How the different asset classes have fared:

(As at 30th September 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]	3.8	2.4	2.1	1.8	1.3	0.9	0.4	0.1
Australian Bonds[2]	6.1	3.9	3.9	-0.7	2.2	0.9	-0.1	-0.3
International Bonds[3]	7.3	5.1	4.8	0.5	2.8	2.1	0.9	-0.4
Australian Shares[4]	3.0	10.1	7.3	8.5	3.9	-0.5	1.0	0.1
Int. Shares Unhedged[5]	5.5	17.7	11.8	15.4	7.2	6.2	2.5	3.4
Int. Shares Hedged[6]	7.0	15.3	9.8	17.3	11.1	6.2	1.9	0.3
Emerging Markets Unhedged[7]	2.5	10.0	8.8	19.4	17.9	11.5	5.5	0.7
Listed Infrastructure Unhedged[8]	N/A	16.8	11.1	8.6	6.9	4.6	0.0	-1.1
Australian Listed Property[9]	-0.4	13.2	12.5	-2.0	-1.2	-1.2	1.9	0.6
Int. Listed Pty Unhedged[10]	N/A	13.0	10.0	-4.2	-4.4	-0.4	-1.2	0.7

[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

International Shares

The third quarter of the year was another good one for share investors. The economic backdrop remains encouraging and company earnings have been better than expected. The continued absence of inflation has meant the markets don't anticipate central banks being forced into rapid interest rate increases, and choking off economic growth. All in all, investors were able to focus on these positive factors and ignore what was grabbing newspaper headlines such as the escalating tension on the Korean peninsula and hurricanes in the US.

Emerging markets returned 5.5% for the September quarter while developed market shares did 2.5%. So far this year emerging market shares, with an 18% return, have outperformed their developed market counterparts (7.2%) handsomely.

With developed markets, particularly the US, looking expensive the better value on offer in the emerging world has attracted buyers. Additionally many emerging market economies are big exporters, so the long waited for sustained recovery in developed market economies bodes well. Stimulus put in place by China to arrest an economic slowdown has not only helped Chinese shares but also many other emerging markets that are interlinked in global supply chains. Fears of protectionism and trade wars breaking out with the election of Trump have faded. Finally, low inflation and a lowering of market expectations of interest rate rise in the US has seen weakness in the US dollar. This helps emerging markets as investment returns in emerging markets are relatively more attractive. Additionally, a lower US dollar makes paying off US dollar denominated debt easier.

Australian Shares

Australian shares had a positive quarter but lagged markets offshore. With iron ore still above $US60/tonne Australian miners are doing well. The continued strength in commodity prices like iron ore resulted in the miners once again being the top returning sector of the ASX, with a 9% return for the quarter. The other big sector of the local market, financials, was flat for the quarter.

Bonds and Cash

The RBA again left the target cash interest rate unchanged at 1.5%. 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 rates unchanged; and is likely to keep them so for some time yet.

Government bonds rallied early in the quarter, as a continuing lack of evidence of inflation made markets doubt that central banks, led by the US Federal Reserve (the "Fed"), would hike interest rates as much and as fast as they had said they would. Late in the quarter government bonds sold off as the Fed made it clear that a tight US labour market meant it saw the puzzling lack of inflation as a temporary phenomenon. It also stressed the dangers of tightening monetary policy too slowly.

Bond markets around the world price off the US market to some extent. Consequently Australian bonds also sold off and ended the quarter flat. International bonds managed to hold onto some of the earlier gains and registered a modest gain for the quarter.

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