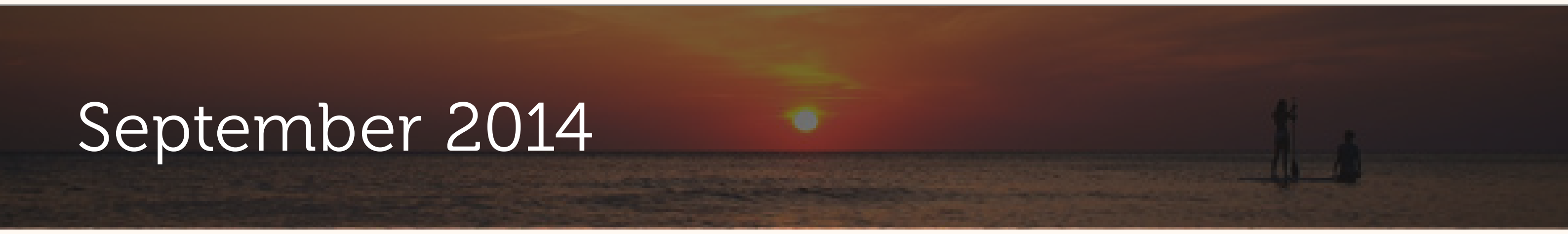
# Market Update




Here's a summary of investment markets over the three months ending 30 September 2014.

**Share markets rise**

Global share markets made good gains in the three months to 30 September. Contributing to returns was the European Central Bank (ECB)'s decision to cut its benchmark refinancing rate to just 0.05%, a series of encouraging US economic data – the upshot of which is that the recovery in the world's biggest economy remains on track – and hopes of additional stimulus measures in China. Investor sentiment was also buoyed by further US merger and acquisition activity and Scotland's decision to vote in favour of remaining a part of the United Kingdom.

By contrast, Australian shares were lower for the quarter; the local market hurt by sharp declines across the banking sector, news domestic growth slowed in the June quarter and US rate hike expectations. Commodity price weakness and some softer Chinese economic data also contributed to the market's decline.

**Interest rates still on hold**

The Reserve Bank of Australia left interest rates unchanged at a historically low 2.50% throughout the period; officials once again reiterating their view that "on present indications, the most prudent course is likely to be a period of stability in interest rates". The bank also noted that it expects domestic growth to remain a little below trend over the next 12 months. In relative terms, the official cash rate is now the same as it was a year ago.

**Australian dollar slumps**

The Australian dollar (AUD) fell sharply over the period on the back of general US dollar (USD) strength and increasing speculation that improving US economic data will prompt the Fed to raise interest rates sooner than expected. The AUD fell 7.1% against the USD, 2.7% against the British pound and 0.1% against the euro. It rose 0.3% against the Japanese yen.

**Domestic growth slows in the second quarter**

The Australian economy slowed to its weakest pace in over a year in the second quarter with gross domestic product rising just 0.5% as commodity price weakness and a stubbornly high AUD weighed on resources exports. That said, the outcome was slightly better than the 0.4% the market had anticipated. On an annual basis, the local economy grew 3.1%; also slightly better than the 3.0% most economists had predicted.

**Looking ahead**

Global economies have kept investors guessing so far in 2014. Our overall expectation had always been that a global economic recovery would broaden and strengthen through the course of the year, and this scenario is largely playing out. Whilst the US began the year with a dip in growth, it is now growing strongly and we expect this trend to continue into 2015. In a notable milestone, the US unemployment rate recently pushed below that of Australia's for the first time since the global financial crisis. This prompted us to bring forward the expected timing of the first Fed interest rate hike to the first half of 2015.

In the euro-zone, it may have taken longer than we would have liked but the ECB recently took decisive action and introduced a swathe of new policy measures. However, whilst these measures are likely to have a positive impact on euro-zone risk assets, they're unlikely to be enough to meaningfully change the region's modest growth trajectory.

In Asia Pacific, Chinese growth appears to be stabilising while Japan's recovery looks set to continue at a reasonable pace. Meanwhile, in Australia there are broad concerns about the economy's ability to adapt to a slowing resources boom. We believe domestic growth will slow from its current clip of just over 3.0% per annum, but not dramatically so.