GODFREYPEMBROKE

market update

November 2015

- Global equity markets staged a sharp recovery through October
- China cut interest rates for the sixth time in 12 months
- US economic data remains positive
- US Federal Reserve provides clarity on interest rate increases
- The ECB considering further quantitative easing
- Australian business credit growth shows positive recovery
- RBA maintains the cash rate at 2.0% at its November meeting and remains on an accommodative policy

October market performance

Equity Markets – Price Indices	Index	At Close 31/10/2015	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5288.56	4.5%	-3.9%
Japan	Nikkei	19083.10	9.7%	16.3%
Hong Kong	Hang Seng	22640.04	8.6%	-5.7%
UK	FTSE 100	6361.09	4.9%	-2.8%
Germany	DAX	10850.14	12.3%	16.3%
US	Dow Jones	17663.54	8.5%	1.6%
EMU*	Euro 100	1139.00	10.0%	11.6%
World**	MSCI – Ex Aus (Gross)	1315.51	7.9%	4.2%

Property – Price Index	Index	At Close 31/10/2015	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1275.91	4.9%	12.5%

Interest Rates	At Close 31/10/2015	At Close 30/09/2015	At Close 31/10/2014
Aust 90 day Bank Bills	2.09%	2.19%	2.74%
Australian 10 year Bonds	2.61%	2.61%	3.29%
US 90 day T Bill	0.08%	-0.01%	0.01%
US 10 year Bonds	2.14%	2.04%	2.34%

Currency***		At Close 31/10/2015	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.71	1.59%	-18.83%
British pound	A$/STG	0.46	-0.36%	-15.92%
Euro	A$/euro	0.65	2.66%	-7.94%
Japanese yen	A$/yen	86.10	2.37%	-12.63%
Trade-weighted Index		60.30	0.67%	-13.11%

* 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

Following the August and September global equity market correction, a sharp recovery has been experienced in October.

A stabilisation of China economic data and further People's Bank of China (PBoC) interest rate cuts and reductions in bank reserve requirements contributed to an improved global outlook.

The US Federal Reserve also provided further clarity on the commencement of the normalisation of interest rates.

The Eurozone economic data has continued to recover and the European Central Bank (ECB) has indicated further extension of the quantitative easing program is being considered.

The Reserve Bank of Australia (RBA) maintained the cash rate at 2% at its November meeting and retains an accommodative policy.

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US

In the US, economic data remains resilient.

The October flash Markit US Manufacturing Purchasing Managers Index (PMI) came in at 54, up from 53.1 in September. New orders were boosted by domestic demand, while job creation was the strongest since July.

The US economy grew at a 1.5% seasonally adjusted annual rate in Q3, a marked deceleration from Q2 when GDP expanded at 3.9%.

The non-farm payrolls data continues to support a slow recovering economy. In 2015, job growth has averaged approximately 200,000 per month. The October job creation was 271,000 with the unemployment rate at 5.0% in October, although it doesn't capture those who've given up looking for work.

The University of Michigan's final reading on the overall index of consumer sentiment improved and came in at 90 in October. This follows the 87.2 recorded in September, 91.9 in August and 93.1 in July.

The US 2015 corporate earnings growth remains steady at 0.7% (revenues to -2.8%), while the 2016 estimated earnings growth remains steady at 8% (revenue growth at 4.7%).

The current 12 month forward Price Earnings (P/E) ratio is 16.5 times.

Europe

Over to the Eurozone, the October composite PMI came in at 53.6 in September, down from 54.3 in August. Although the rate of growth has eased to a four month low, the Eurozone continues to have solid gains in output and new orders and growth continues to support job creation.

The ECB has indicated a potential extension of the quantitative easing program. The €1.1 trillion bond buying program commenced in January 2015, and the €60 billion per month purchases may be extended past the original September 2016 timeline.

Inflation in the Eurozone was at zero in October from the -0.1% in September. The core inflation, stripping out volatile elements such as energy and food, rose to 1% - well below the ECBs 2% target.

Unemployment in the wider Eurozone was at a six year low of 9.3%.

China

In China, there has been a stabilisation of the economy over recent months. Manufacturing PMI remained at 49.8 in October, the same as September. The impact of infrastructure investment is expected to continue to be a stabiliser on the China economy over coming months.

The non-manufacturing PMI, measuring services and construction, fell to 53.1 from 53.4 in September.

In China, the key announcements were centred on a further reduction in interest rates and the removal of the one child policy that was established in 1980. The one child policy has left China with an ageing population and shrinking workforce.

China's GDP growth moderated slightly to 6.9% in Q3, following the 7% in Q2.

The 1.6% annual inflation rate in September was down from 2% in August and at the same level as July, but ahead of the June data of 1.4%. Inflation remains well below the PBoC 3% target.

The PBoC has cut interest rates again, the sixth cut in 12 months, with the 1 year lending rate being reduced 25bp to 4.35%. Also the bank's reserve requirement has been lowered by 50bp.

The benchmark interest rate has been cut six times since November 2014, but still remains at 4.35%. The PBoC retains considerable monetary policy flexibility in order to manage the economic slowdown and transition across the economy.

Asia region

Over to Japan, manufacturing activity in October expanded at the fastest pace in 12 months. The Markit /Nikkei Japan final Manufacturing PMI increased to 52.4, up from the 51 in September.

The Central Bank has indicated that further stimulus could take place. The Bank of Japan left its stimulus program unchanged despite downgrading growth. The Central Bank has lowered its growth forecast to 1.2% in the fiscal year to March 2016, down from 1.7%. It also forecast an inflation rate of 2% for the six months ending March 2017.

The unemployment rate in Japan was unchanged at 3.4% in September.

Given the low inflation data against a 2% target, it's expected that the Bank of Japan (BoJ) will commence further easing policies later this year.

The World Bank has forecast that India would be the world's fastest growing economy and is relatively well positioned to weather the global volatility.

The latest India Development Update expects economic growth at 7.5% in FY2016, followed by a further acceleration to 7.8% in FY2017 and 7.9% in FY2018.

India has been a major beneficiary of lower energy prices.

In India, the Manufacturing PMI fell to a twenty-two month low of 50.7 in October (51.20 in September). However, business conditions remained positive. Although the data highlighted weaker growth in output and new orders, companies added to their workforce.

Consumer prices in India increased 4.41% in September following an upwardly revised 3.74% year-on-year (yoy) rise in August but staying below the central bank's 6% target.

Australia

Back home, the RBA kept the cash rate at 2.0% at its early November meeting and retains an accommodative policy. The statement noted that with inflation anticipated to remain low for some period of time, and within the RBA target range over next one or two years, monetary policy needs to be accommodative. Also, it was noted that events were unfolding to contain risks that may have arisen from the housing market.

Improved business credit data was also an encouraging sign while residential investor credit growth fell to below the Australian Prudential Regulation Authority's (APRA) 10% target rate.

The four major banks have kicked off an out of cycle interest rate increase across both home and investor mortgages as they seek to maintain returns on equity (ROE) in the light of the increased capital ratio requirements under Basel 3.

Inflation data remains at the low end of the RBA targeted 2%-3% range. This low inflation data is providing some thought that the RBA has an ever increasing capacity to cut interest rates in 2016. This possibility has gained traction since banks raised their mortgage interest rates out of cycle with the RBA, and given the slowing investor credit growth below the 10% APRA target.

The headline CPI rose 0.5% in the September quarter 2015 and follows the rise of 0.7% in the June quarter. The most significant price rises were in international holiday travel and accommodation (+4.6%), fruit (+8.2%) and property rates and charges (+4.6%). These rises were partially offset by falls in vegetables (-5.9%), telecommunication equipment and services (-2.0%) and automotive fuel (-1.7%)

The CPI rose 1.5% through the year to the September quarter 2015, following a rise of 1.5% through the year to the June quarter 2015.

Underlying inflation as captured by the average of the trimmed mean (0.3% quarter-on-quarter (qoq) and 2.1% yoy) and weighted median (0.3% qoq and 2.2% yoy).

Manufacturing PMI in Australia declined to 50.2 in October, down from the 52.1 in September. A strong export performance in October helped manufacturing hold onto the gains made by the sector over the previous three months. However, there was some easing of momentum.

Business credit growth was up 1.2% in September, up from 0.5% in August, and is running at 6.3% yoy, up from 3.8% yoy in September 2014. Business credit growth continues to trend higher.

Total credit growth has increased to 6.7% yoy in September 2015 from 5.4% yoy in September 2014.

Housing credit growth is up to 7.5% yoy in September 2015 from 6.8% yoy in September 2014.

Growth in investor housing loans was 10.4% yoy to September, but the pace of growth slowed to 9.7% (annualised growth) between March and September, below the regulator's 10% maximum growth rate.

Home buyer lending rose only 5.8% yoy, with annual growth in total housing credit steady at 7.6%.

Online retail sales grew strongly in September with NAB's online retail sales index rising 1.1% in seasonally adjusted terms.

Australian house price growth was up 0.1% month-on-month (mom) in October (period ended 1 November 2015). The data continues to reflect a slowing residential housing market. Auction clearance rates had fallen to 63.3% in the last week in October from 68.1% a year ago - with auction numbers 20% higher compared to the same period last year. The CoreLogic RP October data saw stronger house price growth in Adelaide (up 1.5% mom) while Melbourne (up 0.5% mom) and Sydney (up 0.1% mom) were more subdued. On a yoy basis, Sydney was up 15.5%, Melbourne was up 12.8%, while Perth was down 3.4%. Combined, capital cities were up 10.3% yoy in October.

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EQUITY MARKETS

- The MSCI World ex Aus (Gross) (Hedged) Index was up 7.9% in October
- The China Shanghai Composite Index was up 10.8% in October
- The German DAX Index was up 12.3%
- The broader Euro 100 was up 10.0%
- The Japanese Nikkei Index was up 9.7%
- The US Dow Jones Equity Index was up 8.5% in October
- Australian S&P/ASX All Ordinaries Index ended the month up 4.5%

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	-0.52%	9.62%	6.82%	8.55%
	S&P/ASX 50 Acc.	-2.49%	9.82%	7.57%	8.81%
	S&P/ASX Small Ordinaries Acc.	2.43%	0.63%	-1.83%	5.13%

The extended correction in global equity markets through August and September, has been followed by a sharp recovery in October.

The broader S&P/ASX All Ordinaries Index was up 4.5% in October, and on a 12 month basis this index was down 3.9%.

The 12 month negative return on the S&P/ASX 300 Accumulation Index was -0.52%.

The ASX/S&P300 Industrials Index was up 4.21% in October and for the 12 months was up 4.55%.

Signs of stabilisation in the China economic data and the global oil market resulted in a sharp recovery in the Energy sector, up 8.0%. A strong recovery across the cyclical stocks, namely the Information Technology and Consumer Discretionary sectors, was reflected in the strong performances up 6.8% and 6.2% respectively. Healthcare was also another solid performer, up 6.2%. The only sector that was down in October was the Utilities sector (-2.8%).

Sector	1 Month	3 Months	1 Year
Energy	8.0%	-18.1%	-32.4%
Materials	4.6%	-5.5%	-10.2%
Industrial	5.1%	2.4%	21.0%
Consumer Discretionary	6.2%	1.0%	6.6%
Consumer Staples	0.5%	-5.1%	-12.9%
Health Care	6.2%	-3.6%	17.4%
Financials (ex Property)	5.0%	-9.2%	-1.2%
Info Tech	0.6%	-5.5%	0.8%
Telcos	-2.8%	-12.6%	3.7%
Utilities	6.9%	3.4%	21.7%
Property	4.9%	0.4%	18.2%

BIG MOVERS THIS MONTH

Going up

- ⇑ Energy +8.0%
- ⇑ Utilities +6.9%
- ⇑ Consumer Discretionary +6.2%
- ⇑ Healthcare +6.2%

Going down

- ⇓ Telcos -2.8%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	26.98%	27.72%	17.28%	10.37%
	MSCI World Ex Aus (Gross) in Local	6.67%	15.73%	11.84%	11.97%
	MSCI World Small Cap ($A)	26.38%	27.91%	17.61%	13.65%
Emerging	MSCI Emerging Mkts Free	-3.11%	4.36%	2.71%	10.94%
	MSCI AC Far East Free (ex Japan)	-2.41%	4.96%	3.17%	0.12%

The sharp recovery in the global equity markets has meant a considerable amount of the recent losses has been recovered. The continued stabilisation of China economic data and further interest rate cuts by the PBoC will continue to support growth rates. The US Federal Reserve has provided more clarity on the timing of the commencement of normalisation of interest rates and combined with improved expectations for corporate earnings in 2016, should provide a better outcome for investors.

The Shanghai Composite Index was up 10.8% in October and for the 12 months, was up 39.76%.

The Euro 100 was up 10.0% in October, while the German DAX market was up 12.3%.

The Japanese Nikkei was up 9.7% in October, and follows the 8% decline in September.

Over the 12 months ending 31 October 2015, the Nikkei Index and the German DAX were strong performers, each up 16.3%.

On the other hand, the underperformers over the 12 month period were the Hong Kong Hang Seng Index and the Australian All Ordinaries, down 5.7% and 3.9% respectively.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	18.21%	16.04%	14.82%	10.07%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	9.08%	14.83%	13.15%	15.64%

The S&P/ASX 300 A-REIT Index was up 14.3% over the 12 months to 31 October 2015. The S&P/ASX 300 A-REIT Index was up 4.9% in October and 12.5% over the 1 year ended 31 October 2015.

Over 12 months, the Australian listed property market, as measured by the S&P/ASX 300 A-REIT Accumulation Index, was up 18.21%.

Over 1 and 3 and 5 years, the A-REITs outperformed global REITs, while Global REITs outperformed A-REITs over the 7 year period. Global property, as represented by the FTSE EPRA/NAREIT Index, was up 9.08% over a 1 year period.

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Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	6.22%	4.99%	6.70%	6.54%
	Australian 90 Day Bank Bill	2.33%	2.62%	3.35%	3.54%
Global	BarCap Global Aggregate Index	19.42%	11.60%	7.20%	2.72%
	BarCap Global Agg. Index Hedged	5.23%	5.61%	6.98%	8.43%

US 10 year bonds were up 4.9% and closed the month at 2.14%. Australian 10 year bond yields were steady, and closed the month at 2.61%.

Over a 12 month period, the unhedged global bonds index returned 19.42%, outperforming Australian bonds which returned 6.22%.The hedged global bonds index posted a strong 1 year gain of 5.25%.

Australian dollar

In October, the Trade-weighted Index was up 0.67%, but also down 13.1% during the 12 month period ending 31 October 2015.

The AUD was up 1.57% against the USD in October, to finish the month at 71 US cents. On a 12 month basis, the AUD declined 18.83% against the USD.

The AUD rallied against the Euro, up 2.67% in October. On a 12 month basis, the AUD was down 7.94% against the Euro.

Against the Japanese Yen, the AUD was up 2.37% in October. On a 12 month basis, the AUD was down 12.63% against the Yen.

Against the British Pound, the AUD was down 0.36% in October. On a 12 month basis, the AUD was down 15.92% relative to the British Pound.