BetaShares
Exchange Traded Funds

AUGUST 2017

CENTRAL BANKS BARK BUT DON'T BITE

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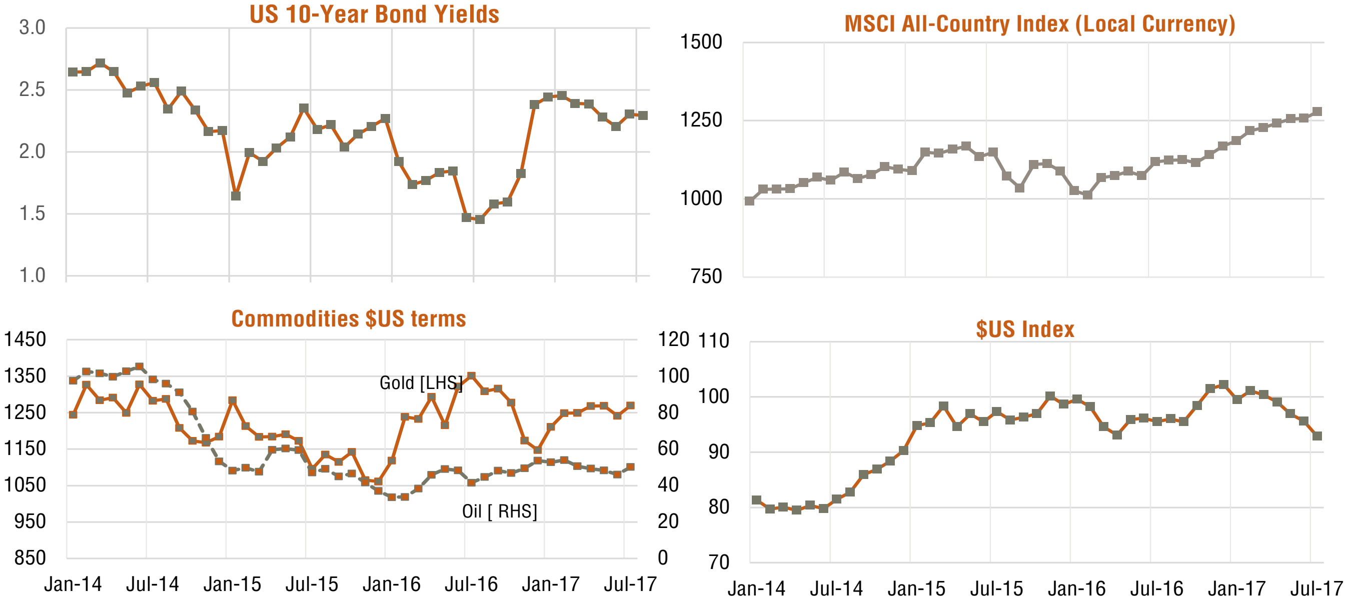
GLOBAL MARKETS

- Global equities shook off the previous month's concerns about global central bank tightening to post another solid gain in July. This was helped by ongoing evidence of good growth and low inflation globally, and an encouraging start to America's Q2 earnings reporting season. US bond yields steadied while the $US fell further, with the latter in turn supporting US and emerging market equities over those in Europe and Japan. The NASDAQ-100 Index also rebounded, after being hurt by valuation concerns in June.
- In commodity markets, oil enjoyed a strong rebound on hopes that Saudi Arabia might restrict exports, which in turn also supported gains in global energy stocks.

Global Markets

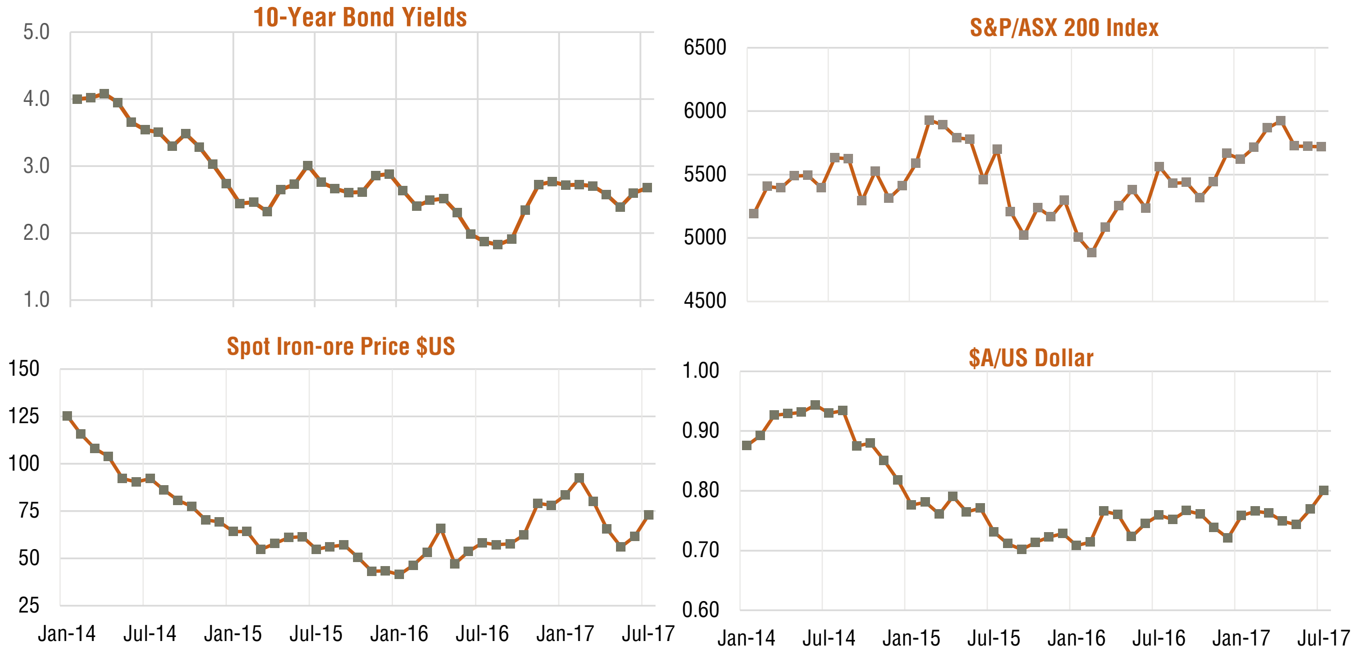


Source: BetaShares, Bloomberg

AUSTRALIAN MARKETS

- A weaker $US, firmer iron-ore prices and heightened expectations of rising local interest rates – the latter eventually downplayed by the RBA – conspired to produce a sharp $A gain in July. While the gain in iron-ore prices helped mining stocks, the S&P/ASX 200 Index (total return) was flat in the month, as $A and interest rate concerns led to a pullback in sectors such as health care, telecommunication and utilities.
- Local 10-year bond yields lifted a further 8bps to 2.68%, though the market continues to expect no change in official rates over the remainder of the year.

Australian Markets



Source: BetaShares, Bloomberg

OUTLOOK

- Contrary to earlier market fears, it now seems clearer that many central banks around the world – including the RBA - remain in no hurry to withdraw monetary stimulus and lift interest rates, given the fact that inflation generally remains lower than they would like.
- At worst, it seems likely that next month the European Central Bank will announce a tapering of its bond buying program beginning next year, and the US Federal Reserve should reveal its timetable for phased balance sheet reduction. All up, **this should conspire to lift global bond yields, though not by enough to threaten the broader equity market uptrend, given the backdrop of reasonable growth, low inflation and improved corporate earnings.**
- Importantly, many potentially negative event risks have dissipated this year, with the Chinese economy continuing to grow well and anti-EU parties failing electorally across Europe. A weaker $US has also been underpinning commodity prices and reducing fears of capital outflows from emerging markets. Though markets have discounted hopes of fiscal stimulus from US President Donald Trump, they have at least grown more accustomed to his often erratic behavior.
- Lingering market concerns are North Korea and high outright price-to-earnings equity valuations. As regards the former, the central case must be that some form of negotiated settlement can eventually be reached. In respect of the latter, **equity valuations seem likely to remain high – and possibly go higher – given the priority given to boosting inflation rather than ensuring "financial stability" among global central banks.**
- Some favoured investment ideas this month include buying the unloved $US against the Australian dollar (such as through the BetaShares funds USD or YANK) and unhedged global growth opportunities (such as through the BetaShares NASDAQ 100 ETF (ASX: NDQ).

Asset Class Return Performance

	Jul-17	Jun-17	6-mth	12-mth	Month	3-mth	6-mth	12-mth
					Performance Rank			
Cash	0.1%	0.1%	0.9%	1.8%	3	2	5	4
Aust. Bonds	0.2%	-0.9%	1.9%	-0.2%	2	4	3	5
Aust. Property	-0.1%	-4.8%	1.2%	-11.1%	5	6	4	6
Aust. Equities	0.0%	0.2%	4.0%	7.3%	4	1	2	2
Int. Equities - unhedged	-1.3%	-2.8%	5.5%	11.1%	6	5	1	1
Commodities - hedged	1.9%	-0.1%	-2.6%	3.0%	1	3	6	3
Int. Equities - hedged	1.8%	0.3%	9.0%	16.5%				
World currencies vs $A	-3.1%	1.4%	-4.1%	-3.4%				

Total returns for the month   Source: Bloomberg

ASSET BENCHMARKS Cash: UBS Bank Bill Index; **Australian Equities**: S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **International Equities:** MSCI All-Country World Index, unhedged $A terms; **Commodities:** S&P GSCI Light Energy Index, $US terms

Returns for Selected BetaShares ETF Exposures*

		Total return performance			
Investment Exposure	ASX Code	Jul-17	Jun-17	6-mth	12-mth
Cash	AAA	0.2%	0.2%	1.0%	2.1%
Aust. Equities					
Aust - Fund. weight	QOZ	1.4%	-0.2%	3.5%	14.3%
Resources	QRE	5.0%	-2.1%	-0.4%	21.2%
Financials	QFN	1.2%	1.6%	4.6%	14.6%
Ex-20	EX20	-1.4%	0.9%	7.3%	5.7%
Global Equities - Unhedged					
US-Fund. weight	QUS	-2.3%	-2.2%	-0.5%	7.8%
US-Nasdaq	NDQ	0.1%	-5.7%	9.6%	19.4%
Global Equities - Currency hedged					
Agriculture	FOOD	1.8%	1.6%	4.8%	14.3%
Health Care	DRUG	0.1%	4.1%	12.7%	6.4%
Global Banks	BNKS	1.6%	4.5%	7.6%	40.9%
Energy	FUEL	2.8%	-1.2%	-4.8%	6.5%
Gold Miners	MNRS	0.7%	-4.4%	-7.5%	-27.1%
Cybersecurity	HACK	-1.3%	-0.4%	2.7%	16.8%
Europe	HEUR	0.1%	-3.0%	10.9%	21.0%
Japan	HJPN	0.9%	3.4%	6.5%	30.1%
Commodities - Currency hedged					
Oil	OOO	8.6%	0.2%	-8.8%	6.5%
Gold	QAU	2.0%	1.3%	-2.0%	4.3%
Agriculture	QAG	-0.3%	2.0%	-3.8%	-3.1%
Composite Basket	QCB	1.9%	-0.1%	-2.6%	3.0%

*For comparison purposes, returns are for underlying indices tracked by each ETF, excluding management fees except in the case of AAA

Past performance is not indicative of future performance.

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BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages over US$100B.

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