Economic and Strategy Review

Monthly Report as at 30 November 2013

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Economic and Policy Trends: The global economy looks to have weathered the most recent period of US political instability and is enjoying a hiatus before fiscal hostilities commence again early next year. The latest set of OECD forecasts continues the broader narrative of a moderate recovery in the global economy over the next couple of years. Activity is supported by accommodative financial conditions along with a reduction in the drag from fiscal austerity measures. After projected world growth of 2.7% over 2013, the OECD has growth lifting to 3.6% in 2014 and 3.9% in 2015.

Just like the latest set of IMF forecasts, the most encouraging feature is the greater contribution to world growth from the beleaguered advanced Western economies. Central bank commitment to supporting growth and labour market improvement was on display again with the ECB cutting its cash rate from 0.5% to 0.25% and maintaining an easing bias. With the US recovery further advanced, the Fed remains poised to gradually remove monetary accommodation. We still hold the view that the first phase, tapering, will commence in the first half of 2014 and the second phase, conventional tightening, will commence in 2015. While this appears to be priced into asset markets, investors should be aware of potential volatility as the Fed changes course.

In Australia, the RBA left the cash rate unchanged at 2.5% at its monthly board meeting and signalled a weak easing bias. In its latest Statement on Monetary Policy, the RBA continued to look for a period of sub-trend growth and did not have the economy reaching its potential rate until 2015. The RBA continued to express dissatisfaction with the level of the exchange rate and in a speech entitled “The Australian Dollar: Thirty Years of Floating”, the Governor noted that the RBA was open minded on exchange rate intervention and said it was part of the RBA’s toolkit. Following these comments on 21 November, the AUD fell from around 0.94 to 0.91 by month end.

Economic data releases out over the month were again patchy. Retail sales were stronger than expected in September and consumer confidence rose in November. The bounce in business confidence over September was not sustained in October but business conditions remained unchanged over the month and consistent with growth of around 2.5% at an annualised rate over the next couple of quarters. Reflecting the profile of sub trend growth was ongoing sluggishness in the labour market. Employment rose by only 1,100 over October, with the unemployment rate lifting to 5.7%. Wages growth remains subdued by historical standards, with the wage cost index rising by only 0.5% over the September quarter. Encouragingly, capital expenditure plans were stronger than expected for both the September quarter and the year ahead.

Equity Market Trends: Solid global economic data helped support equity markets over the month. In the US, the S&P500 advanced by 2.8% while in Europe the Euro STOXX 50 was more subdued gaining 0.6%. In Japan, the Nikkei roared ahead by 9.3%. Positive moves in offshore equity markets along with a strong fall in the currency following comments by the RBA Governor not ruling out exchange rate intervention helped the MSCI World ex-Australia Accumulation Index in Australian dollars leap ahead by 5.7%. In Australia, the S&P/ASX 300 Accumulation Index bucked offshore trends and fell by 1.4%, partly weighed down by earnings concerns.

Bond Market Trends: Yields rose modestly over the month, with the strongest gains coming at the longer end of the yield curve. Patchy local data limited gains in the benchmark three year government bond yield to 6 basis points, the security ended the month 3.06%. At the longer end, markets continued to adjust to the prospect of the Fed tightening, with the ten year government bond yield ending the month 20 basis points higher at 4.22%. A modest rise in yields meant that the UBS Composite Bond Index edged lower by 0.1%, while the cash sector, as measured by the UBS Bank Bill Index, rose by 0.21%.

Investment Strategy: Under our valuation approach, the Australian share market remains at the top end of our fair value band. Multi sector funds continue to hold benchmark exposures to the sector.

The Australian fixed interest sector continues to register as being fairly valued and accordingly multi sector funds continue to hold benchmark weightings.

Frank Uhlenbruch, Investment Strategist

Tactical Asset Allocation Summary (as at 30 November 2013)

Asset Class	Multi Sector Trusts*
Australian Shares	Benchmark
Australian Fixed Interest	Benchmark
Cash	Benchmark
International Shares	Benchmark fixed
Australian Listed Property	Benchmark fixed
Global Listed Property	Benchmark fixed

* Multi-sector Trusts may have differing asset class weights, including no exposure to a particular asset class

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PRI Principles for Responsible Investment