BetaShares
Exchange Traded Funds

Global
Market Review

November 2014

David Bassanese, Chief Economist

SUMMARY

The major development over the month of November was the **sharp drop in commodity prices** which caused the A$ to fall and the local equity market to underperform globally. On the other hand, **global equity markets rose strongly**, reflecting the strength in the US economy and hopes that further central bank policy stimulus will help to foster growth in the more challenged economies of Japan, Europe and China. Lower commodity prices and accommodative policy helped bond yields fall further, **supporting fixed income returns**.

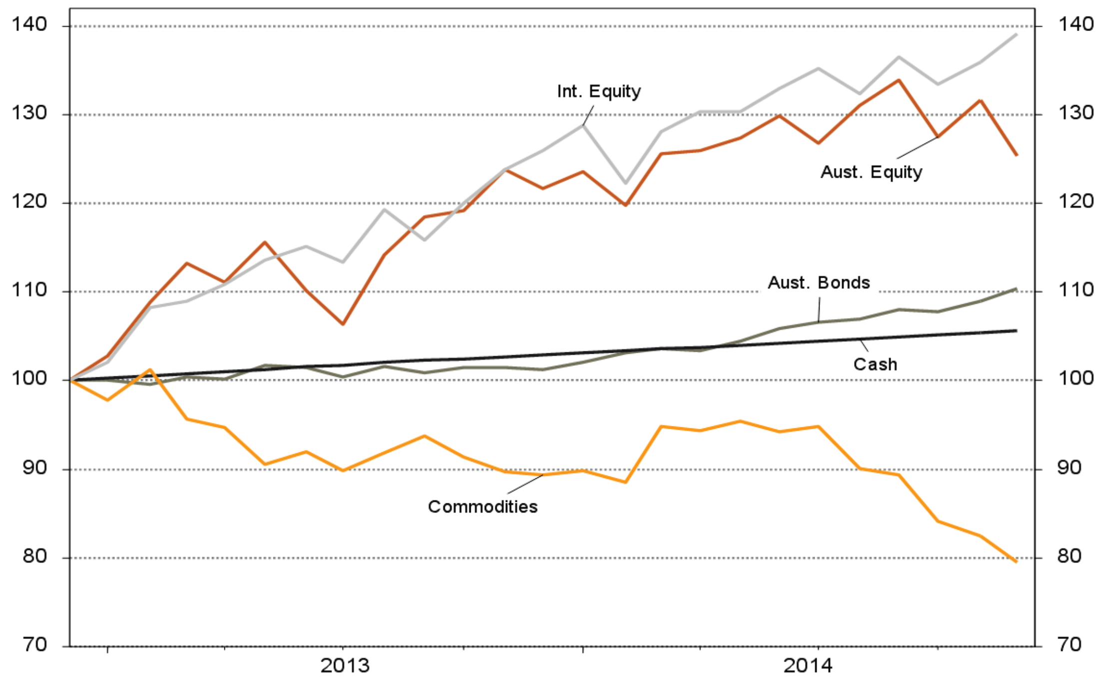
ASSET PERFORMANCE NOVEMBER 2014: SUMMARY

Asset Performance Summary*

	Month	3-mth	12-mth
Cash	0.2%	0.7%	2.7%
Aust. Bonds	1.3%	1.9%	8.6%
Aust. Property	-0.1%	1.0%	19.9%
Aust. Equities	-3.9%	-4.4%	4.3%
Int. Equities	5.6%	10.1%	17.2%
Em. Markets	2.5%	2.1%	8.8%
Commodities	-5.8%	-12.7%	-12.8%

Price returns for latest month, total returns for 3 and 12 months periods.
Source: Thomson Reuters DataStream. Past performance is not an indication of future performance.

Monthly Asset Class Performance

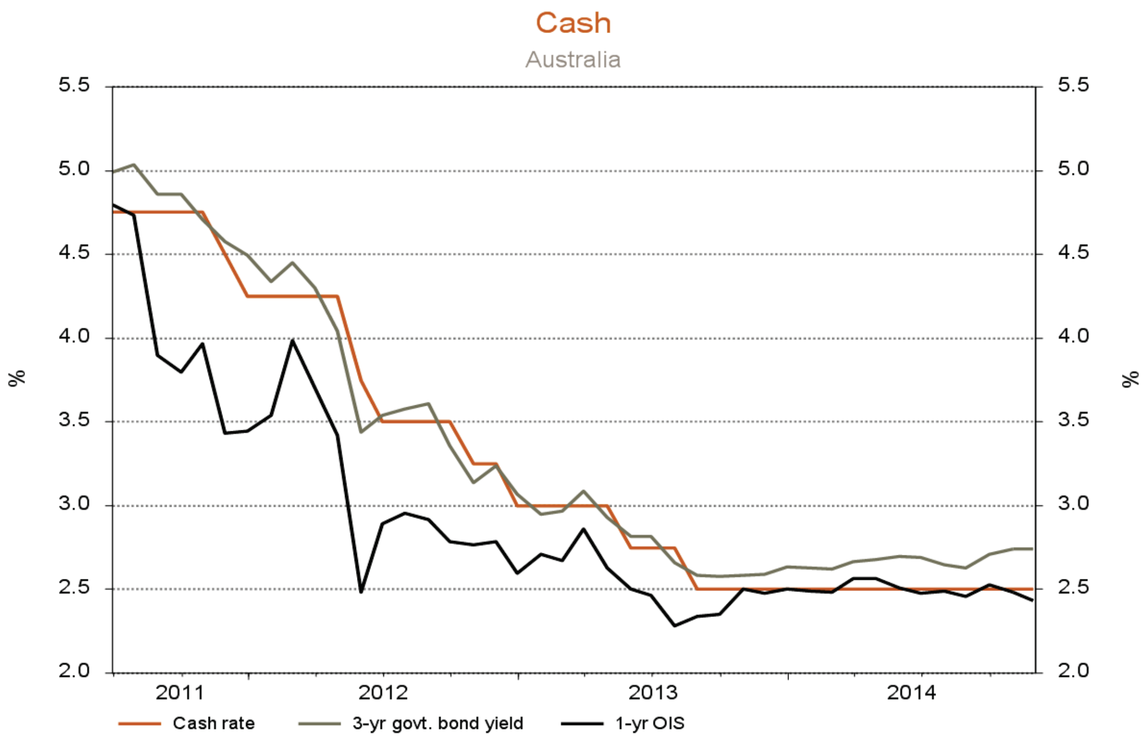


Source: Thomson Reuters Datastream, BetaShares

CASH

Despite further weakness in the Australian dollar, a drop in commodity prices and subdued Q3 GDP growth caused financial markets **to price in some chance (60%) of a cut in the 2.5% p.a. official cash rate in the next twelve months**. At the least, expectations of a rate hike next year among economists are receding, due to non-threatening wage growth, tentative signs of some cooling in the housing market, and continued below-trend economic growth more broadly. Overall, the economy is still not growing strongly enough to place downward pressure on the still relatively high unemployment rate of just over 6%.

The Reserve Bank of Australia's apparent openness to macro-prudential controls to tame the housing sector, moreover, has also **reduced the fear of interest rate increases anytime soon**.



Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: My core view is that official interest rates will remain on hold for some time, and I now consider it a close to even-money bet the RBA could cut interest rates again in H1'2015. Key indicators to watch are business and consumer sentiment, along with the unemployment rate. Cash returns for the coming year look like being 2.5% p.a. or less.

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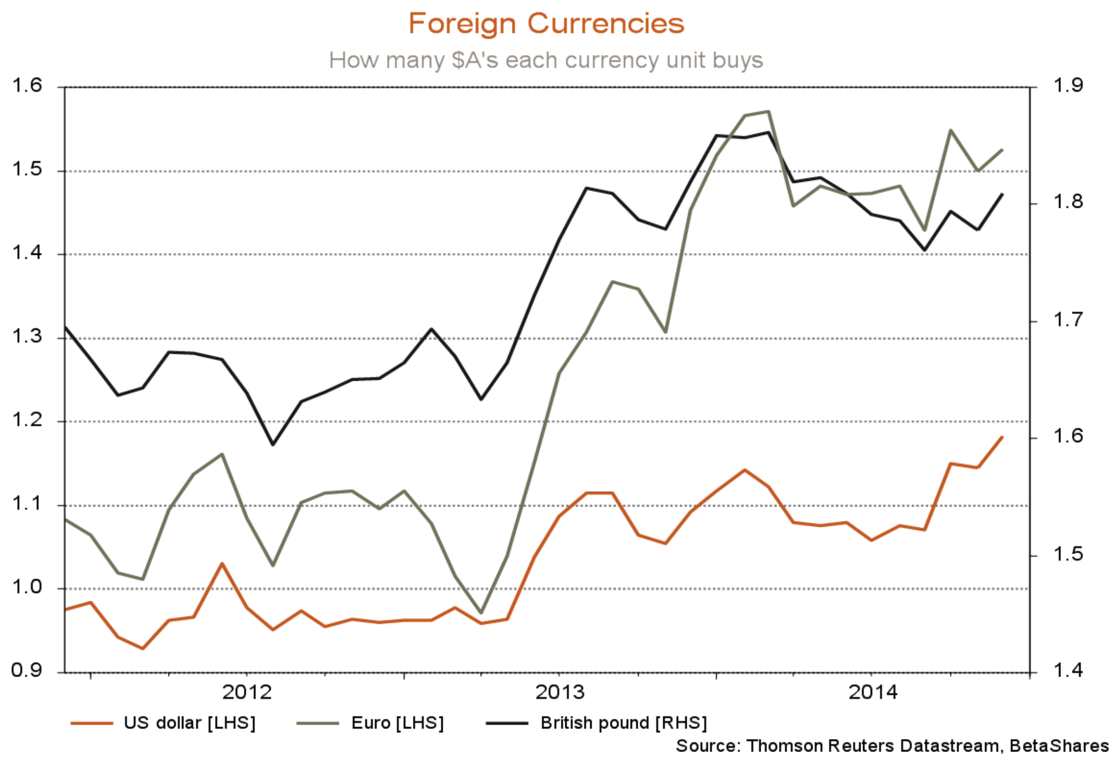
FOREIGN CURRENCIES

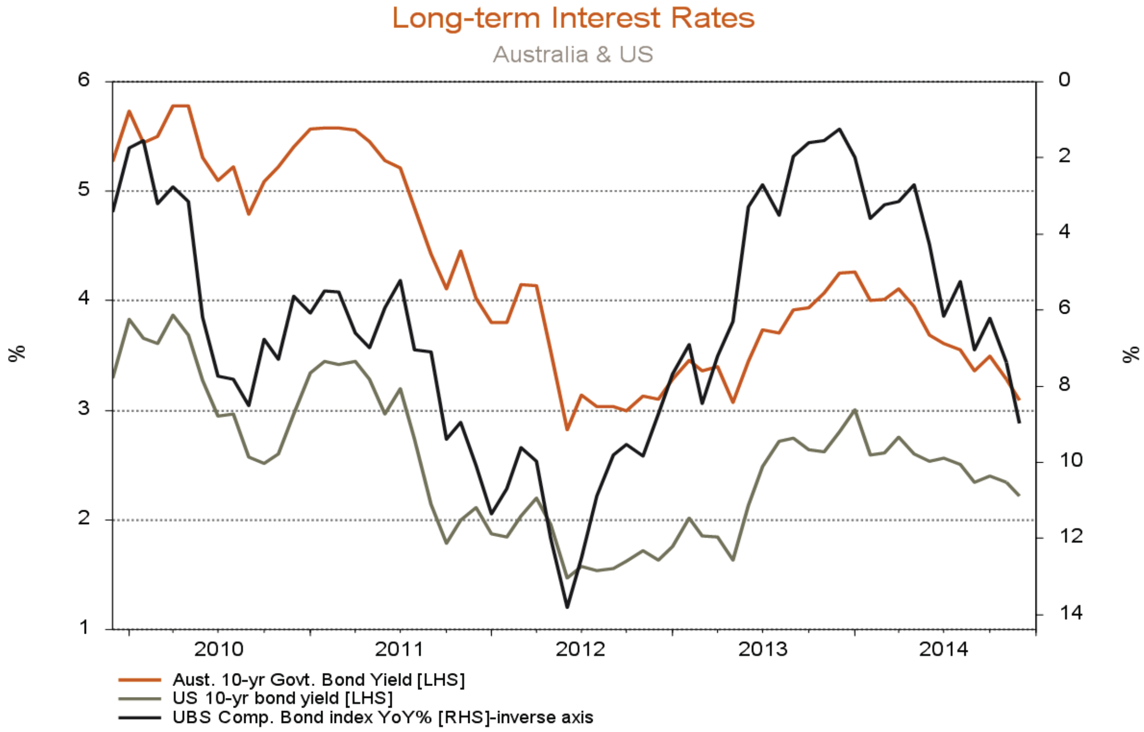
After some mixed performances against the Australian dollar of late, **the Euro and UK Pound firmed against the Australian dollar in November**, **while the ongoing strength in the US dollar continued.** After a modest corrective fall in October, **the US dollar rose 3.7% against the A$ in November, to be up 10.1% over the past three months**. The clear theme in November was weakness in commodity-related currencies such as the A$, due to broadly based commodity price declines.



Bassanese's Outlook: The A$ is following my script fairly well, having already reached my year-end target of US 85c. While there may well be a short-run corrective rebound in the A$ and commodity prices in coming months, I retain a negative view on the A$ due to likely continued weak commodity prices and an anticipated eventual rise in US interest rates next year. Given today's level of commodity prices, the A$ remains overvalued even at US85c. I have brought forward my US80c target from late to mid-2015.

AUSTRALIAN BONDS

Weaker commodity prices are further reducing any fear of global inflation. Together with continued central bank policy stimulus in Europe, Japan and China, bond yields have continued to ease – frustrating those (like me) who have been anticipating higher yields. **The UBS Australian Composite Bond Total Return Index gained 1.3% in November, to be 8.6% higher over the past year.** Long-term bond yields remain very low.



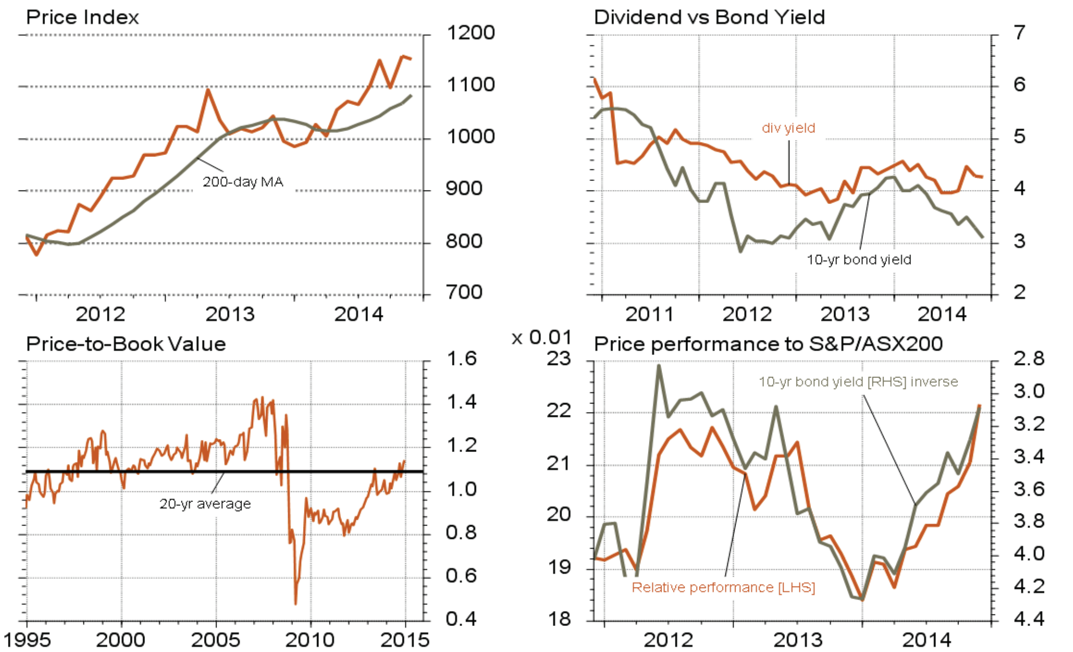
Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: Despite the continued rally in bond yields, I remain negative on the medium-term bond market outlook - given my confidence in America's economic recovery and prospective US monetary tightening. That said, with growing risk of a local interest rate cut, the spread between Australian and US bond yields might narrow further. That said, given global bond yields should eventually move higher from today's quite low levels, only muted fixed income returns over the coming year should be expected.

LISTED PROPERTY

The listed property sector slipped only 0.1% in November, continuing to outperform the overall Australian equity market in line with the decline in bond yields. Being more defensive in character, relatively greater earnings certainty is also supporting sector sentiment at a time when earnings are under pressure in other more cyclical sectors. In outright terms, price-to-book valuations are now close to their long-run average, while dividend yields are still attractive compared to the low level of bond yields.

S&P/ASX 200 A-REITs



Source: Thomson Reuters Datastream, BetaShares

***Bassanese's Outlook: With valuations not yet at "flashing red" levels, the outlook for listed property remains closely tied to that of interest rates and investor appetite for the "yield chase". The sector is at risk of underperformance once my expected rise in bond yields begins in earnest*.**

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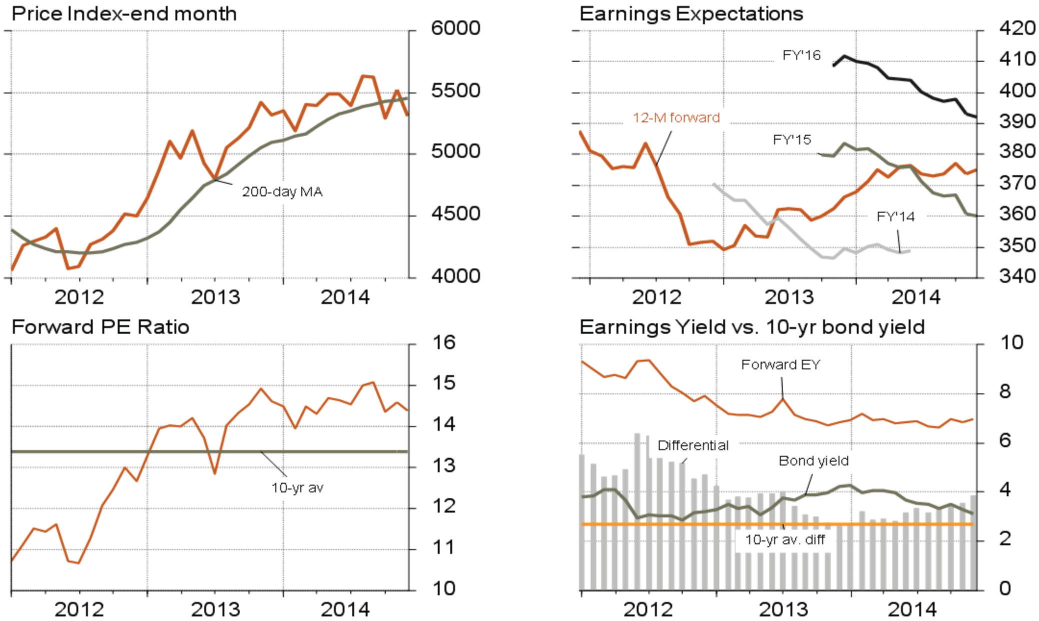
AUSTRALIAN EQUITIES

Australian equities dropped back 3.9% in November, continuing the choppy performance of the past few months. Not helping is the fact that earnings expectations remain under downward pressure, which has resulted in a flattening out in 12-month forward earnings since earlier this year. In outright terms, **the price to 12-month forward earnings ratio remains above its 10-year average – pressuring valuations.** Relative to bond yields, however, the market has inched into cheap territory.

S&P/ASX 200

Australian Equity Index



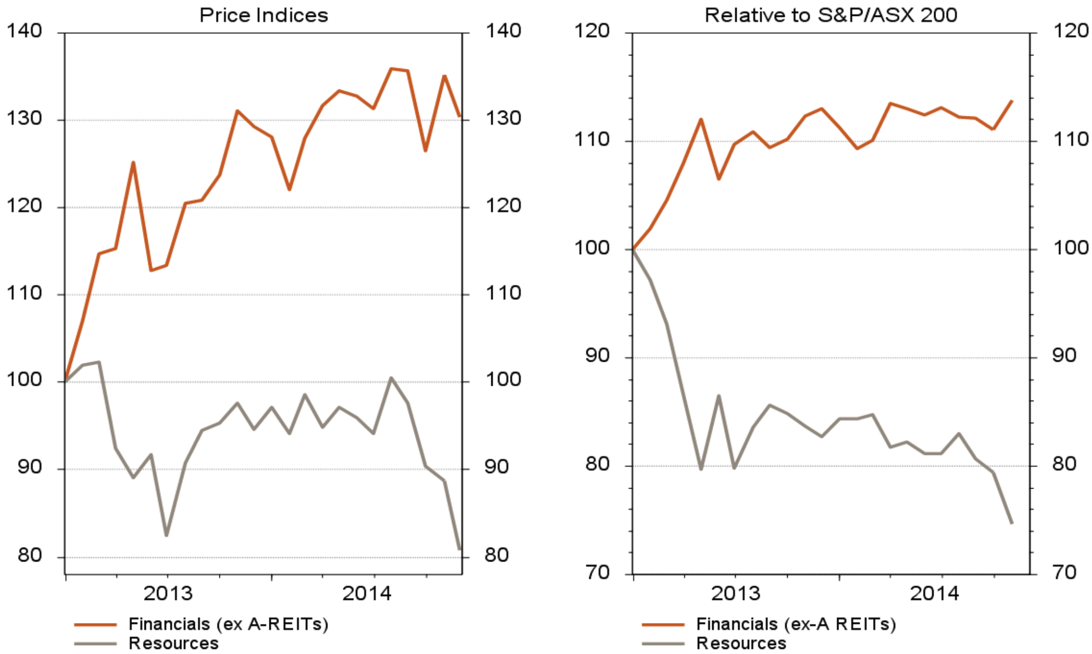
Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: While valuations are not especially cheap and earnings are under downward pressure, the market's dividend yield still remains attractive in a low interest-rate environment. That said, our market may grind up only gradually, or range-trade around current levels. It is expected to underperform global markets in both hedged and $A terms.

RESOURCES VS. FINANCIALS SECTOR

The **trend favouring financials over resources remained in place in November, with the former sector falling 3.6% and the latter down by 9.0%.** As with listed property, declining bond yields are helping support high yielding sectors like financials, while weakness in commodity prices continues to plague the resources sector.

S&P/ASX 200 Sectors-end month

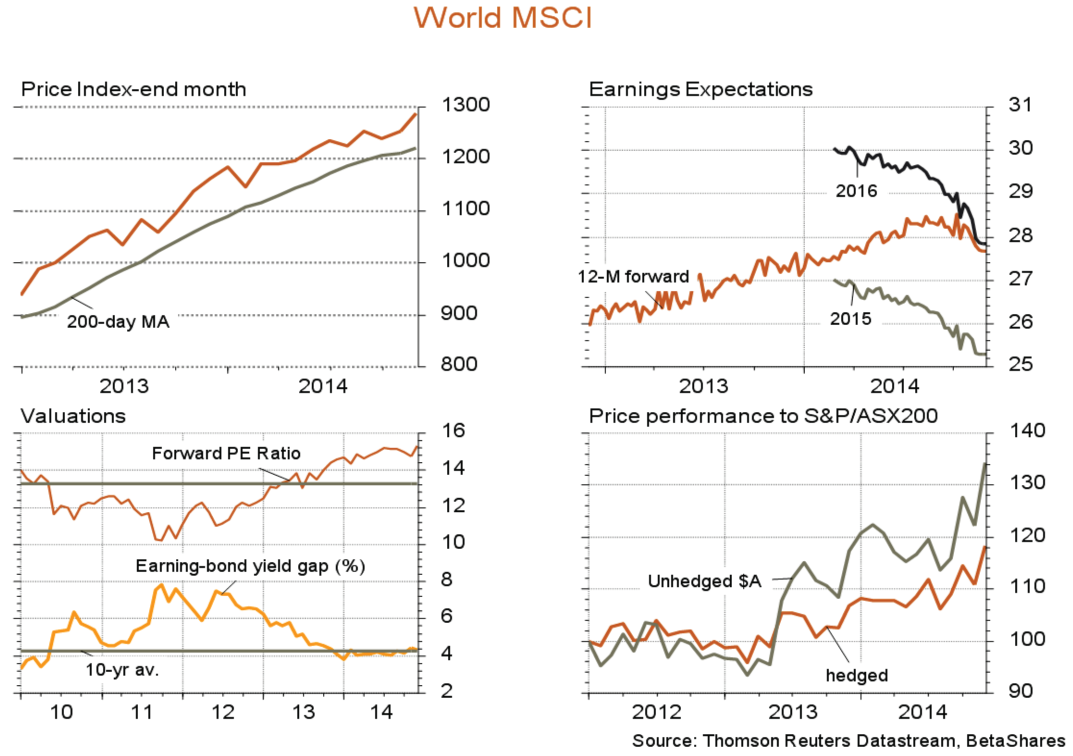


Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: Given low interest rates and weak commodity prices, the market environment should continue to favour outperformance by financials over resources. Rising bond yields pose a risk to the financial sector outlook, however, over the coming year.

INTERNATIONAL EQUITIES

The **trend of outperformance of global equity markets over Australia continued in November**, with the **MSCI World Index rising 2.7% in local currency terms** and – due to the A$'s decline - by **5.6% in A$ terms**. Outright global equity price-to-earnings valuations remain a little above average, but are still fair-value relative to bond yields. Earnings growth expectations, however, remain under downward pressure.

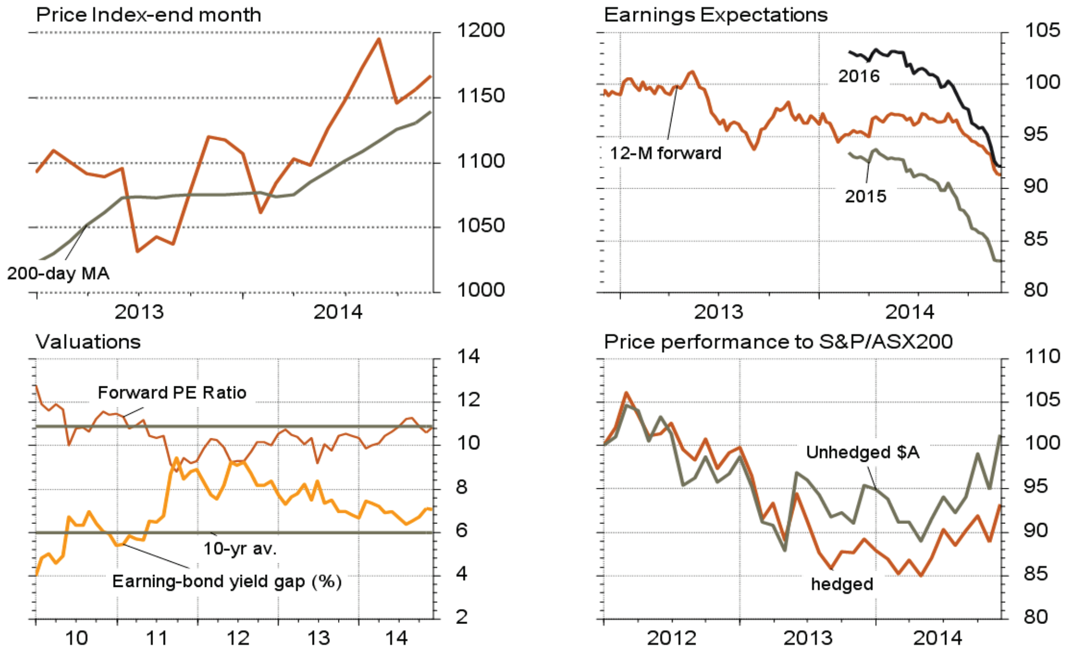


Bassanese's Outlook: I remain positive on global equity markets despite some signs of economic weakness – due to very low global interest rates, not overly expensive valuations, and still reasonable earnings performance. Indeed, I still favour global outperformance against the Australian market, in both hedged and unhedged terms – with outperformance in unhedged terms likely to be stronger due to expected A$ weakness.

EMERGING MARKETS

The **MSCI Emerging Markets Index continued its recovery in November**, **rising a further 0.9% in local currency terms, and by 2.5% in unhedged (A$) terms**. As with developed markets, emerging equities are also outperforming the Australian market – in large part helped by the recovery in Chinese equities. As an asset class, emerging market valuations do not appear stretched, though earnings expectations remain under downward pressure. There are also significant idiosyncratic country risks apparent such as Russia-Ukraine tensions and slowing growth in China.

MSCI Emerging Markets



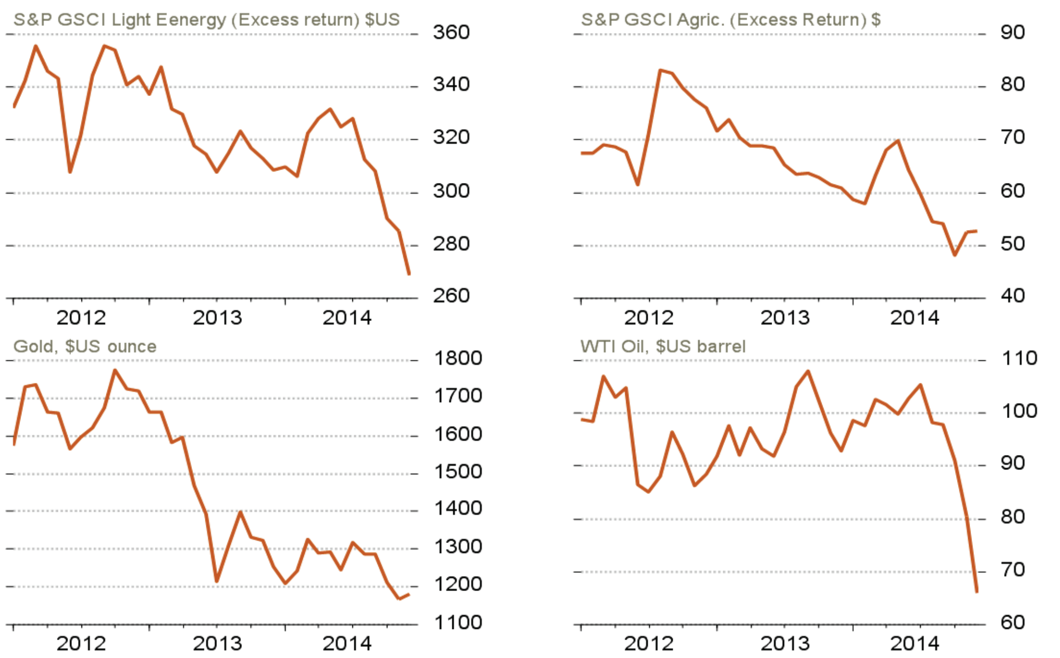
Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: My core view is that emerging markets should continue to benefit from the broader global equity market upswing, but due to greater idiosyncratic country political risk and greater commodity-producer exposure the asset class may underperform developed markets. A rising US$ adds to the risk that foreign investors will withdraw capital to avoid exchange rate loss, further hurting these markets' relative performance. I remain more neutral on performance against Australia.

COMMODITIES

Despite a **stabilisation in gold and agricultural prices last month**, **oil prices slumped by a further 18.1% last month** – not helped by the failure of OPEC to agree on production cut backs. As a result, the broad **S&P GSCI Light Energy index fell a further 5.8% in the month**. Gold prices are trying to hold the important support level of $US1200/ounce.

Commodities



Source: Thomson Reuters Datastream, BetaShares

Bassanese's Outlook: As I've long maintained, modest global economic growth, low inflation, rising supply and a gradually strengthening US dollar make it hard to be positive on the nearer-term commodity price outlook. That said, the slump in oil in recent months has been so severe that at least a short-run corrective rally now seems possible.

That said, the long-term agricultural price outlook remains positive - due to rising Asian living standards. As has been evident in recent years, moreover, commodities such as oil and gold continue to offer useful hedges should a more severe outbreak of geo-political instability or global inflation arise.

ASSET PERFORMANCE NOVEMBER 2014: DETAILED REVIEW*

	Month	3-mth	12-mth
Cash	0.2%	0.7%	2.7%
US Dollar	3.7%	10.1%	7.0%
Aust. Bonds	1.3%	1.9%	8.6%
Aust. Property	-0.1%	1.0%	19.9%
Aust. Equities	-3.9%	-4.4%	4.3%
Financials	-3.6%	-2.2%	6.1%
Resources	-9.0%	-16.5%	-11.9%
Int. Equities	2.7%	3.1%	13.6%
-unhedged	5.6%	10.1%	17.2%
Em. Markets	0.9%	-2.0%	7.2%
-unhedged	2.5%	2.1%	8.8%
Commodities	-5.8%	-12.7%	-12.8%
Agric.	0.4%	-2.5%	-13.4%
Gold	1.4%	-8.2%	-5.7%
Oil	-18.1%	-32.6%	-28.9%

Price returns for latest month, total returns for 3 and 12 months periods.
Source: Thomson Reuters DataStream. Past performance is not an indication of future performance.

*ASSET BENCHMARKS

Cash: UBS Bank Bill Index
US Dollar: spot US dollar exchange rate vs. A$
Australia bonds: UBS Composite Bond Index
Australian property: S&P/ASX 200 A-REITs
Australian equities: S&P/ASX 200 Index
Financials: S&P/ASX 200 Financials (ex A-REITs)
Resources: S&P/ASX 200 Resources
International equities: MSCI World (developed market) Equity Index, local currency & unhedged $A terms
Emerging markets: MSCI Emerging Markets Equity Index, local currency & unhedged $A terms
Commodities: S&P GSCI Light Energy Index, $US terms
Agriculture: S&P GSCI Agricultural (excess return) Index, $US
Gold: spot gold bullion price/ounce, $US
Oil: West Texas Intermediate, price per barrel, $US.

BETASHARES PRODUCT OFFERINGS ACROSS ASSET CLASSES

Asset Class	Investment Exposure	BetaShares Fund	ASX Ticker	MER(%)
Australian Cash	Australian Cash	Australian High Interest Cash ETF	AAA	0.18%
Foreign Currencies	U.S. Dollars	U.S. Dollar ETF	USD	0.45%
	Euro	Euro ETF	EEU	0.45%
	British Pounds	British Pound ETF	POU	0.45%
Australian Equities	Largest 200 Australian companies by fundamental weight	FTSE RAFI Australia 200 ETF	QOZ	0.40%
	Financials Sector excluding A-REITS	S&P/ASX 200 Financials Sector ETF	QFN	0.39%
	Resources Sector	S&P/ASX 200 Resources Sector ETF	QRE	0.39%
	S&P/ASX 20 + Equity Income strategy	Equity Yield Maximiser Fund (managed fund)	YMAX	0.79%
	Large cap Australian shares + monthly franked dividends + risk management strategy	Australian Dividend Harvester Fund (managed fund)	HVST	0.90%
	Geared exposure to diversified portfolio of Australian Equities	Geared Australian Equity Fund (hedge fund)	GEAR	0.80%
	Short Australian Equities	Australian Equities Bear Hedge Fund	BEAR	1.38%
International Equities	S&P 500 + Equity Income strategy	S&P 500 Yield Maximiser Fund (managed fund)	UMAX	0.59%
Commodities	Gold Bullion (US$)	Gold Bullion ETF - Currency Hedged	QAU	0.59%
	S&P GSCI Crude Oil Index	Crude Oil Index ETF – Currency Hedged (synthetic)	OOO	0.69%
	S&P GSCI Index (Light Energy)	Commodities Basket ETF – Currency Hedged (synthetic)	QCB	0.69%
	S&P Agriculture Enhanced Select Index	Agriculture ETF – Currency Hedged (synthetic)	QAG	0.69%

Other costs may apply. Please refer to the relevant PDS for more information.

ABOUT BETASHARES

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BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages in excess of US$60B, including over US$8B in ETFs.

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