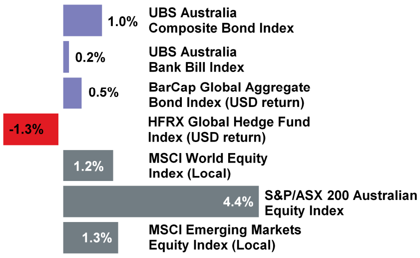
nabprivatewealth

# Private Wealth View

# November 2014

## October 2014




## What's changed in October?

After a weak September, global equities dropped a further 6% until mid October when they staged a dramatic recovery to finish the month 1.2% higher:

- Developed market shares rose 1.2%, with the US market 2.4% higher and Europe down 1.4%. Australian shares bounced 4.4% after their 5.4% fall in September
- Emerging market equities rose 1.3% with most markets flat to slightly higher
- 10-year government bond yields fell 10-20 basis points in the UK, Germany, Australia and the US
- Investment grade credit spreads rose in September, by seven basis points to a spread of 127 basis points above US Treasury yields
- The US Dollar was slightly stronger against the British Pound, Yen and Euro, while the Australian Dollar was marginally stronger
- Gold prices fell by US$57 an ounce to US$1,174 and WTI crude oil fell by US$11 a barrel in October, to US$80.53 a barrel

## Macro monitor

Following the sharp decline in September / early October, global equity markets staged a sharp turnaround in the second half of October. The strong upward move was a result of a combination of the US Fed providing a more hawkish tone to US economic growth, reassuring markets that interest rate rises remain data dependent, the positive consumer impact from lower oil prices, and the flow-through impact to global economies, and the stabilisation in Chinese economic data. Also behind the positive tone was the belated, but more aggressive, response to the Ebola crisis providing greater confidence that the West African virus will be contained and not lead to a global pandemic.

The United States S&P 500 index rose 2.4%. US GDP came in at a strong 3.5% annualised in the third quarter and manufacturing data has continued to improve in October. The Fed completed the dial-down of the QE3 asset purchase program in October and was more hawkish on US growth. However, it reiterated that an interest rate rise remained data dependent. It's unlikely that interest rates will rise until mid-2015.

Disappointing results were recorded in the Eurozone where the Euro 100 Index was down 2.8% in October, largely as a result of further weak economic manufacturing and inflation data. The European Central Bank (ECB) has provided further stimulus to the lagging Eurozone economies, with further measures expected.

Chinese growth remained sluggish in October but is showing signs of stabilisation. The People's Bank of China (PBOC) has initiated further targeted monetary stimulus. A weak property market continues to be challenging.

In Australia, there has been additional modest improvement in Australian business and consumer confidence through October, albeit from low levels, with further momentum across the residential construction sector. It is anticipated that interest rates will remain at this level well into 2015. However, a weaker currency through 2015 will start to provide a tailwind for certain sectors.

*By James Wright, CIO JBWere*

## Positioning

The US continues to be the key component of the global recovery and the US FOMC provided considerable impetus to global equities moving higher. The US third quarter 2014 corporate earnings reporting season is well under way, with 70% of the S&P 500 index companies having reported. Of this number, 78% have reported earnings above their mean estimate and the earnings growth in the third quarter is currently 7.3% year-on-year.

Given the prospect of continued earnings momentum, favourable impacts on consumer spending from weaker energy prices and a modest rise in US interest rates late in 2015 - any correction across global equity markets is seen as buying opportunity. Corporate earnings remain resilient, capital expenditure is improving and consumer confidence has remained at impressive levels. The emphasis is on having continued strong exposure to US equities, then Japan while. Europe remains at a neutral weighting.

In Australia a weaker Australian Dollar will also provide improved competiveness for ASX sectors such as energy and certain healthcare stocks, particularly those that have a global revenue base, as well as those consumer discretionary areas that benefit from increased international inflows such as tourism and gaming.

*By James Wright*

## Summary of policy developments

**More Japanese stimulus** – The Bank of Japan increased its buying of bonds and exchange-traded funds from ¥60-70 trillion per month to ¥80 trillion to raise inflation to 2% per annum. The Japanese government pension fund also announced an increase in weighting to international and domestic shares

## Currency corner

After falling 6.3% in September, the Australian Dollar traded in a relatively tight range in October (US$0.8641 to US0.8911) to finish the month about 0.5 US cents higher at US$0.8794. There was little in the way of currency moving news with third quarter CPI figures in line with market forecasts – and in the middle of the RBA's target range. The upward trend in unemployment figures continued, which was also as expected.

During the month, the spike in equity and currency volatility mid-month, saw little impact on the currency as the US Dollar was also relatively weak over the same period. However, over the full month, the US Dollar strengthened against the Euro, Pound, Swiss Franc and hit a seven-year high against the Yen as the Bank of Japan announced another round of measures to expand the money supply. The fall in market volatility in the second half of the month saw the Australian Dollar marginally higher into month end.

Based on median forecasts surveyed by Thomson Reuters, market expectations are for the Australian Dollar to trade at 86 US cents by end January 2015, 85 US cents in April 2015 and 83 US cents at the end of October 2015.

*By Nick Ryder, Investment Strategist, NAB Private Wealth*

## Housing update

According to the RP Data-Rismark Hedonic Home Value Indices, Australian capital city dwelling prices rose 1% in October, led by Sydney at 1.3% and Melbourne at 1.9%. Brisbane prices rose 0.6% but all other capital cities showed declines over the month which highlights the weaker conditions outside the two largest cities. Over the past year, capital city prices rose 8.9%, with the highest gains in Sydney (13.1%) followed by Melbourne (8.9%) while price rises in other capitals was more subdued (0.9 – 5.6%).

Auction clearance rates continue to hover at around 70% and, although the number of new listings is higher, properties are selling relatively quickly.  Annual price increases have been trending lower since April (when they were running at 11.5%) which may provide some relief for the RBA which remains concerned about strong price rises and levels of investor-driven demand in Sydney and Melbourne. Over the past year, weekly rents have only risen 1.8% which has pushed down gross rental yields to 3.3% in Melbourne and 3.7% in Sydney. After taking into account property ownership costs, net rental yields are well below term deposit rates.

With the rate of annual property price growth easing in recent months, it's interesting to note that building approvals, which had been running at close to record levels for much of this year, fell 11% in September with the decline split between apartments (down 22%) and detached houses (down 2.3%). While month-to-month data can be volatile, especially in the apartment category, it may indicate that the market is stabilising, leading to a more balanced supply of new homes and apartments in the months ahead.

*By Nick Ryder*

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# Global performance markets monitor – 31 October 2014

| | Last Price / Level | 1 Month | 3 Month | Year to date | 1 Year | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| **Global Equity Markets Performance** | | | | | | | |
| Australia - ASX200 | 5526.6 | 4.4 | -0.6 | 7.0 | 6.4 | 20.2 | 20.3 |
| Japan - Nikkei 225* | 16413.8 | 1.5 | 5.1 | 0.8 | 14.6 | 56.7 | 22.9 |
| Japan - TOPIX | 1333.6 | 0.6 | 4.2 | 4.3 | 13.9 | 54.4 | 20.9 |
| Hong Kong - Hang Seng | 23998.1 | 4.8 | -2.3 | 7.1 | 7.7 | 6.6 | 27.5 |
| Shanghai Composite (A&B)* | 2420.2 | 2.4 | 9.9 | 14.4 | 13.0 | -6.7 | 3.2 |
| Singapore - STI* | 3274.3 | -0.1 | -3.0 | 3.4 | 2.0 | 0.0 | 19.7 |
| New Zealand - NZX50** | 5387.8 | 2.5 | 4.3 | 13.7 | 9.7 | 16.5 | 24.2 |
| US Dow Jones | 17390.5 | 2.2 | 5.6 | 6.9 | 14.5 | 29.7 | 10.2 |
| US S&P 500 | 2018.1 | 2.4 | 5.0 | 11.0 | 17.3 | 32.4 | 16.0 |
| NASDAQ* | 4630.7 | 3.1 | 6.0 | 10.9 | 18.1 | 38.3 | 15.9 |
| Canada - TSX | 14613.3 | -2.1 | -4.0 | 9.9 | 12.6 | 13.0 | 7.2 |
| Mexico - MSCI* | 42898.4 | -0.1 | 2.0 | 5.2 | 9.0 | -1.2 | 18.2 |
| India - Sensex* | 8256.9 | 4.4 | 7.9 | 32.6 | 33.9 | 6.5 | 30.6 |
| Brazil - Bovespa** | 54628.6 | 0.9 | -2.2 | 6.1 | 0.7 | -15.5 | 7.4 |
| UK - FTSE100 | 6546.5 | -1.0 | -1.8 | 0.0 | 0.7 | 18.7 | 10.0 |
| France - CAC40 | 4233.1 | -4.1 | -0.1 | 1.4 | 1.8 | 22.2 | 20.4 |
| Germany - DAX** | 9326.9 | -1.6 | -0.9 | -2.4 | 3.2 | 25.5 | 29.1 |
| Spain - IBEX | 10477.8 | -2.8 | -1.6 | 9.6 | 10.6 | 27.8 | 2.8 |
| Italy - MIB | 19784.0 | -5.3 | -3.4 | 7.0 | 5.0 | 20.5 | 12.2 |
| **World/Regional Indices Performance** | | | | | | | |
| MSCI World (Loc)* | 4661.5 | 1.2 | 2.9 | 8.0 | 12.8 | 29.6 | 16.4 |
| MSCI World Value | 2502.3 | 0.0 | -1.7 | 1.9 | 5.1 | 23.3 | 12.1 |
| MSCI World Growth | 1882.1 | 1.1 | 1.0 | 3.7 | 8.1 | 24.9 | 14.2 |
| MSCI AC Europe* | 1059.2 | -1.4 | 0.1 | 3.5 | 4.8 | 21.2 | 16.5 |
| MSCI Asia ex Japan USD* | 575.5 | 1.9 | -3.9 | 4.4 | 3.3 | 0.7 | 19.4 |
| MSCI Emerging Markets Local | 49179.3 | 1.3 | -1.4 | 4.3 | 3.0 | 0.9 | 13.9 |
| World EPRA/NAREIT Property USD* | 4203.2 | 6.7 | 1.6 | 14.4 | 10.7 | 4.4 | 28.7 |
| **World/Regional Indices Performance** | | | | | | | |
| MSCI World Cons Discretionary | 175.6 | -0.4 | -2.9 | -3.1 | 0.8 | 38.3 | 21.4 |
| MSCI World Cons Staples | 195.1 | 1.0 | -0.1 | 2.5 | 3.1 | 19.2 | 10.2 |
| MSCI World Energy | 260.8 | -7.2 | -13.8 | -4.7 | -3.7 | 16.0 | -1.5 |
| MSCI World Financials | 101.7 | -0.1 | -2.9 | 0.1 | 2.2 | 24.5 | 25.6 |
| MSCI World Health Care | 198.1 | 1.5 | 4.3 | 15.3 | 19.9 | 34.8 | 14.6 |
| MSCI World Industrials | 196.2 | -0.7 | -2.9 | -2.5 | 2.0 | 30.2 | 13.3 |
| MSCI World Materials | 223.8 | -4.9 | -12.2 | -6.4 | -5.7 | 1.6 | 9.1 |
| MSCI World Telecommunications Serv | 69.8 | -0.7 | -5.1 | -2.8 | -1.2 | 26.8 | 2.0 |
| MSCI World Utilities | 122.2 | 3.4 | 1.1 | 11.4 | 8.7 | 9.3 | -2.2 |
| MSCI World Information Technology | 134.6 | -0.8 | -0.5 | 10.0 | 17.5 | 28.5 | 10.0 |
| **Global Rates Levels Change** | | | | | | | |
| AUS - 10Y Govt | 3.29 | -0.19 | -0.24 | -0.95 | -0.75 | 0.96 | -0.51 |
| AUS - 3Y Govt | 2.63 | -0.15 | -0.10 | -0.34 | -0.39 | 0.29 | -0.46 |
| AUS - 5Y Swap Rate | 3.18 | -0.15 | -0.13 | -0.62 | -0.53 | 0.43 | -0.95 |
| AUS - 3Y Swap Rate | 2.86 | -0.08 | -0.08 | -0.40 | -0.33 | 0.27 | -0.95 |
| AUS – 1Y Swap Rate | 2.72 | -0.02 | 0.09 | 0.09 | 0.09 | -0.17 | -1.07 |
| AUS - 3 Month Bill Rate | 2.92 | -0.03 | 0.05 | 0.12 | 0.12 | -0.33 | -1.77 |
| US - 30Y Govt | 3.07 | -0.14 | -0.25 | -0.90 | -0.57 | 1.01 | 0.06 |
| US - 10Y Govt | 2.34 | -0.16 | -0.23 | -0.69 | -0.22 | 1.27 | -0.12 |
| US - 5Y Govt | 1.61 | -0.15 | -0.15 | -0.14 | 0.28 | 1.02 | -0.11 |
| US - 2Y Govt | 0.50 | -0.08 | -0.03 | 0.11 | 0.19 | 0.13 | 0.00 |
| US - TIPS 10Y | 0.41 | -0.12 | 0.12 | -0.36 | 0.02 | 1.51 | -0.63 |
| US - 10Y Breakeven | 1.92 | 1.97 | 2.27 | 2.25 | 2.16 | 2.49 | 1.98 |
| Bund - 30Y Govt | 1.74 | -0.11 | -0.32 | -1.01 | -0.87 | 0.59 | -0.20 |
| Bund - 10Y Govt | 0.85 | -0.10 | -0.32 | -1.09 | -0.83 | 0.64 | -0.52 |
| Bund - 5Y Govt | 0.14 | -0.02 | -0.17 | -0.79 | -0.54 | 0.63 | -0.45 |
| Bund - 2Y Govt | -0.05 | 0.02 | -0.09 | -0.26 | -0.18 | 0.24 | -0.17 |
| Gilt - 30Y Govt | 2.98 | -0.08 | -0.30 | -0.69 | -0.51 | 0.58 | 0.04 |
| Gilt - 10Y Govt | 2.25 | -0.18 | -0.35 | -0.78 | -0.37 | 1.20 | -0.14 |
| Gilt - 5Y Govt | 1.54 | -0.24 | -0.45 | -0.33 | 0.08 | 1.00 | -0.20 |
| Gilt - 2Y Govt | 0.67 | -0.18 | -0.17 | 0.10 | 0.24 | 0.24 | 0.00 |
| JGB - 30Y Govt | 1.58 | -0.03 | -0.10 | -0.16 | -0.05 | -0.25 | 0.07 |
| JGB - 10Y Govt | 0.46 | -0.06 | -0.07 | -0.27 | -0.13 | -0.07 | -0.19 |
| JGB - 2Y Govt | 0.13 | -0.04 | -0.02 | -0.11 | -0.07 | 0.06 | -0.16 |
| **Global Currency & Commodity Levels Change** | | | | | | | |
| AUD/USD | 0.8794 | 0.00 | -0.05 | -0.01 | -0.07 | -0.15 | 0.02 |
| EUR/USD | 1.2524 | -0.01 | -0.09 | -0.12 | -0.11 | 0.06 | 0.02 |
| GBP/USD | 1.5995 | -0.02 | -0.09 | -0.06 | 0.00 | 0.03 | 0.07 |
| JPY/USD | 112.30 | 2.66 | 9.51 | 7.00 | 13.95 | 18.56 | 9.80 |
| NZD/AUD | 1.1303 | 0.01 | 0.04 | 0.04 | -0.01 | -0.17 | -0.06 |
| Gold (USD Spot) | 1173.92 | -34.82 | -108.17 | -31.02 | -149.27 | -469.40 | 110.54 |
| WTI Crude (USD Spot) | 80.53 | -10.64 | -17.70 | -17.64 | -15.76 | 6.34 | -7.00 |
| GSI Commodity Index | 4201.84 | -5.98 | -13.10 | -13.00 | -12.01 | -1.22 | 0.08 |
| Volatility Index (VIX) USD | 14.03 | -2.28 | -2.92 | 0.31 | 0.28 | -4.30 | -5.38 |