

COMMODITIES AND RESOURCES SHINE

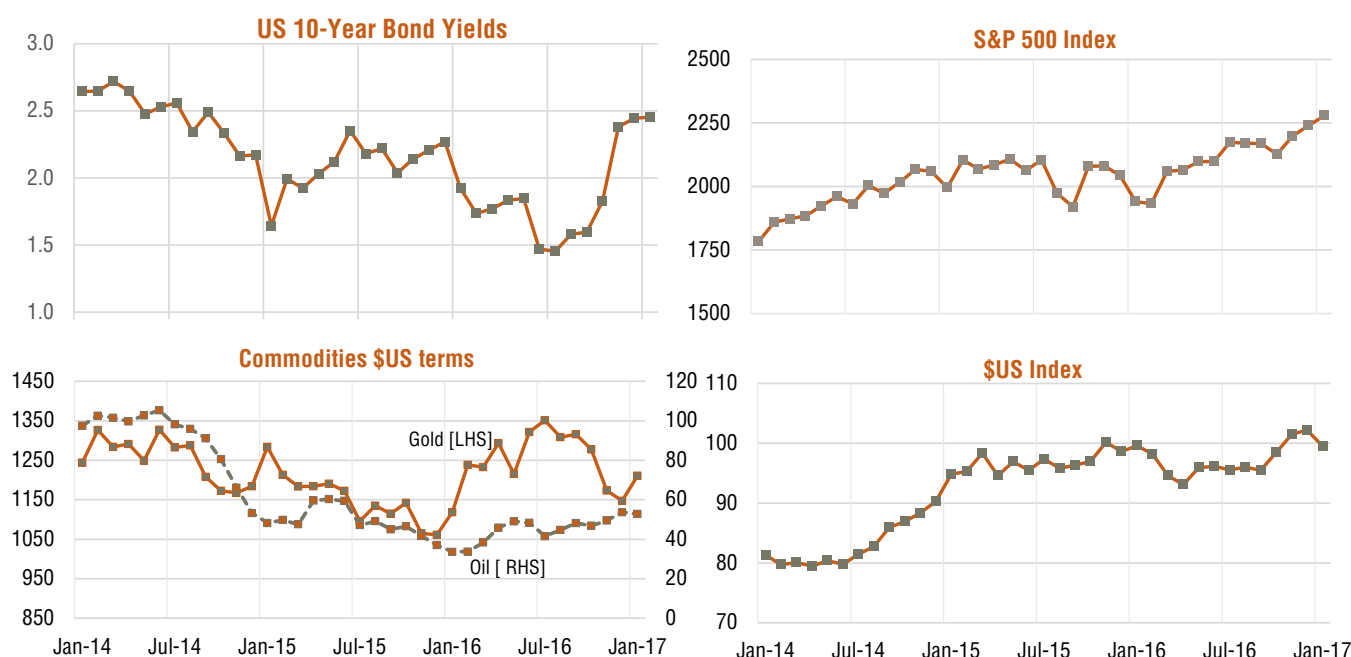
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GLOBAL MARKETS

- After solid gains in recent months, both US bond yields and the \$US consolidated somewhat in January, in part reflecting concerns with Donald Trump's trade-protectionist stance. US 10-Year Treasury bond yields ended the month unchanged at 2.45%, while the \$US index dropped 2.6%. That said, Wall Street continued to focus on the potential positives of a Trump Presidency, with the S&P 500 Index rising a further 1.8% to 2,278. Equity markets were also heartened by signs of strengthening global industrial production and a broadly encouraging corporate earnings outlook.
- The weaker \$US saw gold prices and global gold mining stocks rise 5.5% and 11.1% respectively in the month, though also produced a more muted performance for European and Japanese equities. Oil prices and the global oil sector were also softer, after a surge in oil prices in the previous month, following OPEC's decision to cut production.

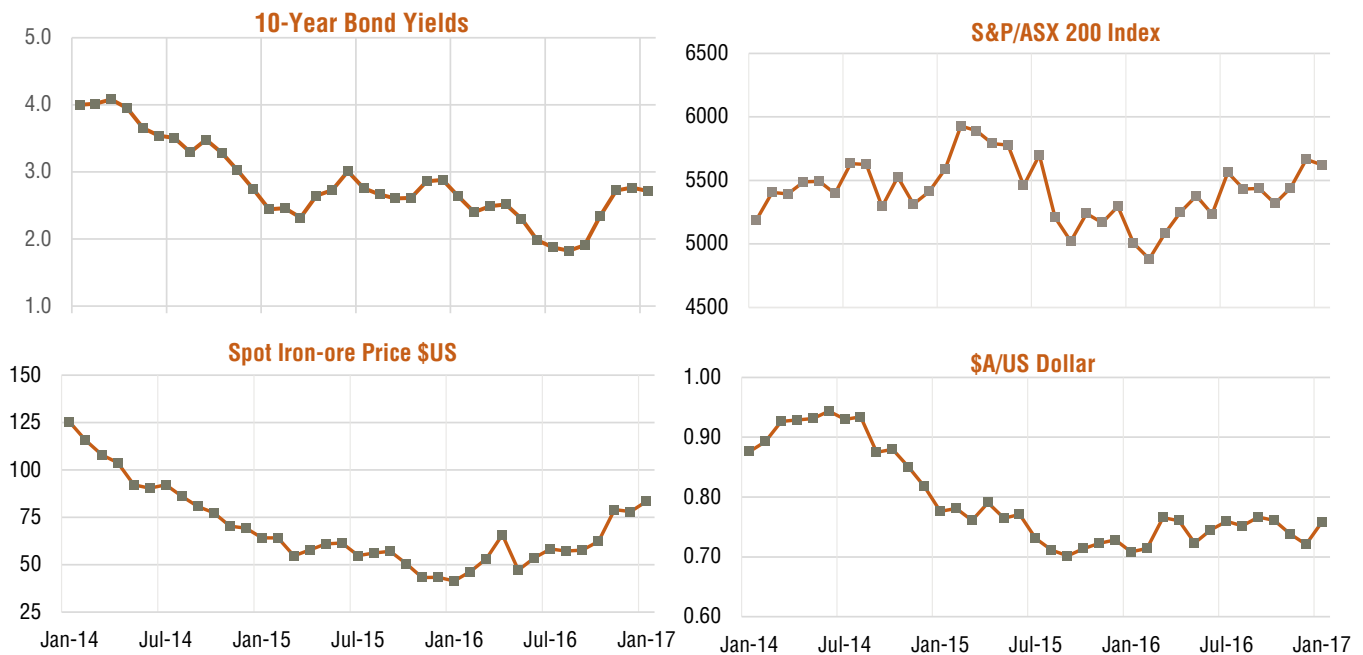
Global Markets



Source: BetaShares, Bloomberg

- Despite the standout strength in resource stocks, the overall S&P/ASX 200 Index retreated 0.8% last month to 5,260 points. While a further gain in iron ore prices helped push the resources sector higher, the associated rise in the \$A (which lifted 5.2% against the \$US to US72.9c) hurt the outlook for other sectors, as did some patchy earnings results at the start of the interim reporting season.
- Local 10-year bond yields eased back a little further to 2.71%, helped by steady US bond yields and a cooling in expectations with regard to an RBA rate hike later this year. Market pricing now has the RBA firmly on hold by end-2017, after some risk of a rate hike was priced in during December.

Australian Markets



Source: BetaShares, Bloomberg

OUTLOOK

- The outlook for equity markets remains encouraging, with corporate earnings in both Australia (at least in the resources sector) and the US starting to lift. Against this, outright equity price-to-earnings valuations are at above-average levels, and remain reliant on bond yields not rising too far too fast. The good news is that despite the tight US labour market, US wage growth continues to lift only modestly, and competitive pressures more broadly are keeping global inflation reasonably well contained.
- That said, the so-far erratic nature of Donald Trump's Presidency poses both risks and opportunities. His promise of fiscal stimulus and industry deregulation are positive factors, while his geo-political and trade hostilities are clear negative risk factors. On balance though, Trump's pro-business positives seems likely to outweigh the negatives.
- With the prospect of US fiscal stimulus and further Fed rate hikes, ongoing upward pressure on the US dollar and bond yields seems likely, which favours investment themes such as **Japanese equities** (such as ASX: HJPN, which would benefit from a weaker Yen) and **global banks** (such as ASX: BNKS, which would benefit from higher bond yields).
- Chinese steel sector consolidation is also likely to limit declines in iron ore prices, thereby supporting the **local resources sector** (ASX: QRE). Yield seeking investors could also continue to **support the financials sector** (ASX: QFN), as higher bond yields pressure "bond proxies" such as listed property and infrastructure.

Asset Class Return Performance

Performance Rank

	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.2%	0.4%	0.9%	2.0%	3	5	4	6
Aust. Bonds	0.6%	-1.0%	-2.1%	2.3%	2	6	5	5
Aust. Property	-4.8%	2.5%	-12.2%	6.5%	6	4	6	4
Aust. Equities	-0.8%	6.6%	3.2%	17.3%	4	1	3	1
Int. Equities - unhedged	-2.4%	6.4%	5.3%	10.9%	5	2	2	2
Commodities - hedged	1.4%	4.5%	5.7%	9.5%	1	3	1	3
Int. Equities - hedged	1.5%	6.6%	6.9%	17.8%				
World currencies vs \$A	-3.9%	-0.2%	-1.5%	-5.9%				

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*

Investment Exposure	ASX Code	Total return performance			
		Month	3-mth	6-mth	12-mth
Cash	AAA	0.2%	0.5%	1.0%	2.2%
Aust. Equities					
Aust - Fund. weight	QOZ	0.0%	8.9%	10.3%	26.3%
Resources	QRE	3.8%	11.2%	16.6%	50.5%
Financials	QFN	-2.0%	7.8%	6.3%	8.9%
Ex-20	EX20	3.4%	9.9%	5.0%	20.1%
Global Equities - Unhedged					
US-Fund. weight	QUS	-4.1%	10.3%	8.3%	15.6%
US-Nasdaq	NDQ	0.0%	7.3%	9.0%	13.1%
Global Equities - Currency hedged					
Agriculture	FOOD	0.9%	7.1%	9.1%	19.9%
Health Care	DRUG	0.8%	4.2%	-5.7%	4.1%
Global Banks	BNKS	1.6%	16.7%	30.9%	31.6%
Energy	FUEL	-3.0%	5.8%	11.9%	30.0%
Gold Miners	MNRS	11.1%	-3.9%	-21.3%	60.2%
Cybersecurity	HACK	6.3%	7.0%	13.7%	33.4%
Europe	HEUR	-0.6%	5.9%	9.1%	14.7%
Japan	HJPN	0.6%	12.1%	22.1%	10.4%
Commodities - Currency hedged					
Oil	OOO	-3.2%	7.6%	16.8%	18.7%
Gold	QAU	1.5%	4.9%	6.4%	10.6%
Agriculture	QAG	3.1%	-1.8%	0.8%	2.1%
Composite Basket	QCB	1.4%	4.5%	5.7%	9.5%

*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 approximately of US\$100B.

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