

December 2015

At last, we have lift off! The US Federal Reserve's Federal Open Market Committee (FOMC) finally raised its official interest rate from its 0-0.25% target range by 0.25% to a new target range of 0.25%-0.50% at its last meeting of the calendar year. This comes nine years and seven months since the US Federal Reserve last raised the Federal Funds Rate (FFR).

Notwithstanding the obsession by market participants globally over this event, the reaction from investors was rather uneventful. The announcement was received by the equity markets positively with the S&P500 ending the day up around 1.6%. However, the announcement had little impact on currency and interest rate markets.

In terms of the likely "path" of the FFR, the FOMC expects the FFR to rise by a full one percentage point in 2016. This pace of policy tightening is still more than that expected by the market but, most importantly, remains a very gradual pace of expected policy tightening.

Although the FOMC is generally upbeat on the US economy, the Committee noted "the importance of confirming that inflation would rise as projected". Certainly this is an area to watch over 2016 as US inflation remains benign. The latest headline inflation was 0.5% year-on-year (y/y) and 2.0% y/y for core inflation. Additionally, lower commodity prices, the stronger US dollar and emerging market growth concerns are likely to place ongoing pressure on keeping inflation low.

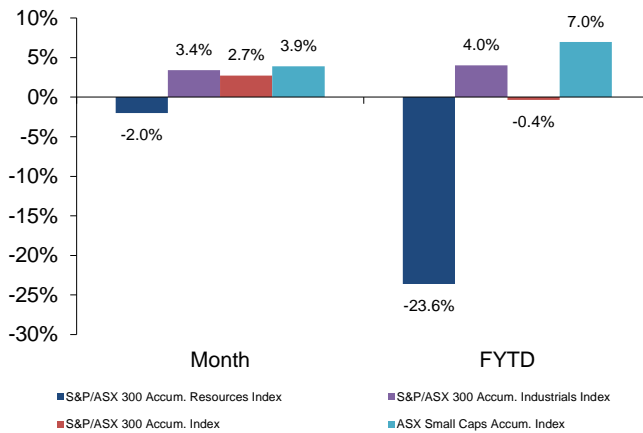
Adding to the deflationary concerns, US wage growth was weak in December despite the continued strength of the US labour market adding 292,000 nonfarm payrolls during the month and beating expectations.

In Europe, the recovery appears on track albeit still sluggish. Preliminary GDP growth came out at 1.6% y/y while the manufacturing purchasing manager index (PMI) was reported at 53.2 for December, up from 52.8. However, like everywhere else around the world, inflation remains weak. The preliminary Euro area inflation rate for December stands at a meagre 0.2% y/y at the time of writing.

Over in China, the source of volatility for global financial markets, conditions remain relatively unchanged. The old growth drivers (i.e. manufacturing etc.) continue to decelerate as highlighted by the official manufacturing PMI at 49.7 in December (although slightly higher than the month before, it is still below the 50 threshold that defines if the manufacturing sector is expanding or contracting). However, the new growth drivers (i.e. domestic consumption and services) are picking up with retail sales growth accelerating from 11% to 11.2% y/y. The economic transition is in progress.

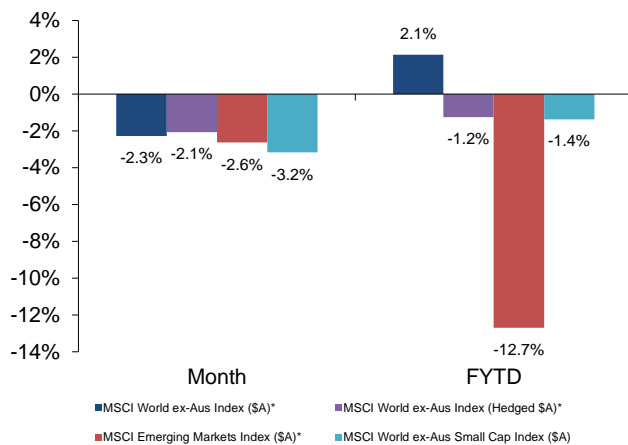
Domestically, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2% at its December meeting. The RBA in its statement "judged that the prospects for an improvement in economic conditions had firmed a little over recent months and that leaving the cash rate unchanged was appropriate".

Australian equities



Australian equities rose by 2.7% in the last month of the year. This was largely driven by Consumer Staples (+7.1%) and Consumer Discretionary (+6.3%). Energy (-7.5%) was the worst performing sector.

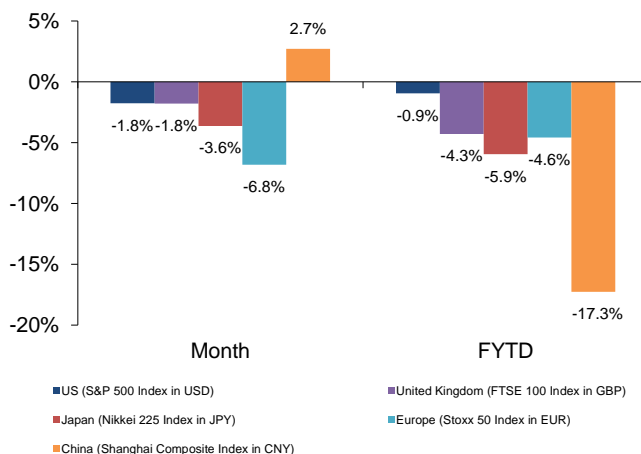
International equities (\$A)



Developed and emerging market equities delivered a negative return for December.

The hedged developed market equities index outperformed its unhedged counterpart over the month due to the slight strengthening of the Australian dollar over that period.

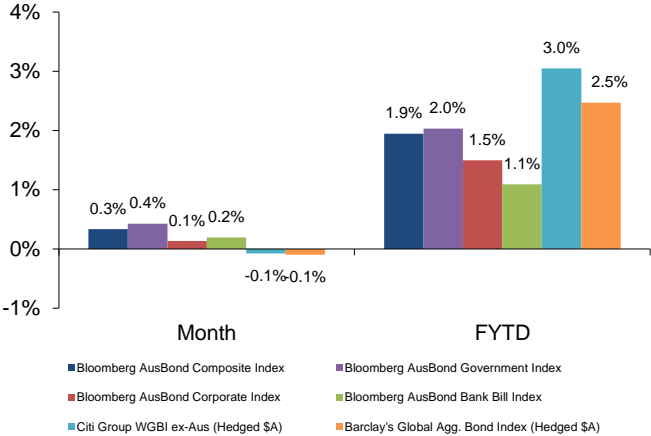
International equities (local currencies)



At the major local equity market level, only Chinese equities posted a positive return in December. However, Chinese equities are still down -17.3% for the financial year to date due to the bursting of its equity bubble during the year.

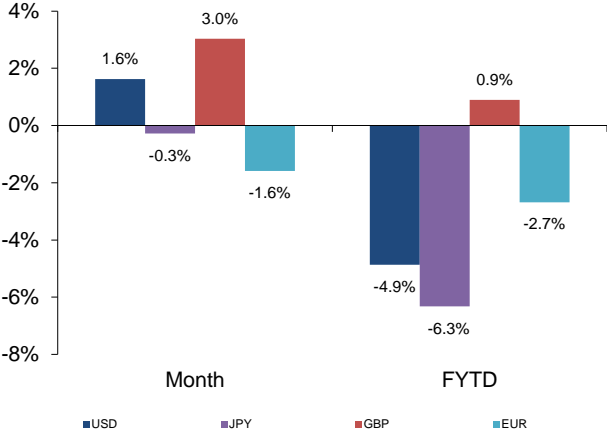
European equities were the worst performer as the ECB's announced easing measures in the month were less than what was expected by the market.

Fixed income



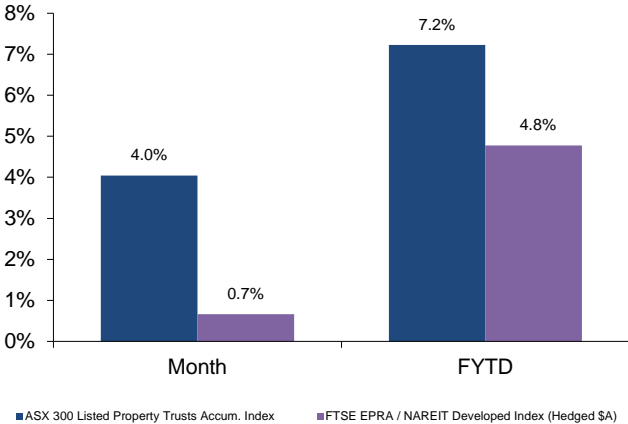
Despite the US Federal Reserve raising its official interest rate during the month, global bonds only posted a slight negative return (-0.1%). Domestically, Australian government and corporate bonds ended the month slightly positive.

Australian dollar against major currencies



The Australian dollar appreciated in December against the US dollar (USD) and British Pound (GBP) and weakened against the Japanese Yen (JPY) and Euro (EUR).

Property



Both domestic and global listed property trusts delivered positive returns in December with Australian property trusts outperforming their international counterpart.

Monthly Markets

31-December-2015	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	47,727	2.7%	6.5%	-0.4%	2.8%
S&P/ASX 300 Accum. Industrials Index	102,161	3.4%	9.1%	4.0%	8.3%
S&P/ASX 300 Accum. Resources Index	13,637	-2.0%	-8.7%	-23.6%	-24.9%
ASX Small Caps Accum. Index	5,725	3.9%	11.3%	7.0%	10.2%
International equities					
MSCI World ex-Aus Index (\$A)*	6,974	-2.3%	1.7%	2.1%	11.8%
MSCI World ex-Aus Index (Hedged \$A)*	1,237	-2.1%	6.6%	-1.2%	3.8%
MSCI Emerging Markets Index (\$A)*	470	-2.6%	-2.8%	-12.7%	-4.3%
MSCI World ex-Aus Small Cap Index (\$A)	435	-3.2%	0.1%	-1.4%	10.7%
US (S&P 500 Index in USD)	2,044	-1.8%	6.5%	-0.9%	-0.7%
United Kingdom (FTSE 100 Index in GBP)	6,242	-1.8%	3.0%	-4.3%	-4.9%
Japan (Nikkei 225 Index in JPY)	19,034	-3.6%	9.5%	-5.9%	9.1%
Europe (Stoxx 50 Index in EUR)	3,268	-6.8%	5.4%	-4.6%	3.8%
China (Shanghai Composite Index in CNY)	3,539	2.7%	15.9%	-17.3%	9.4%
AUD versus ...					
USD	0.73	1.6%	4.2%	-4.9%	-10.9%
JPY	87.98	-0.3%	4.7%	-6.3%	-10.3%
GBP	0.49	3.0%	6.6%	0.9%	-6.5%
EUR	0.67	-1.6%	7.2%	-2.7%	-0.9%
Property					
ASX 300 Listed Property Trusts Accum. Index	38,992	4.0%	6.0%	7.2%	14.4%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,224	0.7%	5.1%	4.8%	4.3%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,561	0.3%	-0.2%	1.9%	2.6%
Bloomberg AusBond Government Index	8,917	0.4%	-0.5%	2.0%	2.3%
Bloomberg AusBond Corporate Index	8,691	0.1%	0.0%	1.5%	3.0%
Bloomberg AusBond Bank Bill Index	8,365	0.2%	0.5%	1.1%	2.3%
Global Fixed Interest					
Citi Group WGFI ex-Aus (Hedged \$A)	-	-0.1%	0.6%	3.0%	3.6%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	-0.1%	0.6%	2.5%	3.3%
Oil and Commodities					
Crude Oil (\$/bbl)	37	-11.1%	-17.9%	-37.7%	-30.5%
Copper Spot (\$/tonne)	4,706	2.3%	-9.1%	-18.2%	-26.1%
Gold Spot (\$/ounce)	1,060	-0.5%	-5.0%	-9.8%	-10.8%
Fixed income (yields) as at ...					
	31-Dec-15	30-Nov-15	30-Sep-15	30-Jun-15	31-Dec-14
Australia Bank Bill	2.33	2.26	2.16	2.13	2.77
Australia 10 Year Government Bond	2.88	2.86	2.61	3.01	2.74
US 10 Year Government Bond	2.27	2.21	2.04	2.35	2.17
UK 10 Year Government Bond	1.96	1.83	1.76	2.02	1.76
Germany 10 Year Government Bond	0.63	0.47	0.59	0.76	0.54
Japan 10 Year Government Bond	0.27	0.31	0.36	0.47	0.33

* Net dividends reinvested