JUNE 2019 QUARTERLY COMMENTARY

Australia:

Key points:

- **The Reserve Bank of Australia (RBA) cut the official interest rate to a new record low of 1.25%.**
- **Inflation remains below the RBA's 2-3% target range, with heightened concerns of an economic slowdown.**
- **The Australian Dollar depreciated marginally over the second quarter against the US Dollar by 1.1%, closing at 70.20 US cents at the end of June down from 70.96 cents in March.**

Australia's twin domestic economic concerns of weak inflationary pressure and low growth have persisted through to the second quarter of the year. The Australian economy grew below trend at 1.8% in the first quarter of 2019, relative to the same quarter in 2018, brought about by low income growth and falling housing prices. The Reserve Bank of Australia (RBA) consequently updated their economic outlook in May, revising their expectations for economic growth and inflation to lower levels. The RBA expects GDP growth to hover around 2.75% over the next few years, and they remain hopeful that inflation will pick up to 2% by 2020. Consistent with this outlook and the expectations of market participants, the RBA cut interest rates in June to a record low of 1.25%.

The Australian share market reacted strongly to the re-election of the Coalition Government on May 18th, a result that contradicted pre-polling forecasts. The election outcome dismissed investors' fears over the Labor party's proposed tax policy changes to negative gearing on investment properties and the removal of cash refunds via franking credits. Australian equity markets performed positively over the quarter despite the escalation of a trade war between the US and China in May, which led to major declines in global equity markets for the month. The positive return to equity markets was bolstered by the federal election result, which led to rises in bank share prices, offsetting declines in resource stocks affected by trade tensions. The value of dwellings continued to decline throughout the June quarter, however at a slower pace than earlier in the year, due to expectations of an interest rate cut and relaxed serviceability requirements of APRA. Housing prices fell nationally by 0.4% in May, reflecting the smallest monthly decline recorded since May 2018.

The S&P/ASX300 Accumulation Index continued its upward trajectory following the first quarter rally, returning 8.0% over the June 2019 quarter, resulting in a year-to-date performance of 19.8%. All but one of the S&P/ASX300 sectors posted positive returns for the June quarter (Energy returned -0.2%): Consumer Discretionary (6.0%), Consumer Staples (5.9%), Financials (10.8%), Healthcare (11.5%), Utilities (1.9%), Industrials (9.1%), IT (5.1%), Materials (7.2%), and Telecommunications (12.2%). The Australian listed property sector continued its positive performance from the start of the year, returning 4.1% for the June quarter.

Returns for period ending 30 June 2019	Quarter %	1 Year %
Australian Equities	8.0%	11.4%
Consumer Discretionary	*6.0%*	*4.0%*
Consumer Staples	*5.9%*	*2.9%*
Energy	*-0.2%*	*-6.1%*
Financials, ex Property Trusts	*10.8%*	*8.2%*
Health Care	*11.5%*	*13.9%*
Industrials	*9.1%*	*19.8%*
Information Technology	*5.1%*	*19.3%*
Materials	*7.2%*	*18.3%*
Telecommunications Services	*12.2%*	*39.0%*
Utilities	*1.9%*	*6.0%*

The Australian Dollar (AUD) depreciated marginally against the US Dollar (USD) over the quarter, beginning the second quarter at 70.96 US cents and falling below 68.5 cents in mid-June, before recovering to 70.20 cents at the end of the quarter. The AUD appreciated against the Chinese yuan and British pound, owing to economic uncertainty from trade tensions and the political uncertainty of Brexit, however the AUD fell against the Japanese yen and the euro. Overall the AUD fell over the second quarter against a basket of major currencies, as measured by the Trade Weighted Index, which fell from 60.5 at the end of March to 60.1 at the end of June.

The Australian Manufacturing Purchasing Managers' Index, which measures the economic health of manufacturing and service sectors, decreased over the June quarter from 51.0 to 49.4 (a reading above 50 indicates an expansion of the manufacturing sector and a reading below 50 a contraction, compared with the previous month). Business confidence, as measured by the NAB Business Confidence survey, surged to 7 in May from March's reading of 0, back above the long-run average of 6. Consumer sentiment, as measured by the Westpac Melbourne Institute Consumer Sentiment Index, declined to 100.7 in June (a result above 100 reflects a higher number of optimists relative to pessimists). The result can be attributed to Australia's slowing economic growth and suggests concerns about the economic outlook outweighed the impact of the RBA's June cut of 25 basis points.

Domestic bond yields have continued to fall amidst concerns over the economic outlook. The Australian Government 10-year bond yield ended the quarter at 1.32%, down 46bps from the end of March. Australia's 10-year government bond yield remains significantly lower than that of the US (2.01%), however the gap has narrowed recently as market participants price in their expectations of the future of the US federal funds rate. The Bloomberg AusBond Composite Index returned 3.1% for the quarter.

International:

Key points:

- **The US Federal Reserve Board held the federal funds rate target range unchanged at 2.25% to 2.5%.**
- **Theresa May resigned after consecutive unsuccessful attempts to pass her Brexit deal through UK parliament.**
- **While equity markets declined in May, two strong months in April and June helped push global markets into positive territory for the quarter.**

The US and China trade war escalated in May, putting a halt to the upward trajectory experienced by global market participants earlier in the year. US equities declined by 6.4% (in local currency terms) in May, as measured by the S&P 500 Composite, as trade negotiations broke down between the US and China. The US increased tariffs from 10% to 25% on US$200 billion worth of Chinese imports in May, to which China retaliated with their own set of tariffs on US$60 billion worth of US goods. However, the S&P 500 still performed positively in April and June, offsetting May declines and ending the quarter up 4.1%. The G20 meeting late in June resulted in the US and China agreeing to continue trade negotiations, however there are still no significant signs of progress in reaching an agreement, which still weighs heavily on business sentiment. The US Federal Reserve has maintained their dovish outlook as downside risk continues to overshadow the economic outlook with lower long-term inflation expectations, mentioning in their June meeting that overall inflation is "running below 2 percent". In the first quarter of 2019, US GDP grew by 3.1%.

The National Association of Home Builders/Wells Fargo Housing Market Index (HMI) increased to 64 over the June quarter, from 62 at the end of March (a number over 50 indicates more builders view sales conditions as good than poor). Activity in the US manufacturing sector, as measured by the US Markit Manufacturing PMI, fell to its second lowest level over the quarter since September 2009, with June closing at 50.6, down from 52.4 in March due to the sector's sensitivity to lower business investment and trade tensions. Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, remained relatively flat at 98.2 for June versus the 98.4 March quarter. US headline year-on-year inflation picked up over the June quarter versus the significant low of 1.5% in February – with inflation to May at 1.8%. Annual core US inflation remained steady over the June quarter, fluctuating between 2.0%-2.1% over the preceding months, on trend with performance since mid-2018.

In Europe, UK Prime Minister Theresa May announced her resignation this quarter, having ultimately been unsuccessful in pushing her Brexit deal through the British Parliament. The process to appoint May's successor is well underway and is likely to be finalised by the end of July, with polls still pointing to pro-Brexit campaigner Boris Johnson as the favourite to win the election. Theresa May's resignation has provided further uncertainty as to the outcome of Brexit and, under the new leadership, there is now the potential for harsher Brexit terms. The UK's new prime minister faces a significant challenge that May was unable to overcome - uniting a parliament that remains divided over Brexit, with only 30% of UK voters supporting leaving the EU without a deal. The exit date has been delayed to the 31st of October, a date which marks the beginning of a new 5-year political cycle for the EU, as the new European Commission takes office. UK equities, as measured by the MSCI UK, performed positively for the quarter despite the ongoing uncertainty surrounding Brexit, returning 3.3%.

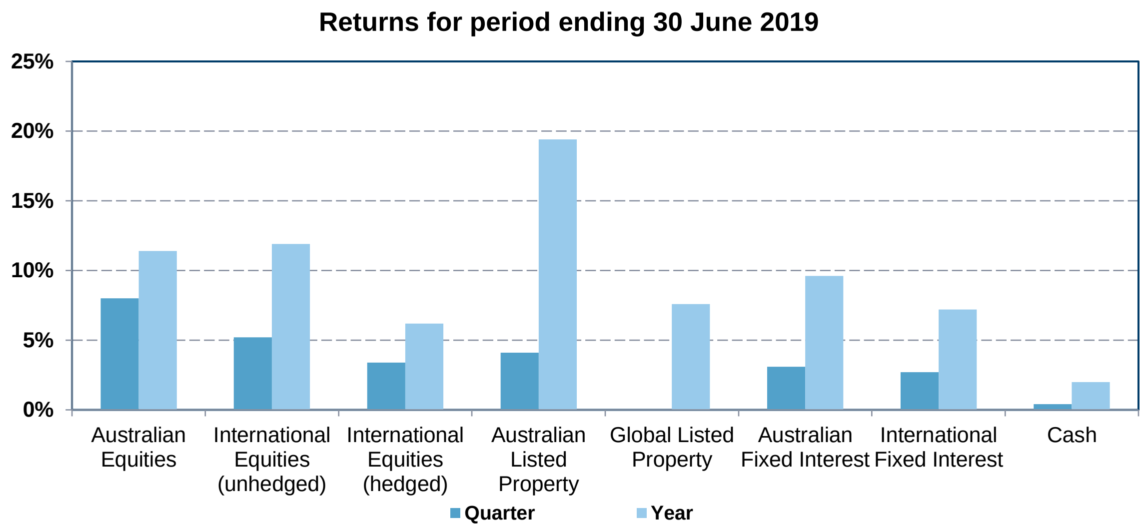
European equities, as measured by the Euro Stoxx 50 Index, posted a positive return for the June quarter of 3.6% despite volatility over preceding months in the local and foreign economic environment. The European Central Bank (ECB) kept interest rates on hold at 0% during their June meeting, stating that rates will be kept at this level "for as long as necessary" to ensure inflation converges to the 2% target over the medium term. However, ECB president Mario Draghi noted interest rates "could fall even further into negative territory if needed" if the economy fails to improve. Contraction in the manufacturing sector continued, as observed through the Markit Eurozone Manufacturing PMI closing at 47.6 in June compared to 47.5 in March. The Euro Area unemployment rate remained at its lowest levels since October 2008, falling to 7.5% in May. The Euro area's headline year-on-year inflation remained low for the quarter, in line with market expectations at 1.2% for June. European core inflation (which excludes prices of volatile items such as food and energy) was 1.1% in May, identical to the March reading.

Chinese quarterly GDP expanded at 1.4% in the three months to March, down from the 1.5% growth rate recorded in the previous quarter. The China Caixin Manufacturing PMI fell from its level of 50.8 in March to 49.4 in June after trade negotiations between the US and China broke down in May. Chinese equities followed and performed poorly for the quarter compared to other equity markets, returning -3.6% (measured by the Shanghai Composite Index).

The Bank of Japan (BoJ) left its interest rate unchanged at -0.1% for another consecutive quarter in its June meeting. Policymakers stuck to their target on 10-year government bonds of 0%, noting that their attention remains focused on the influence of downside risks from overseas economies on local consumer and business sentiment. The BoJ noted that the Japanese economy will continue to expand through to 2021 despite the global slowdown and weakness in exports. Japanese year on year CPI inflation remains well below its October 2018 level of 1.4% despite recovering from the February low of 0.2%, with May CPI growth at 0.7%. Over the June quarter, the Japanese unemployment rate continued to fluctuate within the 2.3%-2.5% range that has been observed since April 2018, with the May reading being 2.4%, meeting market expectations. The Markit/Nikkei Final Japan Manufacturing PMI came in marginally higher than the March quarter but remained in contractionary territory, with a reading of 49.3 for June. Japanese equities performed poorly for the quarter, as measured by the MSCI Japan, returning -1.7% for the period.

Bond yields continued to fall over the June quarter, signalling a negative outlook for the global economy. The US 10-year government bond yield fell by 40 bps to 2.01%, the UK 10-year government bond yield fell by 12 bps to 0.83% and the 10-year German government bond yields delved further into negative territory, falling 26 bps to end the quarter at -0.33%.

Global listed property underperformed global equities for the June quarter with a 0.0% return, as measured by the FTSE EPRA/NAREIT Developed ex-Australia Rental Index (AUD hedged).



Returns for period ending 30 June 2019	Quarter %	1 Year %
Australian Equities	**8.0%**	**11.4%**
International Equities (unhedged) [1]	**5.2%**	**11.9%**
North America	*5.4%*	*15.2*
UK	*2.1*	*3.3*
Europe (ex UK)	*7.1*	*9.0*
Japan	*2.3*	*1.0*
Asia Pacific (ex-Japan)	*0.6*	*5.0*
Emerging Markets	*1.8*	*6.7*
International Equities (hedged) [2]	**3.4**	**6.2**
Australian Listed Property	**4.1**	**19.4**
Global Listed Property [3]	**0.0**	**7.6**
Australian Fixed Interest [4]	**3.1**	**9.6**
International Fixed Interest [5]	**2.7**	**7.2**
Cash	**0.4**	**2.0**

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[1] *MSCI World ex-Australia Index (with net dividends reinvested in AUD)*

[2] *MSCI World ex-Australia Index (with net dividends reinvested hedged in AUD)*

[3] *FTSE EPRA/NAREIT Developed Ex Aus Rental Index (Net TRI Hedged in AUD)*

[4] *Bloomberg AusBond Composite Index*

[5] *Barclays Global Aggregate Hedged in AUD Index*

All returns are based on accumulation indices.

FACTUAL INFORMATION AND GENERAL ADVICE WARNING