BetaShares
Exchange Traded Funds

Market/Trends

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July 2018 Update

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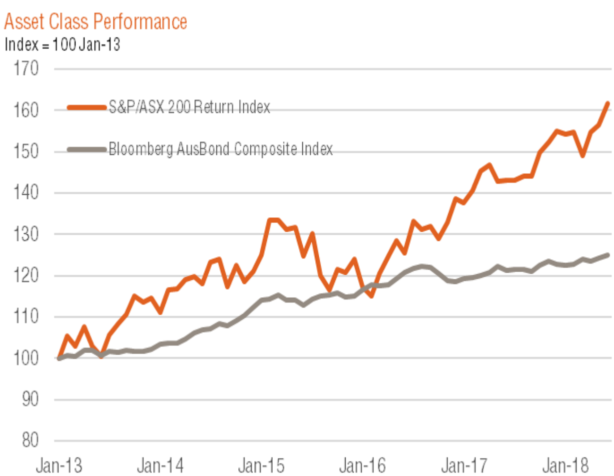
References are made to different indices throughout this document. Investors cannot invest directly in an index.

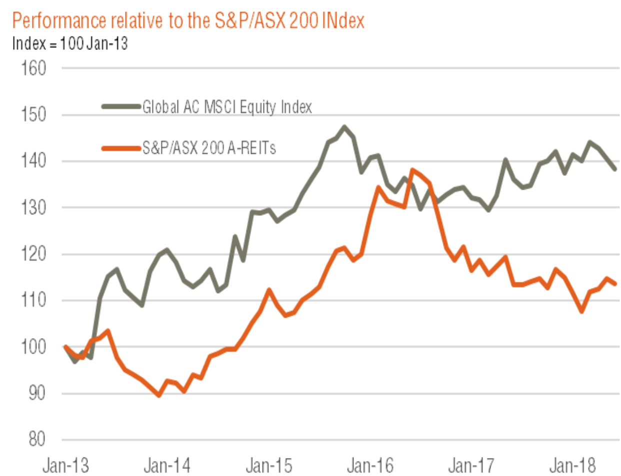
Market Review

Australian stocks shine amid global caution

Major Asset Class Performance*

	1-month	3-month	6-month	12-month	Momentum Rank**
Cash	0.2%	0.5%	0.9%	1.8%	5
Aust. Bonds	0.5%	0.8%	1.7%	3.1%	4
Int. Bonds	0.2%	0.1%	0.1%	1.9%	6
Aust. Property	2.2%	10.0%	3.0%	13.0%	3
Aust. Equities	3.3%	8.5%	4.3%	13.0%	2
Int. Equities ($A)	1.6%	4.3%	5.0%	15.0%	1
Gold ($US)	-3.5%	-5.5%	-3.9%	0.9%	7
World Currencies per $A	1.7%	1.5%	4.2%	3.8%	
Int. Equities (hedged)	0.0%	2.7%	0.8%	10.8%	





Source: BetaShares, MSCI, Bloomberg

Australian equities were the best performing major asset class in June, returning 3.3%.

Global equites in local currency (hedged) terms were flat, reflecting ongoing trade jitters and particular weakness in emerging markets. That said, reflecting a decline in the $A, global equities returned 1.6% in $A terms.

Bonds posted modest returns due to broadly steady interest rates, which also supported gains in listed property. $US strength and investor caution saw gold prices decline 3.5%.

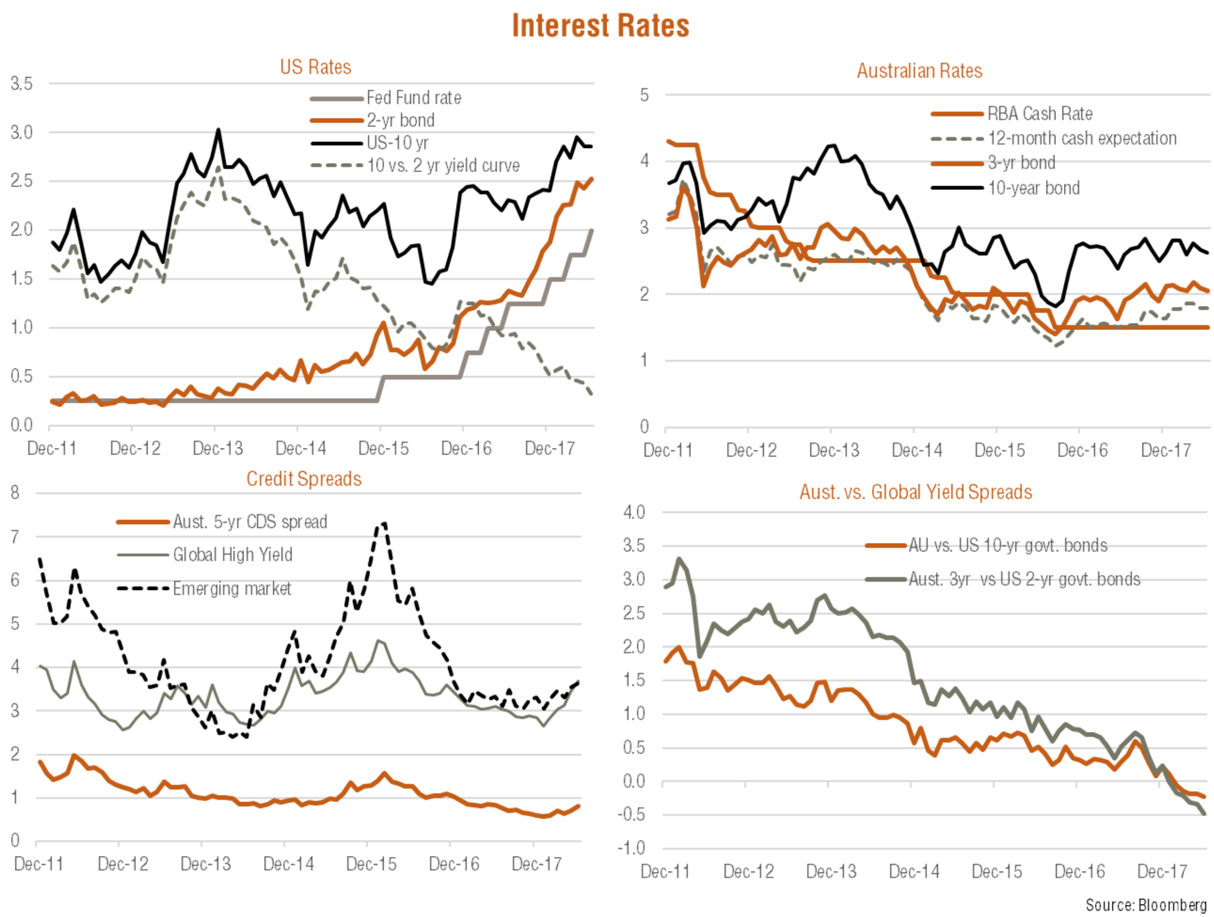
In terms of relative momentum, the Australian and international equities were the two strongest performing asset classes at end-June, while gold and cash were the weakest.

*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. ** Rank based on equally-weighted average of 6 & 12 month return performance.

BetaShares

Interest Rates

Global yields still rising relative to those in Australia



Although the Fed raised rates in June, US 10-year bond yields eased back over the month due to lingering trade jitters. The yield curve flattened further but remains above zero.

Although US 10-year bond yields are yet to break 3% on a month-end basis, this still seems likely if global trade tensions ease and the Fed continues on its course of raising official US rates.

A notable development of recent months has been rising global credit spreads, particularly reflecting stresses in emerging markets – in part due to Fed rate hikes and a stronger $US.

Australian bond yields are still moving broadly sideways, with the spread continuing to narrow against the United States. Corporate spreads have also widened, though less than evident in global high yield and emerging markets.

A modest 0.25% of RBA tightening over the next 12-months remains priced into the short-end of the market. This still seems a reasonable bias, though the strongest view remains that the RBA is likely on hold for at least the next 6 months.

Bond & Hybrid Markets

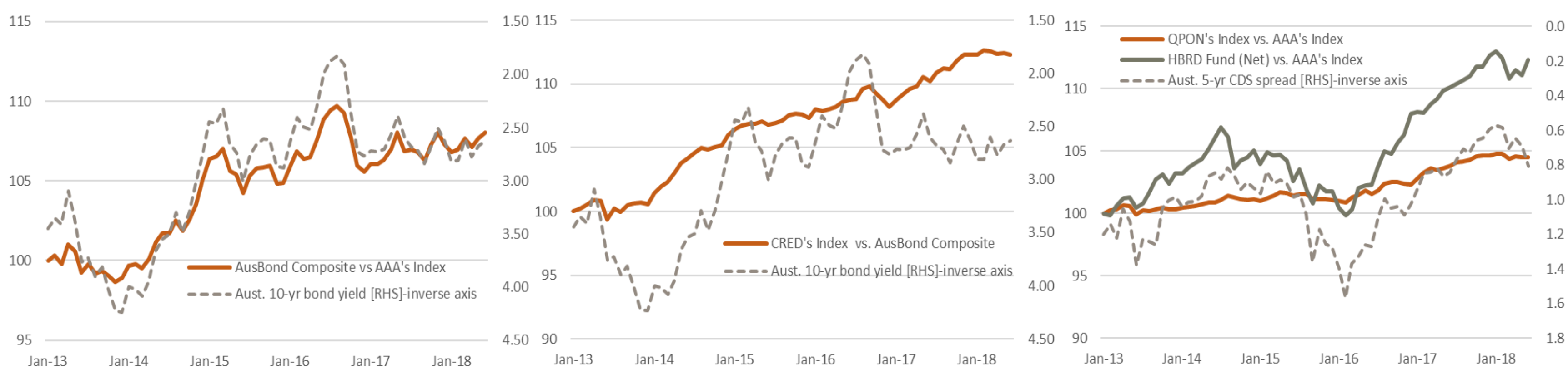
Steady local rates supports fixed-rate bonds, credit under pressure

	End-month	*Total return performance*			
	Yield*	**1-month**	**3-month**	**6-month**	**12-month**
AAA ETF	2.19%	0.2%	0.5%	1.0%	2.0%
QPON's Index	3.03%	0.1%	0.6%	0.8%	2.7%
HBRD Fund (Net)	4.04%	1.3%	1.9%	0.7%	4.0%
CRED's Index	3.94%	0.4%	0.5%	1.7%	5.0%
AusBond Composite Index	2.55%	0.5%	0.8%	1.7%	3.1%

Broadly steady local bond yields have helped fixed-rate bonds modestly outperform cash in recent months, though the widening credit spreads has limited recent gains for CRED's Index vs. the AusBond Composite.

Relative performance of the HBRD Fund has improved in recent months after earlier sensitivity to credit spread widening.

Relative Bond Performance Indices



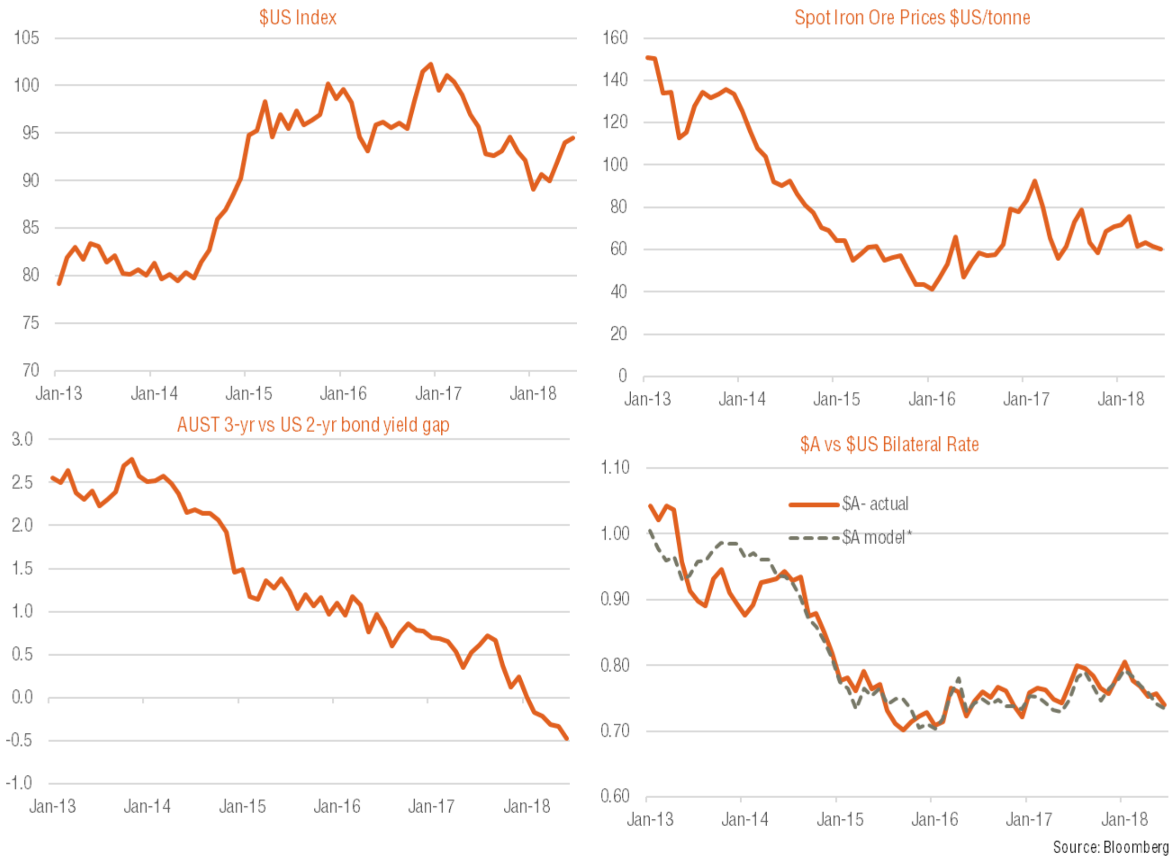
Source: Bloomberg

*Yield-to-maturity for the AusBond Composite Index and the indices tracked by QPON and CRED. Running yield for the HBRD Fund. AAA's yield based on current interest rates earned on the Fund's bank deposits, net of management fees.

Australian Dollar

Downside pressures are accumulating

$A Outlook



After having pushed higher in a uptrend trend channel since early 2016, the $A has weakened of late and appears to be breaking below its trend support.

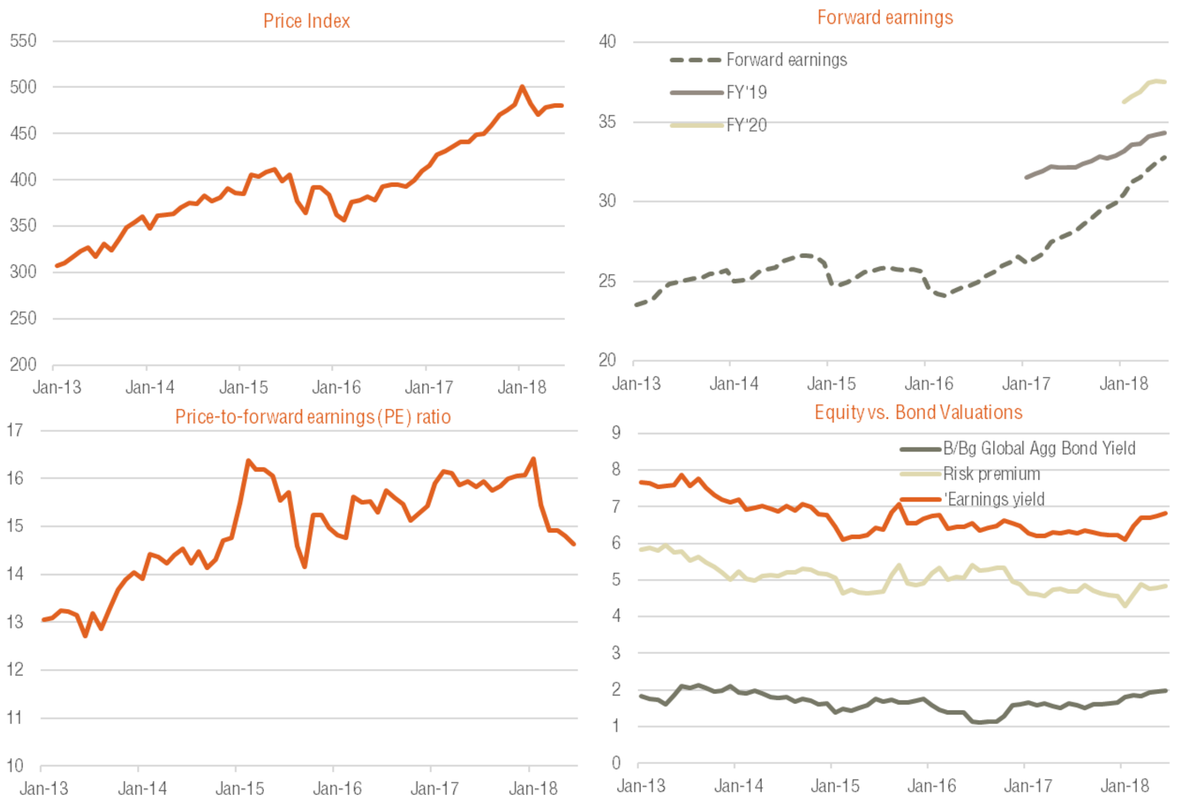
A rebound in the $US has undermined the $A of late, as has the continued lift in US interest rates relative to those in Australia. Last but not least has been softer iron-ore prices which are also testing support at around $US 60/tonne.

Modelling suggests the $A is currently around fair value given these fundamentals. These trends suggest the $A could drop lower in the month ahead, especially if the US economy and $US remain firm.

Global Equities

Trade jitters hold back recovery, but fundamentals still supportive

MSCI All-Country Equity Index*



Source: Bloomberg

Global stock returns were flat overall in June, after staging some recovery in the previous two months, to still be below peak levels reached in January. Lingering trade jitters continue to weigh on sentiment, even though broader fundamentals still appear supportive.

Indeed, the recent pull back in prices has come despite continued gains in forward earnings, which has seen PE valuations drop from 16.4 at end-January to 14.6 at end-June.

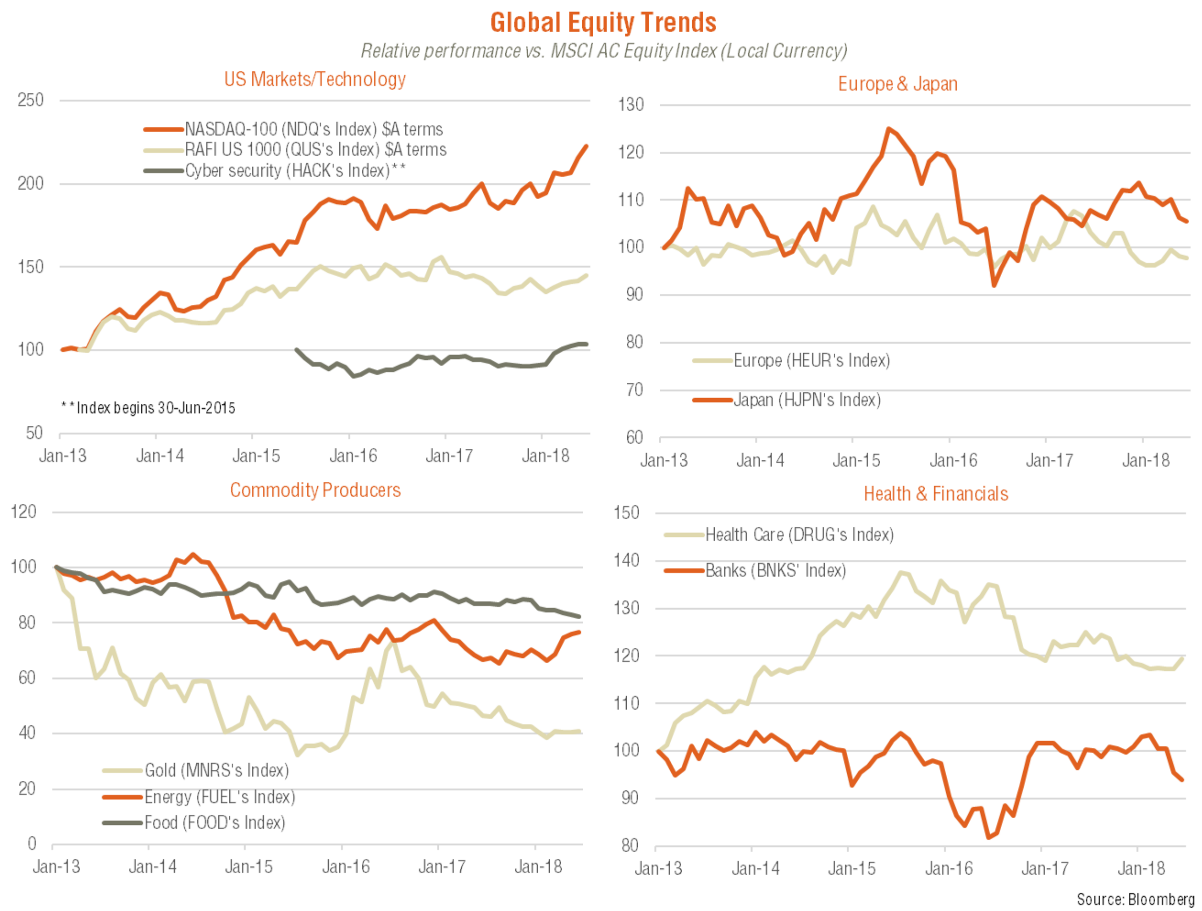
The yield on the Bloomberg Global Aggregate Bond Index edged higher to at 1.96% at end-June.

At 4.8%, the forward earnings to bond yield differential at end-June was a little higher than its long-run average (since 2003) of 4.6%.

Earnings expectations currently suggest 4.6% growth in forward earnings between end-June and end-2018, and further growth of 9.4% over 2019.

Global Equity Trends

Technology reigns supreme, energy attracting interest



The standout global trends among sectors and regions continues to be technology, with NASDAQ-100 Index and Global Cyber Security performing well.

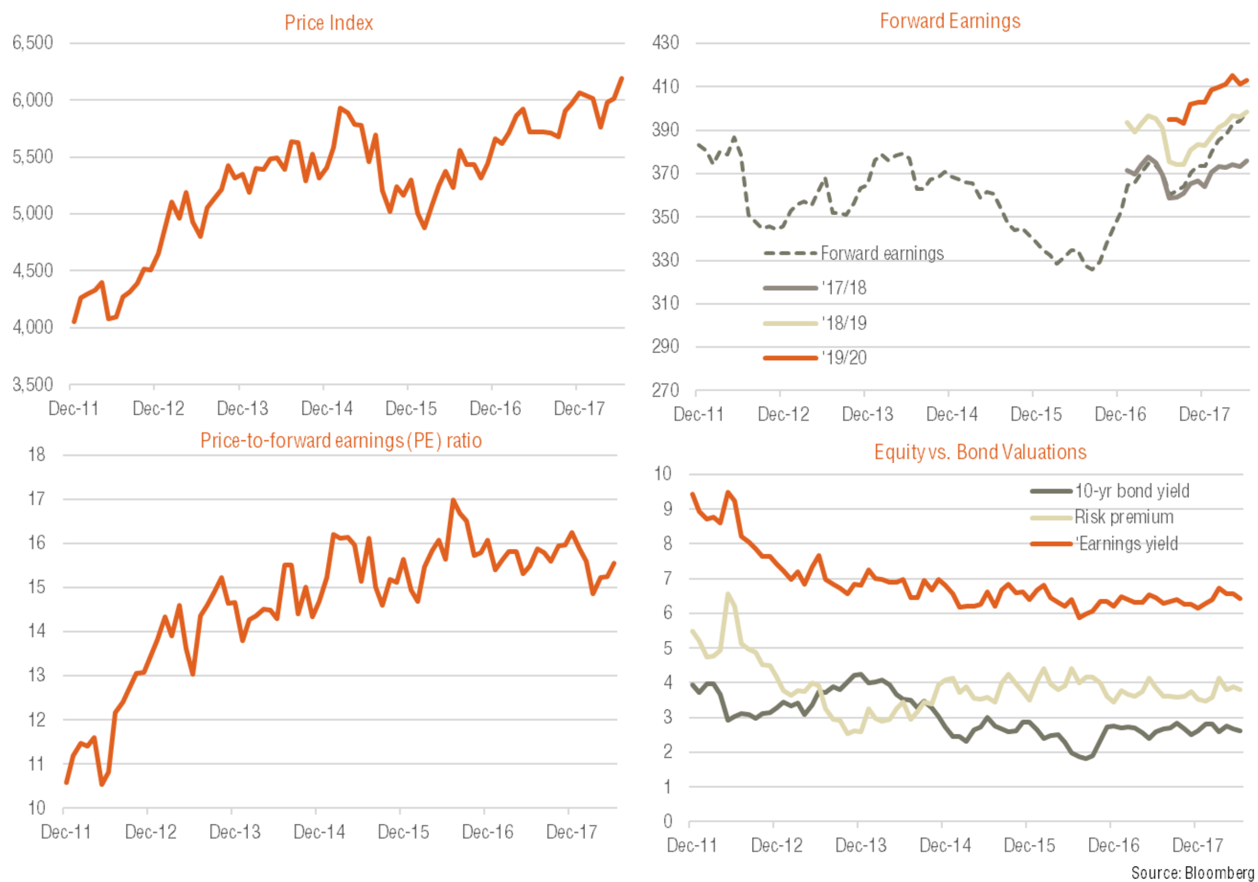
Global energy companies have also lifted of late reflecting the strength in oil prices, while a levelling out in US bond yields and concerns over global growth (and Fed stress tests) has dampened global bank relative performance.

Declines in the $US through last year and a softening in their growth indicators hurt the relative performance of European and Japanese stocks so far this year, though the $US has tended to strengthen of late.

Australian Equities

Holding up well in the global equity correction

S&P/ASX 200 Equity Index



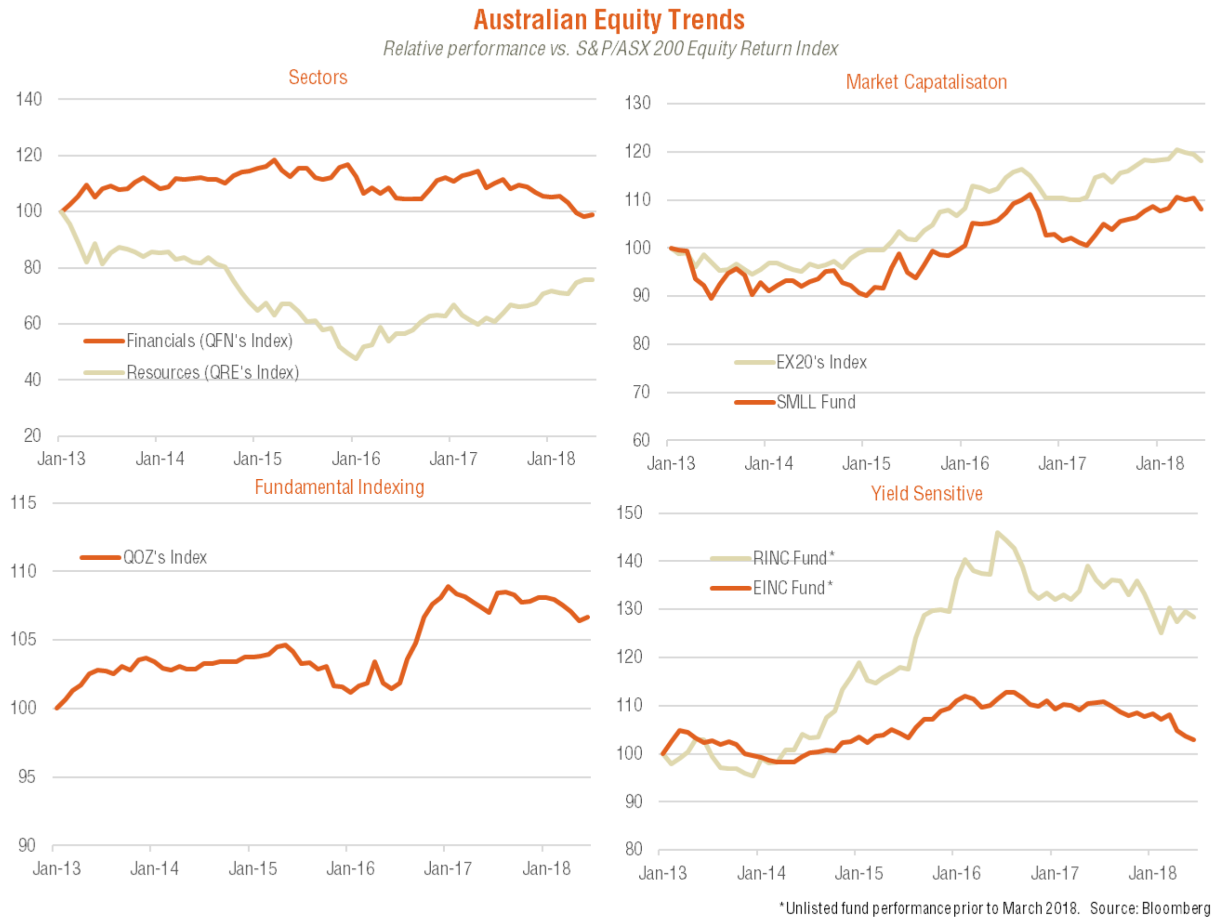
Australian stocks have generally outperformed since the pullback in global stocks since earlier this year, underpinned by an improving earnings outlook, weaker $A and steady local interest rates. The S&P/ASX 200 Index ended June still holding above 6,000.

At 15.5, the price-to-forward earnings (PE) ratio ended June close to its average level of recent years, and the equity-to-bond yield differential has also held broadly steady at just under 4%.

That said, the earnings outlook is not quite as bullish as that evident globally, with around 2% growth in forward earnings expected by end-2018 and a further 7% growth through 2019.

Australian Equity Trends

Resources and small-caps trending well, though financials bounce in June



Financials staged a comeback in June modestly outperforming the market, though the dominant trend late has still strongly favoured the resources sector.

Another theme evident in the market is the relative performance of small to mid cap stocks relative to large caps, though their relative performance has waned a little in recent months, perhaps reflecting broader investor nervousness.

The trend of rising global bond yields has also weighed on the relative performance of higher yield sectors of the market.

The underperformance of (historically cheap) financial stocks of late has also kept in check the performance of the fundamentally weighted QOZ Index.

BetaShares Product Range

Australian Equities
A200, QOZ, QFN, QRE, EX20, SMLL, FAIR

Global Equities
NDQ, UMAX, QUS, FUEL, FOOD, HACK, BNKS, HEUR, HJPN, MNRS, DRUG, ETHI

Equity Income
HVST, YMAX, UMAX

Managed Risk/ Defensive Equity
HVST, AUST, WRLD

Hybrids
HBRD

Cash & Fixed Income
AAA, QPON, CRED

Short
BEAR, BBOZ, BBUS

Geared
GEAR, GGUS

Currency
USD, POU, EEU, AUDS, YANK

Commodities
QAG, QAU, OOO, QCB

Active
EINC, RINC, GLIN, RENT, DMKT

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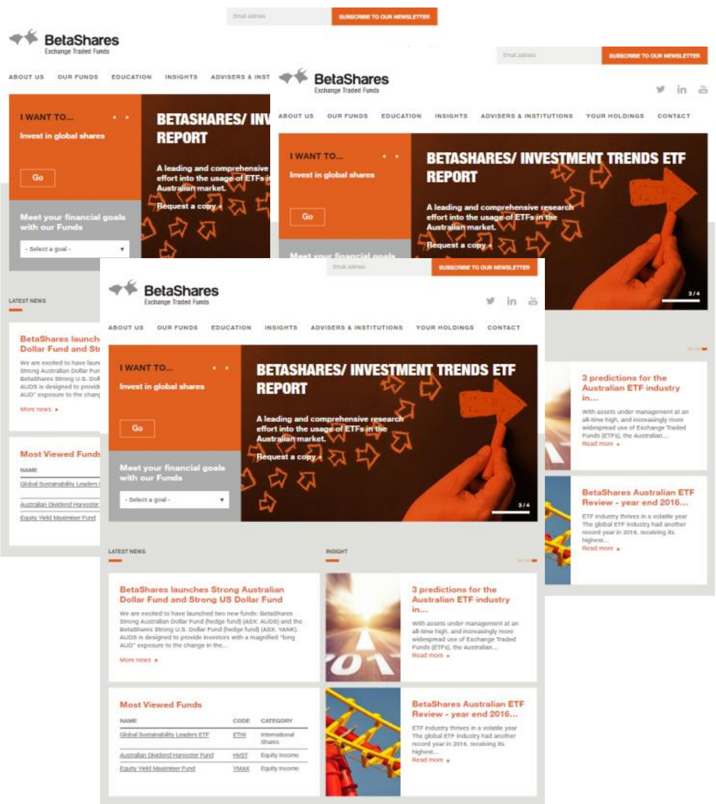

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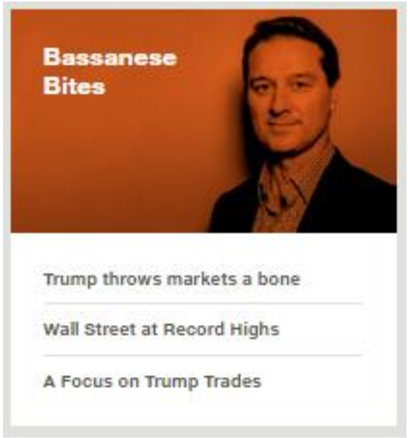

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