Economic Update

Market Highlights – November 2015

- Central banks help lift investor sentiment and share markets
- US Federal Reserve leaves door open for December rate hike
- China emphasises reform and innovation in the 18th Plenary session
- Weaker inflation leaves room for the Reserve Bank of Australia to cut interest rates

Slowing growth

Markets were driven higher in the month by perceived central bank actions which focussed attention away from slowing economic growth. Growth in the United States slowed in the September quarter, primarily because of a reduction in inventories following an earlier build up. With household demand remaining robust and the number of new people claiming jobless benefits dropping to a 40 year low, the US Federal Reserve (Fed) left the door open for a rate rise at its December meeting.

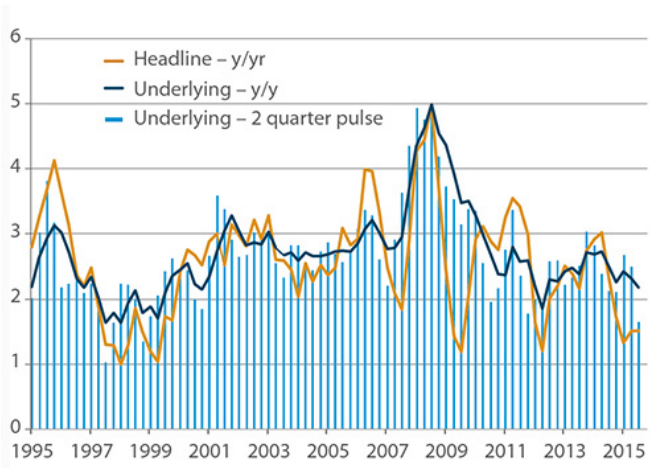
In China, economic growth slowed to 6.9% on a year on year basis, the weakest figure since 2009. This prompted Chinese authorities to provide further support by cutting interest rates and making it easier for banks to lend money. The announcement of the government's latest 5-year plan following the 18th Plenary session of the Chinese government emphasised the importance of innovation and reform which will assist the economy's next stage of development. The most noticeable change was the removal of the one-child policy which has been in place for the past 35 years.

In Australia, inflation in the September quarter was low, with underlying inflation in the past six months the weakest in 17 years. Inflation was clearly below the Reserve Bank's target band of 2-3%. Meanwhile, the 'big 4' banks have raised mortgage rates independently citing regulatory requirements to hold more capital. Combined, these have opened up the possibility for further interest rate cuts to support the economy's rebalancing towards non-mining growth.

Shares

Global share markets performed strongly in the month of October as investor risk appetite returned. Global developed shares finished up 8.0% in hedged Australian dollar (AUD) terms. Across the major regions, both the Japanese and European share markets benefited from perceived actions by their central banks to increase the size of quantitative easing (QE) to finish the month up 10.4% and 9.5% respectively in local currency terms.

Low Australian inflation opens door for rate cuts (%)



Source: Australian Bureau of Statistics, ANZ Global Wealth

All data excludes impact of GST introduction in 2000. Underlying inflation is the average of the RBA's preferred measures - trimmed mean and weighted median.

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Emerging market shares finished the month 5.5% higher. This was led by the Chinese share market which performed strongly following the Golden week holiday period. The Australian share market also benefitted from these global factors, though it underperformed global shares with a 4.4% gain.

Bonds

International fixed income performed well in the month as European yields rallied on comments from the European Central Bank (ECB) that it would consider extending QE. This was especially significant in Italy where bond yields fell by 24bps. This was partly offset by US yields which rose modestly following the Fed's more upbeat assessment of the domestic economy. Australian bonds performed slightly ahead of cash in October, with yields remaining relatively unchanged despite market expectations increasing for further rate cuts.

Currencies

The improvement in sentiment benefitted emerging market and commodity currencies which performed strongly against the US dollar (USD). In particular, the New Zealand dollar rose 5.9% against the USD following a strong rebound in dairy prices. Broad USD weakness saw the AUD also finish the month higher, up 1.7% at US71.3c. The Euro was down against the USD following comments from the ECB that it may expand QE.

Elsewhere, the Renminbi (RMB) was accepted into the International Monetary Fund's currency basket, increasing the prominence of the RMB as a leading international currency.

Major asset class performance as at 31 October 2015 (%) in AUD terms

Sector	1 month	3 months	12 months	5 Years
Australian Shares	4.4	-6.4	-0.5	6.8
Global Shares (hedged)	8.0	-2.7	8.0	14.1
Global Shares (unhedged)	6.3	0.1	26.3	16.6
Global Emerging Markets (unhedged)	5.5	-2.7	5.3	3.6
Global Small Companies (unhedged)	4.0	-1.4	26.4	17.6
Global Listed Property	5.7	2.3	5.4	9.6
Cash	0.2	0.5	2.4	3.5
Australian Fixed Income	0.3	1.2	6.2	6.7
International Fixed Income	0.5	1.1	5.2	7.0

Source: JP Morgan & ANZ Global Wealth

Indexes: Australian Shares - S&P / ASX300 Accumulation, Global Shares (hedged/unhedged) - MSCI World ex Australia, Global Emerging Markets - MSCI Emerging Free Net in AUD (unhedged), Global Small Companies (unhedged) - MSCI World Small Cap exAustralia, Global Listed Property - FTSE EPRA/NAREIT Developed, Global Listed Property - FTSE EPRA/NAREIT Developed Rental Index exAustralia (hedged) with FTSE EPRA/NAREIT Developed Index ex Australia (hedged) used before April 2015, Cash - Bloomberg Bank Bill, Australian Fixed Income - Bloomberg Composite Bond All Maturities, International Fixed Income - Barclays Global Aggregate Bond Index (hedged).
Please note: Past performance is not indicative of future performance.

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* This publication has been produced for Financial Service Partners (ABN 15 089 512 587), AFSL 237590. By OnePath Funds Management Limited (OFM) ABN 21 003 002 800 AFSL 238342.

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