



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

## DECEMBER 2015

- ▶ Global equity markets performances diverge significantly in November – Europe and Japan strong performers
- ▶ China economic data shows further signs of stabilisation
- ▶ US economic data continues to provide clear signs of an improving economy.
- ▶ US Federal Reserve expected to commence interest rate increases in December.
- ▶ Eurozone economic activity continues to improve
- ▶ Australian business credit growth has further positive uplift
- ▶ RBA maintains the cash rate at 2.0% at its December meeting and remains on an accommodative policy

### November market performance

Equity Markets – Price Indices	Index	At Close 30/11/2015	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5218.19	-1.3%	-1.5%
Japan	Nikkei	19747.47	3.5%	13.1%
Hong Kong	Hang Seng	21996.42	-2.8%	-8.3%
UK	FTSE 100	6356.09	-0.1%	-5.5%
Germany	DAX	11382.23	4.9%	14.0%
US	Dow Jones	17719.92	0.3%	-0.6%
EMU*	Euro 100	1168.21	2.6%	9.5%
World**	MSCI – Ex Aus (Gross) (Hedged)	1322.34	0.5%	1.7%

Property – Price Index	Index	At Close 30/11/2015	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1239.76	-2.8%	9.3%

Interest Rates	At Close 30/11/2015	At Close 31/10/2015	At Close 30/11/2014
Aust 90 day Bank Bills	2.26%	2.10%	2.74%
Australian 10 year Bonds	2.86%	2.61%	3.03%
US 90 day T Bill	0.18%	0.08%	0.01%
US 10 year Bonds	2.21%	2.14%	2.17%

Currency***	At Close 30/11/2015	% Change 1 Month	% Change 12 Months	
US dollar	A\$/US\$	0.72	1.56%	-15.10%
British pound	A\$/STG	0.48	4.20%	-11.68%
Euro	A\$/euro	0.69	6.23%	0.21%
Japanese yen	A\$/yen	89.33	3.76%	-11.82%
Trade-weighted Index		61.80	2.49%	-9.38%

\* 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

Global equity markets continued the October rally – Europe and Japan had solid returns in November.

Global growth expectations remain in the 3%–3.5% range in 2016 (NAB Economics).

Business conditions in the UK and US continue to improve while the Eurozone is showing steady improvement.

Further stabilisation of China economic data and further quasi-easing policy from the People's Bank of China (PBoC)

indicates that the combination of various stimulus policies over the past 12 months is positively impacting the economy.

The US Federal Reserve is expected to commence the policy of 'interest rate normalisation' with an initial interest rate increase in December.

The Eurozone economic data has continued to improve with a broad based improvement in economic activity.

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

## US

In the US, economic data continues to support a gradual and prolonged recovery.

The November non-farm payrolls data came in at 211,000 and continues to support a slow recovering economy. The October nonfarm payroll data was revised upwards by 27,000 to 298,000. The unemployment rate is at 5.0% although it doesn't capture those who've given up looking for work.

The Federal Reserve (The Fed) appears intent on commencing the normalization of interest rates in December with sufficient indications that the pathway for higher interest rates will be very gradual. The Fed is signaling a cautious approach.

US consumer sentiment edged up in December with the Thomsen Reuters/University of Michigan preliminary December data at 91.8, up from the November 91.3.

The November Purchasing Managers Index (PMI) came in at 48.6%, a decrease of 1.5% from its October reading of 50.1%. The New Orders Index registered 48.9%, a decrease of 4% from the reading of 52.9% in October. New Export Orders were unchanged at 47.5%.

The November services Index was 55.9%, 3.2% lower than the October 59.1% data.

The US 2015 corporate earnings growth remains steady at -0.5% (revenues to -3.3%), while the 2016 estimated earnings growth remains steady at 7.9% (revenue growth at 4.4%).

The current 12 month forward Price Earnings (P/E) ratio is 16.1 times.

## Europe

Over to the Eurozone, the November Markit Composite PMI index came in at 54.2, up from the 53.9 in October. The Eurozone continues to have solid gains in output and new orders and growth continues to support job creation. The pace of expansion across output, new orders and employment is close to 4.5 year highs.

Importantly, all of the Eurozone countries included in the composite PMI data had economic expansion in November.

Germany continued a solid recovery while Ireland and Spain had further solid improvements.

The further recovery in the Eurozone economy has stimulated job creation. Employment rose in Germany, Italy, Spain and Ireland while France had modest cuts.

## China

In China, further stabilisation of the economy was witnessed in November. Economic data continues to suggest that the combination of monetary easing, including six interest rate cuts over the past 12 months, is having a positive impact.

November industrial production, retail sales and fixed asset investment were in excess of expectations.

Industrial output increased by 6.2% year-on-year (yoy) in November, while Retail sales increased by 11.2%. Fixed asset investment increased 10.2%.

Further, the PBoC's Foreign Exchange Trade System introduced a new Yuan index based on 13 currencies. This will have the effect of reducing the currency's link to the USD and allow the Yuan to weaken further against the USD.

The PBoC also lowered short-term borrowing costs for the banks. The PBoC reduced its Standing Lending (SLF) interest rates with the aim of injecting cash into the banks. The seven day rate cut to 3.25% and the overnight rate to 2.75% from 5.5% and 4.5% respectively, will also improve liquidity.

## Asia region

Over to Japan, manufacturing activity in November continued the positive data witnessed in October. Both production and new orders increased while employment and buying activity expanded in November.

The Manufacturing PMI at 52.6% was up from 52.4% in October. The index was at a 20 month high.

The growth in new orders was supported by strong international demand from Asian customers.

In India, the Manufacturing PMI came in at 50.2%, down from the 52.6% in October. Growth in manufacturing production softened to the slowest in the current 25 month sequence of expansion, while service activity stagnated.

Indian service companies saw demand growth lose momentum through November.

## Australia

Back home, the Reserve Bank of Australia (RBA) kept the cash rate at 2.0% at its early December meeting and continues to retain an accommodative policy.

Rates are expected to remain on hold for an extended period with no increase until mid-2017.

Business credit growth has continued to improve. In October, business credit growth increased 1% month-on-month (mom) and was up 6.6% yoy. Housing credit growth was up 0.6% mom while the annual rate was 7.6% yoy.

Retail sales growth in October continued to improve, up 0.5% mom. The outlook for retail sales is positive. Retailers are continuing to report improved business conditions.

Employment growth has continued to improve, while wages growth has remained subdued.

Consumer confidence has been variable but improving.

Retail sales across the non-mining states has grown at 4.8% yoy for the period ended 31 October.

The November monthly business survey suggests the apparent recovery in the non-mining segment has remained on track with business conditions holding up at above average levels for the past nine months.

Interest rate and Australian Dollar (AUD) sensitive industries have generally outperformed while improvements in areas such as retail in November are an encouraging sign that the recovery in the non-mining sector is becoming more entrenched. In contrast, mining continues to weaken.

Housing finance data trended lower in October, down 2% mom. Investor finance declined for the sixth consecutive month, -6.1% mom and -9.2% yoy.

The NAB updated economic forecasts continue to indicate that global growth will remain in the 3%-3.5% in 2016, while the Australian GDP forecasts have been revised to 2.7% in 2016 and 3% in 2017.

Australian house price growth was up 0.1% mom in November (period ended 6 December 2015). The data continues to reflect a slowing residential housing market. Auction clearance rates had fallen to 59.2% in the week ended 6 December from 63.7% a year ago - with auction numbers down 8.5% compared to the same period last year.

The CoreLogic RP data was weaker, down 1.4% mom, with Melbourne down 2.7%, and Sydney down 1.2%. On a yoy basis, Sydney was up 13.0% and Melbourne up 11.8%, while Perth was down 4.5%. Combined, capital cities were flat yoy.

## EQUITY MARKETS

- ▶ The China Shanghai Composite Index was up 1.9% in November
- ▶ The German DAX Index was up 4.9%
- ▶ The broader Euro 100 was up 2.6%
- ▶ The Japanese Nikkei Index was up 3.5%
- ▶ The US Dow Jones Equity Index was up 0.3% in November
- ▶ Australian S&P/ASX All Ordinaries Index ended the month down 1.3%

## Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	2.12%	9.23%	6.89%	9.46%
	S&P/ASX 50 Acc.	0.26%	9.33%	7.69%	9.62%
	S&P/ASX Small Ordinaries Acc.	6.50%	1.47%	-1.93%	6.66%

The rally in global markets that commenced in October, continued in November through most regions. Unfortunately, Australia did not participate in the November rally, with the Australian All Ordinaries Index down 1.3%.

The S&P/ASX All Ordinaries Index on a 12 month basis was down 1.5%.

The 12 month return on the S&P/ASX 300 Accumulation Index was 2.12%.

The ASX/S&P300 Industrials Index was up 0.38% in November and for the 12 months was up 3.05%.

A strong recovery in the Healthcare, Information Technology and Financial sectors was a feature of the November sector performance, up 5.2%, 4.5% and 2.5% respectively.

The continued weakness in commodities impacted the Materials sector, down 12.2%, while the Property and Utilities Sectors also had a negative performance month, down 2.8% and 1.4% respectively.

Sector	1 Month	3 Months	1 Year
Energy	-1.3%	-6.2%	-23.2%
Materials	-12.2%	-12.6%	-16.5%
Industrial	1.0%	8.4%	24.1%
Consumer Discretionary	0.5%	5.6%	9.3%
Consumer Staples	-1.3%	-2.4%	-6.5%
Health Care	5.2%	7.8%	22.0%
Financials (ex Property)	2.5%	4.1%	3.5%
Info Tech	4.5%	11.6%	9.8%
Telcos	-0.5%	-5.2%	1.9%
Utilities	-1.4%	2.3%	21.1%
Property	-2.8%	1.6%	14.9%

## BIG MOVERS THIS MONTH

### Going up

↑	Healthcare	+5.2%
↑	Info Tech	+4.5%
↑	Financials (ex. Property)	+2.5%

### Going down

↓	Materials	-12.2%
↓	Property	-2.8%
↓	Utilities	-1.4%

## Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) (Hedged)	18.08%	26.55%	16.78%	10.89%
	MSCI World \$A Hedged (Gross)	4.18%	15.41%	12.06%	13.08%
	MSCI World Small Cap (\$A)	21.65%	27.56%	16.88%	14.82%
Emerging	MSCI Emerging Mkts Free	-6.77%	2.87%	2.37%	11.15%
	MSCI AC Far East Free (ex Japan)	-6.49%	3.20%	2.57%	0.12%

The sharp recovery in the global equity markets through October and November has meant a considerable amount of the losses through August and September have been recovered. The stabilisation of the China economic data is a continuing feature.

The US Federal Reserve has provided further 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 1.86% in November and for the 12 months, was up 28.42%.

The Euro 100 was up 2.6% in November and followed the 10.0% increase in October. The German DAX Index was up 4.9% in November.

The Japanese Nikkei was up 3.5% in November and followed the 9.7% increase in October.

Over the 12 months ended 30 November 2015, the Nikkei Index and the German DAX were strong performers, up 18.1% and 14% respectively.

On the other hand, the underperformers over the 12 month period ended 30 November 2015, were the Hong Kong Hang Seng Index and the FTSE Index, down 8.3% and 5.5% respectively.

## Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	14.87	15.43%	14.61%	9.65%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	5.37%	13.78%	13.46%	18.25

The S&P/ASX 300 A-REIT Accumulation Index was up 14.87% over the 12 months to 30 November 2015. The S&P/ASX 300 A-REIT Index was down 2.8% in November and up 9.3% over the 1 year period ended 30 November 2015.

Over 1, 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 5.37% over a 1 year period.

## Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	3.97%	4.68%	6.56%	5.97%
	Australian 90 Day Bank Bill	2.29%	2.59%	3.30%	3.51%
Global	BarCap Global Aggregate Index	12.69%	10.64%	6.88%	1.64%
	BarCap Global Agg. Index Hedged	4.22%	5.42%	7.19%	7.99%

In November, the US 10 year bond yields were up 2.9%, and closed the month at 2.21%.

US 10 year bonds were up 2.9% and closed the month at 2.21%.

Australian 10 year bond yields were up 9.6%, and closed the month at 2.86%.

Over a 12 month period, the unhedged global bonds index returned 12.69%, outperforming Australian bonds which returned 3.97%. The hedged global bonds index posted a strong 1 year gain of 4.22%.

## Australian dollar

In November, the Trade-weighted Index was up 2.49%, but also down 9.38% during the 12 month period ending 30 November 2015.

The AUD was up 1.56% against the USD in November, to finish the month at 72 US cents. On a 12 month basis, the AUD declined 15.1% against the USD.

The AUD rallied against the Euro, up 6.23% in November. On a 12 month basis, the AUD was up 0.21% against the Euro.

Against the Japanese Yen, the AUD was up 3.76% in November. On a 12 month basis, the AUD was down 11.82% against the Yen.

Against the British Pound, the AUD was up 4.20% in November. On a 12 month basis, the AUD was down 11.68% relative to the British Pound.

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