



Risk assets rose

- **Global shares** were up 1.8% and 0.4% in hedged and unhedged terms, respectively.
- Domestically, **Australian shares** underperformed international markets falling -0.4% during October. This was driven by a combination of falling iron ore prices hurting mining giants such as Rio Tinto and disappointing quarterly updates impacting the major banks.
- The **Australian dollar (AUD)** rose against major currencies on the firming prospects of US-China negotiations (an initial deal expected in December) as well as another interest rate cut by the Federal Reserve.
- **Fixed income** assets struggled slightly as investors became more optimistic on global growth prospects. Continued improvement in manufacturing PMIs has been a focus on this front as have positive leaks from US-China trade negotiations. This saw a rise in bond yields globally that resulted in negative bond returns for the month for both **domestic fixed income** and **international fixed income**.

- We have also seen property markets continue to strengthen following the RBA rate cuts. This has prompted concerns from some observers over future financial risks from excessive household borrowing.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	-0.4	19.3	8.5
Global shares (hedged)	1.8	11.5	9.4
Global shares (unhedged)	0.4	15.8	13.1
Global small companies (unhedged)	0.7	10.8	12.6
Global emerging markets (unhedged)	2.0	15.1	8.1
Global listed property (hedged)	1.8	19.3	7.9
Cash	0.1	1.7	2.0
Australian fixed income	-0.5	10.1	5.0
International fixed income	-0.3	9.7	4.7

Source: Bloomberg & IOOF, 31 October 2019
 Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD Please note: Past performance is not indicative of future performance.

With a trough nearing in global growth?

Globally

- Global business surveys are pointing to stabilisation with the Markit Global Manufacturing PMI entering expansionary territory led by China and the US.
- European economic growth surprised slightly at +0.2% while US growth remained positive albeit at a slower pace.
- Encouragingly in the US we saw a positive contribution from housing investment (after being a drag on growth in recent years).
- While positive we still remain cautious on global growth given weakness in US business investment and the Eurozone generally.

Locally

- The Reserve Bank of Australia (RBA) cut interest rates in early October by 0.25% to 0.75%.
- Recent RBA remarks and economic data have seen expectations for further rate cuts drop considerably.
- Expectations of unconventional policy appear to be rising with an Australian "quantitative easing" reportedly being contemplated by the RBA.
- Retail sales volumes disappointed, falling 0.1% during the September quarter.
- Weak sentiment saw consumers use the government tax refund to help pay down their debts according to the latest CBA quarterly update.
- The NAB Monthly Business Survey for October suggests subdued business conditions will continue in the near term.
- The unemployment rate fell slightly to 5.2% driven by a weaker participation rate (if participation remained constant it would have remained at 5.3% instead).

Currency markets

Exchange rates	At close on 31/10	1 month change %	1 year change %
USD/AUD	0.69	2.1	-2.5
Euro/AUD	0.62	-0.2	-1.1
Yen/AUD	74.5	2.1	-6.8
Trade weighted index	60.0	1.4	-3.1

Source: Bloomberg & IOOF, 31 October 2019. All foreign exchange rates are rounded to two decimal places where appropriate. Please note: Past performance is not indicative of future performance.

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