

## Market Highlights - September 2015

- Global growth uncertainties, centred on emerging markets, weighed on markets
- The US Federal Reserve postponed its decision to lift interest rates
- A change in Australia's Prime Minister was seen as lifting confidence
- Global sovereign bonds outperformed global shares

### The US leads the way

Global growth concerns again dominated headlines and weighed on investor sentiment in September. At its highly anticipated meeting in the month, the US Federal Reserve (Fed) decided not to raise rates, instead leaving cash rates near zero.

The Fed held rates because of the potential impact of weaker global growth and increased market volatility on the US economy. This aside, indicators continue to show the US economy is expanding at a robust pace, with unemployment falling in August to 5.1%. Given this, we still see the Fed is likely to gradually start to lift rates by year end.

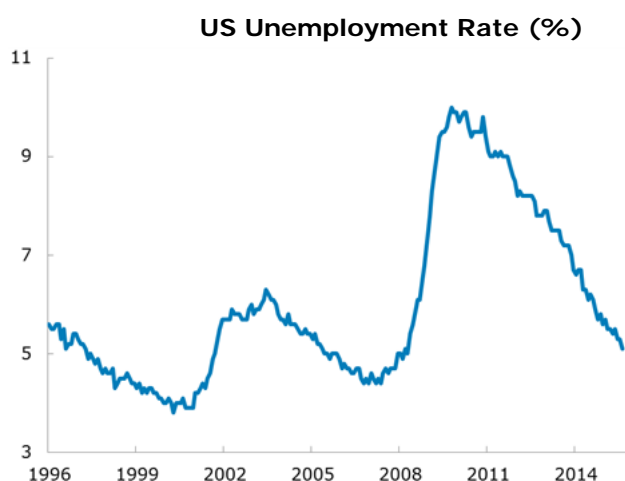
Chinese data remained soft, with manufacturing activity moving lower. Policymakers continued to ease policy to support growth, with signs emerging that easing restrictions on property purchases were supporting a recovery in prices. This should at least stabilise construction activity.

Australia welcomed its fifth Prime Minister in five years, following a successful challenge by Malcolm Turnbull for the leadership of the ruling Liberal party. Expectations are high that the Turnbull government will deliver economic reform and stable leadership, with consumer and business confidence expected to improve following the move.

Rising business conditions indices raised hopes about the transition of the economy away from the mining sector, though signs of a cooling in the Sydney and Melbourne property markets and weak consumer spending still pointed to sluggish overall growth after the weakness in the June quarter.

### Shares

Volatility stayed elevated in global share markets in the month, driven by growth concerns across Emerging Markets (EM) and falling commodity prices. Global developed shares finished down 3.4% in hedged Australian dollar (AUD) terms. Across the major regions, the Japanese market dropped 8.6% in local currency terms as domestic activity weakened, while the emissions scandal at Volkswagen helped drive a 4.6% fall in Europe



Source: Bloomberg, ANZ Global Wealth

EM shares finished 2.1% lower in unhedged AUD terms, led by continued weakness in Brazil and Russia as commodity prices continue to soften. The Australian share market was driven by global factors, with the ASX 300 falling 2.9%. This was led by a continuing decline in the resources sector which finished the month down 9.5%.

## Bonds

Global government bond yields rallied in September as investors continued to favour safety. The decision by the Fed to postpone interest rate hikes contributed to the decline in yields. US 10-year bond yields finished 18 basis points (bps) lower while German yields fell 21bps as European inflation fell back below 0%. This saw international fixed income return a solid 0.8% in the month.

Australian bonds underperformed their global counterparts, with yields finishing only 5bps lower. The market is still pricing another rate cut by the Reserve Bank of Australia (RBA) however, this is not expected until the first half of 2016.

## Currencies

The risk averse environment saw the US Dollar (USD) perform strongly, rising against EM currencies along with the Euro and Yen. The AUD fell against most currencies due to the downward pressure on commodity prices, finishing 1.3% lower against the USD at US70.2c. The lower AUD has helped cushion the loss in global shares in unhedged AUD terms.

Major asset class performance as at 30 September 2015 (%) in AUD terms

Sector	1 month	3 months	12 months	5 Years
Australian Shares	-2.9	-6.5	-0.7	6.3
Global Shares (hedged)	-3.4	-7.4	1.3	13.1
Global Shares (unhedged)	-2.8	0.4	18.9	15.8
Global Emerging Markets (unhedged)	-2.1	-10.1	0.6	2.8
Global Small Companies (unhedged)	-3.4	-1.2	23.1	17.3
Global Listed Property	2.4	2.0	7.0	9.2
Cash	0.2	0.5	2.5	3.5
Australian Fixed Income	0.3	2.2	6.9	6.6
International Fixed Income	0.8	1.9	5.7	6.9

\* 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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