

ASSET CLASS PERFORMANCE: WEAK \$A BOOSTS UNHEDGED GLOBAL STOCKS



DAVID BASSANESE, CHIEF ECONOMIST

Return Performance

Performance Rank

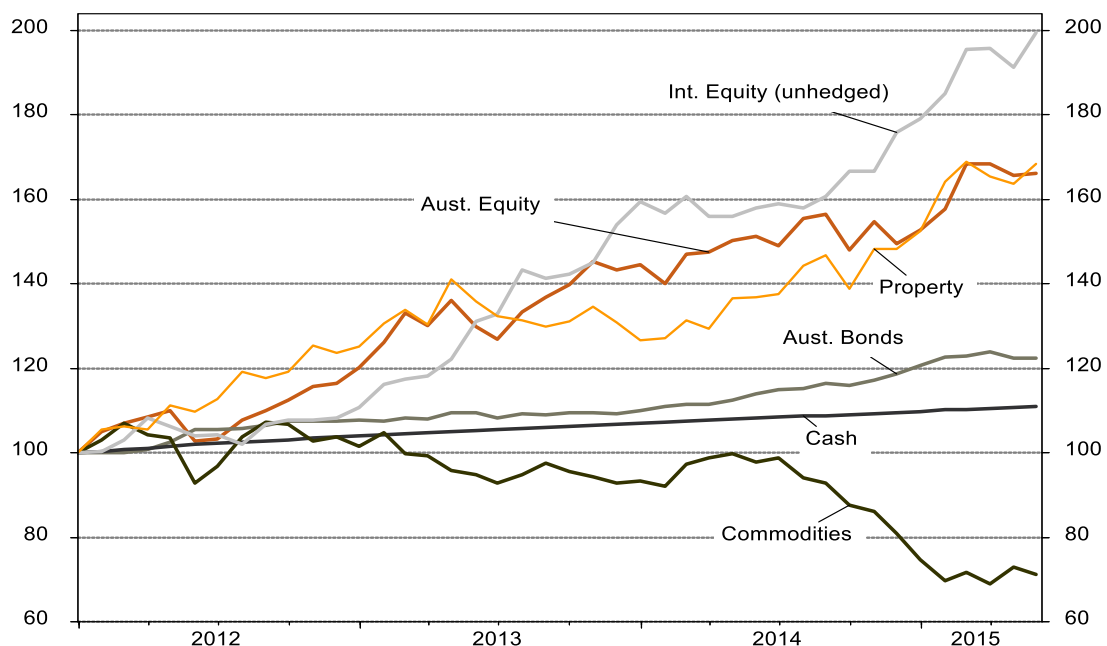
	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.2%	0.6%	1.3%	2.6%	3	2	5	5
Aust. Bonds	0.0%	-0.3%	3.3%	7.5%	4	4	4	4
Aust. Property	2.9%	-0.3%	16.4%	29.7%	2	3	1	1
Aust. Equities	-0.2%	-1.4%	11.1%	9.9%	5	6	3	3
Int. Equities*	4.2%	3.0%	14.9%	29.2%	1	1	2	2
Commodities**	-2.4%	-0.9%	-12.1%	-27.3%	6	5	6	6

*Hedged **Unhedged

- Fear of Fed tightening emerged as a major theme during May, which saw the US dollar rise and the \$A weaken – which in turn contributed to unhedged international equity being the best performing major asset class during the month. In local currency terms, international equities rose by 0.8% - helped by a solid 5% rise in Japanese stocks. Due to the \$A's decline, unhedged international equities rose 4.2%.
- Locally, stocks were close to flat despite a 3.1% drop in financial sector stocks, as investors switched to other sectors, such as property and resources. Bumper US grain supply contributed to further weakness in commodity prices.
- Over the past year, the strongest performing asset class remains international equity, followed by listed property. The worst performing asset class remains commodities.

Asset Class Return Performance

Index Base 31-Dec-2011 = 100



Source: Thomson Reuters Datastream, BetaShares

MARKET OUTLOOK

- The major local development over the past month was a sell down in financial stocks despite the Reserve Bank of Australia's decision to cut interest rates at the start of the month. The RBA's decision to drop its explicit "easing bias" in its accompanying policy statement led to concerns interest rates would not be cut again and, as a result, the "yield chase" that had supported banking stocks would come to an end. The failure of the RBA to reinstate this bias at its June meeting has heightened such concerns.
- That said, investor interest in other yield plays – such as listed property – remained high, suggesting another reason for the sell down in financial stocks was concerns over valuations and the sustainability of earnings in the face of soft credit growth and regulatory pressure to raise new capital.
- Contrary to market fears, **our view remains that the RBA will indeed cut interest rates further this year, with our target of a 1.5%p.a. year-end official cash rate firmly in place.** We suspect the recent well received Federal Budget will provide only a short-term boost to business and consumer confidence, and we also note the March quarter GDP results – which at face value appeared strong – still showed very weak domestic spending.
- Meanwhile, a weaker \$A and the continued rebound in spot iron ore prices saw resource stocks firm a little in May. Given the prospect of even more iron ore supply hitting the market later this year, and the seasonal nature of China's current stock rebuild, we do not expect the rally in iron ore prices to last – and at best prices may soon stabilise around recent levels. Together with lower local interest rates – and anticipated higher interest rates in the United States within months – **we retain the view the \$A will fall to US68c later this year.**
- All up, our broad medium-term asset allocation views remain in place. Against the backdrop of low inflation and a gradual global economic recovery, **we continue to favour equities over bonds and cash, and remain underweight commodities.**
- Within the equity space, moreover, **we favour unhedged international equities over Australian stocks.** Locally, despite recent interest rate jitters, **we continue to favour financials over resources.**
- That said, based on past historical episodes and relatively stretched outright price-to-earnings valuations, we also concede **equity markets may well correct lower in coming months when the United States Federal Reserve begins its anticipated interest rate tightening cycle.** We would still view this as merely a correction, however, within the current equity bull market.

BetaShares Product Offerings across Asset Class Types

Asset Class	Investment Exposure	BetaShares Fund	ASX Ticker	MER(%)
Australian Cash	Australian Cash	Australian High Interest Cash ETF	AAA	0.18%
Foreign Currencies	U.S. Dollars	U.S. Dollar ETF	USD	0.45%
	Euro	Euro ETF	EEU	0.45%
	British Pounds	British Pound ETF	POU	0.45%
Australian Equities	Largest 200 Australian companies by fundamental weight	FTSE RAFI Australia 200 ETF	QOZ	0.40%
	Financials Sector excluding A-REITS	S&P/ASX 200 Financials Sector ETF	QFN	0.39%
	Resources Sector	S&P/ASX 200 Resources Sector ETF	QRE	0.39%
	S&P/ASX 20 + Equity Income strategy	Equity Yield Maximiser Fund (managed fund)	YMAX	0.79%
	S&P/ASX 50 + Dividend Income strategy	Australian Dividend Harvester Fund (managed fund)	HVST	0.90%
	Geared exposure to diversified portfolio of Australian Equities	Geared Australian Equity Fund (hedge fund)	GEAR	0.80%
	Short Australian Equities	Australian Equities Bear Hedge Fund	BEAR	1.38%
	Short Australian Equities	Australian Equities Strong Bear Hedge Fund	BBOZ	1.38%
International Equities	US S&P 500 Index + Equity Income Strategy	S&P 500 Yield Maximiser (managed fund)	UMAX	0.79%
	Largest 1000 US companies by fundamental weight	FTSE RAFI US 1000 ETF	QUS	0.40%
	Largest 100 Nasdaq companies by market-cap weight	NASDAQ 100 ETF	NDQ	0.48%
Commodities	Gold Bullion (US\$)	Gold Bullion ETF - Currency Hedged	QAU	0.59%
	S&P GSCI Crude Oil Index	Crude Oil Index ETF – Currency Hedged (synthetic)	OOO	0.69%
	S&P GSCI Index (Light Energy)	Commodities Basket ETF – Currency Hedged (synthetic)	QCB	0.69%
	S&P Agriculture Enhanced Select Index	Agriculture ETF – Currency Hedged (synthetic)	QAG	0.69%

Other costs may apply. Please refer to relevant PDS for more information.

ASSET BENCHMARKS

Cash: UBS Bank Bill Index

Australia Bonds: Bloomberg Composite Bond Index

Australian Property: S&P/ASX 200 A-REITs

Australian Equities: S&P/ASX 200 Index

International Equities: MSCI All Country World Equity Index, unhedged \$A terms

Commodities: S&P GSCI Light Energy Index, \$US terms

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