Sow, nourish and harvest your wealth

Investment Newsletter

Harvest

November 2014 Edition

Director's Perspective

By Inbam Devadason

Global share markets have been increasingly volatile over the last 3 months. The Australian share market was up to a record high on 2 September 2014 of 5,658 (S&P ASX 200). The market dropped 9% over the next 6 weeks, was up 7.5% over the next 3 weeks and is currently down 5% over the last 3 weeks. What does this volatility mean? The main reasons for the falls have been concerns over a faltering global economic recovery. The main concerns have been a fall in China's property prices and economic growth, higher risk of Europe going into a third recession, Japan's growth stagnating and lower commodity prices. These risks remain, however, we expect Global growth to remain in the 2-3% pa range over the next 12 months, largely led by the US and China. Overall we see the current share market dips as an opportunity to pick up some quality stocks below fair value.

Regional commentary

Australia

Monetary policy - the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% at their November 2014 meeting for the fourteenth consecutive month. In their accompanying statement, the RBA expressed the view that despite recent depreciation, the Australian dollar "still remains well above most estimates of fair value".

Retail sales – Australian retail trade data for September 2014 indicated that retail sales increased by 1.2% over the 12 months to 31 October 2014. The release of Apple's iPhone 6 drove particularly strong sales in personal electronics and supporting accessories.

Employment – The Australian economy created 24,100 jobs in October 2014 while the overall seasonally adjusted unemployment rate remained at 6.2%.

United States

Growth – The annual GDP growth rate in the US for the September quarter 2014 grew at a pace of 3.5%, ahead of estimates for 3.0%. After extracting The large contribution for defence spending the release was broadly in line with estimates and show US growth in a moderate but comfortable range.

Manufacturing - The US ISM Manufacturing PMI rose to 59.0 in October 2014, up from 56.6 in September (and exceeding expectations for 56.1) indicating the strength of the US manufacturing sector. Manufacturing is growing at its fastest level since 2011.

Employment – The US unemployment rate fell slightly from 5.9% to 5.8% in October 2014 with the US economy creating 214,000 jobs over the month. Job gains were led by strong employment growth in professional and business services, construction and retail trade.

Europe

Employment – The official Eurozone rate of unemployment remained flat at 11.50% in October 2014 with the highest rate of unemployment once again being recorded in Greece (at 25.9%).

Manufacturing – Manufacturing within the Eurozone continued to improve for the fourteenth consecutive month in October 2014. The pace of improvement also increased with the Eurozone Manufacturing PMI rising to 50.6 for the month (up slightly from 50.3 during the previous month).

China/Japan

Growth – Chinese GDP rose 7.3% year on year in September, slightly ahead of expectations for 7.2%, but slower than the 7.5% growth recorded in the year to June. This slower growth, from a longer term perspective, is consistent with the government objectives to rebalance the economy from investment to consumption growth.

Manufacturing – Manufacturing in China continued to expand in October 2014, however, the rate of expansion increased slightly to 50.4 (up from 50.2 in September).

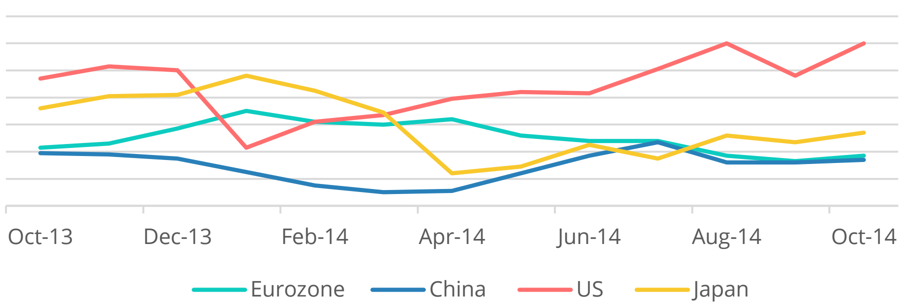
Manufacturing activity in Japan also continued to expand in October at an increased rate with the Japanese Manufacturing PMI increasing to 52.4 in October 2014.

Commodity Prices

Commodity prices were generally weaker in October 2014. The Oil price fell by a further 10.8% to US$84.45 per barrel. Gold prices also fell by 3.9%, finishing the month at US$1,165.69. The Iron Ore price was the notable exception, rising by 3.2% to US$81 per metric tonne.

Selected Global Manufacturing PMI Indicators

As at 30 October 2014



Note: the above graph is a trend line, Score above 50 indicates improvement
Source: RBA, ABS, Datastream

Harvest's View

The Australian share market was down 3% over the month of November 2014. The main driver of this fall has been increasing concerns over global economic growth. Our belief is that the market is still currently at fair value. We expect the Australian Equity market (as measured by the ASX 200) to continue to trade between 5,100 and 5,600 for the remainder of 2014.

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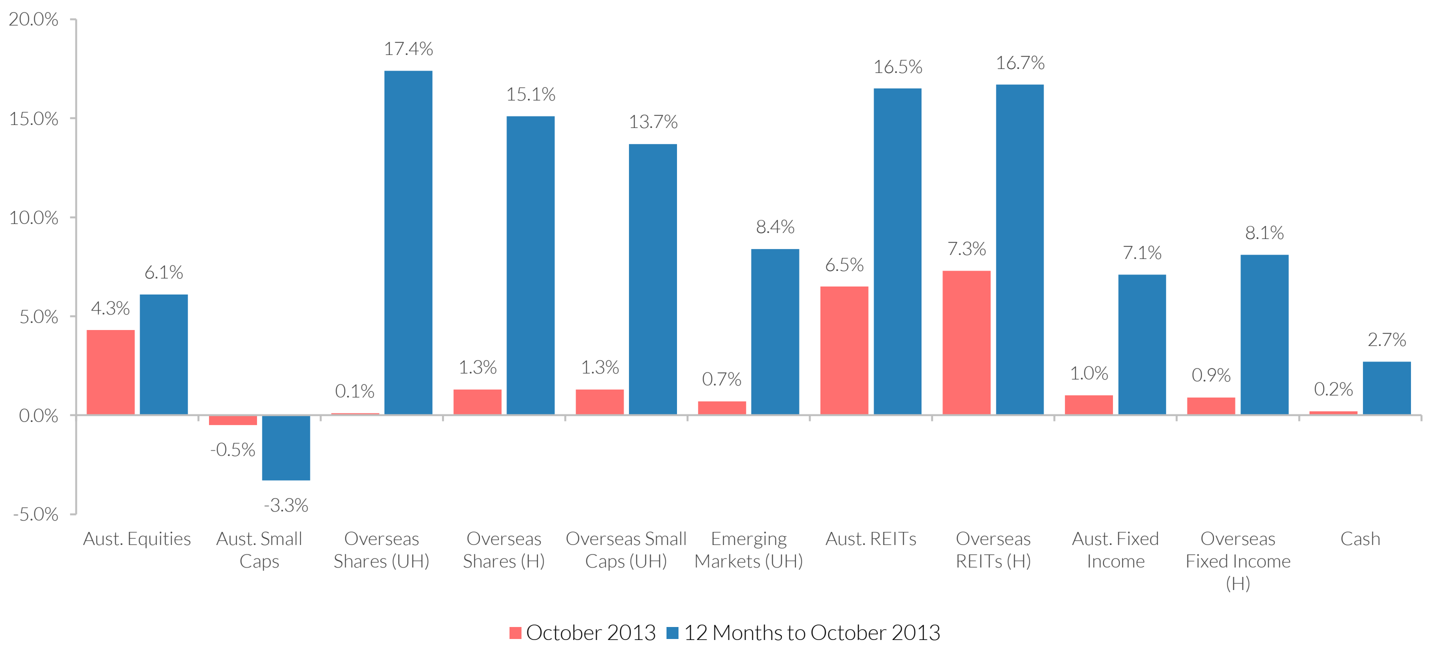
Asset Class Returns for Selected Market Indicators to October 2014



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

Selected Market Indicators Commentary

For the month ended 30 October 2014

Australian Shares

The Australian share market rose in October returning 4.3%. The Australian small caps underperformed the Australian large caps, with the Small Ordinaries Index returning -0.5%.
The best performing sectors for the month of October were Financials ex-Property Trusts (+6.9) and Property Trusts (+6.5%). The weakest performing sectors for the month of October being Energy (-3.7%) and Materials (-0.3%).

Global Shares

Global share markets performed moderately in October 2014 with the MSCI World (ex. Australia) Index returning +1.3% on a fully hedged basis on the back of strong US manufacturing growth and an upward revision in the annual GDP growth rate for the US to the end of June (revised up to 4.2% from 4.0%).

The strongest performing global sectors for the month were Utilities (3.5%) and Healthcare (2.0%), while the weakest sectors were Energy (-5.5%) and Materials (-3.9%).

Markets in the U.S. were again amongst the strongest performing global markets with the S&P 500 Composite Index (+2.3%) and the NASDAQ (+3.1%) both recording positive returns for the month in local currency terms.

European markets were generally down in October 2014 on the back of deteriorating economic conditions in the region. Of particular concern was a significant fall in German exports over the August to September period. Markets in the UK (-1.0%), France (-4.1%) and Germany (-1.6%) were all down for the month.

Asian markets however were generally up with the Japanese TOPIX (+0.6%), the Chinese Shanghai Composite Index (+2.4%), the Hong Kong Hang Seng (+4.8%). Asian markets rallied strongly towards the end of the month on the back of the Bank of Japan significantly increasing its Quantitative Easing programme.

Property

Domestic Real Estate Investment Trusts (REITs) were up +6.5% in October 2014. Global REIT's were also up, returning +7.3% on a fully hedged basis.

Fixed Interest (Bonds)

Global sovereign bond yields were generally down in October 2014 with 10 year bond yields falling in the UK (-0.06% to 2.25%), Germany (-0.06% to 0.84%), Japan (-0.06% to 0.46%) and the US (-0.09% to 0.47%).

Australian bond yields also fell in October with 10 year bond yields falling -0.20% to 3.29% and 5 year bond yields falling -0.16% to 2.81%).

Australian Dollar

The Australian dollar generally appreciated against all other major currencies in October 2014. The A$ appreciated against the US$, finishing the month at US$0.879. The A$ also appreciated against the Euro (+1.4%) and the Japanese Yen (+3.0%).