

Market / Trends

With Chief Economist,
David Bassanese

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



Major Asset Class Performance

Global stocks continue their rebound

Major Asset Class Performance*

					Momentum
	Sep-18	Aug-18	6-month	12-month	Rank**
Int. Equities (\$A)	-0.1%	4.1%	11.4%	19.0%	1
Aust. Property	-1.8%	2.7%	12.1%	13.2%	2
Aust. Equities	-1.3%	1.4%	10.1%	14.0%	3
Aust. Bonds	-0.4%	0.8%	1.4%	3.7%	4
Cash	0.2%	0.2%	1.0%	1.9%	5
Int. Bonds	-0.4%	0.3%	0.1%	0.9%	6
Gold (\$US)	-0.9%	-1.9%	-10.2%	-6.9%	7
World Currencies per \$A	-0.6%	2.9%	3.7%	7.1%	
Int. Equities (hedged)	0.5%	1.1%	7.5%	11.1%	

US interest rate concerns together with lingering global trade tensions caused both bond and equity returns to stumble in September, which in turn allowed cash to emerge as the best performing asset class!

US wage inflation jitters and the Fed's avowed determination to keep lifting rates saw US 10-year bond yields rise 0.2pp from 2.86% to 3.06%.

That said, International Equities did manage to return 0.5% in the month in local currency terms, though a modest rebound in the \$A caused their returns to decline in unhedged \$A terms.

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

Asset Class Performance



Performance relative to the S&P/ASX 200 Index



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.

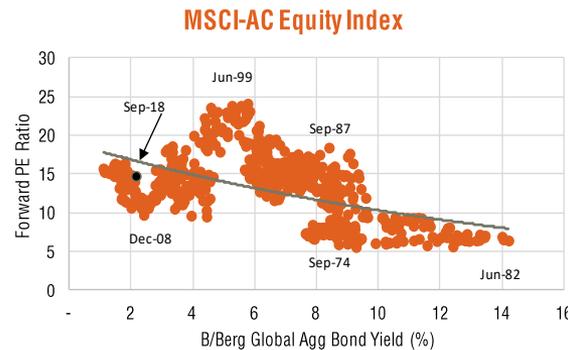
As at 30 September 2018. Source: Bloomberg. Past performance is not an indication of future performance.

Global Equity Fundamentals



Reasonable valuations and good earnings are providing support in the face of higher rates

MSCI All-Country Equity Index



Source: Bloomberg

The notable challenge to global equities in September was the leap higher in global interest rates.

That said, forward earnings continued to rise such that the market's overall PE ratio remained unchanged at a reasonable 14.8

Relative to interest rates, PE valuations also do not appear excessive, and the earnings outlook remains upbeat. This provides some scope for global equities to withstand a further possible modest lift in global rates.



Global Equity Trends

Technology still dominant, although Japan and energy favoured last month

Global Equity Exposures

	Sep-18	Aug-18	6-month	12-month	Momentum Rank*
NDQ	-0.8%	9.5%	23.8%	39.8%	1
HACK	-0.4%	9.7%	14.2%	31.1%	2
QUS	-0.3%	5.3%	15.6%	21.9%	3
FUEL	3.1%	-2.9%	16.9%	19.3%	4
DRUG	2.8%	2.6%	17.5%	15.5%	5
HEUR	-0.9%	-2.7%	3.2%	0.7%	8
HJPN	5.3%	-0.8%	6.5%	9.7%	6
FOOD	2.7%	1.0%	5.4%	4.4%	7
BNKS	-0.8%	-2.3%	-1.7%	1.1%	9
MNRS	-1.2%	-12.3%	-15.2%	-20.6%	10
MSCI AC Index	0.5%	1.1%	7.5%	11.1%	
S&P 500	0.6%	3.3%	11.4%	17.9%	
S&P/ASX 200 Index	-1.3%	1.4%	10.1%	14.0%	

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

Among our major global regional/sector ETFs, Japanese equities enjoyed a standout month, with HJPN returning 5.3%. Yen weakness and investors seeking value and relative safety outside of emerging markets helped returns.

FOOD also appeared to enjoy a flight to relative safety, DRUG continued to post solid returns and FUEL benefited from a rise in oil prices.

On the downside there was some rotation out of the long dominant US tech sector, with NDQ and HACK weaker. In terms of relative performance rank, however, both remained #1 and #2 respectively.

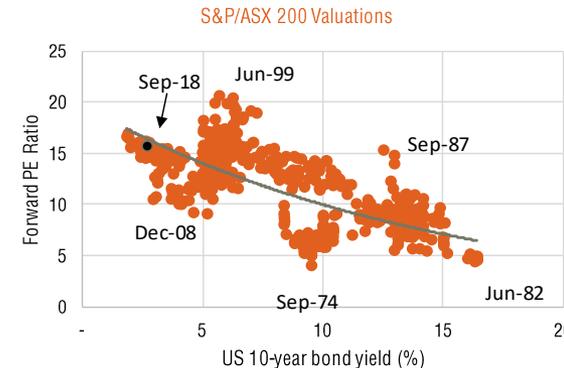
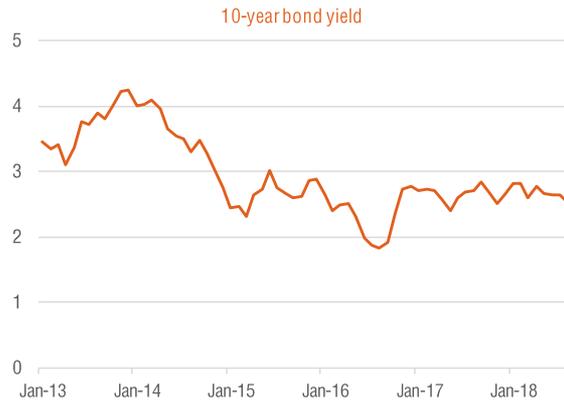
Not helped by the ongoing weakness in gold prices, global gold miners (MNRS) had another weak month, to be the worst performing global exposure over the past year.



Australian Equities

Relatively expensive valuations take their toll

S&P/ASX 200 Equity Index



Source: Bloomberg

Australian equities eased back in September, even though forward earnings ticked a little higher - as a lift in bond yields helped push down the “pricey” PE ratio from 16.1 to 15.8.

As noted last month, relative to current bond yields, local equities could be considered “fair-value”, but have become somewhat expensive relative to global equities.

Another challenge is that earnings expectations appear to be edging lower and anticipated forward earnings growth of 5.5% by end-2019 is only half that expected from global equities. The recent earnings reporting season has not led to significant upgrades overall.



Australian Equity Trends

Resources continue to shine

Australian Equity Exposures

	Momentum				
	<u>Sep-18</u>	<u>Aug-18</u>	<u>6-month</u>	<u>12-month</u>	<u>Rank*</u>
QRE	5.4%	-4.4%	17.3%	29.9%	1
EX20	-1.3%	1.6%	8.2%	16.3%	2
SMLL	-0.9%	1.2%	5.6%	14.1%	4
QOZ	-0.5%	0.1%	8.9%	11.9%	3
RINC**	-1.4%	0.8%	6.5%	5.7%	5
EINC**	-1.8%	2.3%	3.8%	7.0%	6
QFN	-2.2%	0.0%	3.8%	1.2%	7
S&P/ASX 200 Index	-1.3%	1.4%	1.5%	10.1%	

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

**For EINC and RINC data, a spliced index series is used incorporating data from unlisted Legg Mason Martin Currie Equity Income Fund and Legg Mason Martin Currie Real Income Fund, respectively prior to March 2017. As at 30 September 2018. Source: Bloomberg. Past performance is not an indication of future performance.

The resource sector was the standout performer in September, helped by recent solid earnings results and strength in iron ore and oil prices.

All other sector/market themes eased back in September, with financials again suffering a notable loss.

In terms of relative momentum, the top two performers remained QRE and EX20 respectively.

QOZ, meanwhile, had only a small decline in the month and recent good returns has caused it to move up into 3rd place.

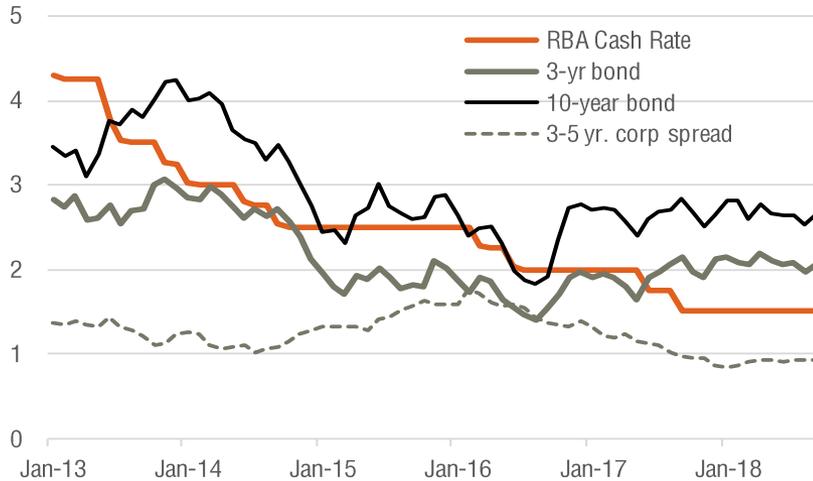
The large-cap heavy financial sector (QFN) continued to lag in relative performance.



Aust. Cash and Bonds

An easing in credit spreads support hybrids and floating rate bonds

Key Interest Rates



The local interest rate outlook remains relatively steady, with the RBA still expected to keep official rates on hold for some time.

That said, a US-induced uptick in local bond yields caused a small decline in total returns from CRED's Index during September, though it has still returned 5.0% over the past year.

Although returns of the Hybrids market were flat in the month, it has produced returns over 4.6% over the past year.

Australian Cash & Bond Exposures

Total return performance

	<u>Sep-18</u>	<u>Aug-18</u>	<u>6-month</u>	<u>12-month</u>
AAA ETF	0.2%	0.2%	1.0%	2.0%
QPON's Index	0.2%	0.4%	1.6%	2.7%
Hybrids Index*	0.0%	0.8%	3.8%	4.6%
CRED's Index	-0.6%	1.2%	1.3%	5.0%
AusBond Composite Index	-0.4%	0.8%	1.4%	3.7%
Bank Bill Index	0.2%	0.2%	1.0%	1.9%

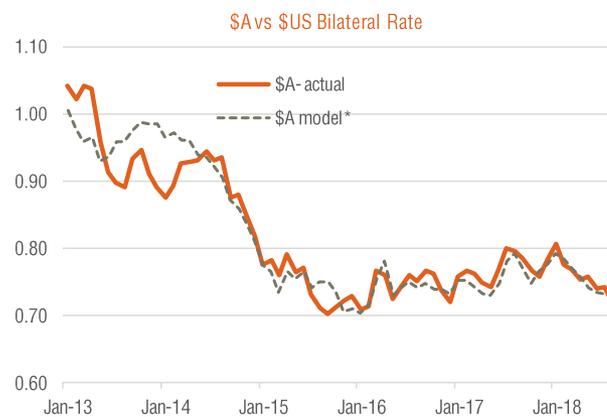
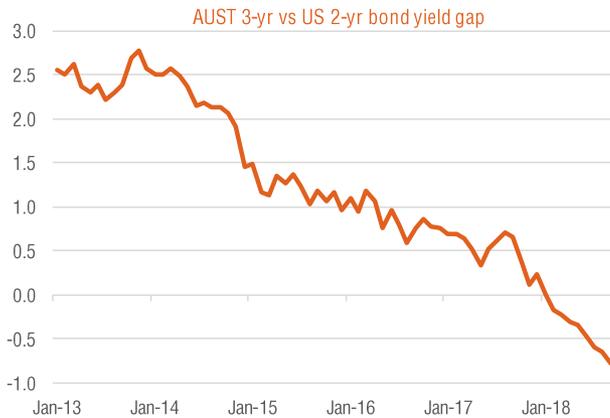
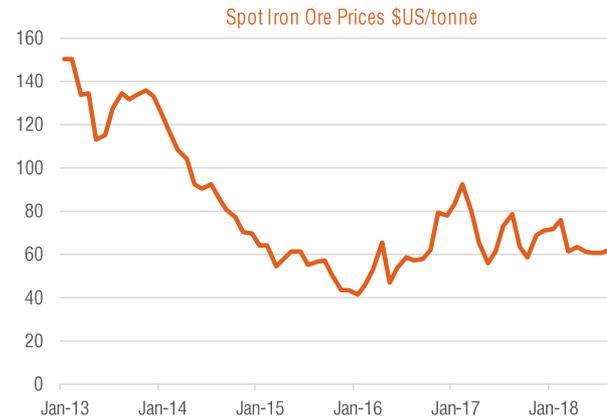
*As represented by the Solactive Australian Hybrid Securities Index.



Australian Dollar

Downside pressures are accumulating

\$A Outlook



Source: Bloomberg

After several months of losses, the \$A firmed a little against the \$US in September, helped by firmer iron-ore prices and a broadly steady \$US.

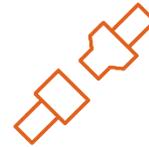
Modelling suggests the \$A is currently around fair value given these fundamentals.

Although hopes of Chinese policy stimulus could result in stronger iron-prices over the near term, ongoing Chinese steel consolidation suggests eventual further weakness ahead.

Along with a stronger \$US and a continued narrowing in interest rate differentials, this suggests the \$A should remain under downward pressure.



BetaShares Product Range



Australian Equities

A200
QOZ
QFN
QRE

EX20
SMLL
FAIR

Global Equities

NDQ
UMAX
QUS
FUEL
FOOD
HACK
ASIA*

BNKS
HEUR
HJPN
MNRS
DRUG
ETHI
RBTZ*

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

*Launched in late September



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The screenshot displays the BetaShares website interface. At the top, there is a navigation menu with links for 'ABOUT US', 'OUR FUNDS', 'EDUCATION', 'INSIGHTS', 'ADVISERS & INST', and 'YOUR HOLDINGS'. The main content area features several prominent reports and news items:

- BETASHARES/ INV REPORT**: A leading and comprehensive effort into the usage of ETFs in the Australian market. Includes a 'Request a copy' button.
- BETASHARES/ INVESTMENT TRENDS ETF REPORT**: A leading and comprehensive research effort into the usage of ETFs in the Australian market. Includes a 'Request a copy' button.
- BetaShares launch Dollar Fund and Strong US Dollar Fund**: News article mentioning the launch of two new funds.
- 3 predictions for the Australian ETF industry in...**: An insight article discussing the industry's future.
- BetaShares Australian ETF Review - year end 2016...**: An insight article reviewing the industry's performance.

At the bottom, there is a 'Most Viewed Funds' table:

NAME	CODE	CATEGORY
Global Sustainability Leaders	ETSE	International Shares
Australian Cleantech Innovation Fund	INTE	Equity Income
Equity 2016 Momentum Fund	2016	Equity Income

Bassanese Bites

Trump throws markets a bone

Wall Street at Record Highs

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