US

In the United States, unemployment and underemployment have both fallen to new cyclical lows of 4.1% and 7.9% respectively, however, wages growth and inflation are still both subdued. October's ISM non-manufacturing index rose to its highest since the index began in 2005 and the ISM manufacturing survey also remains at healthy levels with both indices suggesting that fourth quarter growth could be relatively solid. The announcement that Jerome "Jay" Powell will replace Janet Yellen as the next Chair of the Federal Reserve Board of Governors is likely to mean that the process of normalising interest rates is likely to continue over the next few years. Plans by House Republicans to cut corporate and personal taxes were largely in line with expectations but whether these plans can become law remain uncertain given the impact on the housing sector, small business and other interest groups.

Europe

In the Eurozone, the initial estimate of annual GDP growth in the September quarter was better than expected, rising to 2.5% (from 2.3% in the June quarter) which is now the best growth rate since 2011. At its October meeting, the European Central Bank announced that it would halve the size of its bond buying program to €30 billion per month from January 2018. However, with inflation still well below target at 1.4% per annum, the post-meeting statement from Mario Draghi was relatively dovish suggesting that interest rates will be on hold until at least 2019 and bond-buying could be extended beyond the September 2018 scheduled end-date.

China

In China, the official PMIs for October suggest that the economy has slowed a little in recent months. In the detail, PMIs for medium and small sized manufacturing firms are now both in contraction territory. The 19th Communist Party Congress went smoothly for President Xi cementing his power for the next five years and providing a mandate to more aggressively pursue economic reform. This is overdue, given China has been reliant on debt-fuelled growth since the financial crisis with corporate debt to GDP near 160%, up from around 100% ten years ago. However, deep Chinese reform also brings risks of a potential slowdown in 2018.

Asia region

In Japan, Shinzo Abe's gamble to hold an early election last month paid off and the ruling Liberal Democrat Party retained its two-thirds majority of the lower house, effectively locking them in power until 2021. For investors, the win secures the future of Abenomics, and in particular the aggressive easing of monetary policy.

Australia

In Australia, October saw another strong employment report with unemployment falling from 5.6% to 5.5% and business conditions remaining at strong levels. However, September quarter inflation was lower than expected falling from 1.9% to 1.8% year-on-year. Retail sales have also been subdued with sales flat in September after falling in both July and August as consumers battle with low wages growth and higher utility bills.

EQUITY MARKETS

- Emerging market shares rose 3.9% in local currency terms helped by gains in India.
- The German DAX Index rose 3.1%.
- The Euro 100 index gained 2.2% over the month.
- The Japanese Nikkei 225 Index was 8.1% higher, boosted by the election result.
- The US Standard & Poor's 500 Index was up 2.3% in October.
- Australia's S&P/ASX All Ordinaries Index rose 4.0%.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	15.92%	7.03%	10.18%	8.01%
	S&P/ASX 50 Acc.	15.33%	5.48%	9.77%	8.18%
	S&P/ASX Small Ordinaries Acc.	14.58%	10.48%	6.05%	2.65%

The S&P/ASX 200 Accumulation Index had a strong month during October rallying 4.0% to outperform developed market global equities. In the Australian equity market the best performing sectors were energy (+6.4%), consumer discretionary (+6.2%), healthcare (+5.5%) and utilities (+5.0%). The energy sector rise was led by Santos (+11.9%), consumer discretionary by Treasury Wine Estates (+14.3%) and Star Entertainment Group (+9.7%). Healthcare was dominated by Healthscope (+17.4%) and two offshore heavyweights of Cochlear (+10.5%) and ResMed (+11.5%) while the utilities sector was led by Macquarie Atlas (+9.8%) and AGL Energy (+8.1%).

Both Telecommunications (+2.4%) and REITs (+2.2%) underperformed the rise in the broader market. Telstra weighed on the index, up only 1.4% while Vocus (+20.5%) and TPG Telecom (+11.5%) both had strong rises.

Sector	1 Month	3 Months	1 Year
Energy	6.4%	13.2%	20.7%
Materials	4.4%	7.7%	20.4%
Industrial	4.2%	7.7%	22.0%
Consumer Discretionary	5.4%	3.8%	10.3%
Consumer Staples	5.3%	8.7%	17.7%
Health Care	5.5%	8.1%	21.9%
Financials (ex Property)	3.3%	2.2%	17.2%
Info Tech	8.4%	10.2%	22.1%
Telcos	2.4%	-9.3%	-23.5%
Utilities	5.0%	4.4%	25.0%
Property	2.2%	4.4%	8.6%

BIG MOVERS THIS MONTH

Going up

⇈ Information Technology 8.4%

⇈ Energy 6.4%

⇈ Healthcare 5.5%

Going down

⇊ None

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	22.69%	14.03%	19.46%	14.57%
	MSCI World Ex Aus (Gross) in Local Currency	22.54%	10.16%	14.20%	11.87%
	MSCI World Small Cap ($A)	25.74%	15.96%	20.89%	15.70%
Emerging	MSCI Emerging Mkts Free	26.18%	9.77%	9.18%	6.56%
	MSCI AC Far East Free (ex Japan)	30.58%	10.72%	9.97%	0.07%

The MSCI World ex-Australia Index (in local currency terms) returned 2.5% in October, however, a decline in the Australian Dollar meant the index rose 4.3% in Australian Dollar terms. Technology and materials finished as the top-performing sectors during a month in which corporate earnings largely beat expectations. On the other hand, telecoms shares provided the most significant drag on index performance during the month (albeit they still rose), on the back of relatively lacklustre earnings and a rise in bond yields.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	8.59%	10.95%	12.54%	12.67%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	7.71%	6.86%	11.11%	10.99%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) returned 2.3% in October. Over the past year, property securities have returned 8.6%, including distributions, outperforming international property securities which returned 7.7%.

A-REITs have also outperformed currency-hedged Global REITs over three, five and seven years.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	1.64%	3.94%	4.12%	5.58%
	Australian 90 Day Bank Bill	1.74%	2.05%	2.34%	2.93%
Global	BarCap Global Aggregate Index	0.41%	5.88%	6.68%	5.01%
	BarCap Global Agg. Index Hedged	1.92%	4.60%	5.08%	6.21%

Australian bonds bounced back in October with a return of 1.09% over the month as government bond yields fell in Australia following softer-than-expected inflation data. Two-year Australian Commonwealth Government bond yields fell from 1.96% to 1.83% per annum and the ten-year bond yield fell from 2.84% to 2.68% per annum.

Internationally, the Bloomberg Barclays Global Aggregate Bond Index (A$ hedged) returned 0.47% as bond yields rose by five basis points in the United States but fell marginally in the United Kingdom and Germany as the ECB announced its "dovish" policy tightening and inflation readings continued to surprise on the downside. In the US, 10-year Treasury bond yields rose from 2.33% per annum to 2.38% per annum.

Australian dollar

The Australian Dollar fell 2.3% against the US Dollar in October and on a Trade-Weighted Index basis, the Australian Dollar lost 2.0% due to a rebound in the US Dollar and lower iron ore prices which fell 14% over the month.