



Markets rallied on rate cuts...

- The rally from December has continued into July with most equity markets up for the month.
- Global shares were up 1.1% and 2.3% in hedged and unhedged terms, respectively.
- Domestically, Australian shares outperformed international markets this month with 2.9% performance in June.
- Australian health care stocks performed well with Resmed ([ASX: RMD](#)) a standout as it saw both profit expansion and strong growth from its portfolio of software offerings that are making its sleep apnoea solutions stickier with patients (and promoting better health practices).
- The Australian dollar (AUD) fell against major currencies following another cash rate cut by the RBA. This coupled with a tougher than expected US rate outlook (markets have been anticipating more rate cuts there) saw the AUD fall.
- Fixed income and bond substitutes such as listed property rose in July both domestically and globally. Unhedged assets outperformed hedged equivalents in line with the depreciation of the AUD.
- International fixed income continued to rise on the prospect of additional central bank easing and following a 0.25% rate cut by the US Federal Reserve. The prospect of falling interest rates makes existing bonds more attractive so much so that almost 26% of the Barclays Global Aggregate is now offering a negative yield. Disappointing PMI results have stoked fears of weaker global growth as well, driving bond yields lower.

- The Coalition successfully passed its tax reform package in early July. This will see cash tax offsets be offered as part of FY19 tax returns and act as a stimulus to economic growth. This must be balanced on the weaker consumer outlook with the Westpac-Melbourne Institute Index of Consumer Sentiment falling in July. Underlying retail sales in the June quarter also disappointed suggesting caution.
- We saw an uptick in sentiment towards property markets continue with some slight appreciation in Sydney and Melbourne although credit growth remains subdued.

Major asset class performance

| Asset classes | 1 month % | 1 year % | 5 years (p.a.) % |
|------------------------------------|-----------|----------|------------------|
| Australian shares | 2.9 | 13.3 | 8.5 |
| Global shares (hedged) | 1.1 | 4.1 | 9.7 |
| Global shares (unhedged) | 2.3 | 11.7 | 13.8 |
| Global small companies (unhedged) | 2.5 | 4.5 | 13.3 |
| Global emerging markets (unhedged) | 0.6 | 5.5 | 8.1 |
| Global listed property (hedged) | 1.0 | 7.8 | 7.4 |
| Cash | 0.1 | 1.9 | 2.1 |
| Australian fixed income | 0.9 | 10.4 | 5.2 |
| International fixed income | 0.5 | 7.8 | 4.9 |

Source: Bloomberg & IOOF, 31 July 2019 Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Please note: Past performance is not indicative of future performance

With mixed economic news...

Globally

- US-China trade tensions flared up with new US tariff threats countered by the prospect of China devaluing its currency in early August.
- These have abated slightly with China limiting further currency depreciation and market volatility still remaining within normal levels.
- US growth surprised at 2.1% annualised for the June quarter (consensus: 1.8%) with the economy there more reliant on still-strong consumer spending.
- Global business surveys pointed to weaker manufacturing growth with the Markit Global Manufacturing PMI remaining in contractionary territory.
- The US Federal Reserve cut interest rates by 0.25% which Chairman Powell described as a "mid-cycle adjustment" to combat the impact of trade tensions and rising global uncertainty on the US economic outlook. Markets continue to price in more interest rate cuts in the US.

Locally

- The Reserve Bank of Australia (RBA) responded to its labour market concerns and market pricing by cutting rates by 0.25% in early July and staying on hold in early August. This confirmed market expectations that has seen bonds be bid up and yields fall.
- Current market expectations suggest another rate cut by October following more trade tension volatility in early August.
- The unemployment rate remained at 5.2% while employment growth disappointed. Leading business indicators such as the NAB Business Survey suggest weaker labour markets ahead.

Currency markets

| Exchange rates | At close on 31/7 | 1 month change % | 1 year change % |
|----------------------|------------------|------------------|-----------------|
| USD/AUD | 0.68 | -2.5 | -7.8 |
| Euro/AUD | 0.62 | 0.1 | -2.7 |
| Yen/AUD | 74.5 | -1.7 | -10.3 |
| Trade weighted index | 59.5 | -1.0 | -6.3 |

Source: Bloomberg & IOOF, 31 July 2019. All foreign exchange rates are rounded to two decimal places where appropriate.
Please note: Past performance is not indicative of future performance.

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