


**GODFREY PEMBROKE**  
**market**  
**update**

## SEPTEMBER 2016

- ▶ Equities traded in a relative tight range in August but finished modestly higher.
- ▶ Crude oil prices recovered 7.5% on talks of possible production freezes from OPEC and non-OPEC countries when they meet in late September.
- ▶ China economic data was a little softer with declines in industrial production and retail sales growth.
- ▶ US economic data was somewhat mixed. The July non-farm payrolls figure was better than expected which lead US Federal Reserve officials to begin talking about further interest rate rises.
- ▶ Economic data in Europe was a little softer with the core annual inflation rate slipping from 0.9% to 0.8% in August.
- ▶ Australia's economy grew at the strongest annual rate in four years with growth of 3.3% year-on-year in the June quarter. However, household consumption growth was weaker while government spending much stronger than in the prior quarter.

### August market performance

Equity Markets – Price Indices	Index	At Close 31/08/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5529.41	-2.0%	5.9%
Japan	Nikkei	16887.40	1.9%	-10.6%
Hong Kong	Hang Seng	22976.88	5.0%	6.0%
UK	FTSE 100	6781.51	0.8%	8.5%
Germany	DAX	10592.69	2.5%	3.2%
US	Dow Jones	18400.88	-0.2%	11.3%
EMU*	Euro 100	1030.87	1.3%	-5.2%
World**	MSCI – Ex Aus (Gross) (Hedged)	1320.12	0.3%	4.2%

Property – Price Index	Index	At Close 31/08/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1467.40	-3.4%	20.2%

Interest Rates	At Close 31/08/2016	At Close 31/07/2016	At Close 31/08/2015
Aust 90 day Bank Bills	1.73%	1.86%	2.14%
Australian 10 year Bonds	1.83%	1.87%	2.67%
US 90 day T Bill	0.33%	0.26%	-0.01%
US 10 year Bonds	1.58%	1.45%	2.22%

Currency***		At Close 31/08/2016	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	0.75	-1.12%	6.01%
British pound	A\$/STG	0.57	0.24%	24.49%
Euro	A\$/euro	0.67	-0.72%	6.65%
Japanese yen	A\$/yen	77.74	-0.20%	-9.52%
Trade-weighted Index		63.20	-0.16%	3.78%

\* 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

August was a relatively quiet month in terms of market moving economic data with most of the focus on Janet Yellen's speech at the Economic Symposium at Jackson Hole and other commentary from US Federal Reserve officials, as to whether they would vote to increase interest rates once more in 2016.

## US

In the United States, US Federal Reserve officials, discussed interest rate increases and this led the market to price in a 70% chance of a rate hike by December. More recently, the August non-farm payrolls report was a little weaker than expected, and the August ISM manufacturing and non-manufacturing indices contracted sharply. While some economists have dismissed these data points as one-offs, or the result of seasonal factors, it is likely that the US Federal Reserve will err on the side of caution and wait until December to raise interest rates.

## Europe

In Europe, despite the vote to leave the European Union, the UK economy has continued to perform better than expected. Employment and wages growth were robust in the June quarter and the August services and manufacturing PMI surveys were relatively strong, probably helped by the Bank of England rate cut and stimulus program, as well as the weaker Pound. That said, the PMIs and retail sales figures have been volatile over the last two months, so it's probably too early to gauge how the economy is travelling following the Brexit-vote.

## China

In China, the economy continues to be well supported by government stimulus measures although there was weaker growth in industrial production, fixed asset investment and retail sales in July. New house price growth, while still running at around 7.8% year-on-year, also appears to have peaked with only 51 cities recording price gains, compared with 65 cities in April.

The Japanese economy continues to lack momentum with a recent run of weak export, factory output and household spending data. The economy grew at a 0.7% annualised in the June quarter, which was higher than the initial calculation of 0.2%, however, the strong Yen continues to impact exports and capital spending.

## Australia

In Australia, the economy continues to perform relatively well with June quarter GDP growth of 3.3% year-on-year, the highest annual rate of growth in four years. The result was boosted by government spending – particularly state based infrastructure spending – and companies investing in inventories, while household consumption growth slowed.

Low interest rates and low unemployment are helping to drive up house prices in Sydney and Melbourne and this has helped building approvals climb back towards the peak levels reached in early 2015. Strong housing investment and construction activity, along with government infrastructure spending, is helping to offset the drag from the contraction in mining investment. Despite the lower interest rate environment, consumers are using the opportunity to save, or repay mortgages, rather than spend, as retail sales growth has dropped to its slowest annual growth rate in three years.

## Asia region

## EQUITY MARKETS

- ▶ The China Shanghai Composite Index rose 3.6% in August.
- ▶ Emerging market shares returned 2.8% in local currency terms.
- ▶ The German DAX Index was up 2.5%.
- ▶ The broader Euro 100 was 1.3% higher.
- ▶ The Japanese Nikkei Index rose 1.9%.
- ▶ The US S&P 500 Index returned just 0.1% in August after hitting a new record high mid-month.
- ▶ Australia's S&P/ASX All Ordinaries Index lost 2.0% for the month.

## Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	9.69%	6.61%	9.48%	7.31%
	S&P/ASX 50 Acc.	5.70%	5.14%	9.66%	7.38%
	S&P/ASX Small Ordinaries Acc.	26.55%	7.13%	2.62%	3.28%

The S&P/ASX 200 Accumulation Index returned -1.6% in August with the majority of sectors posting losses for the month. Information technology shares posted a strong return of 4.6% over the month followed by energy shares which returned 2.4% helped by a lift in oil prices. Small cap shares generated the same return as larger companies with a total return of -1.6%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	2.4%	1.8%	-7.0%
Materials	0.0%	8.4%	12.0%
Industrial	-4.3%	1.6%	20.1%
Consumer Discretionary	-0.5%	8.2%	27.0%
Consumer Staples	1.9%	6.1%	8.7%
Health Care	-3.2%	1.0%	21.8%
Financials (ex Property)	-1.4%	-1.7%	2.2%
Info Tech	4.6%	0.4%	21.3%
Telcos	-6.5%	-3.8%	0.1%
Utilities	-5.7%	6.6%	19.8%
Property	-2.7%	6.2%	26.0%

## BIG MOVERS THIS MONTH

### Going up

↑ Information Technology	4.6%
↑ Energy	2.4%
↑ Consumer Staples	1.9%

### Going down

↓ Industrials	-4.3%
↓ Utilities	-5.7%
↓ Telecommunications	-6.5%

## Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	1.08%	14.54%	18.52%	11.58%
	MSCI World Ex Aus (Gross) in Local Currency	6.98%	10.14%	12.67%	10.70%
	MSCI World Small Cap (\$A)	2.23%	14.83%	19.05%	13.76%
Emerging	MSCI Emerging Mkts Free	10.95%	6.01%	5.59%	6.39%
	MSCI AC Far East Free (ex Japan)	11.50%	5.29%	5.24%	0.06%

Developed share markets rose 0.3% in August in local currency terms and including dividends international share markets generated a return of 1.35% in Australian Dollar terms. Hong Kong was the strongest market with the Hang Seng Index 5.0% higher over the month.

Equity markets traded in a relatively narrow band in August – for example in the United States, the S&P 500 traded in a 1.5% band over the month, as there was relatively little market-moving news.

Emerging market shares rose 2.8% in local currency terms with Asia the strongest performing region. Price-to-earnings (PE) ratios in the US are at around 18 times next year's earnings. However, the median stock traded on the NYSE has a PE ratio of around 20 times, which is the highest multiple recorded over the past 60 years. Valuations in Europe are around the long-term average. Having benefited from liquidity flows, emerging market shares are trading at a relatively narrow discount to developed market shares.

## Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	25.97%	19.79%	19.51%	14.09%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	17.61%	14.66%	14.50%	15.06%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) lost 2.7% in August but remains 26.0% higher over the past 12 months. Excluding distributions the S&P/ASX 300 A-REIT Index lost 3.4% in August and is up 20.2% over the past 12 months.

Over one, three, five and seven years, the A-REITs outperformed Global REITs. Currency-hedged global property, as represented by the FTSE EPRA/NAREIT. Developed Market ex-Australia Australian Dollar Hedged Index, was up 17.6% over a one-year period including distributions.

## Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	6.19%	6.46%	6.21%	6.74%
	Australian 90 Day Bank Bill	2.15%	2.40%	2.88%	3.38%
Global	BarCap Global Aggregate Index	2.62%	8.62%	8.57%	4.60%
	BarCap Global Agg. Index Hedged	8.95%	7.66%	7.23%	7.85%

Australian bonds gained 0.42% in August after yields on shorter maturity government bonds fell, following the RBA's August rate cut. In August, the two-year Australian Commonwealth Government bond yield fell from 1.54% to 1.45% per annum and the ten-year bond yield fell from 1.90% to 1.89%.

Internationally, the Barclays Global Aggregate Bond Index (A\$ hedged) returned just 0.05% as bond yields rose in the major economies. In the US 10-year treasury bond yields rose by 11 basis points as Fed officials increased talk about near term interest rate rises. The higher yields in the US pulled up yields in Germany and Japan, where long term bond yields are still negative. In credit markets, the hunt for yield, low level of new issuance and the positive equity market environment, meant there was higher demand for high yield and investment-grade corporate bonds leading to a further decline in credit margins.

## Australian dollar

The Australian Dollar lost 0.85 US cents to US\$0.7516 in August as the US Dollar strengthened against most currencies during the month. The Euro was largely unchanged against the US Dollar, while the Yen and Pound were weaker.

Against the US Dollar, the Australian Dollar fell 1.1% for the month, and on a Trade-Weighted Index basis, the Australian Dollar was only 0.16% weaker.

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