How the different asset classes have fared:
(As at 30th November 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	1.6	0.9	0.4	0.1
Australian Bonds[2]	6.2	4.3	3.8	4.0	4.2	1.0	1.7	0.9
International Bonds[3]	7.1	5.0	4.3	3.8	3.4	1.3	0.2	0.2
Australian Shares[4]	3.6	10.7	9.2	14.8	10.2	7.4	6.1	1.9
Int. Shares Unhedged[5]	6.4	19.4	12.6	20.5	15.4	7.5	11.4	3.2
Int. Shares Hedged[6]	7.6	16.0	10.8	22.4	18.9	9.1	7.0	1.7
Emerging Markets Unhedged[7]	2.9	11.5	10.4	29.3	26.4	10.8	7.9	1.2
Listed Infrastructure Unhedged[8]	N/A	18.3	11.4	20.4	14.7	3.3	6.2	3.4
Australian Listed Property[9]	1.1	14.0	12.9	13.5	6.3	4.8	8.3	5.3
Int. Listed Pty Unhedged[10]	N/A	14.1	7.8	6.8	0.6	1.8	6.0	4.0

[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 left the target cash interest rate unchanged at 1.5% in both its November and December meetings. The market at the start of the year was pricing a reasonable change of an interest rate increase. We didn't agree and thought the high level of household debt combined with an economy still adjusting to a post mining boom world would stay the RBA's hand.

Looking out to the year ahead, markets see an interest rate hike in 2019. Our view is 2019 is likely to see a continuation of 2018, with the RBA remaining on hold. While we think it most likely the RBA keeps rates where they are, we think a cut in rates is more likely than an increase.

Our reasoning here is that macro prudential measures, such as limits on bank lending to investors and interest only loans; combined with just the sheer unaffordability of housing to the average person in Sydney and Melbourne and large supply of apartments coming into the market next year (particularly in Brisbane) will take the heat out of residential property markets on the East coast. This in turn will free the RBA's hand to lower rates without fear of fuelling a further escalation in house prices.

A cut in rates would support a heavily indebted consumer to de-lever. With consumption making up 60% of the economy, this would help support the economy generally.

Bonds

Bonds had another reasonable month, certainly relative to the sharp selloff following the election of Trump late last year.

The sell-off was driven by an expectation that Trump's promises of tax cuts and spending on infrastructure would further stoke a US economy that was already at full employment. In other words: inflation. With Trump proving to be inept at getting any actual policy enacted, along with inflation continuing to remain dormant even as the unemployment rate continued to ratchet down, bond yields have come down and bond prices, which move in the opposite direction to yields, have rallied.

Interestingly the last three months have seen Australian bonds outperform international, reversing the pattern of much of the prior year.

International Shares

Stock markets around the globe continued to rally in November. The Australian dollar also continued to drift lower, meaning that currency unhedged international shares investors did better than those who had hedged out currency exposure.

US shares (60% of MSCI World- the index used in the table above) put on just over 4% (in US dollars) in November. Over the last 3 months US shares have seen 12.5% appreciation. This marked the end of a period of relative underperformance to other developed world share markets. US shares also outperformed at the start of the year courtesy of the Trump rally. Putting this all together US shares have gained 15% this year.

European shares have really come in from the cold this year. The European sovereign debt crisis seems like a distant memory. Economic data out of Europe has been very good. And it hasn't just been Germany. Spain's GDP grew by 3.1% on an annual basis in the September quarter. In contrast, US data has been a bit flat, and this combined with the fizzling of the Trump rally along with more attractive valuations led investors to buy European equities in preference to US. With European share markets having a higher proportion of exporters, the synchronised global recovery in economic growth (and trade) was another reason for investors to want to get exposure. Finally, with all the travails of the Euro bloc since the GFC, many investors were caught underexposed to European stocks. This has seen European stocks put on 20% so far this year (in Euros). In November, however, European stocks eked out just 0.5% with US stocks being preferred.

The other major world economy stock market is Japan. Since Shinzo Abe's landslide re-election on October 23rd Japanese stocks have roared ahead. Japanese shares were up 6% in November (in Yen) and were the best performing major share market globally.

Australian Shares

Australian shares did reasonably well in November, while still underperforming international shares (a theme that has been present all year). Small companies (as represented by the S&P/ASX Small Ordinaries index) surged ahead with 4% for the month. The 20 largest companies on the ASX, in contrast, appreciated by a relatively sedate 1%. Another theme that has been fairly constant in 2018 has been the outperformance of the miners. The S&P/ASX 200 Resources index added another 3.1% in November, and has appreciated by 17.5% so far this year. The other big sector of the ASX, financials, has not had quite as good 2018, flat for the month and adding just 4.7% for the year.