### How the different asset classes have fared:
(As at 31st October 2017)

| 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] | 3.7 | 2.4 | 2.1 | 1.8 | 1.5 | 0.9 | 0.4 | 0.1 |
| Australian Bonds[2] | 6.2 | 4.1 | 3.9 | 1.6 | 3.3 | 1.3 | 0.8 | 1.1 |
| International Bonds[3] | 7.3 | 5.1 | 4.6 | 1.9 | 3.2 | 1.8 | 1.0 | 0.5 |
| Australian Shares[4] | 3.1 | 10.3 | 7.3 | 15.5 | 8.2 | 2.7 | 4.9 | 4.1 |
| Int. Shares Unhedged[5] | 6.2 | 18.8 | 13.4 | 22.0 | 11.7 | 7.0 | 8.7 | 4.3 |
| Int. Shares Hedged[6] | 7.0 | 16.0 | 11.4 | 23.7 | 16.9 | 9.2 | 5.5 | 2.7 |
| Emerging Markets Unhedged[7] | 2.5 | 11.4 | 10.6 | 25.5 | 24.9 | 13.3 | 9.7 | 5.9 |
| Listed Infrastructure Unhedged[8] | | 17.2 | 11.4 | 15.1 | 11.0 | 4.5 | 5.6 | 3.8 |
| Australian Listed Property[9] | -0.1 | 12.5 | 10.9 | 8.6 | 1.0 | -1.5 | 4.4 | 2.2 |
| Int. Listed Pty Unhedged[10] | | 13.1 | 8.0 | 2.7 | -3.3 | -1.7 | 2.2 | 1.2 |

[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]MSCI World Ex Australia NR AUD, [6]Vanguard Intl Shares Index Hdg AUD TR, [7]MSCI EM NR AUD, [8]FTSE Developed Core Infrastructure 50/50 NR AUD, [9]S&P/ASX 300 AREIT TR, [10]FTSE EPRA/NAREIT Global REITs NR AUD

## Cash

The RBA again left the target cash interest rate unchanged at 1.5% at its October meeting. The central bank has a reasonably benign view of the economy, seeing economic growth as continuing to gradually pick up in the coming year. It sees two threats to this sanguine picture.

Firstly, the RBA would like to see a lower Australian dollar. This would aid Australian exporters by making their goods cheaper to foreign buyers. A cut in interest rates would help get the dollar down. On the other hand, a cut in rates is likely to stoke residential property markets. And this would exacerbate the RBA's other concern: high household debt (via mortgages to buy expensive residential property). Hence, the RBA has kept the cash rate unchanged; and is likely to keep it so for some time yet.

## Bonds

Australian bonds had a good month, returning a bit over 1%. Australian bonds usually have a higher yield than US bonds. However, the spread between the two has steadily narrowed recently. This reflects the different points in the cycle of the US and Australian economies. The US is at full employment and is starting to pick up speed and consequently has a central bank that is moving interest rates higher. In contrast, the Australian economy has been adjusting to the end of one of the biggest mining booms the world has ever seen.

However since June, the spread between Australian and US bond yields widened as some positive data on the Australian economy suggested that the two economies weren't at such divergent points in the cycle.  In October this was unwound with Australian bond yields falling and US yields largely flat. With bond prices moving in the opposite direction to yields, this resulted in a capital gain for Australian bond investors.

## International Shares

The long bull market, now in its 9th year, continued onwards and upwards in October. The Australian dollar softened over the month, meaning currency unhedged international equities outperformed hedged.

Emerging markets continued to lead the way with near to 6% for the month. For the first time since the GFC we're seeing synchronised global economic growth. This has led to a pickup in world trade which has benefited emerging market economies, many of which are big exporters. It has also enabled countries that were in recession to recover, such as Russia and Brazil. The more attractive valuations on offer in these stock markets has also attracted buying.

Turning to developed economies, the resounding victory of Shinzo Abe in Japan's elections saw Japanese equities returning near to 10% over October, and top the league tables. Abe is likely to reappoint Haruhiko Kuroda as governor of the Bank of Japan. This will ensure a continuation of Japan's ultra-dovish monetary policy as other major central banks, led by the US Fed, are tightening policy. This should see the Yen weaken which is good for Japanese exporters; and the Japanese stock market.

## Australian Shares

Australian shares also had a good month. The ASX is dominated by the miners and the banks, and both did reasonably well in October.

However, as has been the theme for most of this year, the miners were the better performer with 4.6% vs. the financials with 3.2%. Regulatory pressure, a slowdown in credit growth, concern over the vulnerability of mortgage books to a correction in residential property prices, the odd scandal and rich valuations have all contributed to the banks' relative underperformance. The miners, in contrast, are very much in favour. Globally, investors have rotated out of defensive stocks (such as property and infrastructure) and into cyclicals (those stocks that are closely tied to the economic cycle) such as the Australian miners.