Month in Review

Index returns at end June 2019 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	3.70	7.97	19.73	11.55	12.88	8.85	10.02
S&P/ASX Small Ordinaries Accumulation Index	0.92	3.75	16.81	1.92	10.66	9.26	6.30
Global Equities							
MSCI World TR Index (AUD)	5.28	5.48	17.75	12.59	14.63	13.75	12.92
S&P 500 TG Index (AUD)	5.69	5.58	18.92	16.25	16.47	17.47	16.34
FTSE 100 TR Index (AUD)	3.65	2.16	13.42	3.07	9.26	6.10	8.53
MSCI Emerging Markets NR Index (AUD)	4.89	1.84	10.95	6.56	12.87	8.75	7.32
Real Estate Investment Trusts (REITs)							
S&P/ASX 300 A-REIT Accumulation Index	4.16	4.12	19.10	19.39	8.44	13.81	14.03
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	0.88	-0.47	13.98	7.73	5.43	7.48	12.86
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	1.04	3.05	6.59	9.57	4.23	5.06	5.97
Bloomberg Ausbond Bank Bill Index	0.13	0.45	0.97	1.97	1.86	2.08	2.99
Barclays Global Aggregate TR Index (AUD Hgd)	1.29	2.68	5.55	7.23	3.14	4.85	6.63

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Australian equities

Australian shares pushed higher through June on the back of improving sentiment around global trade and a rallying US market. The S&P/ASX 200 Index returned 3.7% over the month, finishing above 6,600 points and moving above 6,750 early in July, pushing closer to its 2007 record high. Gains were led by large cap shares, with miners capturing the spotlight. Materials (+6.4%) was the top gaining sector over June, including solid gains from majors Newcrest (+17.4%), Fortescue Metals (+12.1%) and BHP (+9.00%), while Galaxy Resources (-22.0%) remains plagued by a falling lithium price and short sellers.

Industrials (+5.4%) had a positive month, with Sydney Airport (+8.5%) higher after announcing a rise in domestic passengers over June and has achieved a turnaround on international visitor numbers despite fears of a slowdown in Chinese visitor numbers. Ship builder Austal (+16.4%) saw a solid boost after being inducted into the ASX 200. Within the Health Care sector (+4.2%), Nanosonics (+24.9%) was the standout in June, rising to an all-time high as investors were drawn to the company's impressive half-year results and the growth potential for its disinfection technology.

Global equities

Global shares rebounded in June as central banks prepared markets for potential rate cuts and trade tensions appeared to ease following the G20 summit in late June. Developed market shares, measured by the MSCI World Ex Australia Index, rose 5.4% in Australian dollar terms and emerging market shares rose 5.0%, helped by a softer US currency. The US S&P 500 Index rose 7.1% in June in US dollar terms with all sectors positive, with large gains from the Materials (+11.5%) and Energy (+9.1%) sectors. Marathon Petroleum (+21.5%), now the largest refiner in North America after its acquisition of Andeavor, saw solid gains on the back of a rising oil market, helping to make up for disappointing margins in recent months. The Information Technology sector (+9.1%) made up ground following May's poor performance, including a 13.1% gain from Apple, which has benefited from the trade truce.

In Europe, the resources sector (+9.5%) was the top gainer among STOXX Europe 600 shares, while auto stocks (+6.7%) recovered from the trade woes of the previous month. Banks (+1.6%) were positive over June but still struggling as markets anticipate a fall in interest rates. Asian markets were higher in June as trade fears lifted (at least for now), with gains from Japan's Nikkei 225 Index (+3.5%), Hong Kong's Hang Seng (+6.7%) and China's CSI 300 (+6.1%).

REITs

Australian listed property continued its winning streak in June, returning 4.2% as yields fell and the RBA's rate cut spurred interest in income-generating assets, including listed property. Goodman Group (+12.2% in June and +56.2% over 12 months), the largest member of the ASX A-REIT Index, has ridden the logistics wave as Amazon's landlord, continuing its rise through June although possibly reaching expensive territory with its yield currently around 1.6%. Charter Hall Group (+4.7%) and Abacus Property Group (+7.1%) are bidding as a consortium for the Australian Unity Office Fund,

Month in Review

making a final offer of $3.04 per share compared to its price of $2.37 at the end of June, valuing the trust at around $496 million. Charter Hall Group was the top performer over the financial year (+66.1%) and is set to deliver solid full-year results after upgrading its earnings guidance.

Dragging on the index were the shopping centre REITs, including Vicinity Centres (-5.0%) and Scentre Group (+1.1%), which remain affected by the soft retail environment. In the US, REITs were mostly flat through June in US dollar terms (+0.9%), with gains from Warehouse and Industrial (+6.9%), Shopping Centres (+1.3%) and Healthcare (+1.3%), and falls from Office Property (-2.3%) and Regional Malls (-2.2%).

Fixed income

With bond yields at record lows in many developed markets, the rally in bonds was given a further boost by the RBA, which cut rates to 1.00% at its July meeting. Australian bonds, measured by the AusBond Composite Index, returned 1.0% over June and has returned an impressive 9.6% over the past 12 months, rivalling returns on Australian shares. The yield on Australian 10-year Treasuries fell over June from 1.46% to 1.32%, and the 90-day Bill rate fell from 1.42% to 1.21%. The story is much the same globally: while the Fed is yet to cut rates, over the course of 2019 they have pivoted away from a tightening to an easing bias.

Markets fully priced in a 50-basis point cut in the funds rate at its next meeting scheduled for the end of July, however this was pared back following June's strong jobs result. Low rates have also sparked a renewed hunt for yield, which has been reflected in the high yield segment of the bond market. ECB President Mario Draghi defended the bank's approach to combatting slowing growth, suggesting that his successor Christine Lagarde would have the option of cutting rates or deploying additional stimulus. European yields dropped further through the month, with the German 10-year yield moving further into negative territory from -0.20% to -0.33%.

ASX 200 share movements

S&P/ASX 200 share performance for the month to June

Best performers	
Nanosonics	24.89%
Ausdrill	24.57%
Pact Group Holdings	22.91%
Bingo Industries	22.49%
Northern Star Resources	19.98%

Worst performers	
Vocus Communications	-28.76%
Pilbara Minerals	-24.31%
Galaxy Resources	-21.97%
Challenger	-17.72%
Pinnacle Investment Management Group	-16.57%

S&P/ASX 200 share performance for the year to June

Best performers	
nearmap	233.04%
Afterpay Touch Group	168.13%
Magellan Financial Group	118.88%
Appen	109.35%
Fortescue Metals Group	105.47%

Worst performers	
Galaxy Resources	-59.57%
Eclipx Group	-58.68%
Nufarm	-52.97%
Costa Group Holdings	-51.03%
Pact Group Holdings	-47.06%

Economic News

Australia

The big news in Australia is the RBA's switch to rate cutting mode, with two cuts to the cash rate over June and July to a record low 1.00%. The minutes of the June meeting point to concern about the US-China trade dispute, while domestically the decline in dwelling investment has had an impact on economic growth and households remain constrained by low wages growth and falls in home prices. In particular, the RBA noted there is still spare capacity in the labour market, with modelling suggesting that the rate of unemployment consistent with stable inflation (known as the NAIRU, or Non-Accelerating Inflation Rate of Unemployment) has fallen in recent years to around 4.5%. When the unemployment rate rose to 5.2% in April and held steady in May, the case for easing became clearer.

The prospect of sub-1.0% cash rates has further undermined the Australian dollar and driven investors towards higher yielding financial assets. In what amounted to a further easing of monetary conditions and in recognition of the likelihood of a lower level of interest rates for longer, APRA signalled a change to the 7.0% serviceability buffer on home loans.

Month in Review

Jobs growth has been robust over the financial year, with 4.3 million full-time jobs and 8.9 million part-time jobs added to the end of May. However, a slow but steady rise in the participation rate has meant that there may still be some spare capacity in the labour market, resulting a rise in the unemployment rate from 5.1% to 5.2% in April, while the May figure held steady. Together with the downside risks facing the economy, including global trade developments, there was a strong case for interest rate cuts.

The **AIG Manufacturing Index** fell 3.3 points in June to 49.4, dropping below the critical 50.0 level that indicates expansion. Manufacturers pointed to ongoing drought conditions detracting from equipment sales and slowing activity in residential construction. New Orders (-2.5 points to 49.8), Supplier Deliveries (-6.5 points to 47.1), Finished Stocks (-6.8 points to 44.0) and Selling Prices (-2.5 points to 49.6) each fell below 50, which Employment (-5.5 points to 50.1) dropped but held in expansion territory. Production (+0.7 points to 51.9) and Exports (+2.8 points to 53.1) saw modest gains in pace.

The Westpac Melbourne Institute **Index of Consumer Sentiment** fell 4.1% to 96.5 in July, moving below the 100 level and indicating that pessimists now outnumber optimists, even as interest rates fall and the government's tax cuts are legislated. Not even a pause in trade hostilities and signs that the property market may be stabilising were enough to lift consumers' spirits. The survey noted that increasing concern about the economy is undermining consumers' sense of job security, with confidence in the labour market deteriorating sharply in July.

Retail activity rose in May by 0.1% in seasonally adjusted terms, with the release including an upward revision for April from -0.1% to 0.1%. In trend terms, Australian turnover rose 2.7% in May 2019 compared with May 2018. Food retailing was a drag on overall sales, falling 0.3% over the month, while department stores suffered a fall of 0.4%. Household goods retailing rose 0.5%, recovering from the previous month's fall of 0.9%, while cafes and restaurants rose 0.7%.

Australia's **balance on goods and services** showed the trade surplus rise from a seasonally adjusted $4,820 million to a record high $5,745 million, supported by higher metals prices and softness in the Australian dollar. Exports of general merchandise rose $1,362 million and exports of metal ores and minerals rose $1,304 million, with iron ore trading at its highest level in five years due to global supply disruptions.

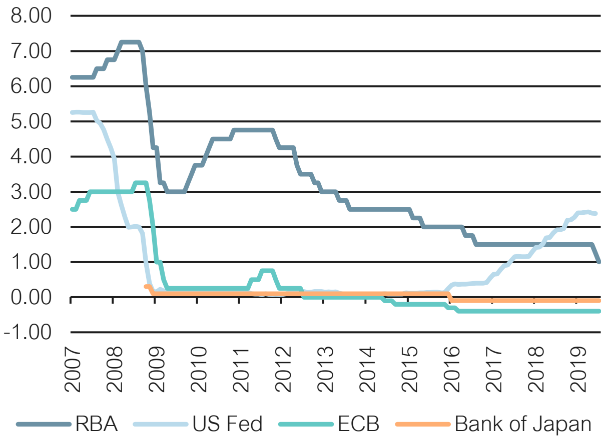
Global

The G20 summit in late June brought some peace to trade tensions as Xi and Trump agreed to restart talks, but the issue has clearly undermined confidence and expectations of a recovery in growth in the second half of 2019. The US has already placed tariffs on US$250 billion worth of Chinese products and has threatened tariffs on $325 billion more, while China in turn has set tariffs on $110 billion worth of US goods and is threatening additional measures that would affect US businesses in China.

US inflation and wages growth readings have been subdued, with core CPI dropping back to 2.0%, the core PCE price index rising just 1.6%, and wages growth easing back to 3.1%. The ISM manufacturing index fell 0.4 points to 51.7 in June, with new orders index down 2.7 points to a flat 50.0. For recession watchers, the fall in Recreational Vehicle (RV) shipments is an interesting if disturbing trend. Shipments fell a massive 14% in May and are down 22% year-on-year, signalling that consumers are avoiding big ticket purchases.

However, the good news was the surprise June payrolls data, which showed 224,000 jobs added over the month, with markets suspecting that May's disappointing result may have been a one-off. As broadly expected, the Fed left the funds rate on hold at its June FOMC meeting, but hinted at rate cuts in the near future.

Key central bank rates since the GFC



Source: Bloomberg

Inflation in the eurozone was 1.2% year-on-year in June, steady on May and down on April's result of 1.7%. Core inflation rose from 0.8% to 1.1% but remains obdurately low. In France moderate growth in the service sector and stability in manufacturing growth foreshadow moderate growth over the June quarter.

In Germany the services sector continues to grow on the back of strong domestic demand, while manufacturing is contracting at the fastest pace since 2012, with employment falling the most in over six years. Germany's Federal Labour Agency reported that the unemployment rate rose for the first time in five years from 4.9%, the lowest since reunification in 1990, to 5.0% in May, although unemployment across the eurozone continues on a steady downward path, falling from 7.6% to 7.5% in June.

Month in Review

German exports fell 3.7% in April and imports fell 1.3%, with the trade war clearly weighing on growth. Annual growth in industrial production has deteriorated from a recent high of 7.3% at the end of 2017 to a contraction of 3.4% in April. ECB President Mario Draghi said the bank was ready to "use all the instruments that are in the toolbox" if the weakness of the manufacturing export sector spread to other parts of the economy. His successor Christine Lagarde takes over in October this year at a critical time for the bank.

The Chinese economy remains soft by historical standards and exposed to the escalating trade war and weaker global trade growth. Industrial activity is very subdued despite the range of stimulus measures undertaken over the past year. The official PMI, which had begun to move back into expansion in March (albeit barely at 50.5), slipped back to 49.4 in May and remained steady in June. The Caixin PMI fell in June from 50.2 to 49.4 and industrial production fell from 5.4% to 5.0%. One bright spot was the bounce in retail sales in May, with growth rising to 8.6% after a weak April, which saw growth fall to a 16-year low of 7.4%.

The G20 Summit proved to be a pressure valve for the trade tensions that had rocked markets in May, with both leaders agreeing to return to the negotiating table. President Trump's decision to ease restrictions on Chinese carrier Huawei may indicate a willingness to reach a deal, although the issue remains live for markets.

Together with an economy already struggling to maintain momentum, the trade issue has prompted further stimulus from Chinese authorities, who say they will adjust financing rules to allow local authorities to step up infrastructure spending. The move goes against the policy of recent years aimed at reducing financial stability risks by reigning in the growth of credit used to finance inefficient infrastructure projects.

Commodities

A pause in trade tensions saw the oil rally resume in June, while the decision by OPEC allies to extend production cuts through to March 2020 is expected to support oil prices. The WTI crude spot price rose 8.8% in June from US$53.49 per barrel to $58.20, and Brent oil rose 1.1% from $66.78 to $67.52. Metals also saw a bounce, with gains in Lead (+7.0%), Nickel (+5.6%), Copper (+2.8%), Tin (+0.6%) and Aluminium (+0.3%), and small drop in Zinc (-1.2%). Gold rose 8.0% from US$1,305.58 to $1,409.55.

Currencies

The prospect of sub-1.0% cash rates has further undermined the Australian dollar and driven investors towards higher yielding assets. The Australian dollar was steady in June in trade weighted terms, moving higher against the US dollar (+1.2% to 0.70), British pound (+0.7% to 0.55), and Japanese yen (+0.8% to 75.51), and falling against the euro (-0.6% to 0.62).

Over the three months to the end of June 2019 the Australian dollar has fallen 0.2% in trade-weighted terms, appreciating against the US dollar (+1.2%), British pound (+0.7%) and Japanese yen (+0.8%), and falling against the euro (-0.6%).

Month in Review