

ASSET CLASS PERFORMANCE: RISING BONDS YIELDS TAKE A TOLL

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Return Performance*

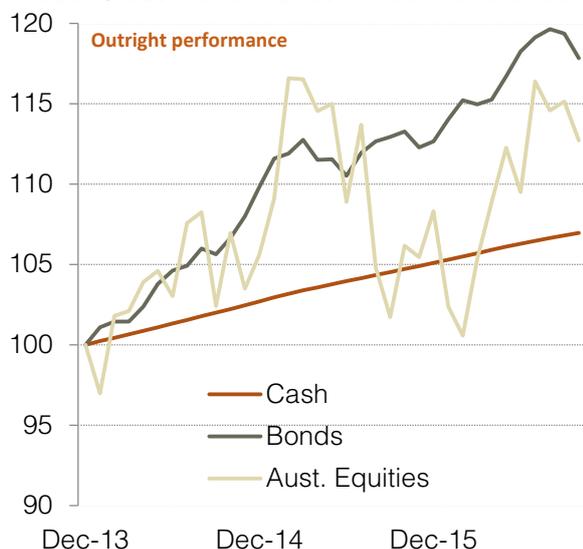
Performance Rank

	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.2%	0.5%	1.0%	2.1%	2	2	4	4
Aust. Bonds	-1.3%	-1.1%	2.2%	4.0%	4	4	3	3
Aust. Property	-7.9%	-14.3%	-4.0%	6.0%	6	6	6	2
Aust. Equities	-2.1%	-3.2%	3.5%	6.2%	5	5	1	1
Int. Equities*	-1.2%	-1.0%	2.9%	-4.0%	3	3	2	5
Commodities**	0.2%	1.2%	-3.9%	-8.4%	1	1	5	6
Int. Equities**	-0.7%	0.3%	5.0%	2.7%				
World currencies vs \$A	-1.5%	-2.5%	0.0%	-7.4%				

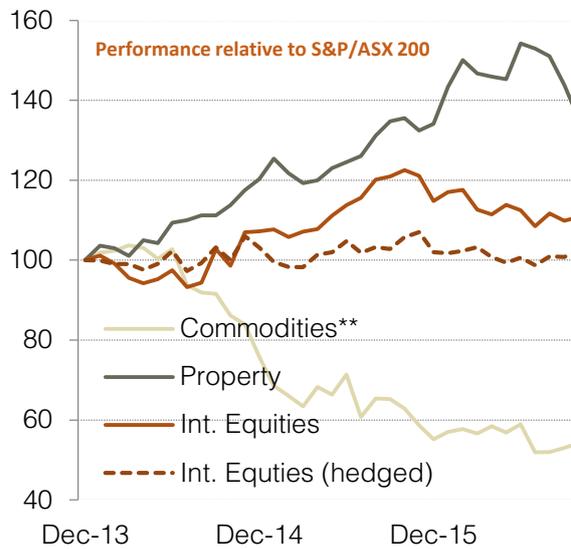
*Unhedged **Hedged Total returns for the month Source: Bloomberg

- Rising bond yields, a mixed US earnings reporting season and US Presidential election uncertainty contributed to a soft month for risk markets in October. Continued solid US employment gains strengthened the market's probability of a Fed rate hike in December to around 75%, which in turned contributed to \$US strength.
- As might be expected given rising bond yields, listed property fared worst among asset classes in October, while another gain in agricultural prices helped keep commodities broadly flat in the month. Despite a lift in resource stocks, Australian equities underperformed international equities, dragged down by exposure to high yielding stocks. Although the \$A fell slightly against a rising \$US, it rose against non-US currencies as reflected in the fact international equities fared worst in \$A terms than in local currency terms.
- Australian equities were the best performing asset class over the past 12 months, while commodities remained the worst. That said, commodities were the best performing asset class over the past three months.

Asset Class Performance*: Index=100 at 31-Dec-13



*\$A, total gross returns **\$US



Source: Betashares, S&P, MSCI, Bloomberg

Asset Class Tactical Views: November 2016

	Underweight	Neutral	Overweight
Growth vs. Defensive			
<i>Aust. Equities vs. Bonds</i>	✓		
Defensive			
<i>Cash vs. Bonds</i>			✓
Growth			
<i>Aust. Property vs. Aust. Equities</i>	✓		
<i>Int. Equities* vs. Aust. Equities</i>			✓
<i>Commodities** vs. Aust. Equities</i>	✓		

*Unhedged **Hedged

OUTLOOK

- Our decision last month to move underweight bonds and listed property proved fortuitous given the weakness both asset classes exhibited in October. With commodity prices showing some strength of late and central banks reticent to throw more money at their problems, bond yields have started to lift in recent months, and gains in October were particularly notable. From a low of 1.33% in late-July, US 10-year bond yields ended October at 1.83% - a level not seen since May.
- Uncertainties regarding the US Presidential election seem likely to weight on stocks in at least the short-term. Not only is there some uncertainty as to which candidate will win, there is also uncertainty whether the election result will be beyond judicial challenge, and whether the Democrats (should Hillary Clinton win) manage to take control of either one or both houses of Congress. My base case view, however, is that **Clinton should win convincingly and while the Democrats might gain control of the Senate, they're unlikely to also gain control of the House of Representatives.** That could provide risk markets at least a short-term relief rally.
- Most critically, however, the **rise in bond yields in recent months has removed one of the lingering supports for global equities**, particularly given (as I have long noted) the fact that price-to-earnings valuations remain elevated and earnings growth is sluggish. With the Fed seemingly intent on raising rates in December – while the Bank of Japan and European Central Bank are still contemplating further easing – **ongoing \$US strength seems likely**, which could challenge the recent good gains in commodity prices and emerging markets.
- Closer to home, with the September quarter consumer price inflation result only in line with expectations, the RBA left rates on hold in this month and seems unlikely to consider another rate cut until early next year – and will only act if annual underlying inflation remains stubbornly below 2%.
- All up, our broad asset class views remains unchanged for November. We remain underweight growth assets (including commodities) in general relative to defensive assets. Among defensive assets, we remain underweight bonds. And among growth assets, the prospect of further weakness in the \$A and higher bond yields leads to our continued overweight of international equities (on an unhedged basis) and underweight to listed property.

ASSET BENCHMARKS

Cash: UBS Bank Bill Index; **Australian Equities:** S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **International Equities:** MSCI World (developed market) Index, unhedged \$A terms; **Commodities:** S&P GSCI Light Energy Index, \$US terms



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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\$90B.

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SERIES	FUND NAME	ASX TICKER	EXPOSURE
CASH & FIXED INCOME	Australian High Interest Cash ETF	AAA	Australian Cash
CURRENCY	U.S. Dollar ETF	USD	U.S. Dollars
	Euro ETF	EEU	Euro
	British Pound ETF	POU	British Pounds
COMMODITIES	Gold Bullion ETF - Currency Hedged	QAU	Gold Bullion (US\$)
	Crude Oil Index ETF - Currency Hedged (synthetic)	OOO	S&P GSCI Crude Oil Index
	Commodities Basket ETF - Currency Hedged (synthetic)	QCB	S&P GSCI Index (Light Energy)
	Agriculture ETF - Currency Hedged (synthetic)	QAG	S&P Agriculture Enhanced Select Index
AUSTRALIAN EQUITY	FTSE RAFI Australia 200 ETF	QOZ	Largest 200 Australian companies by economic size
	S&P/ASX 200 Financials Sector ETF	QFN	Financials Sector excluding A-REITS
	S&P/ASX 200 Resources Sector ETF	QRE	Resources Sector
EQUITY INCOME	Australian Dividend Harvester Fund (managed fund)	HVST	Large cap Australian Shares + monthly distributions + risk management strategy
	Equity Yield Maximiser Fund (managed fund)	YMAX	S&P/ASX 20 + equity income strategy
GEARED	Geared Australian Equity Fund (hedge fund)	GEAR	Geared exposure to diversified portfolio of Australian equities
	Geared U.S. Equity Fund - Currency Hedged (hedge fund)	GGUS	Geared exposure to a diversified portfolio of U.S. equities
INTERNATIONAL	FTSE RAFI U.S. 1000 ETF	QUS	Largest 1000 US companies by economic size
	Nasdaq 100 ETF	NDQ	Nasdaq 100 Index
	S&P 500 Yield Maximiser Fund (managed fund)	UMAX	S&P 500 + equity income strategy
	Global Energy Companies ETF - Currency Hedged	FUEL	Largest global energy companies
	Global Gold Miners ETF - Currency Hedged	MNRS	Largest global gold mining companies
	Global Healthcare ETF - Currency Hedged	DRUG	Largest global healthcare companies
	Global Agriculture Companies ETF - Currency Hedged	FOOD	Largest global agriculture companies
	Global Banks ETF - Currency Hedged	BNKS	Largest global banking companies
	Global Cybersecurity ETF	HACK	Largest global cybersecurity companies
	WisdomTree Europe ETF - Currency Hedged	HEUR	Largest dividend paying European companies
	WisdomTree Japan ETF - Currency Hedged	HJPN	Largest dividend paying Japanese companies
MANAGED RISK	Managed Risk Australian Share Fund (managed fund)	AUST	Largest 200 shares by market capitalisation + risk management strategy
	Managed Risk Global Share Fund (managed fund)	WRLD	At least 1500 of the largest companies by market capitalisation on global exchanges + risk management strategy
SHORT	Australian Equities Bear Hedge Fund	BEAR	Short Australian equities
	Australian Equities Strong Bear Hedge Fund	BBOZ	Magnified Short Australian equities (2x-2.75x short)
	U.S. Equities Strong Bear Hedge Fund - Currency Hedged	BBUS	Magnified Short U.S. equities (2x-2.75x short)
ACTIVE	AMP Capital Dynamic Markets Fund (Hedge Fund)	DMKT	Active dynamic asset allocation - total return
	AMP Capital Global Property Securities Fund (Unhedged) (Managed Fund)	RENT	Actively managed portfolio of global property securities
	AMP Capital Global Infrastructure Securities Fund (Unhedged) (Managed Fund)	GLIN	Actively managed portfolio of global infrastructure securities