

View from the hill

DECEMBER 2015

HILLROSS

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 November 2015**.

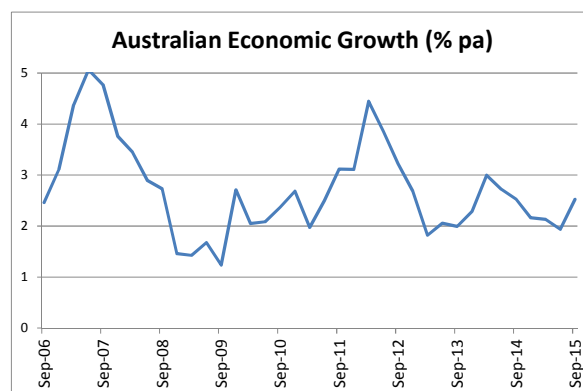
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-0.7	0.6	1.9	9.4
Smaller companies	0.0	6.6	6.5	1.5
International shares (unhedged)	-2.1	1.2	17.4	25.9
International shares (hedged)	0.8	5.1	5.3	17.2
Emerging markets (unhedged)	-5.1	-1.7	-2.0	8.2
Property - Australian listed	-2.9	1.6	14.9	15.5
Property - global listed	-0.5	7.6	6.4	13.7
Australian fixed interest	-0.9	-0.3	4.0	4.7
International fixed interest	0.2	1.5	4.2	5.4
Australian cash	0.2	0.5	2.4	2.7

Overview & Outlook

Despite an increasingly stable economic backdrop, commodity prices continued to tumble over November. The Reserve Bank Commodity Price Index showed a 2.9% fall last month, to bring the annual decline to 22%. As a result, prices of resource stocks plummeted further last month, with Australia's export income now in decline despite higher volumes.

Often the impact of lower commodity prices is neutralised to some extent by a falling \$A, which tends to be sensitive to commodity price movements. In recent months, however, the \$A has held firm. Against the \$US, the \$A increased from U.S. 71.0 cents to U.S. 71.9 cents last month. For Australian resource exporters, the combination of declining commodity prices and a firm currency has created a particularly challenging environment.

Outside of the resource sector, there have been signs of improvement in the Australian economy. Employment data for the month of October was surprisingly positive, with the number of workers employed growing by 58,600 over the month. Employment has increased 2.7% over the past year, allowing the unemployment rate to fall from 6.3% to 5.9%. Record high levels of residential housing construction have contributed to the stronger employment growth; as has burgeoning in-bound tourism with short-term overseas arrivals in September some 11% higher than one year earlier.



Source: Australian Bureau of Statistics 5206.

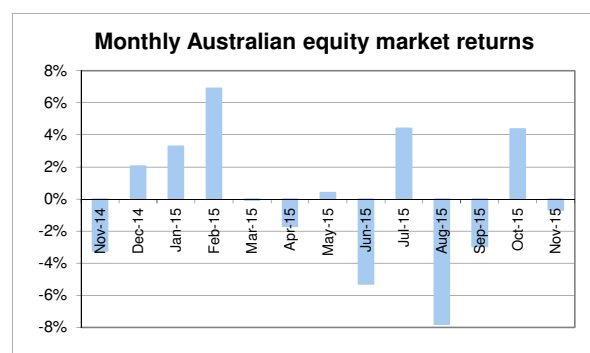
National Accounts data for the September quarter also indicated some strengthening in the local economy. Gross Domestic Product expanded by 0.9% over the 3 months to bring the annual rate of economic growth to 2.5%. Although still below the longer term average of 3%, the result is an improvement on the 1.9% recorded in the year to June. Much of the lift in activity over the quarter was related to higher export volumes, which have risen in quantity despite the lower prices on offer.

Globally, financial markets continue to be focused on the position of monetary policy in the U.S. With the outlook for the U.S. economy remaining upbeat, market expectations of a lift in U.S. interest rates in December continue to firm. The realisation of higher U.S. cash rates has the potential to cause further increases in bond yields and additional volatility on share markets.

Share markets

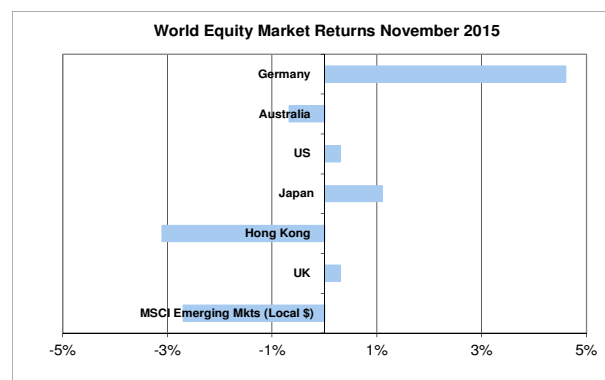
There were mixed results on share markets over November, following the previous month's bounce back. Locally, the market was held back by the resource sector, which finished the month some 11.9% lower. Falling commodity prices continued to drag down the sector. A 21.4% decline in the price of BHP Billiton was also a significant factor. BHP shares were sold down heavily following the tragic bursting of a dam at a mine in Brazil co-owned by the company.

Outside of the resource sector, results on the Australian share market were more positive, with the decline in the S&P ASX 200 Index restricted to 0.7%. Banking stocks continued to recover, with the finance sector moving 2.5% higher. More positive economic data may have also contributed to improvements in other sectors as well, with healthcare (up 5.3%) and Information Technology (up 7.0%) the leading sectors last month.



Source: S&P ASX 200 Index

Overseas markets performed slightly better than the local market over November. The average return from developed markets for Australian investors with hedged currency positions was positive 0.8%. A slightly stronger \$A meant that returns for unhedged investors were negative 2.1%. European markets were amongst the strongest performers, with anticipation of further monetary stimulus buoying confidence. Germany led the region higher, with an increase of 4.6% last month. The tragic terrorist attacks in Paris did not appear to have a material financial market impact, with French equities moving 1.5% higher.

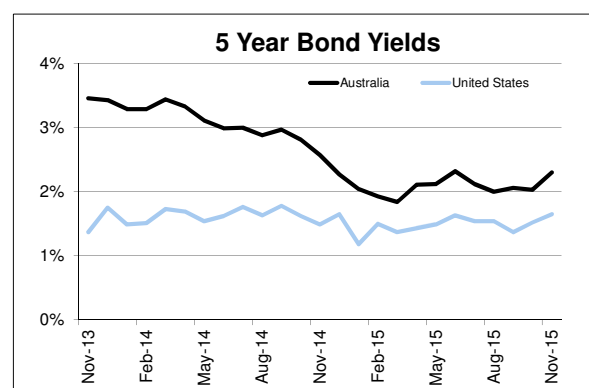


Source: MSCI Indexes.

As has been the pattern for much of the past year, emerging markets were dragged down by losses on share markets in South America and Asia. The MSCI Emerging Market Index was 2.7% lower last month (and 5.1% lower for unhedged Australian investors). Given their reliance on resource exports, weaker commodity prices have negatively impacted Latin American markets; whilst a more sober outlook for Chinese economic growth has weighed on the Chinese and other Asian share markets.

Interest rates

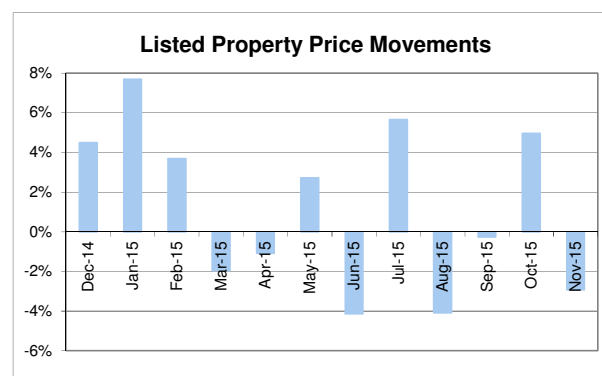
Bond yields increased, both locally and globally, last month. With the market judging the probability of a December U.S. cash rate increase to be high, U.S. longer term bonds recorded their highest monthly close for over one year. The U.S. 5-year Government bond yield rose from 1.52% to 1.65% over November. The Australian equivalent yield moved from 2.03% to 2.30%. The rise in bond yields, which results in falling bond prices, created negative returns for Australian fixed interest investors last month.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

After a particularly strong result in October, Australian listed property lost value in November, with the A-REIT sector falling 2.9%. Higher bond yields over the month may have reduced the relative attractiveness of listed property yields. The direction of movement on global listed property markets was the same, with the asset class falling 0.5% over the month.



Source: S&P ASX 200 A-REIT Acc Index.