Market Update

JULY 2017

- In June markets were influenced by political developments in the UK and US and more hawkish commentary from central bankers suggesting that soft inflation is only transitory.
- European equities lost 2.8% in June after two Italian banks were bailed out by the Italian government and ECB President Draghi hinted at tighter monetary policy.
- The UK election resulted in a hung parliament creating additional uncertainty as to how the Brexit negotiations will unfold.
- US technology stocks, which had enjoyed solid price rises, gave back some of their recent gains with the NASDAQ Composite Index down 0.9% in June.
- Chinese activity indicators were a little softer but still remain at strong levels.
- Australian employment data was stronger in the past month and the unemployment rate fell to the lowest rate since February 2013.

June market performance

Equity Markets – Price Indices	Index	At Close 30/6/2017	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5764.04	0.0%	8.5%
Japan	Nikkei	20033.43	1.9%	28.6%
Hong Kong	Hang Seng	25764.58	0.4%	23.9%
UK	FTSE 100	7312.72	-2.8%	12.4%
Germany	DAX	12325.12	-2.3%	27.3%
US	Dow Jones	21349.63	1.6%	19.1%
EMU*	Euro 100	1178.03	-2.8%	21.0%
World**	MSCI – Ex Aus (Gross) (Hedged)	1477.64	-0.1%	16.7%

Property – Price Index	Index	At Close 30/6/2017	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1295.71	-6.1%	-10.1%

Interest Rates	At Close 30/6/2017	At Close 31/5/2017	At Close 30/6/2016
Aust 90 day Bank Bills	1.71%	1.73%	1.96%
Australian 10 year Bonds	2.60%	2.39%	1.99%
US 90 day T Bill	1.02%	0.97%	0.26%
US 10 year Bonds	2.30%	2.21%	1.47%

Currency***		At Close 30/6/2017	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.77	3.04%	3.02%
British pound	A$/STG	0.59	2.40%	6.02%
Euro	A$/euro	0.67	1.59%	0.34%
Japanese yen	A$/yen	86.19	4.69%	12.83%
Trade-weighted Index		65.50	2.66%	4.80%

* Top 100 European stocks trading on the FTSE
** Price Index (Source: msci.com)
*** All foreign exchange rates rounded to two decimal places (Source: FactSet)
Past performance is not a reliable indicator of future performance.

Global economies

Economic data was relatively good in June with no major surprises which meant that investors were mainly focussed on speeches by central bankers and on political developments in the United States and United Kingdom.

Market Update

US

In the US, as expected the US Federal Reserve lifted interest rates for the second time this year. Speeches by various Fed officials suggest that notwithstanding core annual inflation which was just 1.4% in May, and well below the Fed's 2.0% per annum target, they believe that the recent softness is transitory. The Fed's "dot point" projections for where it expects interest rates to be over the next few years shows that it expects to raise interest rates to around 3.0% by the end of 2019, which is significantly higher than what the market is currently pricing in.

Europe

In Europe, survey-based measures of activity have remained strong, with indicators such as consumer confidence rising to fresh 16-year highs and Germany's IFO business climate index making a new post-financial crisis high. At a recent conference in Portugal, European Central Bank President Mario Draghi said all the signs now point to a strengthening and broadening recovery in the Euro area which was interpreted by investors as a signal that the ECB could soon flag its intention to begin withdrawing ultra-easy monetary policy conditions.

China

China's activity indicators were more or less in line with recent trends showing factory output and retail sales growing at a steady pace in May but fixed asset investment slowing, reinforcing views that the economy may be losing some momentum as lending costs rise and the property market cools. Fixed asset investment growth slowed to 8.6% for the first five months of the year, from 8.9% in April, while retail sales and factory output growth rates were steady at 10.7% and 6.5% respectively.

Asia region

In Japan, core inflation was 0.4% year on year in May which was the fifth straight month of price rises but still well below the Bank of Japan's ambitious 2% per annum target.

Meanwhile, weak inflation is holding down household spending, which fell 0.1% in May from a year earlier even though the number of jobs available was at its highest level since 1974, suggesting the stronger job market is not impacting wage and consumption growth.

Australia

In Australia, employment rose by 42,000 jobs in May which was above expectations. The unemployment rate fell from 5.7% to 5.5%, which was the lowest rate since February 2013. The employment report also showed a pick-up in full time jobs and hours worked, both of which have been soft in recent months. Despite the rise in the number of people employed and recovery in the total number of hours worked, the level of underemployment – those people working but who want more hours – has remained elevated and this is keeping wages growth at very low levels.

As expected, the Reserve Bank of Australia kept interest rates on hold at its July meeting. The post-meeting statement indicated that the RBA continues to view labour market conditions as mixed notwithstanding the drop in the unemployment rate. The statement suggests that official Australian interest rates are likely to remain unchanged at 1.50% per annum for the remainder of 2017.

Market Update

EQUITY MARKETS

- China's Shanghai Composite Index gained 2.4% in June after index firm MSCI said it would increase the weighting to Chinese mainland stocks in various indices.
- Emerging market shares rose 1.7% in local currency terms.
- The German DAX Index lost 2.3%.
- The Euro 100 index fell 2.8% in June.
- The Japanese Nikkei Index was 1.9% higher.
- The US Standard & Poor's 500 Index was up 0.6% over the month while the technology heavy NASDAQ Composite Index lost 0.9%.
- Australia's S&P/ASX All Ordinaries Index was flat in June and was 8.5% higher over the financial year

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	13.82%	6.64%	11.63%	8.79%
	S&P/ASX 50 Acc.	14.09%	5.44%	11.55%	8.89%
	S&P/ASX Small Ordinaries Acc.	7.01%	7.13%	5.66%	3.92%

Despite rises in international equity prices, the S&P/ASX 200 Accumulation Index gained just 0.2% including dividends in June. Over the financial year the index returned 14.1% including dividends. Most of the sectors were relatively flat over the month with the exception of energy shares which fell 6.8%, after oil prices fell on reports of higher US inventories, while healthcare shares gained 6.1% in June helped by share price gains from CSL, Resmed and Ramsay Healthcare. Smaller companies outperformed larger ones in June returning 2.0% over the month.

Sector	1 Month	3 Months	1 Year
Energy	-6.8%	-5.9%	6.7%
Materials	0.6%	0.1%	24.5%
Industrial	-0.3%	8.7%	14.2%
Consumer Discretionary	0.9%	1.3%	9.2%
Consumer Staples	-2.4%	-5.3%	15.8%
Health Care	6.1%	7.1%	15.7%
Financials (ex Property)	1.7%	-4.4%	20.0%
Info Tech	1.9%	5.7%	14.6%
Telcos	-1.7%	-8.0%	-21.2%
Utilities	-2.7%	1.3%	19.7%
Property	-4.5%	-3.1%	-5.6%

Market Update

BIG MOVERS THIS MONTH

Going up

⇑	Healthcare	6.1%
⇑	Information Technology	1.9%
⇑	Financials ex Property	1.7%

Going down

⇓	Utilities	-2.7%
⇓	Property	-4.5%
⇓	Energy	-6.8%

Global equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	15.39%	13.62%	18.92%	13.70%
	MSCI World Ex Aus (Gross) in Local Currency	19.61%	8.50%	13.82%	12.73%
	MSCI World Small Cap ($A)	17.89%	13.82%	20.23%	14.90%
Emerging	MSCI Emerging Mkts Free	22.19%	6.48%	7.96%	7.04%
	MSCI AC Far East Free (ex Japan)	27.59%	7.48%	9.05%	0.08%

In June, global equity prices were relatively flat with gains in Japan and the US offset by falls in Europe. Developed share markets gained 0.1% in June in local currency terms and the US S&P 500 index finished the month 0.6% higher, European shares lost 2.8% and Japanese shares gained 1.9% over the month. European shares were impacted by comments made by ECB President Draghi that suggested that interest rates may be heading higher sooner than expected. Globally, bond yield-sensitive sectors such as utilities, telecommunications and consumer staples shares lost around 3%. Global financial stocks gained 4.0% helped by higher bond yields and talk of higher US bank dividends following the regulator’s stress test which showed stronger capital positions.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	-5.64%	12.22%	14.24%	12.54%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	3.77%	8.46%	12.20%	13.75%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) lost 4.5% in June as bond yields rose in Australia. Over the financial year, property securities have returned -5.6%, including distributions, underperforming international property securities which returned 3.8%.

A-REITs have outperformed currency-hedged Global REITs over three and five years.

Market Update

Fixed interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	0.25%	4.26%	4.32%	5.62%
	Australian 90 Day Bank Bill	1.77%	2.16%	2.45%	3.08%
Global	BarCap Global Aggregate Index	-5.04%	6.78%	6.79%	3.81%
	BarCap Global Agg. Index Hedged	0.47%	5.08%	5.51%	6.56%

Australian bonds returned -0.9% in June as government bond yields rose in Australia and other major markets. Long term bond yields rose as investors reacted to commentary from central bankers in the UK, Eurozone, Canada and the US who all suggested that despite weaker inflation readings lately in many countries, interest rates were more likely to rise in their respective regions. Over the month, the two-year Australian Commonwealth Government bond yield rose from 1.55% to 1.74% per annum and the ten-year bond yield rose from 2.39% to 2.60% per annum.

Internationally, the Bloomberg Barclays Global Aggregate Bond Index (A$ hedged) returned -0.2% as bond yields rose in the United States, United Kingdom, Japan and Germany. In the US, 10-year Treasury bond yields rose from 2.20% per annum to 2.30% after the Fed raised the Fed funds rate and signalled four more rate hikes to the end of 2018. Credit markets were a little stronger as credit spreads on high yield and corporate bonds fell marginally over the month.

Australian dollar

The Australian Dollar rose against most currencies in June helped by a rebound in iron ore prices and weakness in the US Dollar. Against the US Dollar the Australian Dollar was 3.0% stronger but only 1.5% stronger against the Euro. On a Trade-Weighted Index basis, the Australian Dollar rose 2.7%.