September Monthly Market Review

How the different asset classes have fared:
(As at 30th September 2018)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr %	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash[1]	3.2	2.2	1.9	1.9	1.4	1.0	0.5	0.2
Australian Bonds[2]	5.6	4.3	2.9	3.7	2.2	1.4	0.5	-0.4
International Bonds[3]	6.7	4.6	3.2	0.9	0.0	0.1	-0.1	-0.4
Australian Shares[4]	7.7	8.4	12.4	14.7	6.0	10.0	1.9	-1.1
Int. Shares Unhedged[5]	9.6	15.3	12.5	20.8	14.2	13.4	7.4	0.6
Int. Shares Hedged[6]	11.1	12.9	15.0	13.2	7.2	9.7	5.7	0.9
Emerging Markets Unhedged[7]	6.1	8.7	10.7	7.1	-0.5	-3.6	0.6	-0.6
Listed Infrastructure Unhedged[8]		13.1	7.7	9.3	6.8	9.8	1.8	-0.7
Australian Listed Property[9]	6.5	12.6	10.3	13.2	5.1	12.0	2.0	-1.5
Int. Listed Pty Unhedged[10]		11.8	4.7	11.8	8.1	12.2	1.8	-2.4

[1]Bloomberg AusBond Bank 0+Y TR AUD, [2]Bloomberg AusBond Composite 0+Y TR AUD, [3]Bloomberg Barclays Global Aggregate TR Hdg AUD, [4]S&P/ASX All Ordinaries TR, [5]Vanguard International Shares Index, [6]Vanguard Intl Shares Index Hdg AUD TR, [7]Vanguard Emerging Markets Shares Index, [8]FTSE Developed Core Infrastructure 50/50 NR AUD, [9]S&P/ASX 300 AREIT TR, [10]FTSE EPRA/NAREIT Global REITs NR AUD

Financial markets experienced a mixed month in September, with most share markets recording modest losses over the month. This is not to be unexpected, share markets have been rising steadily since the selloff in March earlier this year, and some consolidation and correction in markets is entirely normal.

Australian shares came off their highs in September after a strong and sustained rally over the past 6 months. The Royal Commission released its interim report on the last day of September. There are likely to be quite wide-ranging consequences stemming from this inquiry. The key issue for Australian shares will be how well does consumer confidence and spending hold up, if house prices keep drifting lower? The Commission uncovered serious flaws in bank lending practices. Which are likely to result in loan amounts to prospective property buyers being 10-25% lower than was the case 12 months previously.

All other things being equal we believe this points to lower property prices in the coming year. Put simply; if you can borrow less, you can bid less at a property auction. We have no fundamental concerns about the viability of the Australian banking system, rather our concern is that if consumers feel poorer, they will spend less. This in turn will lead to lower profits for companies and will limit the prospects for strong further rallies in Australian shares in the coming year. The challenge in investing in Australian shares today is that the share market has to a reasonable degree recognised this risk. Australian banks aren't overly expensive while industrial stocks are trading at extremely high valuations.

Australian listed property trusts fell in line with Australian shares over the month. This sector has been adversely affected by rising concerns of increasing interest rates around the world. Despite the fact that there seems little prospect of interest rate increases in Australia in the next 12 months.

The Australian dollar was fairly flat during the month of September, although it has fallen steadily over the past few years. We expect the trend for a weaker A$ to continue over the coming year as Australian interest rates continue to slip below US rates.

International share markets generally traded sideway over the month. The US share market has been one of the best performers despite being one of the most expensive equity markets. We continue to favour non-US share markets, many of which are much more attractively priced. Emerging market shares stabilised after a very poor start to the year. There is value emerging in this sector, but it may take some time to recover.

Fixed-interest markets continued to trade sideways. Given that interest rates are so low across the globe, it's very hard for investors to get reasonable returns in this sector without taking high risks. Cash rates in Australia have also remained unchanged for some time and we believe that it is highly likely that the Reserve Bank will keep interest rates at current levels for at least another year.