

Economic and market monthly update

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Bob reviews events in Australian and overseas markets during June.

How did markets perform in June?

Global shares made modest gains of 0.3% (in local currency terms) in June given signs from various central banks of the prospect for higher interest rates. The stronger Australian dollar (AUD) in June lowered the global shares (unhedged) return to -2.5%

US shares achieved record highs again in mid-June given optimism over President Trump's bold promises of corporate tax cuts, higher infrastructure spending and less regulation. However US shares faded to a mild monthly gain of 0.6% given concerns that some of President Trump's promises will either be abandoned or delayed. Also weighing on US shares were comments from Federal Reserve (Fed) officials that share valuations were "rich". The Fed raised interest rates by 0.25% for the second time this year, citing solid consumer spending and jobs growth.

European shares fell sharply by 4% in June. European Central Bank (ECB) President Mario Draghi stated that policy will be "adjusted" as the European economy "continues to recover". This is a signal that the ECB easy policy stance is coming to a close. UK shares weakened with the Conservative Party losing their parliamentary majority at the general election and the Bank of England signalling that interest rates may need to rise given inflation risks.

Asian shares proved resilient. Stable Chinese business surveys and solid activity data were supportive of Chinese shares. Japanese shares made mild gains given encouraging business survey results and a weaker yen.

Australian shares posted a mild 0.2% gain in June (S&P/ASX 200 Accumulation Index). Sharp gains were recorded for the Health Care sector (6.1%) while Financials rebounded (1.6%). However these gains were offset by notable weakness in the Energy sector (-6.9%) given lower oil prices while Australian Real Estate Investment Trusts (A-REITs) declined 4.8% given rising bond yields.

The AUD rallied sharply in June given the rebound in commodity prices, particularly iron ore which rose from US\$57 to US\$64 per tonne.

What were the key factors driving markets?

The major themes driving markets in June continued to be President Trump's bold stimulus promises and signals from the US and European central banks that interest rates are set to rise.

Optimism over President Trump's policy agenda has been supportive of US shares. However financial markets are still awaiting the specific detail of these policies. The Fed is expected to continue raising interest rates over the next year while the ECB has signalled that their easy policy stance is coming to a close.

The British general election, as well as North Korea's nuclear ambitions, were the key political concerns in June.

In Australia, our economic activity remains modest and mixed. While retail spending seems to be improving, housing construction appears to be slowing. Australia's jobs growth has improved with the unemployment rate edging lower to 5.5%.



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