Sow, nourish and harvest your wealth

Investment Newsletter

Harvest

February 2014 Edition

Director's Perspective

By Inbam Devadason

Global share markets were down around 5% over the month of January 2014 with concern over slowing Global growth and a natural correction after a strong rally in the 2013 calendar year. Over the month of February most of these losses have been recouped. Confidence in the Global recovery has returned with the US showing good growth, strong house price increases and continuing reduction in unemployment. The World GPD growth graph below shows a strong pick-up in growth in the last 12 months, especially amongst Australia's major trading partners. This newsletter summarises some of the key economic indicators which generally point to an improvement in economic activity which is positive for equity markets. The key risk remains the continued reliance on central banks buying bonds and keeping official interest rates very low, to boost economic activity. Any sharp increase in interest rates could constrain future growth.

Regional Commentary

Australia

Monetary policy - the Reserve Bank of Australia (RBA) decided to leave the cash rate unchanged at 2.5% at their February 2014 meeting. We believe the RBA is likely to keep the cash rate on hold for the moment.

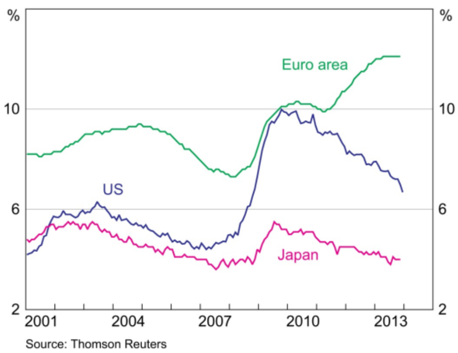
Inflation – the Australian Consumer Price Index (CPI) rose 0.8% in January 2014, taking the annual rate on inflation to 2.7%. This is at the high end of the RBA's 2-3% target band.

Employment – The Australian economy lost 3,700 jobs during the month of January. The unemployment rate rose 0.1% to 5.9%.

Retail Sales – retail sales lifted by 0.7% in November 2013, led by restaurants, up 2.2%.

Unemployment Rate in Advanced Economies

As at 31 January 2014



Source: RBA

United States

Growth – US annual GDP growth was 3.2% as at the end of the fourth quarter of 2013. Although this result was slightly below that recorded during the previous quarter, it was nonetheless a good result given the fiscal and political difficulties experienced by the US during the quarter such as the government shut down.

Manufacturing - The ISM Manufacturing PMI index continued to grow in January 2014, although, the rate of growth in the Index slowed to 51.3 during the month (down from 56.5 in December 2013).

Monetary policy – the US Federal Reserve announced that it would taper its bond purchasing by an addition US$10 billion per month bringing the total monthly bond purchase rate down to $65 billion per month.

Unemployment – In January 2014 the unemployment rate fell to 6.6%. New jobs were down slightly at 113,000 for the month.

Europe

Growth – Eurozone GPD growth increased by 0.3% for the fourth quarter of 2013. Eurozone GPD growth is expected to further increase into 2015.

Manufacturing - Eurozone manufacturing continued to recover in January 2014 with the Manufacturing Index reaching 54.0, its highest result in 32 months.

Monetary policy – Eurozone inflation continued to fall and remains significantly below the ECB's target rate. Concerns are beginning to surface that the Eurozone may be entering into a period of deflation.

Inflation - The annual CPI inflation rate in January was 0.7% which was lower than expected. Despite this however, the ECB left its monetary policy unchanged at its January 2014 meeting.

China/Japan

Growth - China's official annual GPD growth rate was 7.7% at the end of the fourth quarter of 2013. This represents a fall of 0.1% from the previous result of 7.8%.

Manufacturing - Chinese manufacturing softened in December with the HSBC China Manufacturing PMI falling to 49.5 in January.

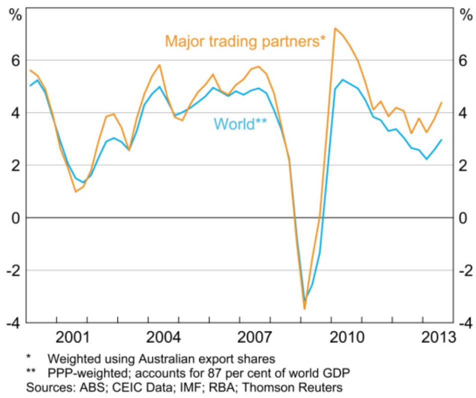
Employment – Japanese unemployment fell 0.3% to 3.7% in January 2014 having previously been steady at 4.0% in November and December 2013.

Commodity Prices

Commodity price movements were mixed in December 2013. Iron Ore prices dropped 7.3% to US$127/MT, which is a 6 month low. Oil was down 3.1% to $107.97/bbl, while gold was up 2.9% to US$1,242.68.

World GDP Growth

As at 31 January 2014



Source: RBA

The Australian share market was weaker in January 2014, however has fully recovered over February 2014. The half year profit reporting season has been better than expected and is supportive of an increase in share prices. Our belief is that the market is still currently at fair value based on improved profit expectations for the 2014 financial year. We expect the Australian Equity market to trade in a higher range than last year, between 5,200 and 5,800 over the next 6 months.

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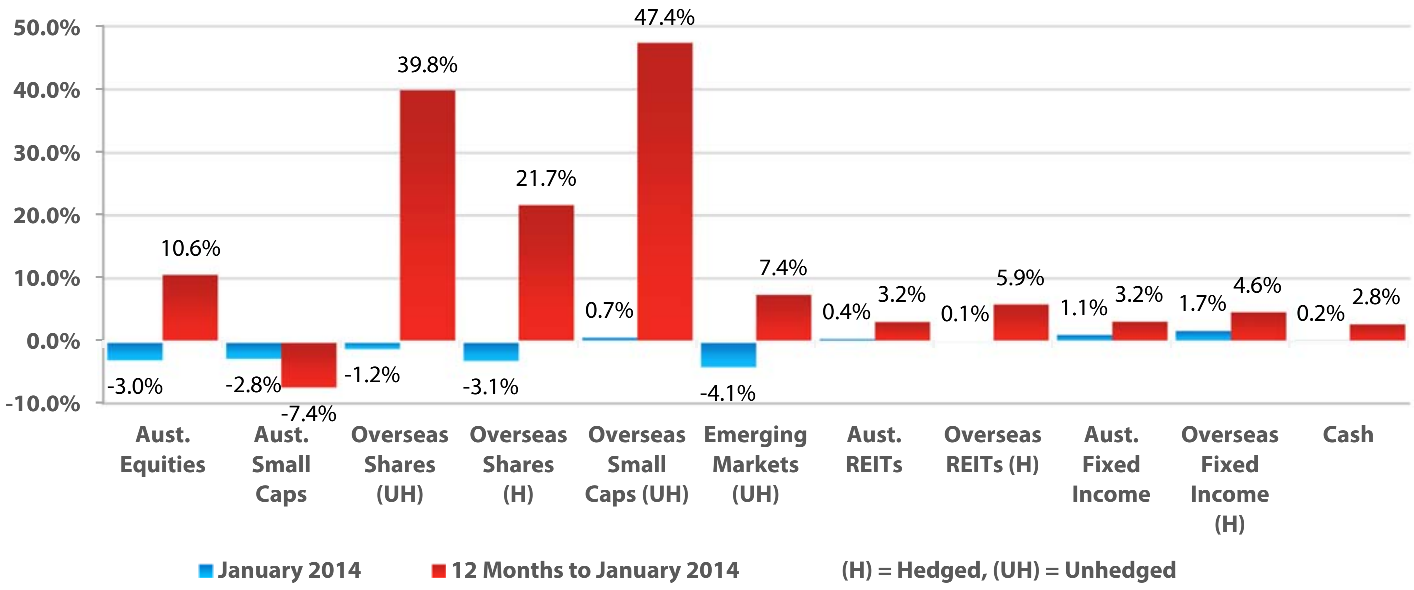
Asset Class Returns for Selected Market Indicators

As at 31 January 2014



Source: Thomson Financial Datastream; MSCI data provided 'as is'. Prepared by Harvest Financial Group.

Selected Market Indicators Commentary

For the Month Ended 31 January 2014

Australian Shares

The Australian share market was down in January returning -3.0% on the back of investor concern over rising inflation and increasing debt levels in Emerging markets.

The best performing sectors for the month of January 2014 were Utilities (+0.8%), Property Trusts (+0.4%) and Healthcare (+0.3%). The weakest performing sectors for the month were Financials (ex. Property Trusts) (-4.6%) and Energy (-3.8%).

Global Shares

Global share markets were also generally weaker in January 2014 with the MSCI World (ex. Australia) Index falling -1.2% on a fully hedged basis as global investors also expressed concern over the problems in Emerging Markets.

The strongest performing global sectors for the month were Healthcare (+3.2%) and Utilities (+2.8%), while Consumer Staples (-3.0%) and Energy (-3.7%) performed the weakest.

Markets in the U.S. followed the global trend, also finishing the month of January lower on the back of the U.S. Federal Reserve's announcement that it would taper it's bond buying programme by an additional $10 billion per month. Both the NSADAQ (-1.7%) and the U.S. S&P 500 Composite Index (-3.5%) were down for the month.

European markets also followed the downward trend due to concerns that issues in Emerging markets may have flow on effects in European markets. Markets in the UK (-3.5%), France (-3.0%) and Germany (-2.6%) were all down in January 2014.

Asian and Emerging markets were the weakest performing markets in January with markets in Japan (-6.3%), India (-4.2%) and China (-3.9%) all recording falls for the month.

Property

Domestic Real Estate Investment Trusts (REITs) were up in January returning +0.4% for the month, while global REIT's were also up, gaining +0.1% on a fully hedged basis.

Fixed Interest (Bonds)

Global sovereign bond yields generally fell in January with 10 year bond yields falling in the UK (-32bps to 2.71%), the US (-34bps to 2.67%) and Germany (-38bps to 1.57%) over the month.

Australian bond yields also fell in January 2014 with 10 year bond yields falling -24bps to 4.00%, while Australian 5 year bond yields fell by -14bps to 3.29%.

Australian Dollar

The Australian dollar generally continued to depreciate against other major currencies in January 2014. The A$ fell 2.1% against the US$, finishing the month at US$0.876. The A$ also depreciated against the Euro (-0.3%) and the Pound Sterling (-2.0%).