Monthly commentary – November 2017

US equity markets pushed higher in November on the back of solid corporate earnings and synchronised global economic growth, although the European markets retreated in November after two straight months of gains, and the UK stock market fell in November as continued uncertainty in domestic politics outweighed confidence in the UK's economic outlook.

Developments in the global economy

Australia

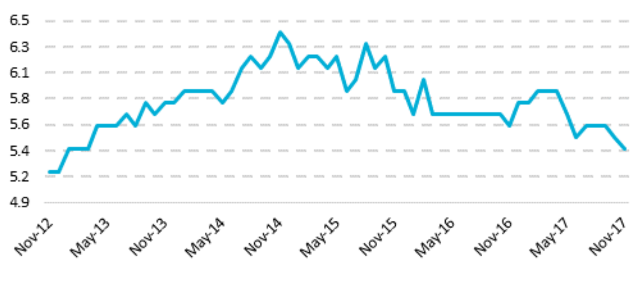
The Reserve Bank of Australia (RBA) held rates steady in November and is now widely viewed as being 'on hold' for an extended period. In its November statement on monetary policy, the Bank made minimal changes to its economic growth forecasts: it expects economic activity to pick-up, with growth of 3.25% – 3.5% expected in late 2018 and 2019. Australia racked up its longest run of job gains in 23 years, when employment rose for the 13th straight month, up by 3,700 in October after rising by 26,600 in September (previously reported as a rise of 19,800 jobs).

Full-time jobs rose by 24,300 while part-time jobs fell by 20,700. Economists had tipped an increase in jobs of around 20,000, resulting in the unemployment rate falling from 5.5% to 5.4%, the lowest jobless rate since February 2013.

On the tourism front, China has now become the largest contributor to inbound tourist numbers, with 117,900 visitors from mainland China coming to Australia in September, ahead of New Zealanders, on 111,300, for the first time. In the year to September, a record 1,347,400 tourists came to Australia from China, up 12.6% over the year, and surpassing tourists from New Zealand, which totalled 1,347,300 visitors over the past year.

Prime Minister Malcolm Turnbull announced a Royal Commission into the banking sector, ostensibly to restore public faith in the country's financial system. The Commission will examine Australia's financial institutions including banks, wealth managers, superannuation providers and insurance companies, with a final report expected in February 2019.

Chart 1: Australian Unemployment Rate – last 5 years



Source: BTIS/Bloomberg

US

Further signs of a strengthening US economy and record corporate profits were bolstered late in the month by the prospects for passage of the Trump Administration's tax reform plan, with its centrepiece, being the slashing of corporate taxes.

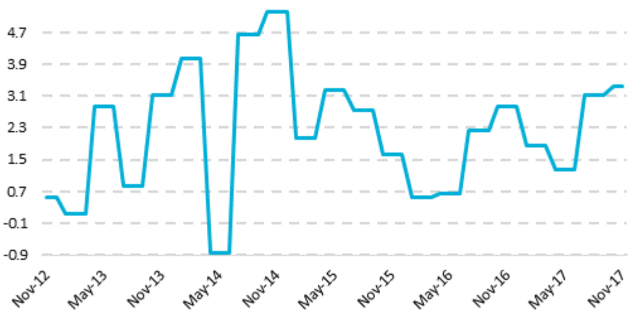
At month-end the plan had passed the House of Representatives, but a vote had been delayed in the Senate, mostly by Republican fiscal conservatives concerned about an expansion of the federal Budget deficit, but Wall Street ended November convinced that the biggest US tax overhaul since 1986 was a reality, and that conviction accentuated the positive move that has prevailed for most of the year.

A lower company tax rate would boost corporate earnings, which have been a major driver of stock market gains over the 2010s. Analysts at investment bank UBS reckon that cutting US company tax from the current 35% to a rate between 20% – 25% would boost S&P 500 earnings by 6.5% – 9.5%.

The US economy grew faster than first thought in the third quarter, recording its quickest pace in three years, supported by healthy business spending on equipment and a rebound in government investment. Gross domestic product (GDP) grew at a 3.3% annual rate in the September quarter, up from the Commerce Department's initial estimate of 3%. It remained the first time since 2014 that the US economy had shown growth of 3% or more for two straight quarters.

The November jobs report showed US employers adding 261,000 jobs in October, the most in more than a year, which translated to an unemployment rate of 4.1%, the lowest in 17 years. Adding to the mostly positive mood in the US was the 15th consecutive month of a rising annual growth rate in house prices: the S&P CoreLogic Case-Shiller National Home Price Index rose by 6.2% in September, up from 5.9% a month earlier, for its strongest annual growth rate since June 2014.

Chart 2: US GDP Annualised – last 5 years



Source: BTIS/Bloomberg

Asia

Activity in China's crucial manufacturing sector picked up in November, on the back of robust global demand for Chinese exports. The National Bureau of Statistics' official gauge of factory activity, the forward-looking purchasing managers index (PMI), edged up to 51.8 in November from 51.6 in October (a reading above 50 signifies expansion), beating the median consensus forecast of 51.5.

The Japanese economy grew for a seventh consecutive quarter, the longest streak in nearly two decades according to the country's Cabinet Office. The country's GDP grew at an annualised rate of 1.4% in the September quarter, down from a revised 2.6% growth rate in the previous quarter, and short of expectations of 1.5%. Capital expenditure stood out in November data, beating expectations with a 4.2% gain in the third quarter.

South Korea's economy posted a 3.8% annual growth rate in the third quarter, revised upward from an initial estimate of 3.6% growth, which was the fastest pace of growth in seven years. Late in the month the country's central bank, the Bank of Korea, lifted interest rates for the first time in more than six years, responding to faster-than-expected overall economic growth this year, on the back of robust exports.

Europe

Politics cast a pall over the European markets as German coalition talks unexpectedly collapsed, leading to doubts that Chancellor Angela Merkel could form a government after the weaker-than-expected performance of her Christian Democratic Union (CDU) party in September's general election. At month's end, Germany was still without a government, with the uncertainty overshadowing generally healthy economic news.

The German economy bubbled along at a 0.8% growth rate in the third quarter, beating consensus forecasts of 0.6% growth, and keeping Europe's largest economy on track for its best year since 2011. In annualised terms the third-quarter growth rate came in at 3.3%. Germany's national statistics agency, Destatis, also revised upwards its first-quarter figure, saying the German economy accelerated by 0.9% in the first three months of 2017, instead of the earlier reported 0.7%. Second-quarter growth was confirmed at 0.6%.

Elsewhere in Europe, the third-largest economy, Italy, beat expectations with 0.5% growth for the third quarter, supported by exports and domestic demand. That took the Italian economy to 1.8% annual growth. The fourth-largest economy, Spain, shook off the effects of the Catalan independence crisis, delivering a rise in output in the third quarter, equating to annual GDP growth of 3.1%.

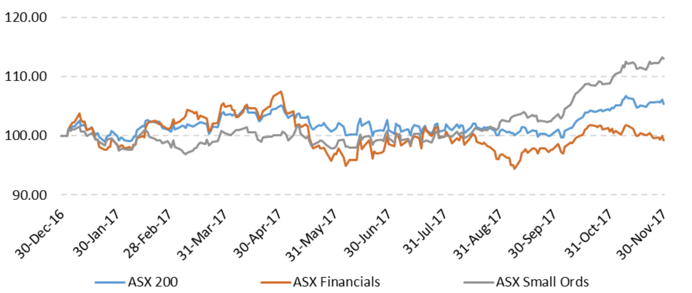
Developments in financial markets

Australian shares

In price terms, the benchmark S&P/ASX 200 index was up 1% in November, while the broader All Ordinaries index gained 1.4%. In total-return terms, the S&P/ASX 200 Accumulation Index added 1.6%, with its resources component leading the way: the Resources Accumulation Index was up 3.1%, while the Industrials Accumulation Index managed a 1.3% rise. The broader A-REIT Index was particularly strong, up 5.3%, while the small caps also enjoyed a healthy month, with the Small Ords Accumulation Index gaining 3.9%.

The ASX 300 Bank Index fell 3.2% during the month, on the back of concerns about the Royal Commission into the banking sector, which was formally announced on 30 November**.**

Chart 3: ASX 200, ASX Financials and ASX Small Ordinaries price indices – 12 months (rebased to 100)



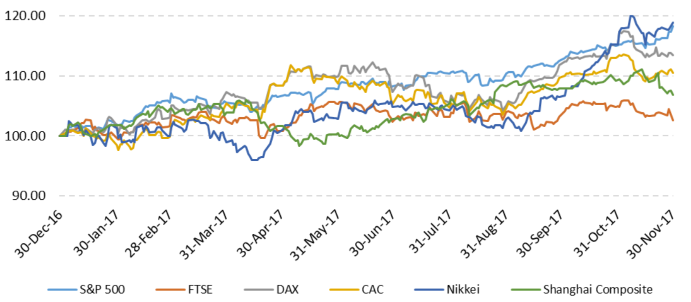
Source: BTIS/Bloomberg

International shares

US equity indices continued their surge to record highs: in price terms, both the Dow Jones Industrial Average and the S&P 500 Index were up 3.8% in November. The Dow and the S&P 500 have advanced every month since March, while the Nasdaq has been higher every month since June. In total-return terms, the Dow Jones added 4.2%, the S&P 500 gained 3.1% and the Nasdaq Composite Index was up 2.3%. The share price of Amazon hit new highs, crossing the US$1,200 a share mark for the first time.

On European bourses, Germany's DAX index retreated 1.6% for the month, while the CAC 40 in Paris was down 2.3%. These falls drove the STOXX Europe 600 index to a 2.2% decline for November, its largest fall since June. In the UK, the FTSE-100 index eased 1.8%.

Chart 4: Major market indices – year to date (rebased to 100)



Source: BTIS/Bloomberg

On Asian stock markets, Japan's Nikkei index gained 3.3% in November, nearing a 25-year high, the Hang Seng index in Hong Kong gained 3.3% and China's Shanghai Composite index slipped 2.2%. In South Korea, the KOSPI index retreated 1.9% for the month, after the Bank of Korea surprised the market by raising interest rates for the first time in more than six years.

Fixed interest

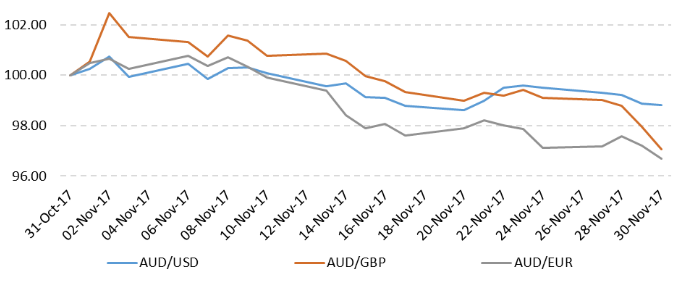
Bond yields were mixed across the developed market, with the US 10-year bond yield lifting by 3 basis points (bps) to 2.4%, while its German counterpart gained one lonely basis point to 0.4% and the UK 10-year gilt was unchanged at 1.3%. French yields were up 6 bps to 0.68% while Italian yields fell 9 bps to 1.7%, following a 29 bps fall in October.

Australian yields were markedly lower, with the 10-year yield dropping by 17 bps to 2.5% (following an 18 bps fall in October). This saw the Australia-US 10-year spread tighten by 21 bps to a margin of 11 bps.

Currencies

The US dollar lost ground against its largest cross-partners, with the euro gaining 2.2% and sterling 1.9%, with the greenback also on the losing end against the yen, slipping almost 1%. The Australian dollar also lost 1.2%, ending the month at 75.66 US cents.

Chart 5: AUD/USD, AUD/GBP and AUD/USD – November (rebased to 100)



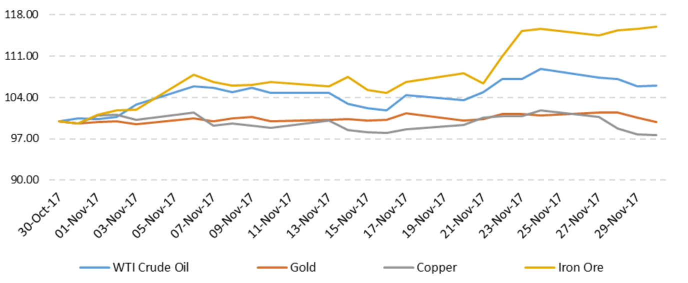
Source: BTIS/Bloomberg

Commodities

Iron ore proved the surprise standout in the commodities market in November, as it defied the consensus that expected it to ease in price on the back of Chinese government moves to cap steel production in the north and northeast of the country, to lessen pollution. The benchmark iron ore price surged by 16.4% in the month, on the back of a 9.7% jump in Shanghai steel futures, to end November at $US68.13 a tonne.

On the London Metals Exchange, copper lost 1.2% in November, nickel fell more than 9%, aluminium dropped 5.2%, zinc eased 3.5%, lead fell 2.3%, but tin defied the bearish trend with a 1.2% rise. Gold barely moved, up 0.3% for the month, while silver lost 1.4% on Comex. WTI crude oil added 5.6% in November for its third straight monthly rise, while Brent crude gained 3.6%, and natural gas eked out a 1% appreciation. The Bloomberg Commodity Index eased 0.6% over the month.

Chart 6: Major Commodities – November (rebased to 100)



Source: BTIS/Bloomberg

Funds update

Diversified Multi-Blend Funds

The Diversified Funds all achieved strong positive absolute performance for the month, although the funds marginally underperformed their benchmarks for the month as a result of underperformance from the Australian and International shares sector funds, which underperformed on a gross basis, 0.5% and 0.40% respectively. Over the last 12 months however, the funds have all exceed their benchmarks as a result of overall positioning bias towards equities, contributions from our active managers, and remaining relatively neutral with currencies.

Australian Shares Multi-Blend Fund

The Fund delivered a positive gross return of 1.2% over the month of November, however this underperformed the benchmark S&P/ASX 300 index which gained 1.7% over the period. The underperformance was primarily a result of an underweight allocation to the A-REIT sector which rallied over the month, coupled with negative stock selection within the sector. Bennelong was the main driver of underperformance at the manager level, with the strategy giving back most of the alpha earned in October as an overweight towards Consumer Discretionary stocks, specifically Aristocrat Leisure and Flight Centre which fell during the month, detracted from the overall performance. The allocation to smaller companies was a positive, with the strategy returning 2.0%, although Small Ords index was up 3.9%.

International Shares Multi-Blend Fund

The Fund advanced 2.8% over the month of November on a gross return basis, however this was slightly below the benchmark MSCI World ex Australia index return of 3.2%. The benchmark relative underperformance was driven by a negative contribution from stock selection, particularly within the IT sector where major stocks like Apple, Alibaba and Alphabet underperformed relative to the broader market. River & Mercantile underperformed the most at the manager level on the back of being underweight US equities and overweight emerging markets and Europe. The biggest detractor to the strategy was Blue Apron, a leader in the US meal kit market, where sales are currently impacted by delays in bringing a new automated fulfilment centre on stream. It wasn't all negative however, with T Rowe Price outperforming as a result of positive stock selection, particularly within the Health Care and Consumer Discretionary sectors.

Property Securities Multi-Blend Fund

The Fund gained 3.2% in November on a gross basis, performing roughly in line with the benchmark return of 3.1%. The strong absolute gain was driven by the allocation towards domestic real estate, which outperformed global markets as Sydney and Melbourne office assets surged on the back of considerable repricing after a raft of recent sales. Phoenix was the best underlying manager, with its strategy performing well on the back of an overweight position in Westfield. The strong performance of the stock during the month added value in both an absolute and relative sense. While Phoenix acknowledged that the risk around retail property has increased in recent times, it was looking to take advantage of any market overreactions as it saw strong capital market news in the form of M&A activity.

Australian Fixed Interest Multi-Blend Fund

Australian bonds performed well in November on the back of several weak local data points and fading Reserve Bank of Australia (RBA) rate hike expectations.

Against this backdrop, Government bond yields in Australia moved lower over the month. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 0.87% over November. The Advance Australian Fixed Interest Multi Blend Fund outperformed the benchmark, delivering returns of 0.91% gross of fees. The majority of underlying managers in the fund outperformed the benchmark with AMP and Henderson contributing to the majority of excess returns.

International Fixed Interest Multi-Blend Fund

Credit, spreads contracted further in November and approached levels that were the tightest since the global financial crisis. Investors absorbed significant supply and continued to retain their market to retain their market exposure in the face of geopolitical uncertainty.

Against this backdrop, the Fund delivered a positive return of 0.20% over the month of November gross of fees, outperforming the benchmark by 0.01%. Wellington delivered strong outperformance with its credit, macro and quantitative strategies being all positive contributors in November. This helped balanced out the weak performance across the Standish portfolio.

Overall, the Fund remains conservatively positioned with an average credit rating of A+. From a duration standpoint, the fund is just under a year short with a duration of 6.04 years versus the benchmark of 6.94 years.

Defensive Yield Multi-Blend Fund

Returns in the underlying portfolio were once again generated from a diverse source of active strategies including asset allocation, credit selection and interest rate strategies. The Fund continues to generate strong income with an average current running yield of 3.05%.

Advance Diversified Multi-Blend Fund Performance

Net (after fee) Wholesale performance of the Advance Diversified Multi-Blend Funds to end November 2017 against benchmarks are as follows.

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %
Defensive Multi-Blend	**0.94**	**2.67**	**7.27**	**4.08**	**4.69**	**5.18**
Benchmark	1.03	2.62	7.03	5.07	5.47	5.92
Moderate Multi-Blend	**1.2**	**4.05**	**10.7**	**5.75**	**6.76**	**6.57**
Benchmark	1.39	3.95	9.87	6.5	7.4	7.28
Balanced Multi-Blend	**1.44**	**5.38**	**13.83**	**7.35**	**8.81**	**7.77**
Benchmark	1.76	5.37	12.7	7.91	9.31	8.45
Growth Multi-Blend	**1.66**	**6.3**	**15.93**	**8.21**	**9.97**	**8.34**
Benchmark	2.02	6.38	14.93	8.96	10.6	9.22
High Growth Multi-Blend	**1.88**	**7.2**	**17.81**	**9.27**	**11.61**	**9.21**
Benchmark	2.27	7.3	16.95	9.91	12.15	10.05

November Market Data

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 200 Accumulation	1.64%	5.71%	14.61%	8.72%	10.56%
S&P/ASX 200 Industrials Accumulation	1.35%	5.58%	13.16%	9.04%	12.87%
S&P/ASX 200 Resources Accumulation	3.07%	6.32%	22.00%	6.83%	1.73%
S&P/ASX 200 Accumulation AREIT	5.27%	8.18%	12.65%	12.55%	13.81%
S&P/ASX Small Ords Accumulation	3.91%	11.60%	20.50%	13.36%	7.40%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia Unhedged in $A	3.23%	11.36%	20.51%	12.62%	19.38%
EPRA/NAREIT Developed Index Hedged $A	2.41%	2.49%	10.94%	6.28%	10.52%
STOXX Europe 600 Total Return	-2.00%	3.79%	16.77%	7.12%	10.58%
S&P 500 Total Return	3.07%	7.65%	22.87%	10.91%	15.74%
Nikkei 225 Total Return	3.26%	16.47%	26.45%	11.21%	21.33%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.13%	0.42%	1.75%	2.08%	2.37%
Barclays Global Aggregate TR Hedged A$	0.19%	0.22%	3.80%	4.26%	4.96%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	85.7033	-0.56%	1.24%	-0.35%	-8.79%	-9.71%
Generic Brent Crude Oil	63.57	3.58%	21.36%	25.96%	-3.23%	-10.59%
Generic WTI Crude Oil	57.4	5.55%	21.53%	16.10%	-4.62%	-8.38%
Gold US$/oz	1275.01	0.28%	-3.51%	8.68%	2.98%	-5.76%
Iron Ore	68.13	16.42%	-13.66%	-5.48%	-1.51%	-10.19%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.7566	-1.18%	-4.79%	2.45%	-3.83%	-6.22%
EUR/USD	1.1904	2.22%	-0.05%	12.42%	-1.49%	-1.72%
USD/JPY	112.54	-0.97%	2.33%	-1.68%	-1.74%	6.41%
GBP/USD	1.3525	1.82%	4.60%	8.15%	-4.74%	-3.32%

For more information on market activity and investments, please contact your BT relationship manager.