



Risk assets faltered

- The rally from December resumed with most equity markets up for the month.
- Global shares were up 2.3% and 2% in hedged and unhedged terms, respectively.
- Domestically, Australian shares underperformed international markets this month with 1.8% performance in September.
- Bellamy's Australia (ASX: BLA) benefitted from a takeover bid by Chinese firm Mengniu at a 59% premium to its last trading price with investors receiving a fully-franked special dividend as part of the proceeds if it is accepted by FIRB. Western Areas Ltd (ASX: WSA) benefitted from a looming nickel market deficit following the surprise Indonesian move to halt exports from December this year.
- The Australian dollar (AUD) rose slightly against major currencies on the prospects of US-China negotiations as well as interest rate cuts by the Federal Reserve and European Central Bank (which reduced the relative attractiveness of the US Dollar and Euro).
- Fixed income assets struggled slightly as investors became concerned over changes to the Bank of Japan bond purchasing programme and optimistic on the trade war front between the US and China following confirmation that the talks would proceed. This saw a rise in bond yields globally that resulted in negative bond returns for the month for **both domestic fixed income and international fixed income**.

With mixed economic news...

Globally

- US-China trade tensions flared up with new US tariff threats realised in early September with more waiting in the wings.
- These fears have abated somewhat with the restart of trade negotiations between China and the US in October.
- Global business surveys pointed to weaker manufacturing growth with the Markit Global Manufacturing PMI remaining in contractionary territory. However, both US and Chinese results suggest a short-term bounce in activity although the outlook remains uncertain. European weakness continued and raises the chances of European recession with the German Manufacturing PMI at levels last seen exiting the GFC in June 2009.

Locally

- The Reserve Bank of Australia (RBA) cut interest rates in early October ahead of market expectations with the next cut anticipated early next year.
- Retail sales disappointed expectations with 0.4% growth during August (consensus: 0.5%) following a flat July result.
- The NAB Monthly Business Survey for September suggests subdued business conditions will continue in the near term. A -0.35% reading on the Westpac Leading Index also suggests weaker growth in the near term.
- At this stage the combination of RBA rate cuts and government stimulus has seen some response from the consumer, but sentiment has weakened further.
- The Westpac-MI Index of Consumer Sentiment fell to 92.8 in October, its lowest level since July 2015. This suggests further efforts may be required to encourage consumer spending.
- The unemployment rate rose to 5.3% driven by a stronger participation rate (if participation remained constant it would have fallen to 5.1% instead).

- We have seen property markets strengthen following the RBA rate cuts. In its Financial Stability Review the RBA appears to be comfortable over any risks from spurring house price growth by cutting rates.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	1.8	12.5	9.5
Global shares (hedged)	2.3	1.9	9.3
Global shares (unhedged)	2.0	9.1	13.0
Global small companies (unhedged)	1.7	1.4	12.7
Global emerging markets (unhedged)	1.8	5.1	7.8
Global listed property (hedged)	2.5	13.4	9.0
Cash	0.1	1.7	2.0
Australian fixed income	-0.5	11.1	5.3
International fixed income	-0.6	9.8	5.0

Source: Bloomberg & IOOF, 30 September 2019

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Please note: Past performance is not indicative of future performance.

Currency markets

Exchange rates	At close on 30/9	1 month change %	1 year change %
USD/AUD	0.68	0.3	-6.6
Euro/AUD	0.62	1.0	-0.5
Yen/AUD	73.0	1.9	-11.2
Trade weighted index	59.2	0.5	-4.8

Source: Bloomberg & IOOF, 30 September 2019. All foreign exchange rates are rounded to two decimal places where appropriate.

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