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STOCKBROKING

Stock Market & Economic Update

The Australian stock market rallied in October (in line with offshore stock markets) however November has been more erratic with an initial sell off followed by a more recent rally.

While market volatility has increased, the Australian stock market has essentially tracked sideways since late August but is still down about 13% from its March high. Over a longer-term horizon the Australian stock market is back at 2006 levels. In other words, there has been no capital growth for nearly 10 years.

This highlights the importance of, and our attraction to, dividend yield (which is a return 'on top' of this performance) when making investment decisions.

It has been a challenging period for investing in the Australian stock market with a heightened level of fear amongst investors reflecting a confronting domestic and global outlook. Weakening economic growth, the risk of deflation, historically low global interest rates, uncertainty regarding potential increases to US interest rates (from a low base), a subdued Australian corporate earnings outlook and the increased risk of shocks (eg. terrorist attacks) has provided for an uncertain and perhaps confusing economic backdrop.

We do however believe the global economy and markets will continue to "muddle through" underpinned by a continuation of significant monetary support (low interest rates).

While US interest rates may finally increase in December, we view this as a sign of the strength in the US economy, which is a positive.

We expect increases in US interest rates to be gradual and well flagged and suspect the strength of the US dollar and risks to emerging markets (from capital being repatriated to the US) will constrain the US Federal Reserve.

Australian economic indicators remain mixed with stronger than expected October jobs data offset by a downward revision in Australia's economic growth outlook by the Reserve Bank of Australia.

We expect Australian interest rates to remain on hold for the time being.

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