

## MARKET INDICATORS

Market	Indicator	Current	Last Month	1 Month Change	12 Months Ago	12 Month Change
Interest Rates	Overnight Cash	3.25	3.00	0.25	6.00	-2.75
	3 Month Interbank Borrowing Rt.	3.92	3.42	0.51	6.50	-2.58
	10 Year Bond	5.54	5.36	0.18	5.18	0.36
Australian Shares	All Ords	4646.90	4739.30	-1.95	3982.70	16.68
	S&P/ASX 200	4643.20	4743.60	-2.12	4018.00	15.56
Regional Shares	Dow Jones Industrials (US)	9712.73	9712.28	0.00	9325.01	4.16
	S&P 500 (US)	1036.19	1057.08	-1.98	968.75	6.96
	FTSE 100 (UK)	5044.55	5133.90	-1.74	4377.34	15.24
	TOPIX (Japan)	894.67	909.84	-1.67	867.12	3.18
	Hang Seng (Hong Kong)	21752.87	20955.25	3.81	13968.67	55.73
Property	ASX 300 A-REITS Index	863.03	948.15	-8.98	1000.13	-13.71
	US\$ Gold Price	1046.00	1002.00	4.39	728.55	43.57
	US\$ Oil Price – West Texas Crude	75.32	65.70	14.64	59.50	26.59
	US\$ CRB Spot Commodity Index	389.25	372.37	4.53	343.54	13.31
Exchange Rates	AUD / USD	0.9161	0.8801	4.09	0.6680	37.14
	AUD / EUR	0.6169	0.6015	2.56	0.5223	18.11
	AUD / GBP	0.5533	0.5487	0.84	0.4102	34.89
	AUD / JPY	83.49	78.82	5.92	65.26	27.93
Volatility	VIX Index	30.69	25.61	19.84	59.89	-48.76

### Key Points:

- Australian government 10 year bond yields finished the month higher.
- Global equity markets softened in October after more than six months of positive momentum. Despite mostly encouraging economic news and better than expected corporate results the investors became increasingly concerned with the prospect of a more muted recovery and markets that had perhaps moved ahead of expectations
- Gold continued its ascent in October, consolidating comfortably above USD1000/oz. Investors remained concerned by weakness in the USD.
- The Australian dollar continued to appreciate against the USD and most major currencies in October aided by an earlier than anticipated rate rise by the RBA and hawkish commentary eluding to further rate rises in the near future.
- Volatility abated marginally in October, having spiked higher at one point, as measured by the VIX Index.

## CASH, FIXED INTEREST & CREDIT

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD
Australian Cash	UBS Bank Bill Index	0.25	3.82	6.07	5.97	1.05	2.81
Australian Bonds	UBS Composite All Maturities	-0.09	4.87	6.32	5.71	1.67	0.59
International Bonds	Barclays Global Aggregate \$A	0.46	13.41	7.91	7.14	7.77	0.46

### Summary of Statistics:

- **Australian Cash** returned 0.25% in October and 3.82% for the year as measured by the UBS Bank Bill Index.
- **Australian Bonds** fell -0.09% in October, as measured by the UBS Composite All Maturities Index. Australian 10 Year government bonds are now yielding 5.57% in comparison to 5.39% last month and 5.14% a year ago.
- **International bonds** as measured by the Barclays Global Aggregate (Hedged \$A) Index rose in October by 0.46%. 10 Year bond yields rose marginally over the month in the US from 3.30% to 3.38%; was mainly flat in the UK and rose in Japan from 1.28% to 1.40%.
- **Credit spreads** were largely unchanged in October.

## Commentary:

US government bond yields rose for the first time in four months as increasing investor risk appetite witnessed lower demand for the safer investments. However, yields would have ended the month higher if not for equity market weakness towards month's end as traders started to doubt the V-shaped recovery for the US economy.

As commentators debate the shape of the recovery in the US it's interesting to note that once again the equity markets and bond markets diverge in their outlook. As highlighted by Paul McCulley from PIMCO, while equity markets are currently discounting a robust V-shaped recovery, US Treasury bonds seem to be pointing to a U-shaped recovery as the base case. While McCulley concludes that both markets could be correct it's interesting to note that the last time the two markets diverged it was the credit markets that were ultimately proven correct.

Domestically, Australia became the first G20 nation to raise interest rates. This earlier than anticipated move in combination with hawkish rhetoric by RBA Governor Glenn Stevens saw the local bond market sell off earlier in month as investors started to price in an aggressive rate hike schedule. Mid-month traders were betting on a better than even chance of a 50bps interest rate move in November. However, CPI figures within expectations, tempered expectations later in the month with traders paring back expectations. Accordingly, the sell-off was slightly reversed at the end of the month.

## AUSTRALIAN SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. 12mth High	Ch. Fr. 12mth Low
Australian Shares	S&P/ASX 300	-2.07	21.96	-0.61	8.75	19.12	30.35	-4.48	51.64
Australian Shares - Small Caps	ASX Small Ordinaries	-1.18	39.67	-4.18	5.97	20.37	48.33	-5.36	78.22
Australian Shares - Style	SPGI BMI Australia Growth	-1.94	23.52	1.16	11.03	15.19	29.37	-5.04	50.52
	SPGI BMI Australia Value	-2.29	23.64	-2.12	7.42	24.59	35.66	-4.60	67.88
Australian Shares - GICS Sectors	S&P/ASX 300 Materials	0.31	31.45	4.20	16.02	12.55	33.60	-6.34	73.37
	S&P/ASX 300 Industrials	-1.41	14.12	-8.40	1.63	28.70	20.58	-3.57	79.51
	S&P/ASX 300 Consumer Discretionary	-2.82	28.71	-10.96	-2.16	22.91	39.42	-4.58	69.46
	S&P/ASX 300 Consumer Staples	1.41	19.35	7.80	12.33	16.30	27.26	-1.45	36.60
	S&P/ASX 300 Financials	-3.63	24.59	-4.57	6.21	29.11	39.77	-6.04	80.61
	S&P/ASX 300 IT	-2.89	42.49	7.60	12.28	21.73	54.02	-4.24	80.45
	S&P/ASX 300 Telecommunication Svs.	0.10	-10.78	0.77	0.29	0.85	-4.68	-16.18	15.24
	S&P/ASX 300 Financials ex-Property	-2.66	31.00	-0.64	9.24	30.98	47.13	-5.72	82.56
	S&P/ASX 300 Property Trusts	-8.98	-6.08	-21.40	-6.78	19.04	4.95	-10.76	68.64

## Summary of Statistics:

- **Australian shares**, as measured by the S&P/ASX 300 index, declined in October for the first time in eight months, falling 2.07% for the month.
- The **small cap sector** outperformed large caps but still returned negatively, down 1.18%.
- On a **sector** basis, in a reversal of fortunes the laggards of last month, predominantly the defensive sectors, outperformed. Consumer Staples (+1.41%), Materials (+0.31%) and Telecommunications (+0.10%) were the strongest performers as investors began to question the sustainability of the rally since the March lows. The worst performing sectors were Property Trusts (-8.98%). Financials (-3.63%) and IT (-2.89%).
- The Australian share market was pulled down in concert with global markets as investors began to doubt the sustainability of the global recovery.

## Commentary:

October was a volatile month for equities as investors became increasingly cautious after an unabated seven month rally that has seen the Australian market bounce over 50% from its 12 month low. The Australian market was largely guided by movements in the US market as well as local reporting by domestic financials. Initially starting the month with positive momentum the market lost ground towards the end of the month as concerns in the US about some of the large financials, disappointing earnings results and worse than expected economic news conspired to push the market lower.

Company-specific news stories impacting the local market were dominated by domestic financials. Earlier in the month Westpac announced to the market that it had lost a New Zealand High Court case against the Inland Revenue Department and consequently owed NZ\$961m in taxes and interest. The case related to structured finance transactions between 1998 and 2002. On the day of the announcement the ANZ disclosed that it would be increasing its provisioning by less than 10bps to account for similar disputed transactions.

Reporting by NAB, ANZ and Macquarie late in the month was the dominant news in the local market. While both NAB and ANZ reported lower H2 earnings and increased provisioning they signalled that credit quality was stabilising and were cautiously optimistic about the global and domestic economy. Macquarie reported a H1 profit of \$479 million with similar guidance for H2. While very cautious on the outlook the CEO was optimistic about the where the group was headed. The result came after an extremely tough year in which the many commentators questioned the viability of the group with the share price reflecting this extreme pessimism. Since reaching a low of \$15.00 in March the share price has more than tripled.

## INTERNATIONAL SHARES

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. 12mth High	Ch. Fr. 12mth Low
International Shares	MSCI World Ex-Au A\$	-4.12	-13.96	-10.62	-0.97	2.77	-5.87	-13.96	13.45
	MSCI World A\$	-4.05	-12.96	-10.27	-0.66	3.34	-4.83	-12.96	14.52
International Shares - Small Caps	MSCI World Small Companies Ex-Au A\$	-6.36	-5.18	-10.68	-0.10	4.54	3.14	-9.12	24.08
International Shares - Regional	MSCI US A\$	-4.22	-19.45	-11.51	-3.17	1.42	-9.28	-19.45	9.04
	MSCI Europe A\$	-3.46	-6.24	-9.58	1.99	8.76	1.01	-7.87	26.14
	MSCI AC Asia Ex-Jap \$A	-2.84	21.54	1.29	10.56	6.03	23.91	-5.30	26.14
	MSCI Japan A\$	-4.78	-16.83	-13.79	-2.48	-7.05	-17.70	-21.56	3.73
	MSCI China A\$	3.96	33.28	12.03	20.38	2.72	21.91	-6.81	39.67
	MSCI India A\$	-6.25	29.32	1.09	18.01	2.71	35.77	-8.64	62.10
	MSCI Emerging Markets A\$	-2.20	20.20	1.29	12.78	8.44	27.13	-4.93	38.94
International Shares - Hedged	MSCI World ex-Au \$A (Hedged)	-2.23	11.98	-7.53	1.84	12.14	17.83	-5.08	51.07

### Summary of Statistics:

- **International Shares (ex-Australia)** fell -4.12% in October on an unhedged basis and - 2.97% on a fully hedged basis.
- **Small caps** underperformed the broader market, returning -6.36%.
- On a regional basis, Emerging Markets (-2.23%) and Asia Ex-Jap (-2.84%) were the best performing markets in \$A.

### Commentary:

Global market news was dominated by US reporting season and economic news. While the majority of S&P 500 companies that reported beat estimates investors instead chose to focus on the negative. Of particular interest were the financials with JP Morgan setting the benchmark earlier in month by reporting a much better than anticipated Q3 net income of \$3.6bn. This was despite reporting \$7bn in loan losses from credit card receivables and consumer finance. This result was followed up by Goldman Sachs and Citigroup which both managed to beat expectations. While posting net income of \$101m Citigroup revealed it had suffered \$8bn in credit losses, having posted more than \$US100 billion of write downs and consumer credit losses since the credit crisis began. Despite the better than expected results investors were largely unimpressed after having high expectations following JP Morgan's results.

Investors were further disappointed as Bank of America posted its first quarterly loss of the year as greater consumer and commercial loan losses more than offset strong trading profits and a boost in revenue from its acquisition of Merrill Lynch. Investors worried that the bank would be forced by the government to raise more capital. Wells Fargo and American Express rounded out the financials reporting during the month, both reporting positive earnings. However, investors were alarmed by loan losses and heavily delinquent loans at Wells Fargo that continued to rise quickly.

Economic news was dominated by a better than expected Q3 US GDP data which showed that the economy grew at an annualised 3.5% versus a consensus expectation of 3.2%. While broadly hailed as an excellent result, closer scrutiny of the data shows that the government contributed 2.8% with remainder being contributed by falling business inventories and net exports. Without the "cash for clunkers" program and federal home buyer's tax credit, that have expired or are set to expire in the near future, the GDP figure would have been far less impressive. Commentators have highlighted that there can be no sustainable recovery without private demand returning.

## PROPERTY & INFRASTRUCTURE

Zenith Benchmarks	Total Return Indices	1 Mth	1 Yr	3 Yr p.a.	5 Yr p.a.	Fin Yr TD	Cal Yr TD	Ch. Fr. 12mth High	Ch. Fr. 12mth Low
Australian Listed Property	S&P/ASX 300 Property Trusts	-8.98	-6.08	-21.40	-6.78	19.04	4.95	-10.76	68.64
Global Listed Property	FTSE EPRA/NAREIT GLOBAL REITS (Hedged \$A)	-4.04	-4.49	-24.04		23.01	15.01	-6.11	69.37
Global Listed Infrastructure	S&P Global Infrastructure Hedged \$A	-2.44	7.04	-3.28	8.56	9.38	9.85	-4.12	41.80

### Summary of Statistics:

- In October Australian Listed Property underperformed global property markets, losing -8.98% against a loss of -4.04% in Global Listed Property
- Global Listed Infrastructure as represented by the S&P Global Infrastructure Hedged \$A returned -2.44%

### Commentary:

Global and domestic property retreated in October as those sectors that rallied the hardest in the past few months gave back gains. The sector continues to struggle as negative news and gloomy forecasts weigh on investors. Among this news was an announcement by New York-based real estate researcher, Reis Inc. that defaults and late payments on property loans sold as commercial mortgage-backed securities jumped more than fivefold in the third quarter to 4.52% of the total from a year earlier. About \$26.6 billion of CMBS loans were 60 days or more past due. Sentiment wasn't helped by a statement from Billionaire investor Wilbur L. Ross Jr., who said the US was at beginning of a "huge crash in commercial real estate."

However, domestically Michael Cameron, GPT CEO, was far more optimistic during the month stating that he believed that property values in Australia may have bottomed and are starting to improve earlier than forecast. Chief Operating Officer of Lend Lease, David Hutton, echoed this positive sentiment saying that the companies growing stock deficiency provided for a positive outlook in the medium term.

In a theme that's been common to the domestic property sector in the recent past, ING Industrial Fund announced that it planned to raise \$700m in new capital. The new capital will reduce the company's pro-forma debt gearing from 53.9% to 33.5%.

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