Market Update

JUNE 2017

- Markets in May were heavily influenced by political developments in the major economies.
- European equities returned 2.6% in May helped by Emmanuel Macron's convincing win in the French Presidential election.
- In the middle of the month equities were sold off on revelations that Donald Trump may have pressured former head of the FBI, James Comey, to drop investigations into Russian interference in the US election.
- Chinese activity indicators were softer last month but still remain at relatively high levels.
- Australian economic data showed that the economy barely grew in the March quarter due to weather-related factors which impacted on net exports.

May market performance

Equity Markets – Price Indices	Index	At Close 31/05/2017	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5761.29	-3.1%	5.8%
Japan	Nikkei	19650.57	2.4%	14.0%
Hong Kong	Hang Seng	25660.65	4.2%	23.3%
UK	FTSE 100	7519.95	4.4%	20.7%
Germany	DAX	12615.06	1.4%	22.9%
US	Dow Jones	21008.65	0.3%	18.1%
EMU*	Euro 100	1212.00	0.3%	17.2%
World**	MSCI – Ex Aus (Gross) (Hedged)	1479.28	1.3%	15.2%

Property – Price Index	Index	At Close 31/05/2017	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1379.25	-1.0%	-2.3%

Interest Rates	At Close 31/05/2017	At Close 30/04/2017	At Close 31/05/2016
Aust 90 day Bank Bills	1.73%	1.74%	1.98%
Australian 10 year Bonds	2.39%	2.58%	2.31%
US 90 day T Bill	0.97%	0.80%	0.29%
US 10 year Bonds	2.21%	2.28%	1.85%

Currency***		At Close 31/05/2017	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.74	-0.45%	2.76%
British pound	A$/STG	0.58	-0.24%	15.86%
Euro	A$/euro	0.66	-3.60%	1.73%
Japanese yen	A$/yen	82.33	-1.24%	2.46%
Trade-weighted Index		63.80	-1.09%	3.40%

* 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 has continued to be somewhat mixed in May with further falls in the unemployment rate in the US and Europe offset by softer inflation readings. Markets were also influenced by political developments in the United States and Europe.

Market Update

US

In the US, some of the momentum in economic growth appears to have softened. Non-farm payrolls growth has slowed over the past few months despite the unemployment rate falling to the lowest levels since 2001. Measures of inflation and wages growth, which had been trending higher, have also fallen back over the past few months leading investors to question whether the recent softness is transitory or part of a longer-term trend.

The US Federal Reserve is likely to take the view that the softness is seasonal and raise interest rates in June. Markets are fully pricing in a US Fed rate hike in June but then only pricing in one additional rate hike before the end of 2018, four fewer rate increases than implied by the Fed's own median dot point forecasts.

Europe

In the Eurozone, survey-based measures of activity have continued to remain at strong levels, however, core inflation fell from 1.2% in April to 0.9% in May which gives further weight to European Central Bank President Mario Draghi's recent suggestion that tapering of bond purchases and interest rate hikes may be further away than investors have been expecting. Eurozone GDP growth was revised higher for the March quarter with annual GDP growth at 1.9%, well above the 20-year average of 1.5% per annum.

China

China's activity indicators were disappointing last month with slower growth in retail sales, industrial production and fixed asset investment. There is also some evidence that the strong credit-fuelled growth in new home prices has begun to slow as the government moves to reign in property speculation.

Asia region

In Japan, GDP growth in the March quarter was revised down from an annualised rate of 2.2% to 1.0%, largely due to lower corporate inventories, although private consumption and housing investment figures were also adjusted a little lower. Despite the downgrade to growth estimates, the Japanese economy has had five quarters of continuous economic growth which is the longest period of economic expansion in more than a decade.

Australia

In Australia, GDP growth for the March quarter was relatively soft with the economy growing only 0.3% over the quarter or 1.7% over the past year, which is the slowest annual growth rate since the financial crisis in 2009. While part of the softness was weather-related, household consumption growth remains subdued. Slow rates of wages growth are constraining spending with the impact being mostly felt in the retail sector as households are forced to spend more on essential services such as education, healthcare and utilities.

As expected, the Reserve Bank of Australia kept interest rates on hold at its June meeting. The post-meeting statement indicated that the RBA is more confident about the global economy and that economic growth in Australia will gradually climb back to 3% per annum. 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 lost 1.2% in May.
- Emerging market shares rose 2.5% in local currency terms.
- The German DAX Index gained 1.4%.
- The Euro 100 index rose 0.3% over the month.
- The Japanese Nikkei Index was 2.4% higher.
- The US Standard & Poor's 500 Index was up 1.4% over the month and the NASDAQ Composite Index rose 2.7%.
- Australia's S&P/ASX All Ordinaries Index fell 3.1% in May dragged lower by bank stocks.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	10.80%	6.04%	11.70%	8.34%
	S&P/ASX 50 Acc.	11.34%	4.97%	11.94%	8.56%
	S&P/ASX Small Ordinaries Acc.	3.55%	6.04%	4.22%	3.07%

Despite rises in international equity prices, the S&P/ASX 200 Accumulation Index lost 2.8% in May including dividends. The local market was impacted by falls in the major banks which were partly triggered by the new levy outlined in the Federal Budget. The S&P/ASX 200 Financials ex-Property Index fell 7.7% during May greatly exceeding the earnings impact of the levy. Industrials were the best performing sector, returning 4.7% over the month. Smaller companies outperformed larger ones in May falling only 2.1% over the month.

Sector	1 Month	3 Months	1 Year
Energy	1.5%	5.3%	13.6%
Materials	-0.2%	-0.3%	24.5%
Industrial	4.7%	13.7%	13.4%
Consumer Discretionary	-0.3%	5.1%	8.1%
Consumer Staples	-0.4%	2.3%	13.9%
Health Care	-2.4%	6.6%	6.4%
Financials (ex Property)	-7.7%	-2.3%	11.1%
Info Tech	0.2%	7.5%	4.0%
Telcos	3.4%	-6.2%	-20.9%
Utilities	1.0%	10.7%	29.9%
Property	-1.0%	2.2%	2.3%

Market Update

BIG MOVERS THIS MONTH

Going up

⇑	Industrials	4.7%
⇑	Telecommunications	3.4%
⇑	Energy	1.5%

Going down

⇓	Property	-1.0%
⇓	Healthcare	-2.4%
⇓	Financials ex Property	-7.7%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	13.99%	14.81%	19.41%	13.45%
	MSCI World $A Hedged (Gross) in Local Currency	18.06%	9.03%	14.80%	12.03%
	MSCI World Small Cap ($A)	14.17%	15.30%	20.10%	14.24%
Emerging	MSCI Emerging Mkts Free	22.17%	6.73%	8.06%	6.71%
	MSCI AC Far East Free (ex Japan)	26.39%	7.23%	8.86%	0.08%

In May, global equity prices ignored the softer economic data and political developments in the United States and posted further gains with the S&P 500 index in the US hitting fresh record highs helped by positive sentiment towards the larger technology companies. Developed share markets gained 1.6% in May in local currency terms and the US S&P 500 index finished May 1.4% higher, European shares rose 2.6% and Japanese shares gained 2.4% over the month. Globally, utilities were the best-performing sectors, helped by further falls in bond yields. Energy shares were the worst performing sector again as the oil price continued to lose momentum.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	2.30%	15.21%	16.29%	13.12%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	5.94%	8.46%	13.25%	13.23%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) lost 1.0% in April. Over the past year, property securities have returned only 2.3% including distributions, which is well below the double digit annual returns that were seen last year.

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

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	2.50%	4.85%	4.48%	5.96%
	Australian 90 Day Bank Bill	1.80%	2.19%	2.48%	3.12%
Global	BarCap Global Aggregate Index	-1.94%	7.64%	6.37%	4.39%
	BarCap Global Agg. Index Hedged	2.68%	5.35%	5.59%	6.78%

Australian bonds returned 1.2% in May as government bond yields fell in Australia and other major markets. Long term bond yields fell as investors unwound their reflation expectations in the US as it became clear that Donald Trump will struggle to get traction with his reform agenda. Over the month, the two-year Australian Commonwealth Government bond yield fell from 1.67% to 1.55% per annum and the ten-year bond yield fell from 2.59% to 2.39% per annum.

Internationally, the Bloomberg Barclays Global Aggregate Bond Index (A$ hedged) returned 0.6% as bond yields fell marginally in the United States, United Kingdom and Germany. In the US, 10-year Treasury bond yields fell from 2.28% per annum to 2.20% due to softer economic data and expectations that the Fed's projection for five more rate hikes until the end of 2018 may not be realised. 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 weakened against most currencies in May due to lower commodity prices – especially iron ore prices which fell another 16%. Against the US Dollar the Australian Dollar was only 0.5% weaker but 3.6% weaker against the Euro. On a Trade-Weighted Index basis, the Australian Dollar fell 1.1%.