

Market/ Trends

With Chief Economist,
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August 2018



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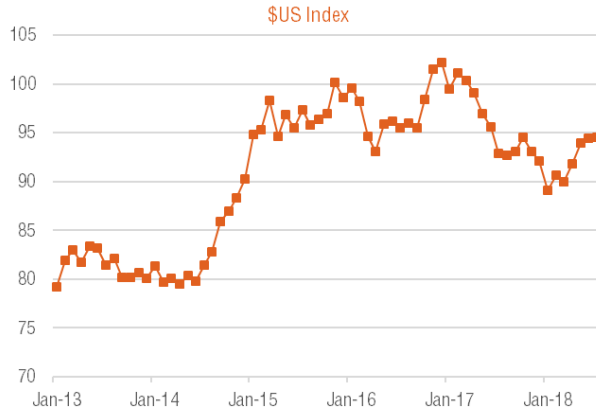
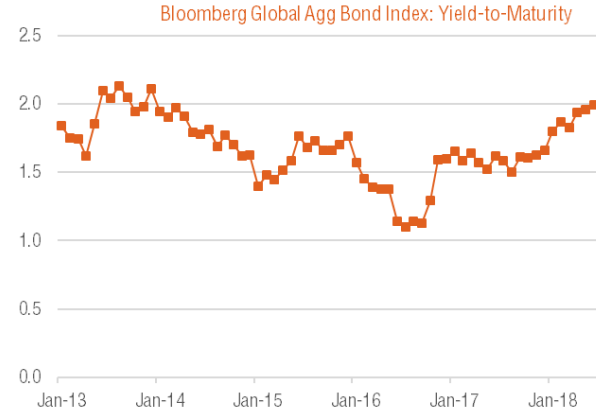
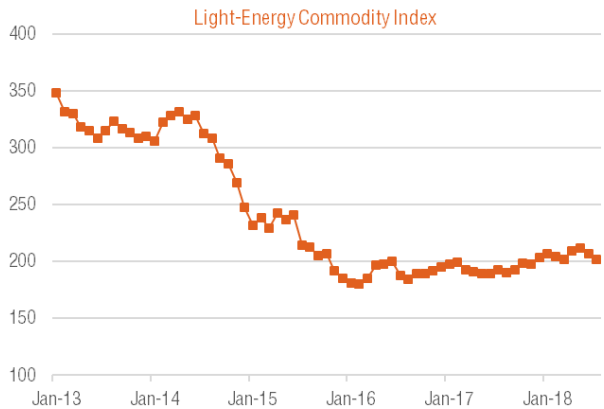
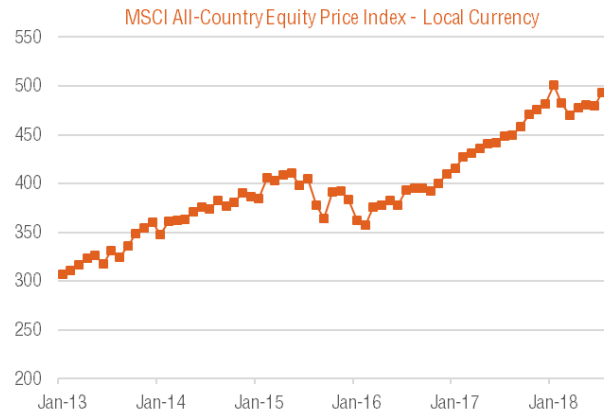
References are made to different indices throughout this document. Investors cannot invest directly in an index.



Key Global Markets

US led positive demand conditions driving markets

Global Market Overview



Source: Bloomberg

After trading sideways for several months, global equities pushed higher in July despite a further lift in global bond yields and continued strength in the \$US.

Global equities on a month-end basis have lifted 5% from their end-March low, but remain 1.5% below their end-January high.

The yield on the global bond index finally broke through 2% last month, to reach its highest level since December 2013.

After solid gains earlier this year, the \$US's ascent has met some resistance around its highs of late 2017.

Overall commodity prices remain flat, reflecting weakness in agriculture and gold prices offset by ongoing strength in oil prices.



Major Asset Class Performance

Global stocks continue their rebound

Major Asset Class Performance*

	1-month	3-month	6-month	12-month	Momentum Rank**
Cash	0.2%	0.5%	1.0%	1.8%	5
Aust. Bonds	0.2%	1.3%	2.1%	3.0%	4
Int. Bonds	0.0%	0.6%	0.8%	1.5%	6
Aust. Property	1.0%	6.3%	7.5%	14.2%	2
Aust. Equities	1.4%	5.8%	6.2%	14.6%	3
Int. Equities (\$A)	2.8%	4.1%	5.3%	19.6%	1
Gold (\$US)	-2.3%	-6.9%	-9.0%	-3.6%	7
World Currencies per \$A	-0.2%	0.2%	5.7%	6.7%	
Int. Equities (hedged)	3.0%	3.9%	-0.3%	12.1%	

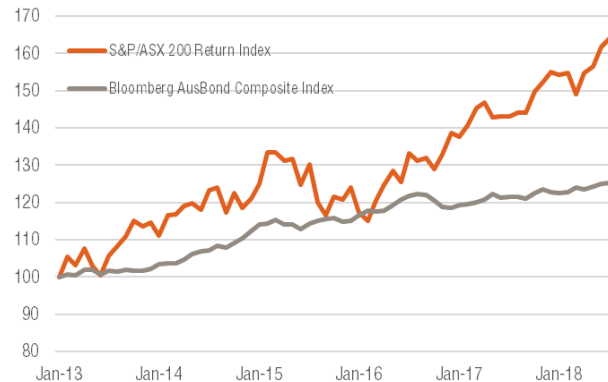
International equities were the best performing of our seven core asset classes in July, returning 2.8%.

Strong US and European earnings reports, a thawing in US-EU trade tensions and still relatively benign inflation (and hence bond yields) supported stocks, even though US-China trade tensions persisted.

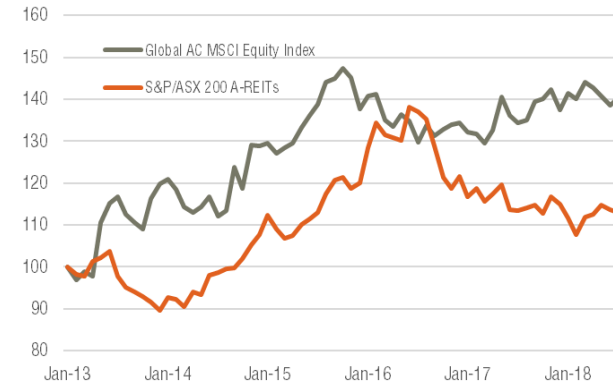
Australian equities posted the second best return of 1.4%, while gold was the worst performer with a 2.3% loss. Global bond returns were flat, owing to the small lift in yields, while Australian bonds and cash produced positive, though small, returns.

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

Asset Class Performance
Index = 100 Jan-13



Performance relative to the S&P/ASX 200 INDEX
Index = 100 Jan-13



Source: BetaShares, MSCI, 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. ** Rank based on equally-weighted average of 6 & 12 month return performance.



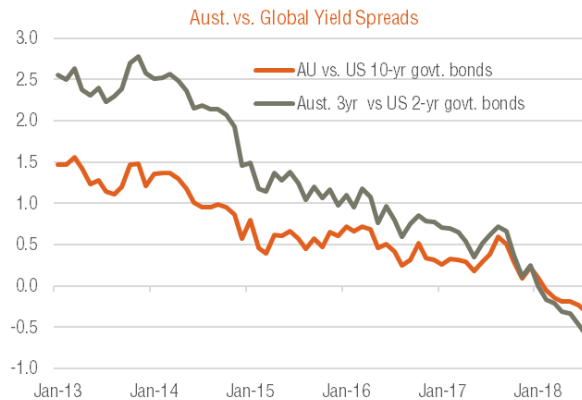
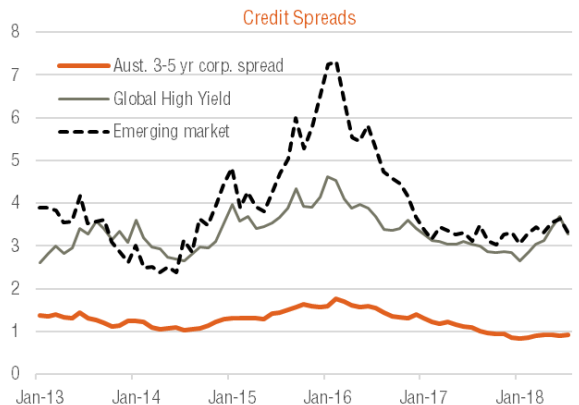
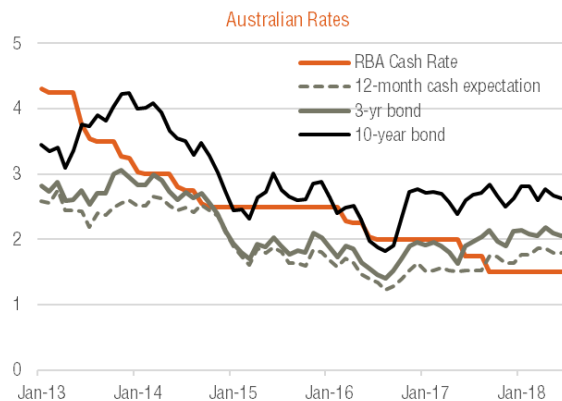
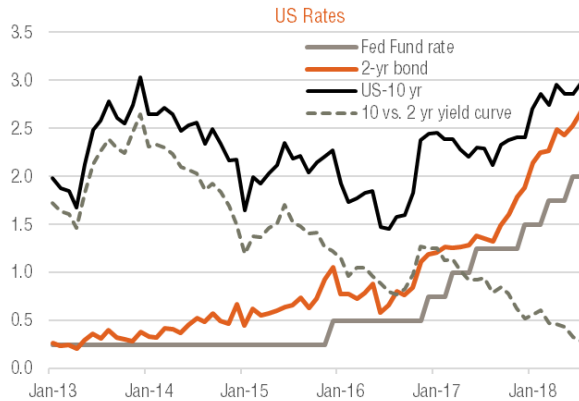
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Interest Rates

Global yields still rising relative to those in Australia

Interest Rates



Source: Bloomberg

US bond yields continued to push higher last month, reflecting ongoing expectations of further Fed rate hikes.

That said, US 10-year bond yields still ended the month just below 3%.

Australian yields remained range-bound, with spreads against US interest rates continuing to narrow.

After widening in recent months, global credit spreads narrowed a little last month.



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Bond & Hybrid Markets

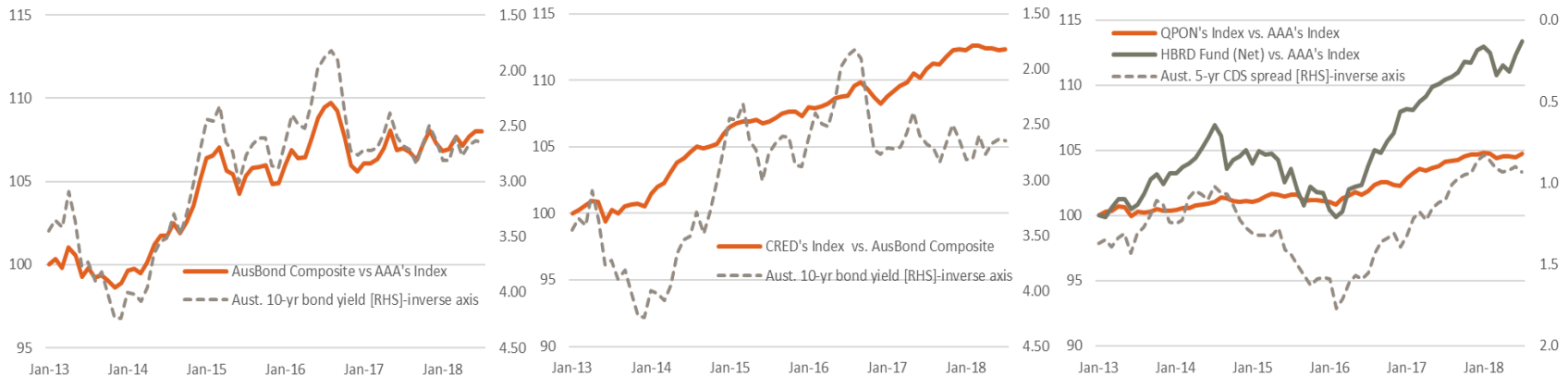
An easing in credit spreads support hybrids and floating rate bonds

	End-month	Total return performance				
	Yield*	1-month	3-month	6-month	12-month	
AAA ETF	2.02%	0.2%	0.5%	1.0%	2.0%	
QPON's Index	2.86%	0.4%	0.7%	0.9%	2.6%	
HBRD Fund (Net)	3.95%	1.1%	2.1%	1.3%	4.7%	
CRED's Index	4.01%	0.2%	1.3%	2.2%	4.3%	
AusBond Composite Index	2.56%	0.2%	1.3%	2.1%	3.0%	

The easing in credit spreads supported hybrid and floating rate bond returns last month, as reflected in the HBRD Fund and QPON ETF respectively. A modest lift in bond yields constrained returns from long dated fixed-rate bonds (as reflected in the CRED ETF).

Over the past year, our hybrid and fixed-rate bond exposures have produced returns above 4%.

Relative Bond Performance Indices



Source: Bloomberg

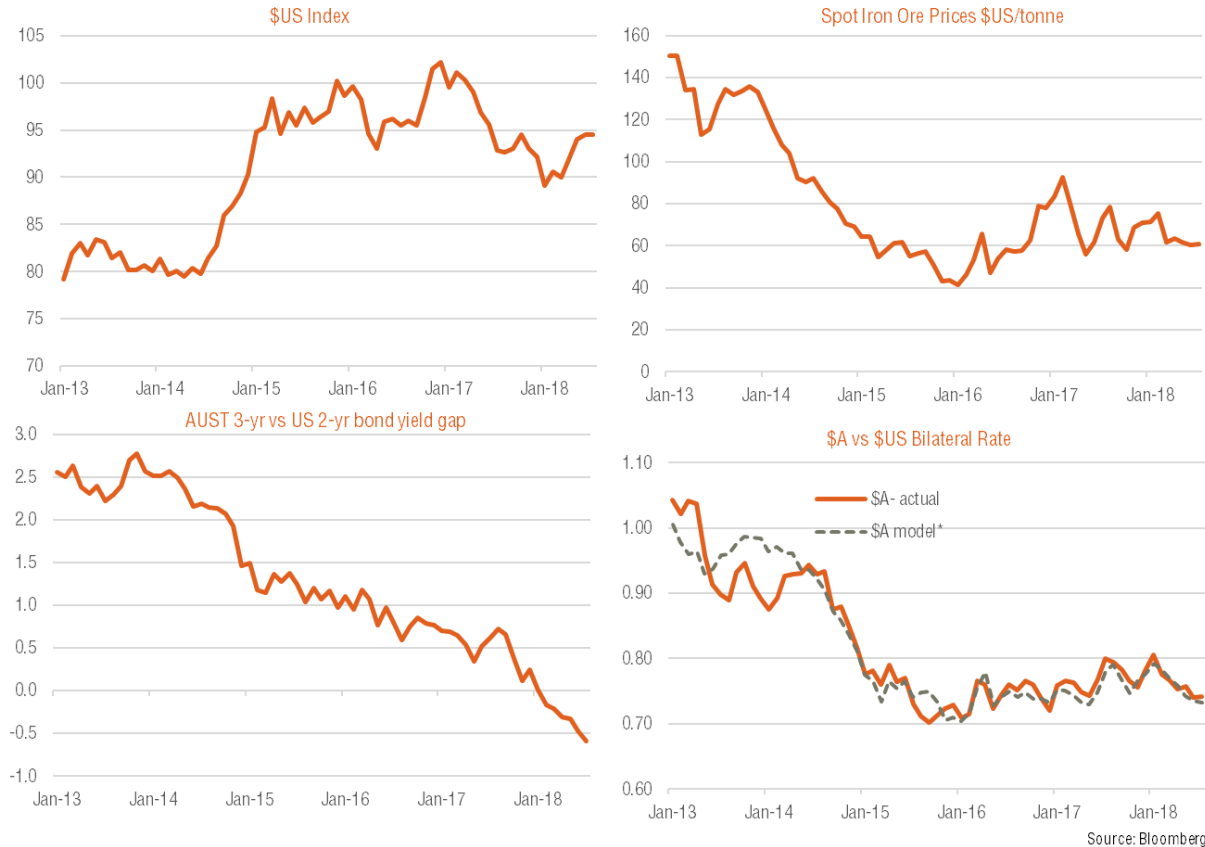
*Yield-to-maturity for the AusBond Composite Index and the indices tracked by QPON and CRED. Running yield for the HBRD Fund. AAA's yield based on current interest rates earned on the Fund's bank deposits, net of management fees.



Australian Dollar

Downside pressures are accumulating

\$A Outlook



Flat iron-ore prices and a slowing in \$US strength helped the \$A firm slightly over July, ending at US74.24c.

Modelling suggests the \$A is currently around fair value given these fundamentals.

Assuming further weakness in iron-ore prices, a stronger \$US and a continued narrowing in interest rate differentials suggests the \$A should ease further in the months ahead.

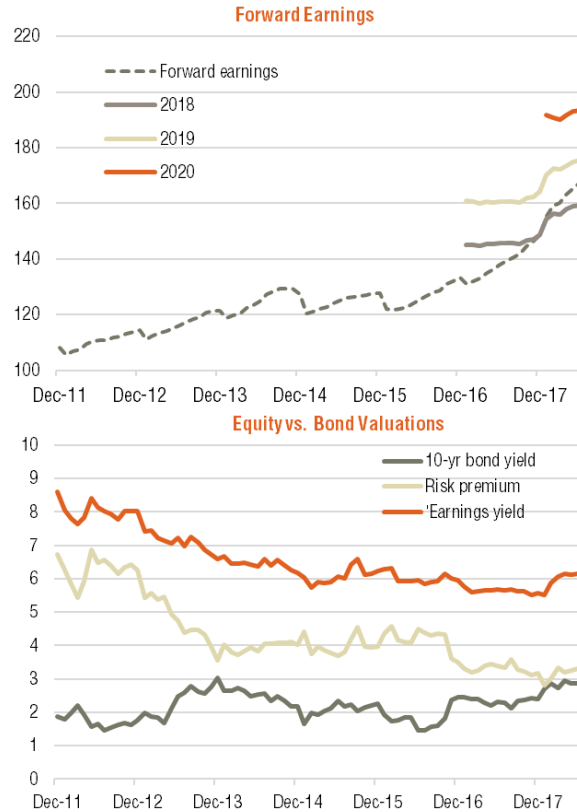
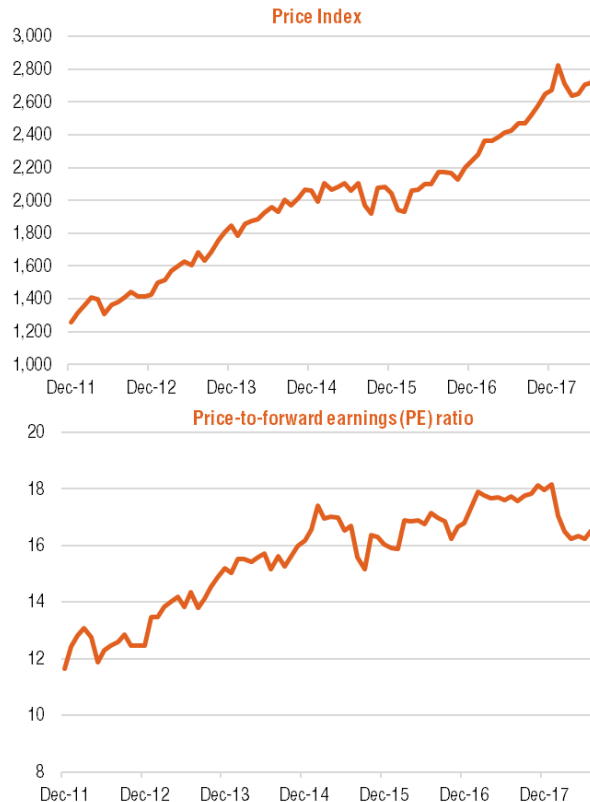




US Equities

Trade jitters hold back recovery, but fundamentals still supportive

S&P 500 Equity Index



Source: Bloomberg

Helped by ongoing strength in earnings, US stocks continued their recovery in July – ending almost back at their end-January level.

Indeed, growth in earnings has been so strong that the PE ratio ended July at a reasonable 16.5, compared to 18.1 at end-January – despite the rebound in equity prices.

The drop in the PE ratio, and only modest lift in bond yields, has resulted in the equity-bond yield differential holding at around 3% in recent months. Relative to (current) bond yields, the US equity market remains reasonable value.

Earnings expectations currently suggest 4.1% growth in forward earnings between end-July and end-2018, and further growth of 10.3% over 2019.



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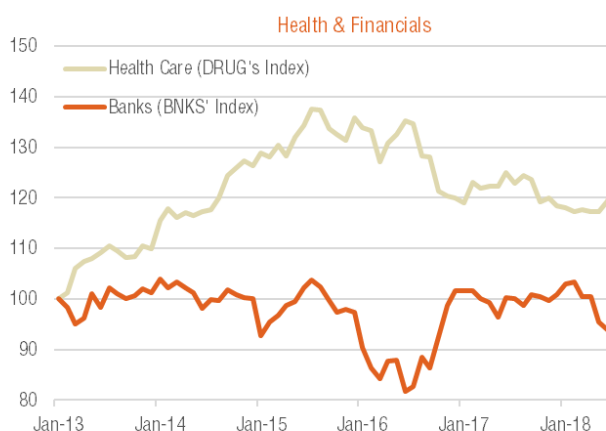
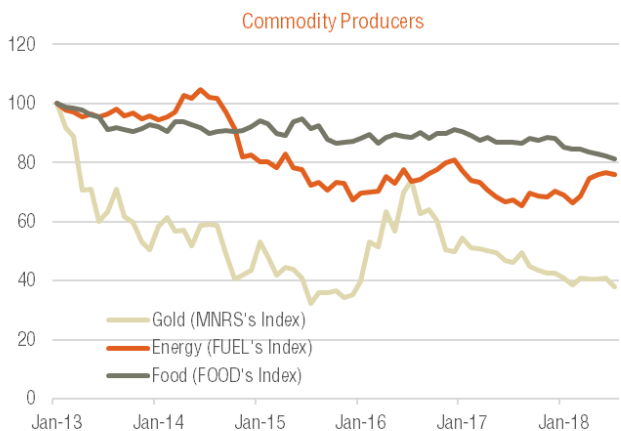
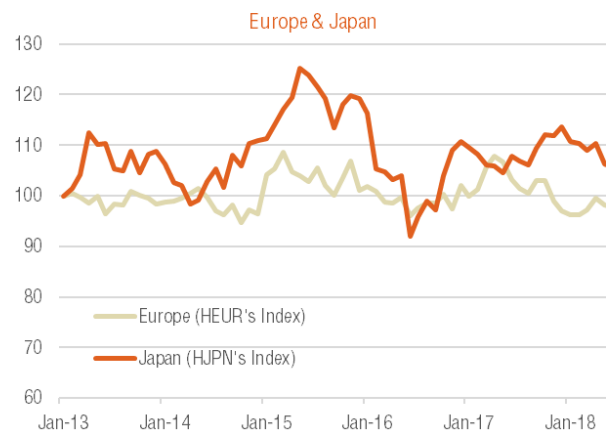
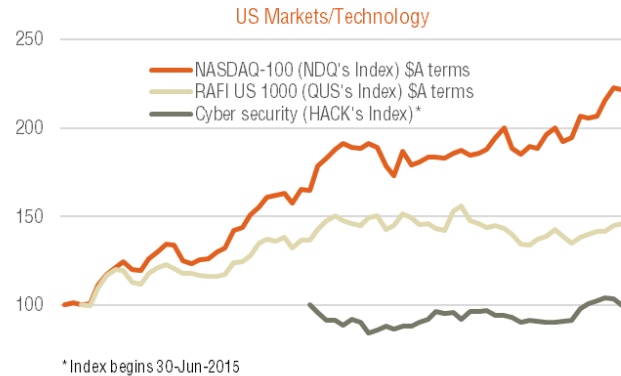


Global Equity Trends

Technology reigns supreme, health care lifts

Global Equity Trends

Relative performance vs. MSCI AC Equity Index (Local Currency)



Source: Bloomberg

Among our major global regional/sector ETFs, health care (DRUG) produced the best performance last month followed by banks (BNKS).

DRUG and FUEL's relative performance have turned up in recent months, while BNKS bounce in July follows a recent period of underperformance.

Technology and energy remain the more persistent recent global themes. Weighted by an equally weighted average of 6 & 12-month return performance, NDQ remains the strongest performer, followed by FUEL and HACK.



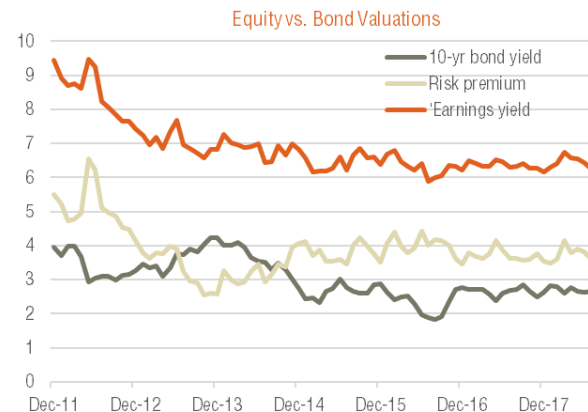
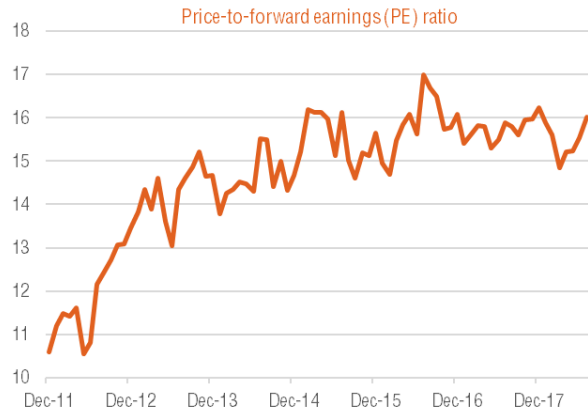
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Australian Equities

Holding up well in the global equity correction

S&P/ASX 200 Equity Index



Source: Bloomberg

Australian equities pushed higher in July, even though forward earnings eased back a little in line with some earnings downgrades.

Indeed, while rising earnings have supported the local market's rebound in recent months – as in global markets – our market has already pushed beyond its highs of earlier this year thanks to a stronger rebound in PE valuations.

One possible reason is the fact our market has not had to contend with rising bond yields to the same degree as in the US.

In fact, the equity-to-bond yield differential has remained broadly steady in recent months at just under 4%.

That said, the earnings outlook remains not quite as bullish as that evident globally, with around 2% growth in forward earnings expected by end-2018 and a further 4% growth through 2019.



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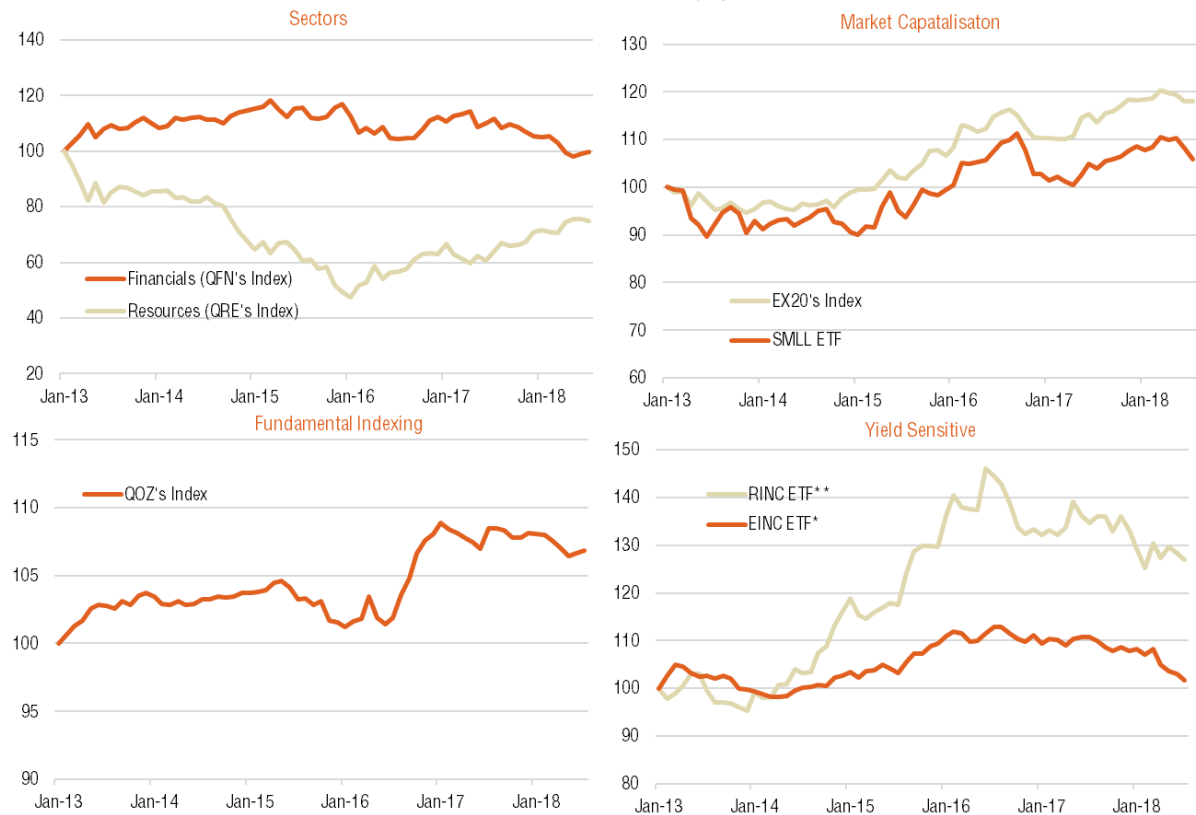


Australian Equity Trends

Financials bounce for the second month in a row

Australian Equity Trends

Relative performance vs. S&P/ASX 200 Equity Return Index



*Unlisted fund performance prior to March 2018. Source: Bloomberg

Among our Australian equity sector/thematic funds, financials (QFN) outperformed for a second successive month, partly unwinding a long period of under performance.

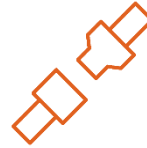
This also supported a rebound in our fundamentally-weighted QOZ ETF, which is now overweight financials on valuation grounds.

In return, the relative performance of the smaller-cap part of the market has been tempered in recent months, while yield-sensitive areas also continue to be constrained by fear of rising bond yields.

The relative performance of the resources sector (QRE) has also been tempered in the past two months, though the broader trend of outperformance remains in place.



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

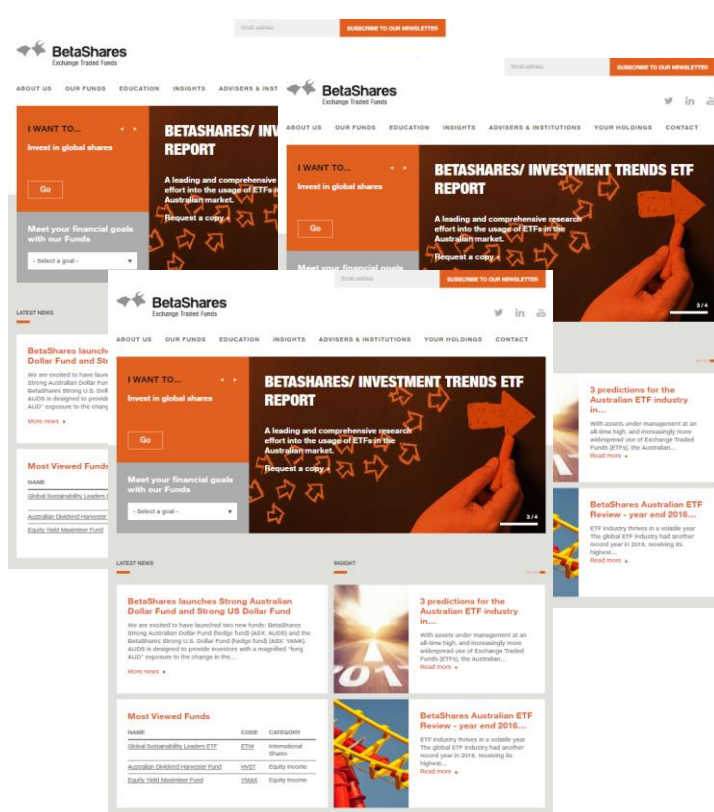
EINC
RINC
GLIN
RENT
DMKT



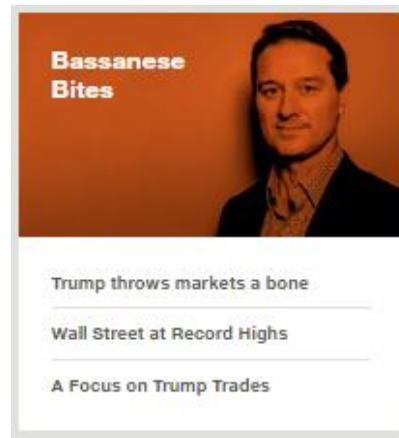


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