, the AUD was up 1.63% in August. On a 12 month basis, the AUD was up 11.19% against the Yen.

Against the British pound, the AUD was up 2.27% in August. On a 12 month basis, the AUD was down -2.19% relative to the British pound.

The US S&P 500 Index was the outstanding performer in July, up 3.77%.

The Euro 100 Index was also a strong equity market, up 1.8% in August.

The Japanese Nikkei Index was the worst performer across global markets covered in this analysis, down -1.3% for the month.

Over the 12 months to 31 August 2014, the German DAX, the US Dow Jones and the Nikkei were the best of the major global equity markets, up 16.9%, 15.4% and 15.2% respectively.

## Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Australian</b>	S&P/ASX 300 A-REIT Acc	19.47	19.22%	11.82%	-4.42%
<b>Global</b>	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	22.99%	17.10%	16.85%	4.03%

In August, the S&P/ASX 300 A-REIT Accumulation Index posted a strong gain of 4.9%, outperforming the broader Australian market.

On a 12 month rolling basis, Australian listed property outperformed the ASX 300 Accumulation Index, up 19.47%.

Over the one, five and seven year periods, Global REITs outperformed Australian REITs but over a three year period, Australian property outperformed. Global property, as represented by the FTSE EPRA/NAREIT Index was up 22.99% over the rolling one year period.

## Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>Australian</b>	UBS Composite 0 + Years	6.90%	6.19%	6.95%	7.05%
	Australian 90 Day Bank Bill	2.63%	3.28%	3.81%	4.36%
<b>Global</b>	BarCap Global Aggregate Index	1.16%	6.00%	1.58%	2.87%
	BarCap Global Agg. Index Hedged	9.29%	7.48%	8.24%	8.51%

US 10-year bond yields were down -8.59% in August, closing the month at 2.34%. Australian 10-year bond yields were marginally down (-5.98%) and closed the month at 3.30%.

For August, the UBS Composite Bond 0+YR Index was up 1.01%. On a 12 month basis, Australian bonds returned 6.9%, outperforming unhedged global bonds.

Global bonds (unhedged), as measured by the Barclays Capital Global Aggregate Index, posted positive returns for the one year period ended 31 August 2014, up 1.16%. The hedged index posted a strong one year gain of 9.29%.