

# MARKETWRAP

OCTOBER 2017

## Market and economic overview

### At a glance

Global stocks in October set fresh record highs, as they rose for a 12th consecutive month, after the biggest US technology stocks reported stellar third-quarter results, US companies overall reported better-than-expected earnings (after allowing for the damage from hurricanes Harvey and Irma) and expectations rose the administration of US President Donald Trump would introduce legislation to lower corporate taxes. Higher commodity prices boosted material and energy stocks and reports reaffirmed that the world's major economies are growing in unison for the first time in a decade. During October, eight of the 11 industry sectors rose in US-dollar terms – IT and materials were the best performing, rising 7.1% and 3.1% respectively. Telecoms, which lost 3.1%, fell the most. A decline in the Australian dollar magnified gains in Australian dollars for those who have unhedged investments in global equities. The Morgan Stanley Capital International (MSCI) World Index rose 1.9% in US dollars and 4.3% in Australian dollars.

### Australia

Australian stocks staged their best month so far for 2017, after material and energy stocks lifted when the prices of most commodities rose and a report on inflation hinted that the Reserve Bank of Australia (RBA) would be in no hurry to raise interest rates. BHP Billiton Rio Tinto and Woodside Petroleum were among mining stocks that gained as the Bloomberg Commodity Index rose 2.1% for the month, though Fortescue Metals fell as iron ore prices slid. On the economy, a report showed inflation only rose 1.8% in the 12 months to September quarter, a rate that sits within the RBA's 2% to 3% target for inflation. Early in the month, the RBA held the cash rate at 1.5% for the 13th consecutive month. Other reports painted a mixed picture of the economy. Retail sales fell 0.6% in August, the jobless rate declined one tenth of a percentage point to 5.5% in September while consumer confidence rose for a second consecutive month in October, reaching 101.4 where 100 is the neutral level. The S&P 200 Accumulation Index rose 4.0%.

### US

Amazon, Alphabet, Microsoft and Intel were among tech stocks that surged after posting better-than-expected earnings. Financial research and data company FactSet found that around the mid-point of reporting for the third quarter S&P 500 companies were on track to post

earnings growth of 4.7%. While that would be the lowest result for a year, excluding the hurricane-hit insurance companies, FactSet forecast earnings growth would reach a respectable 7.4% for the quarter. A report in October showed the US economy grew at an annualised pace of 3% in the third quarter, while another showed the jobless rate fell to a fresh 16-year low of 4.2% in September. The S&P 500 Index rose 2.2%.

### Europe

In Europe, companies on average posted healthy earnings and the European Central Bank announced that it will extend its asset-buying by nine months, while tensions over Catalonia's attempts to secede from Spain failed to upset investors. Reports showed the eurozone economy expanded 0.6% in the third quarter, industrial production increased 1.4% in August and consumer prices rose 1.5% in the 12 months to September. For the EU, economic confidence across businesses and consumers reached a 16-year high of 114.2 in October. The Euro Stoxx 50 gained 2.2% while the UK's FTSE 100 Index added 1.6%.

### Asia

In Asia, Japan's ruling coalition under Prime Minister Shinzō Abe won a 'super majority' at a snap general election that signalled continued fiscal and monetary stimulus to fight deflation. In China, the Communist party's 19<sup>th</sup> congress cemented the leadership of Xi Jinping across all levers of the government and a report showed China's economy expanded 6.8% in the past quarter, compared with a year earlier. Japan's Nikkei 225 Index surged 8.1% while China's CSI 300 Index, which tracks the biggest stocks on the Shanghai and Shenzhen exchanges, added 4.4%.

Movement in benchmark indices are in local currency unless stated otherwise. As is common practice, all indices mentioned are price indices apart from the MSCI indices and the S&P 200 Accumulation Index.

Sources: J.P.Morgan, Bloomberg and national statistical including the Australian Bureau of Statistics, eurostat, the US Department of Commerce and the US Department of Labor.

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