MACQUARIE

Investment Matters

Walking for cover

JULY 2018

1H18 has been dramatically different to 2H17.

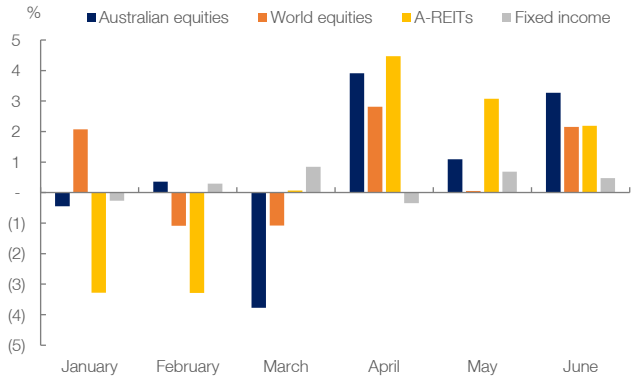
Gone is the low volatility environment that saw the VIX (Volatility Index) recently reach all-time lows; gone is the period of strong synchronized global growth momentum that started in early 2016; gone is the backstop provided by ultra-accommodative monetary policy; and gone is the willingness of markets to absorb political and trade ructions with nothing more than a short term hiccup.

Reality bites: This shift should not have come as a complete surprise. Investors have enjoyed a spectacular period of positively correlated asset class returns where the tailwinds were broadly strong enough to offset headwinds no matter where they emerged. In essence, markets have been in a nine year cycle where bad news was good news because it elicited a positive policy response and where good news was also good news because it came against a backdrop of low inflation and limited need to taper stimulus.

However, all cycles must eventually come to an end and with investors becoming accustomed to a high return and low volatility environment, the pain threshold for a reversal back to a more normalized backdrop is driving a significant degree of uncertainty. The positive is that markets are not collapsing and in fact have withstood a number of hits year to date. The negative is that the concerns battering markets through the first half - tightening liquidity, trade war and political leadership risks, slowing growth momentum and rising emerging market vulnerabilities due to a rising US$ and higher US$ funding costs - are unlikely to moderate in the foreseeable future.

Fortune favours the sensible: At this stage, we think the preservation of capital has taken a step up in importance versus the return on capital. We do not know with certainty when European political risk will settle, how far President Trump will push his trade war agenda (unconventional minds do not have conventional boundaries). Similarly, we don't know with certainty how far the Fed is behind its inflation fight, whether recent emerging market weakness will remain contained to only the most externally vulnerable economies, what the pain point is to shift these risk from being idiosyncratic to systemic or when/if oil breaks through the US$80 barrel level and begins to undermine consumer spending. In other words, there are a lot of things we have limited transparency on.

Asset class returns have been volatile through 2018



Source: Bloomberg, IRESS, MWM Research, July 2018

Our base case is that the world can likely absorb these threats, but the extent of uncertainty means risk aversion is not stable and markets are likely to continue reacting violently to uncertainty and disappointment. This drives a need for some level of insurance and to also reduce large bets that are binomial in nature. We urge investors to be careful in positioning portfolios that make money if their view is right but lose money if it is wrong. We believe the following issues are important investment considerations.

- **Central banks are no longer underwriting the asset price cycle.** The backstop they have provided via policy easing is now firmly in reverse following the European Central Bank's decision to further wind back its quantitative easing (QE). While global financial conditions generally remain *"easy"* there is a substantial drain on liquidity via the combined impacts of quantitative tightening, higher oil prices (draining US$), substantial US treasury issuance, rising policy rates and pockets within credit where spreads have risen dramatically.
- **Trade war ructions are likely to be a slow arm twisting process.** The prospect of a long drawn out tit for tat global trade war has the potential to overhang markets for some time. At some point they will become more de-sensitized to this risk but the longer it is drawn out, the greater the chance it

has a material impact on animal spirits and the willingness to invest and employ.

- **Traditionally Australia has been a relative safe haven into global equity market weakness.** However, this status is conditional. If falling risk aversion comes at the same time house prices are weakening, then it loses some of its relative appeal. Macquarie recently downgraded its house price forecasts and now expected National Average prices to fall between 4-6% through the cycle with Sydney down 10% peak to trough.
- **Equity returns are set to lose the contribution from rising valuations.** Nearly 50% of returns since 2012 have been generated by rising valuations as a result of a falling bond yield. It is therefore consistent to expect this works in reverse. If total return is the combination of a change in valuation plus earnings growth and dividend yield, then in the absence of the former, it is left to the latter two factors to fill the void. Without a strong cyclical improvement in earnings growth or a rise in dividend growth, equity returns will likely decline.

What does this mean for positioning? Last month we dialled back our risk exposure via reducing our equities overweight while raising our cash and REITs exposure. Our view was that the risk-reward outlook had deteriorated and while we did not see an imminent onset of a meaningful growth slowdown, the potential for markets to weaken off the back of negative macro developments was rising.

We continue this more cautious asset allocation shift by further raising our cash and REITs allocations to overweight while continuing to balance this with further reductions in our equity positions. We recognize that trying to time corrections is difficult but we believe that the outlook is asymmetrically skewed with rising downside risk not matched by rising upside potential. We would categorize our level of concern as amber and not red and are prepared to wear some portfolio drag if markets go through a final push higher.

However, we recommend investors further pare back risk positions and looks to raise cash and defensive (low beta, low correlation) exposures. We maintain a preference toward strong growth markets (the US) and recommend being tactically underweight emerging markets where contagion risks are high as a result of further US$ strength and China weakness.

We are not swayed by the recent rally in the Australian equity market. We see limited upside from this point forward with no evidence of a broad earnings recovery and with areas of downside pressure still evident in key sectors such as banks and telcos. High dividend yield is not a hedge against rising rates but dividend growth and high quality franchises are.

A-REITs are now trading at a discount to net tangible asset (NTA) and offer exposure to both growth and yield. We think property is unlikely to provide sustained outperformance so early in the rate hike cycle and as the drivers of recent earnings performance continue to fade. However, they are our preferred play across the traditional yield sectors where both Banks and Telcos face ongoing structural profit pressures. We think the outlook is reasonable into sideways markets and even better in downward markets.

We are recommending maximum exposure to alternative assets which have a low correlation with equites and provide portfolio diversification volatility reducing properties. While the path for global interest rates is not as clear cut as earlier in the year, we continue to think that the trend will be towards higher rates. Similarly, we find it hard to see credit spreads tightening further from these levels despite not expecting to see a strong reversal in the opposite direction. On this basis we retain our underweight on fixed income.

Jason and the Investment Team

Asset class preferences

	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight	Reason
Allocation						
Australian Equities						Market likely to remain range bound until support from rate sensitive areas improves
International Equities						Equity market fundamentals still positive but vulnerable to corrections
US						High quality growth supported by strong earnings growth.
Europe						Value proposition but cyclical momentum has deteriorated and political risks rising
Japan						Defensive market with little domestic drivers
EM						Vulnerable to further strength in US$ and premature rate hiking cycle to defend capital outflows
Property						Stable yield support with increased valuation/defensive appeal
Fixed Interest						Underweight duration, continue to expect rising global rates
Alternatives						Hedge against equities and high volatility
Cash						Reflects rising uncertainty across risk assets and the potential for positive Bond-Equity correction

Source: MWM Research, July 2018

Brief outlook for asset class

Asset class	Outlook	Quick takeaway
Australian equities	Neutral	We see limited upside from current levels for Australian equities with no evidence of a broad earnings recovery We retain our neutral recommendation with a preference to growth companies with sustainable earnings momentum Property is our preferred defensive play as a hedge for increasing volatility
International equities	Overweight	Developed equities offer greater protection from downside risks, with the US our preferred exposure China will not be the source of support for risk assets as in the past Similarly, European equities are being forced to absorb rising political risk and weaker growth data
Real assets	Overweight	Upgraded property outlook to overweight. Offers stable dividend yield and valuation de-rating is largely complete Housing market under rising downside pressure Office REITs are our preferred exposure supported by strong (albeit declining) rental growth and low vacancy rates
Alternatives	Strong Overweight	Maintain maximum overweight to alternatives amid declining correlations and rising volatility Merger arbitrage has historically delivered diversification benefits and positive absolute returns during market stress The buoyant M&A activity supports merger arbitrage strategies, but political, regulatory and antitrust risks remain headwinds
Fixed Interest	Underweight	Rising trade tensions are driving long yields lower but the longer term trend is likely to remain up Credit spreads to continue widen as growth synchronicity declines but credit markets remain well supported The ECB announced the end of its QE but was dovish on when it expects to raise rates. Global liquidity growth shifts from positive to negative between 2017 – 2019
Commodities	-	We remain neutral and continue to expect a divergence of fortunes Nickel, alumina and thermal coal are preferred for the remainder of 2018 Lithium, cobalt, nickel and copper on a 5-year view, underpinned by electronic vehicle (EV) demand
Currencies	-	Global trade tensions are pushing the US dollar higher. Macquarie expects this to remain the case over the near term Renminbi to show further weakness against the US dollar as Chinese growth weakens Downside risk to the AUD on rising risk aversion and weakening Chinese outlook

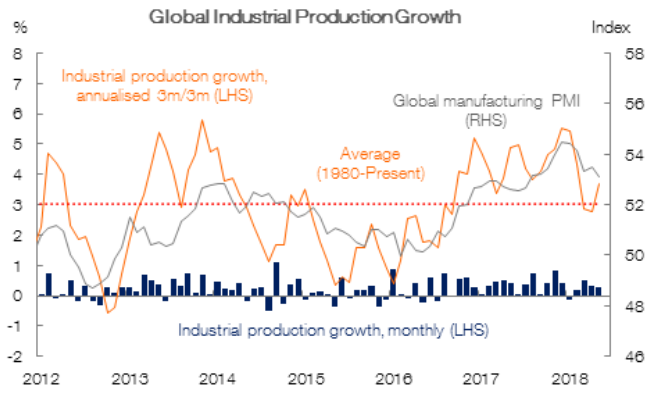
Global economics – Downside risks rising

- Downside growth risks are rising with Europe under pressure and China also slowing;
- The risk of a full blown trade war between the US and China is now high and threatens to have flow on impacts to confidence and investment;
- US continues to lead the economic recovery. China is unlikely to provide the buffer to a global growth slowdown as it has in the past.

2017 was the most synchronised year of global growth since 2010. However, over 1H18 a more divergent picture has emerged with global growth momentum peaking early in the year as evidenced by the contraction in economic surprises across both developed and emerging markets, weakness in European growth measures and most recently by Chinese data which is pointing towards a meaningful decline in growth momentum – albeit with few signs of a more substantial shock on the horizon.

There is little debate that global growth remains at or around trend. The key issue in the past two months has been in determining the ability of the global economy to withstand four separate headwinds: 1) rising trade war tensions; 2) higher oil prices; 3) growth weakness in China; and 4) broadening weakness across emerging economies.

Global Industrial Production back to trend



Source: Macquarie Research, MWM Research, July 2018

Global growth slowed in 1Q, with both industrial production and gross domestic product (GDP) growth falling to around their long-run averages. More recently, however, growth momentum looks to have recovered somewhat, although Macquarie highlight that the pick up at a global level masks some growing regional divergences.

US takes the global growth baton: The US is enjoying a "purple patch", with the current Atlanta Fed GDP "nowcast" around 4.7% SAAR (Seasonally Adjusted Annual Rate) for 2Q (Macquarie's latest forecast is for 3.5% growth, but recent data pose upside risk to this estimate). Consumption growth looks to have recovered from its first-quarter weakness, with core retail sales strong through May, while the higher oil price will likely encourage further investment.

US growth is surging at a time when unemployment has fallen to 3.8%, the lowest rate since the 1960s. We expect continued strength in jobs growth to push the unemployment rate to 3.1% by end-2019. Strong growth and rising inflation have seen the Fed continue its policy tightening (having raised the Fed Funds rate seven times this cycle already).

More recently we have seen the yield curve flatten considerably as long rates have fallen from early year-to-date highs. Our central case is that there is limited risk of an imminent yield curve inversion but there is a small chorus now suggesting long bond yields have already peaked. We think the US economy will remain the key global growth engine through 2H with the impact from accelerated fiscal spending yet to be seen.

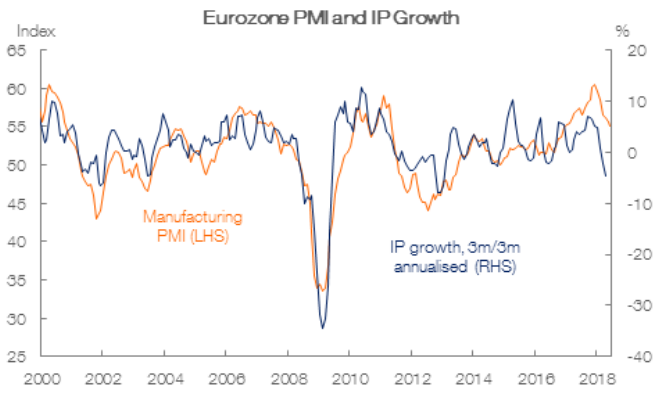
European downside risks are rising: In contrast to the US, European growth has slowed meaningfully after surging in 2017. Industrial production has weakened although other indicators such as retail sales suggest that underlying demand remains reasonably solid which does not point towards a collapse in growth throughout the remainder of 2018.

The problem as we look forward for the Eurozone is that we find it hard to identify upside growth drivers but easy to identify potential downside risks.

1. Following the ECB's decision to further reduce its QE program we see limited scope for further monetary policy easing;
2. External demand is weakening and Europe is highly reliant on its export engine particularly out of Asia. In addition, rising trade war concerns has the potential to damage confidence and investment decisions with nearly 1/3 of fixed asset investment coming from capital spending on machinery and equipment. Recent threats by the US to implement car tariffs on Europe raise the stakes with Germany most significantly impacted;
3. Higher oil prices remain a headwind for the consumer against a backdrop where wage growth is weak and inflation is slowly beginning to creep higher.

4. Limited capacity for additional fiscal support with the European pact giving governments little fiscal flexibility - unlike the US which is enjoying the tailwind of both rising expenditure and tax cuts;
5. Slowing credit growth. European banks are the major providers of credit and they have been battered YTD (bank shares are down ~20-25%). This is likely to limit the willingness to open the credit taps at least while bigger macro concerns are evident; and
6. Italy remains a tail risk. The collapse of the coalition party and upcoming election adds further uncertainty to the European outlook although we place a very low probability on Italy being the driver of another Euro crisis. Nevertheless, its high public debt, unaffordable fiscal plan and anaemic growth outlook mean it will remain a thorn for the Eurozone outlook in general unless a new government comes up with a more radical plan.

Eurozone indicators weakening



Source: Macquarie Research, MWM Research, July 2018

China slowing faster than expected. Chinese growth has been slowing for some time as the authorities try to achieve more balanced but less credit-fuelled growth. To a degree this slowdown had been expected off the back of prior credit tightening. The concern is that this slowdown now comes at a time when growth risks for the world (ex US) are also rising.

Financial sector deleveraging has precipitated a slowdown in the real economy with local government infrastructure spending (the most important part of the economy) slowing dramatically. Macquarie believe that if policy stays on its current course, growth is likely to experience further headwinds over 2H 2018 and 2019.

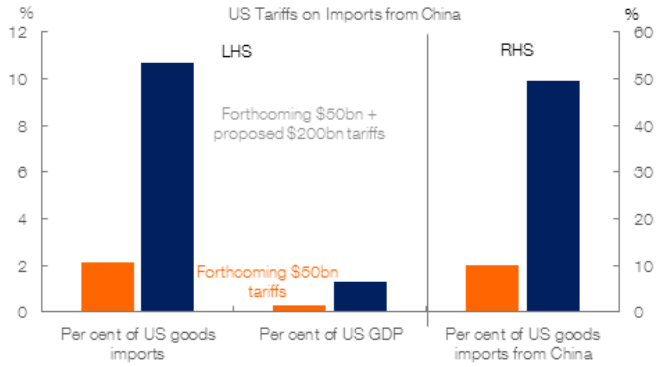
However, while downside risks appear to be growing, growth is likely to remain robust through 2Q 2018, supported by renewed strength in the housing market. Real estate fixed asset investment growth has strengthened since late 2017, while the housing market more broadly still looks solid.

We see two important differences with the interplay between China and the rest of the world into 2H and beyond.

First, the ability of China to provide the buffer for global growth weakness is low. This is primarily because China is unlikely to unleash a large fiscal or monetary policy stimulus given its growth quality focus. While it has already eased its monetary policy in recent weeks (Reserve Requirement Ratio cut), we see little scope for a more aggressive easing.

Second, the risk of a full blown trade war with the US has risen dramatically. While Macquarie continue to see the full economic impact as relatively modest (in the region of 10-30 basis points (bps) of economic growth), the second round impacts via heightened uncertainty and falling confidence will at some stage have an impact on business investment if it is prolonged. These impacts tend to be magnified when the global economy is also suffering from other ills.

Trade war risks are rising



Source: Macquarie Research, MWM Research, July 2018

Overall, while underlying global growth remains solid, the market downside growth risks are rising and we see little scope for upside surprise in the near term. A substantial escalation in the potential for a full blown trade war is now increasingly likely as the US threatens further tariffs, and China promises to reciprocate like for like.

Macquarie believe this conflict could have a material impact on growth (an additional US$200 billion of US tariffs could reduce growth by 0.25 percentage point (pp) in both China and the US). It would also add to inflation and disrupt global supply chains. Ultimately there remains scope to offset this threat and the potential that it does not eventuate as current rhetoric would suggest. However, it is likely to remain a focus for markets and continue to drive bouts of volatility – both up and down – as markets are surprised positively and negatively.

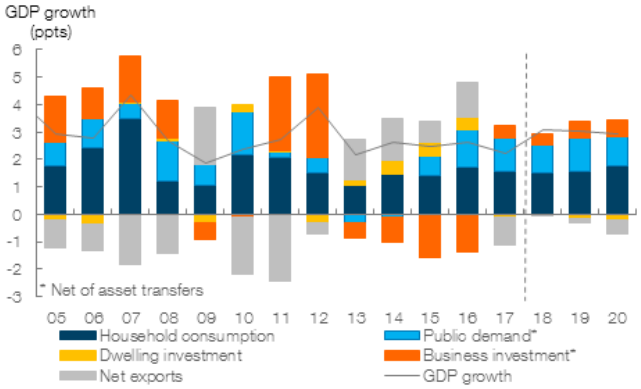
A perfect storm would be a Fed that remains committed to its tightening path, higher oil prices, a slower China, an Italy election shock as well as increasing trade concerns! We are not at the stage yet, but investors should recognize that the risk skew has materially changed since the start of the year.

Australian economics – Housing correction underway

- The Australian economy continues its solid but unspectacular run;
- Inflation data is putting little pressure on the RBA to raise rates with our first rate hike not pencilled in until early 2020;
- The east coast has now joined the rest of the country experiencing falling house prices. We think the adjustment is early and will add further to consumer spending headwinds.

The outlook for the Australian economy remains solid albeit unspectacular. Growth over 2017 was ~2.75%, a significant improvement from average rates of the past few years, driven by stronger growth in business investment and resilient growth in household consumption and public spending. Our Economics team is forecasting growth to pick up gradually to 2.9% in 2018 and just over 3% in 2019, supported by low interest rates and a solid global economy.

The drivers of GDP growth are changing



Source: Macquarie Research, MWM Research, July 2018

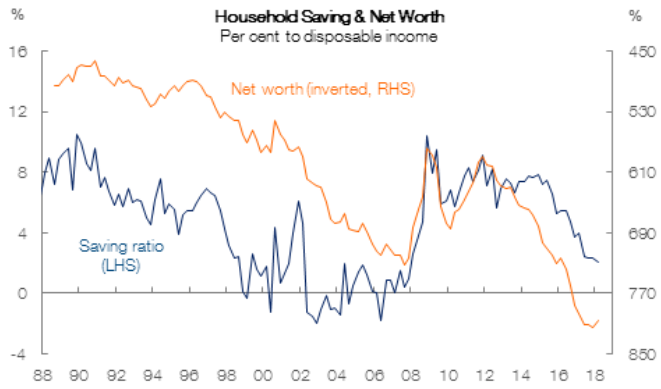
While this backdrop is commendable, it does remain below par and subject to weakness transmitted from any further slowdown in the global cycle and/or spike in trade war concerns that impact the outlook for China and by association commodity prices.

Our Economics team believe that while the economy is gradually improving it is just not improving fast enough. The unemployment rate is still ~5½%, wages growth is 2%, average earnings growth is weaker and market determined inflation is south of 1% per annum.

There remains ample spare capacity in the economy and Macquarie believe this will linger for some time to come. It appears likely that it won't be until 2020 that Australia's unemployment rate will firmly have a '4' in front of it.

We estimate that it is likely to take at least 18 months of 3¼-3½% GDP growth for the unemployment rate to reach levels that will warrant higher interest rates. Persistent spare capacity will continue being a key factor keeping a lid on wages growth. In addition, Australia's relative labour cost base is slowly realigning lower in response to lower commodity prices and the terms of trade. This adjustment appears to be ongoing and suggests the expected pick-up in wages growth will be gradual.

Rising net wealth has supported decline in savings



Source: ABS, Macquarie Research, MWM Research, July 2018

A number of other factors are also impacting the near term outlook for the economy:

- **National house prices are now weakening.** National dwelling prices are down 1% from peak but Macquarie expect this to fall between 4-6% over the coming 18 months with Sydney down 10% from its highs. While this would still put prices in a number of key cities up substantially since 2012, it represents a significant change from the rapid appreciation seen through to mid-2017.

  Australia has had six previous episodes of declining housing prices since 1980, with the peak-to-trough range of 2½% to 8%. Nearly all previous corrections occurred following interest rate rises, a drag unlikely to be repeated anytime soon in this cycle. However, it is likely that house prices could remain under pressure once the RBA begins to raise rates in 2020. This could well see little to no price appreciation over the next 3-5 years.

- **Credit tightening and slower asset price growth to limit consumer spending upside.** We do not see a major risk that banks are forced to tighten the availability of credit dramatically as a result of the Royal Commission. However, tighter lending

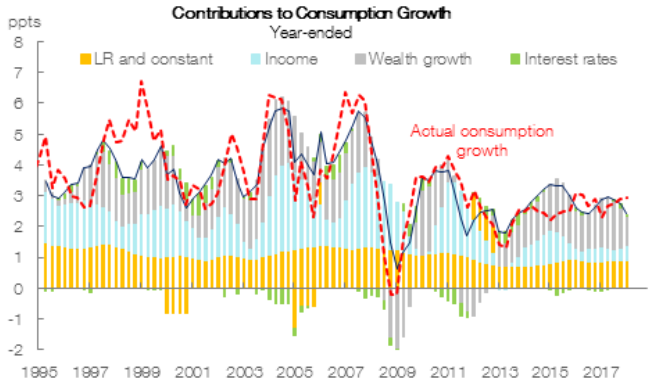
standards in combination with rising mortgage rates will continue to weigh on house prices and more broadly on consumer spending.

Macquarie believe that housing credit growth will slow under almost any scenario in coming years. First, average new loan sizes will eventually rise more slowly; Second, expected lower dwelling sales volumes are also likely to weigh further on housing credit growth; and Finally, ongoing switching from interest-only to principal and interest loans are a drag on housing credit growth.

Our Economics team have modelled the impacts that rising household wealth has had on spending (via confidence and the willingness to run savings down) and they have found that it has provided significant support to consumer spending growth in recent years. This would suggest that weaker growth in wealth would be a noticeable drag on consumption growth.

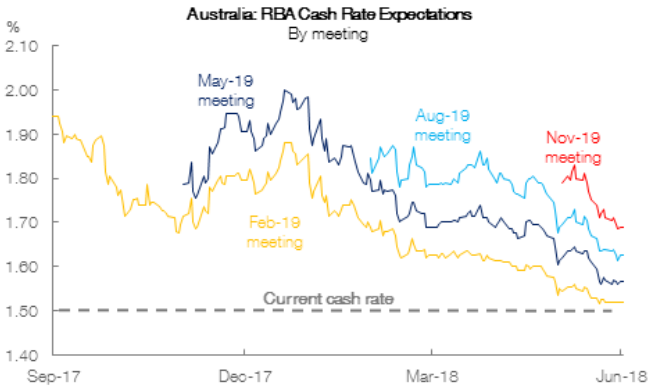
- **Weaker commodity prices on further Chinese growth slowdown.** The euphoria of commodity markets in early 2018 – buoyed by the previous year's sharp lift in industrial activity of mature economies – has been doused by macroeconomic and trade policy shifts by the major economies. Our commodities team put this trend down to a number to key developments. China's seasonal restock failed to fire, hit by deleveraging and aggressive pollution controls; US tariffs/sanctions have confused and unsettled global markets, with trade relations now rapidly deteriorating; a rising USD potentially acts as a drag on commodity demand globally. Australia indirectly sits within the firing line if trade issues escalate. We would expect to see this translate into concerns around Chinese demand as well as a stronger US$ which could pressure our key commodity exports in addition to the A$.

Wealth impacts have been significant for spending



Source: Macquarie Research, MWM Research, July 2018

Timing for RBA rate hikes continue to be delayed



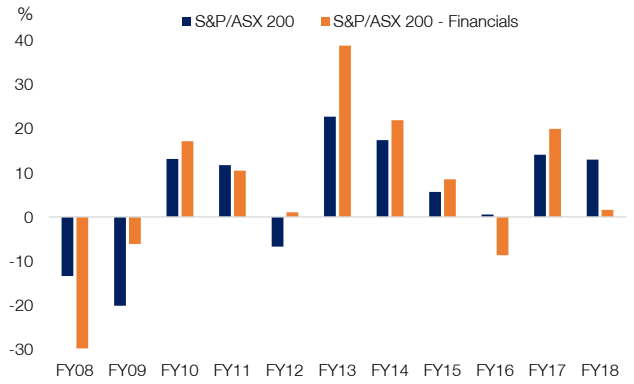
Source: Macquarie Research, MWM Research, July 2018

Australian equities – Safe as houses

- We see limited upside from current levels for Australian equities with no evidence of a broad earnings recovery;
- We retain our neutral recommendation with a preference to growth companies with sustainable earnings momentum;
- Property is our preferred defensive play as a hedge for increasing volatility.

Australian equities were bolstered by a rally in banks during the month with financials adding 4.0%. The S&P/ASX 200 Accumulation Index rose 3.3% which was the strongest June return since 2009. This helped deliver a +13% for the financial year which was above the average of 10.2% since 1993. The large-cap sectors of financials (+1.6%) and telecoms (-30.9%) held back the index, masking the bullish returns from the smaller sectors of energy (+41.6%), info tech (+32.3%), materials (+29.9%), consumer staples (+29.1%) and healthcare (+27.7%).

FY18 a solid year but held back by banks

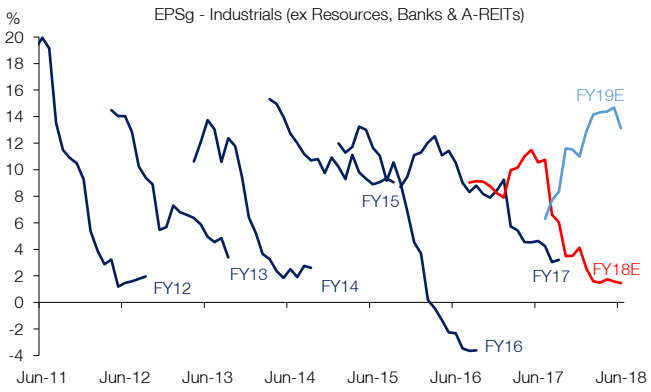


Source: IRESS, MWM Research, June 2018

Confession season, where companies adjust earnings guidance during June and July before releasing their full-year results in August, has been fairly quiet this year. Telstra (TLS) and Ramsay Health Care (RHC) have been the notable large-cap casualties. Telstra announced it will simplify its mobiles plans and remove excess charges while RHC reduced guidance citing difficult trading conditions in the UK and Australia. Metcash (MTS) also pared back expectations as competition continues to bite. The parliamentary inquiry into the franchise model remains a further headwind, particularly ahead of an election, and contributed to a downgrade from Retail Food Group (-34%). We continue to recommend avoiding the retail sector, particularly as housing growth slows.

Earnings per share growth (EPSg) for industrials looks set to finish FY18 at a modest +1.5%. The FY19 EPSg looks heroic in contrast at +13.1% and we continue to expect a downward trajectory. Energy and miners continue to lead earnings revisions and provide an important offset to financials and telcos.

FY19 earnings – the worm has turned



Source: Macquarie Research, MWM Research, June 2018

Year-to-date returns have been driven by a combination of factors: On the downside - a weaker Australian dollar, concerns surround the outcome from the Royal Commission, escalating trade war fears, a higher oil price, and higher bond yields. On the upside, further multiple expansion for growth stocks, strong earnings driving upside for the commodity and energy stocks and further gains in areas of structural strength (infrastructure). We see less scope for these positive drivers to repeat their upside contribution in the second half. We now expect less upside from growth stock valuations which have become increasingly stretched and while banks can continue their relief rally in the short-term we ultimately see little earnings upside so don't expect this can be sustained. Bank valuations and yields are supportive, but are not yet at crisis levels.

Our preference remains for growth over value but our positioning has turned more defensive in the face of mounting risks. Growth companies can continue to outperform, particularly through reporting season, but delivery is key. A-REITs and infrastructure are our preferred defensive exposures as we prioritise capital preservation. We think the energy and mining sectors can continue to provide relative outperformance with Macquarie's analysts favouring metals over bulk commodities. Australia remains the low beta market, but is no safe haven. We retain our neutral allocation.

International equities – A dangerous time

- Headwinds for equites are building. Nervousness around trade and central bank tightening will drive periodic bouts of risk off behaviour;
- Developed equities offer greater protection from downside risks than emerging markets with the US our preferred exposure;
- China will not be the source of support for risk assets as in the past. Similarly, European equities are being forced to absorb rising political risk and weaker growth data.

1H18 has been difficult to navigate for equity investors. Performance has been dramatically skewed by region, market, style and size. Developed markets have outperformed Emerging markets considerably but within each bucket there has also been substantial performance divergence.

Put simply, not only have equity investors had to absorb a sharp rising in volatility, but they have also had to deal with a large decline in correlation within sub asset classes as the distinction between *"strong"* and *"weak"* or *"vulnerable"* and *"less vulnerable"* has increasingly been made.

Return dispersion has been large

Indices	1H18 return (%)
MSCI Developed Markets Index (USD)	9.02
MSCI Emerging Markets Index (USD)	5.81
MSCI World Large Cap Index (USD)	13.12
MSCI World Small Cap Index (USD)	8.96
MSCI World Growth Index (USD)	15.23
MSCI World Value Index (USD)	2.86
S&P 500	1.67
Japan Nikkei	-2.02
FTSE 100	-0.66
German Dax	-4.73
Hong Kong Hang Seng Index	-3.22
China SSE Composite Index	-13.90

Source: Bloomberg, IRESS, MWM Research, July 2018

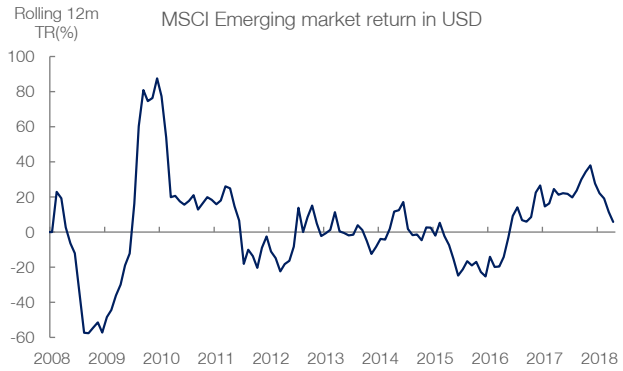
As we look out to year end 2018, we see little scope for a major change in key headwinds that have been pressuring equity markets. There is scope for some reversal in the weaker markets, but these are likely to be tactical in nature and shifts in relative performance that correct valuation anomalies rather than setting up more permanent trends.

Emerging Markets (EM) contagion risks remain high: Within emerging markets there is now scope for some of the more heavily sold off markets to reverse recent underperformance, but this will be highly contingent on the direction of a number of broad global macro variables, in particular the direction of the US$, US interest rates and China as a lead on global trade.

We still believe higher US$ funding costs and broadly tighter global liquidity will remain substantial headwinds for the emerging markets complex over the next 12 months given the substantial proportion of EM debt that is denominated in US$ (approximately 80%). Similarly, unlike in prior periods where China has provided a counter cyclical balance to EM weakness, we believe its focus on the quality of growth and deleveraging is unlikely to mean that it provides the kicker to growth as in the past.

Certainly the differentiation across emerging markets and evidence of lack of contagion as well as a number of supporting factors such as low inflation and much improved external positions does raise the resiliency and appeal of the asset class. However, we take the view that the drivers of weakness are not likely to get better in the near term and are worried that the pain threshold for emerging markets is close to being breached via-a-vis the US which is driving the concerns.

Emerging market returns have already come under downward pressure



Source: Bloomberg, MWM Research, July 2018

Subsequently we maintain a preference for developed over emerging equity markets and for quality over value at a country level (i.e US over Europe). We don't see a speedy transition towards a more market friendly environment for equities, which we would classify as a combination of stronger returns and lower volatility.

While fundamentals are not deteriorating at a rate that requires moving to an outright defensive position in risk

assets, we no longer think the risk-reward outlook supports being so aggressively overweight equities.

What will constrain global equities in 2H18? We think equites will remain constrained by a number of factors into 2H18.

- Declining global growth momentum: Macquarie is not expecting to see a meaningful deterioration in global growth through 2H, but we see risks as being skewed to the downside rather than the upside. Both Europe and China are slowing with the former continuing to tighten monetary policy with the latter focused on financial market deleveraging.

- Rising trade uncertainty: The potential for an escalation in global trade wars remains a significant threat to risk assets. Further tit for tat behaviour may quickly undermine an already fragile and volatile outlook.

- Monetary policy tightening continues: While gradual, the further withdrawal of monetary policy stimulus will be ongoing. It is clear that the Fed "put" is no longer there to support risk assets and the ECB is also set to unwind its QE program by early 2019. While the US$ will battle pressure from ongoing fiscal deficits, in the near term there is scope for further US$ strength to undermine global risk assets.

We point out the risk of a sharp deceleration in growth is not imminent and hence we are not advocating a full scale defensive tilt. Nevertheless, markets are vulnerable to negative development on a number of fronts and the backstops we have become used to are not likely to feature in the near term with the US constrained by inflation, Europe constrained by politics and China constrained by its desire to continue its deleveraging push.

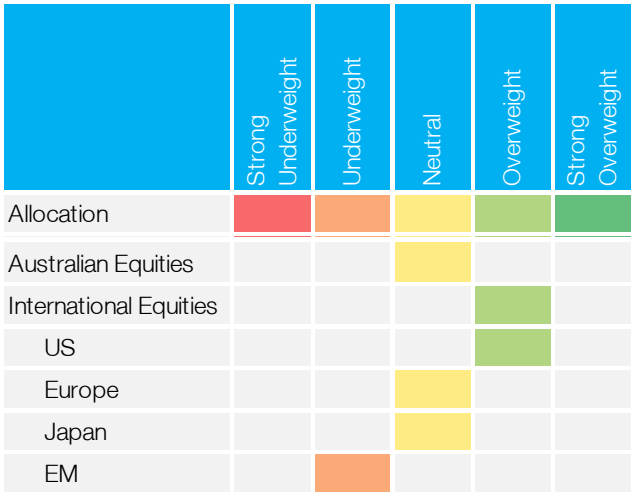
Our equity market view will be wrong if the US$ begins to depreciate or rates continue to decline. However, our central case is for US rates to continue to rise through the remainder of 2018 and into 2019. In fact, Macquarie believe there is a growing risk that the Federal Reserve is now falling behind the curve in its rate tightening cycle. Consequently, we think the Fed will have to raise rates a further 3 times in 2018 and between 3 and 4 times in 2019. Until the market gets comfortable that this will not de-rail the growth backdrop, we think equities will struggle to move meaningfully higher.

Minimising exposure to high risk areas: We recommend investors remain vigilant in attempting to minimise exposure to areas of downside risk which have the potential to more than offset positive gains in other areas.

We remain biased towards markets which have some valuation appeal, are underpinned by strong domestic fundamentals and/or have a strong quality and growth weighting. The US therefore becomes our preferred equity market exposure despite being the most directly exposed to Fed rate hike risk. Our logic is that if the Fed needs to accelerate its rate tightening cycle then emerging equities are more at risk than developed equities. Similarly, the US will benefit from being the defensive safe haven equity market and growth proxy. On the other hand, if markets do not face the prospect of rate risk, then the US market remains supported by strong domestic fundamentals and relatively attractive valuations given their contraction year to date.

We are neutral on Australia. While it has been a recent outperformer, we are doubtful that this reflects a more sustained defensive bias. Instead, we attribute this to a reversal in the performance of banks which had been a substantial drag through January to May of this year. We see few reasons to believe banks will re-rate further when structural earnings pressures remain high and house prices continue to weaken - irrespective of how accommodative the RBA will be throughout the next 12-18 months.

Equity market preferences



Source: MWM Research, July 2018

Real assets – A divergent outlook remains

- We have upgraded our property outlook to overweight. Constrained by rising interest rates but valuation de-rating is largely complete;
- Housing market under rising downside pressure. Correction in collateral values less than half way complete;
- Office REITs (led by Sydney and Melbourne) are our preferred exposure within the REITs sector supported by strong (albeit declining) rental growth and low vacancy rates.

We recently upgraded A-REITs from underweight back to neutral and now upgrade further to overweight. We think the majority of the valuation de-rating due to a rising discount rate is broadly in the price and that the sector offers a strong and stable dividend yield versus other traditional bond proxies.

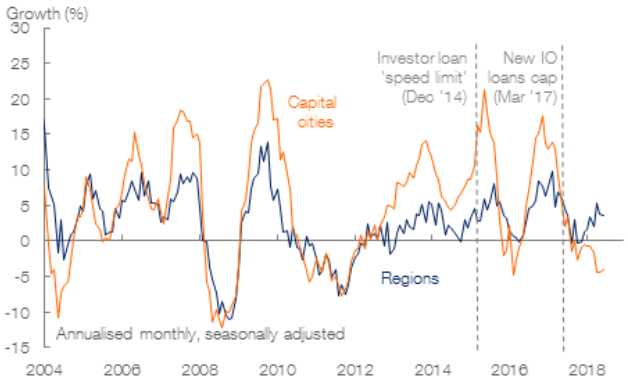
More recently the sector has been supported by a number of factors: First, high growth exposed REITs have been performing exceptionally well such as Lend Lease (LLC), Goodman Group (GMG), Charter Hall Group (CHC) and Mirvac (MGR); Second, concerns around other dividend yield proxies (banks and telcos in particular) has seen A-REITs emerge as relatively attractive given lower structural earnings concerns / political risk headwinds; Third, bond yields have been falling for the past few months (with AU-US spreads also contracting) and in turn reversing a macro headwind that has been a substantial headwind for some time; and Forth, corporate activity has picked up across the sector with the recent Blackstone's offer to acquire Investa Office Fund, Hometown America's offer to takeover Gateway Lifestyle Group and with the completion of the WFD takeover cash has needed to be deployed across the sector.

Our preference across the REITs sector is towards Office over Residential and while we are worried that there is still downside risk to book values in some retail REITs, the higher quality names have greater valuation support and have seen recent sales improvement (GPT, Scentre Group, Aventus Retail Property Fund).

Housing market under rising downside pressure

Residential has come under substantial downward pressure through 2Q and we expect this to remain the case for at least the next 12-18 months. A combination of tighter credit conditions, rising borrowing rates, restrictions on buyer type (investors and foreigner), a reduction in buyer confidence and rising supply across certain pockets (particularly apartments) is driving demand and price growth down.

Dwelling price growth in capital cities are falling



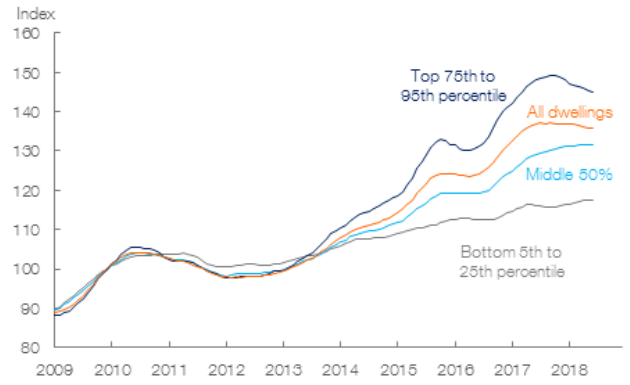
Source: Corelogic RPData, Macquarie Macro Strategy, July 2018

National dwelling prices have fallen 1% from the mid-2017 peak, but remain 38% higher than the starting point in mid-2012. Sydney and Melbourne prices are 4.6% and 2% down since the mid-2017 peak respectively, according to Corelogic. Macquarie recently revised their house price forecast down with expectation of National and Sydney dwelling prices to fall by 4-6% and 10% respectively over the next few years.

Auction clearance rates in Sydney and Melbourne have fallen to ~54% and ~60% respectively which traditionally correlate with declining price growth. The softer housing market is also reflected in lower sales volume. New home sales fell 4.4% and 14.1% in May 2018 and over 1-year respectively, according to Australia's Housing Industry Association. Macquarie bank analysts reported housing credit growth have fallen to 5.2% year-on-year (YoY) in May 2018 from 6.8% YoY in May 2017. A number of lenders are increasing mortgage rates by up to 40 bps as they are no longer able to absorb the impact of rising funding costs on net interest margins. Other lenders may follow suit, which may place further strain on heavily indebted households.

We expect the outlook for housing to remain a headwind for residential exposed REITs (in particular Mirvac, and Stockland). Similarly, Macquarie analysis suggests that rising household wealth has also provided a substantial tailwind for household spending in recent years. A slowdown in the growth of household wealth would, in the absence of a stronger rise in income growth, translate into rising pressure on consumer spending. If this is the case, this may continue to limit the upside in the lower quality retail exposed REITs (i.e. Stockland and Vicinity Centres).

House price weakness is mainly at the top end



Source: Macquarie Macro Strategy, MWM Research, July 2018

Two-tier office REITs

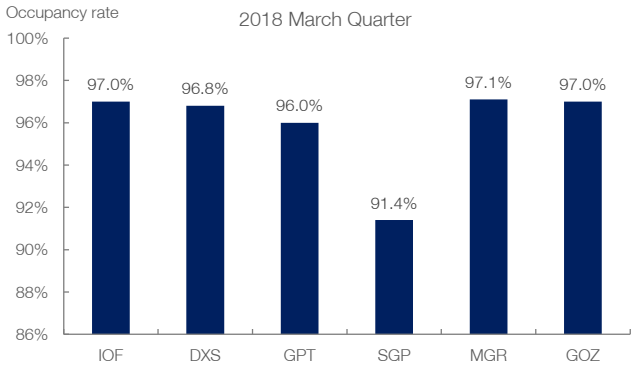
We expect low vacancy rate and positive rental growth to continue due to the steady demand and limited supply in Sydney and strong leasing activity in Melbourne.

Jones Lang LaSalle (JLL) reported the national office vacancy rate decreased to 9.9% in the first quarter of 2018, with Melbourne CBD recording the lowest vacancy rate nationally at 5.4%. National prime gross effective rents increased 2.7% over 1Q 2018, driven mostly by Sydney and Melbourne CBDs.

Although there are some signs of recovery, Brisbane and Perth remains challenging, with declining prime effective rents in 2017 and high vacancy rates in 1Q 2018 (13.9% and 21.4% respectively).

Our property team forecasts the vacancy rate in the Sydney CBD to decline to around 3.5-4.6% at the end of 2018. In 2017, Sydney and Melbourne saw average effective rents rising 23% and 14.3% in prime CBD and up 14.3% and 9.1% in secondary CBD respectively. The continued strength of the Sydney office market is evident in the recent sale of Blackstone's 50% interest in 275 Kent Street, Sydney to Mirvac, the sale of Stockland's office asset in North Sydney at a 30% and 23.5% premium to book value respectively. This together with an upward valuation across Investa Office Fund's properties should provide further valuation support over the coming reporting season.

Office occupancy remains stable



Source: Macquarie Research, MWM Research, July 2018

Although we remain positive on the office REITs particularly in Sydney and Melbourne, we are cognisant the prime cap rates are at record lows (5.57%) with Sydney and Melbourne cap rates 50 bps and 80 bps lower than the pre-GFC levels respectively. This may indicate the upside in office REITs are limited.

Alternatives – Hedging with low correlated asset exposures

- Maintain maximum overweight to alternatives amid declining correlations and rising volatility;
- Merger arbitrage has historically delivered diversification benefits and positive absolute returns during market stress;
- The buoyant M&A activity supports merger arbitrage strategies, but political, regulatory and antitrust risks remain headwinds.

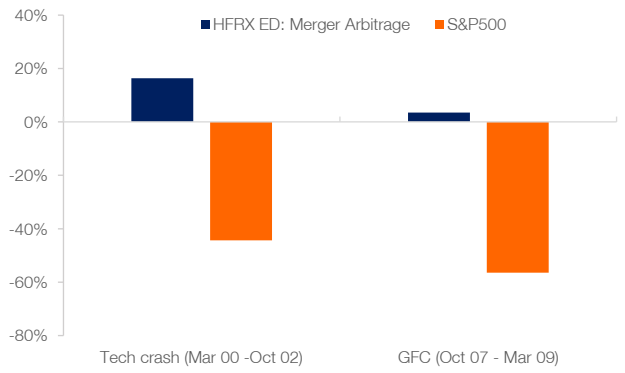
We maintain our maximum overweight to alternative assets. Alternatives are expected to deliver diversification benefits amid the backdrop of high valuations for traditional assets and rising financial and economic volatility.

A rising volatility and declining correlations backdrop will bode well for: (i) discretionary macro, which stands to benefit from diverging policies of central banks and political uncertainty in economies; (ii) market neutral and fixed income relative value strategies, which are well placed to gain from the widening stock and sector dispersions; (iii) merger arbitrage where greater M&A deal spreads will lead to more attractive entry points (iv) CTAs which tend to outperform in strong and persistent directional moves.

Merger arbitrage has delivered diversification benefits

Event driven strategies in particular merger arbitrage continued to attract strong inflows in 2017 and 1Q of 2018. Merger arbitrage strategies seek to profit from the price differential between a deal's announced price and the pre-closing price of the target stock.

Merger arbitrage has outperformed in down markets



Source: Bloomberg, MWM Research, July 2018

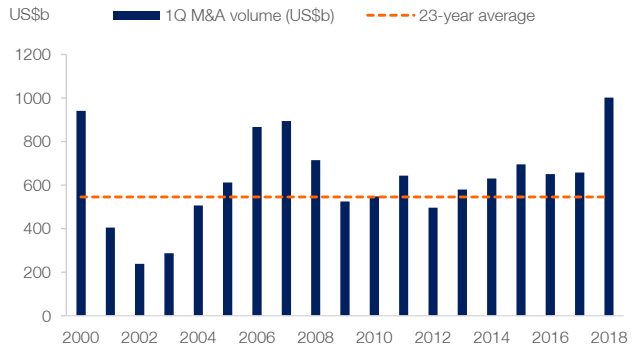
This strategy remains appealing in the current market cycle due to its low correlation to broad capital markets and the low volatility of its returns. Merger arbitrage performance are predominantly dependent on specific deals rather than broad market events. Historically, the strategy has provided diversification and positive absolute returns during periods of market stress. This is evident during the global financial crisis, where S&P 500 loss ~56.4% from peak to trough (October 2007 to March 2009) while HFRX ED: Merger Arbitrage delivered +3.5%.

This strategy also tends to benefit from rising interest rates. Gradual interest rate hikes can lead to greater M&A deal spreads and more attractive entry points which tend to result in higher merger arbitrage returns, according to Lyxor, a hedge fund firm.

The buoyont M&A activity supports merger arbitrage

Following the strong momentum in late 2017, 1Q 2018 saw global M&A volume hit a record high of US$1.12 trillion, according to Dealogic. This trend may be extended due to steady economic growth, high corporate confidence, large corporate cash, low funding costs, structural sector shifts, digitalisation and tax reforms (which allows foreign cash repatriation). Not surprising, private equity firms with abundant dry powder have boosted the deal activity. The buoyant M&A landscape will be positive for merger arbitrage strategies.

1Q 2018 global M&A volume hit record high



Source: Dealogic, MWM Research, July 2018

Healthcare, industrial and telecom sectors which are facing structural shifts are expected to drive further consolidation to gain scale and/or leverage through vertical integration. Firms responding to secular technological and disruptive pressures have also fuelled M&A activity.

US remained the most active region with volumes up 70% in 1H 2018 compared to the same period last year,

predominantly in healthcare, technology and telecom sectors, according to Dealogic.

However, M&A comes with risks. If valuation continues to be elevated, it might dampen the M&A activity. Political, regulatory and antitrust risks are likely to remain key headwinds, which spurred the widening of deal spreads particularly in March and April 2018. The uncertainty in the antitrust policies heightened following the US Department of Justice's attempt to block the AT&T/Time Warner deal. Fortunately in June 2018, a court ruling approved the US$85 billion vertical integration between AT&T and Time Warner which saw a significant tightening for several vertical merger deals such as Cigna/Express Scripts and CVS/Aetna.

The escalation of the trade tension between US and China continued to drive the widening of Qualcomm/NXP deal spread. Markets are pricing the possibility of a retaliation from the Ministry of Commerce of China, which is responsible for approving all cross-border deals.

M&A activity is expected to accelerate this year from its record highs, despite the regulatory and political risks. The breath of the universe will lead to improved deal selection for arbitrageurs. Skilled merger arbitrage managers will also be able to take advantage of more complex and hostile transactions which are trading at wide spreads.

Fixed interest – From Quantitative easing (QE) to Quantitative tightening (QT)...slowly

- Rising trade tensions are driving long yields lower but the longer term trend is likely to remain up;
- Credit spreads to continue to widen as growth synchronicity declines but credit markets remain well supported;
- The ECB announced the end of its QE but was dovish on when it expects to raise rates. Global liquidity growth shifts from positive to negative between 2017 – 2019.

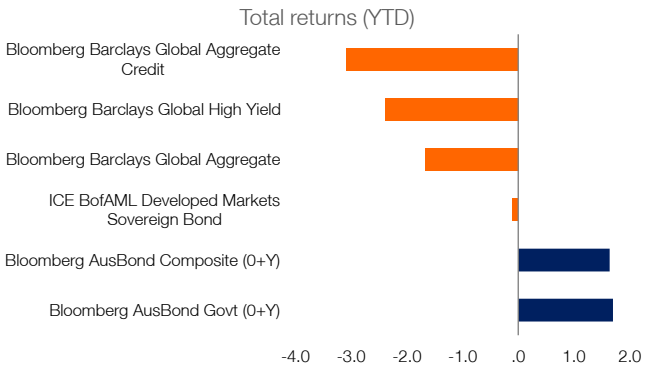
We remain underweight fixed income. The steady march higher in yields will continue however, with trade tensions and geopolitical risk rising, there is potential for the long end of the yield curve to continue to rally in the short term as we have seen over the past 2 months.

US 2Y-10Y spread reached lows not seen since August 2007

Source: FactSet, MWM Research, July 2018

All eyes moved from the level of rates to the shape of the yield curve this month. The inversion (long end rates lower than short end rates) of the US yield curve has long been used as a leading indicator of recession. Macquarie has shown that once the yield curve inverts, on average, there is around 16 months until the onset of a recession. Longer term, Macquarie remain of the view that rates will continue to rise. However, concerns around a full blown trade war is driving a strong bid for long bonds and the US$ - both of which are large liquid defensive assets.

Total returns in global fixed income markets have been largely negative YTD



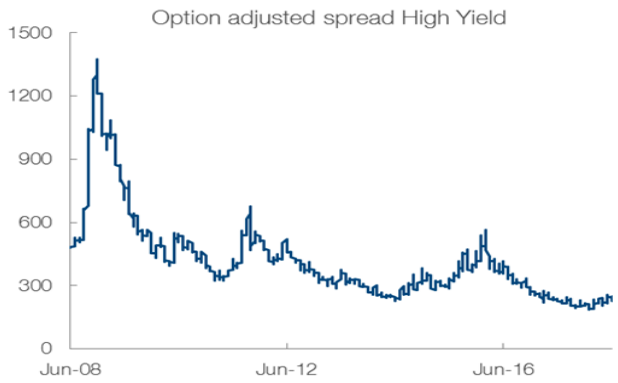
Source: FactSet, MWM Research, July 2018

Year to date, it has not been a good year for credit investors, with total returns largely negative across the board. This is not overly surprising given that 2017 was characterised by strong synchronised global growth and 2018 has seen growth momentum begin to materially diverge across the major developed regions (US vs Europe) as well as for China.

In the secondary market, spreads continue to move wider across the board. However, the primary market for credit securities remains well bid. For example, this month saw Bayer sell U$15 billion of debt to fund its purchase of Monsanto, the second biggest bond sale of the year. The deal was three times oversubscribed and pricing tightened relative to initial indications. The corporate issuance pipeline remains strong, surprising many given the backdrop of rising yields and changes to corporate tax cuts that make debt issuance less attractive. What remains to be seen is the impact on both primary and secondary markets of the withdrawal of central bank buying on demand. However, every indication is that the approach will be gradual so as to not rattle an increasingly fragile looking system.

US Dollar strength has also played a role in seeing spreads drift wider. Demand for higher spread products from non-US institutional investors, particularly Japanese investors, is lessening as the hedging costs from a higher US dollar bite into the total returns these investors can expect going forward.

Spreads will widen and at these levels the risk/reward trade-off is unfavourable



Source: FactSet, MWM Research, July 2018

Elsewhere the demand for yield remains strong with evidence that the market for CLOs (Collateralised Loan Obligations) is on track for record issuance (YTD is U$54 billion according to S&P Global Intelligence Unit) with increasing evidence that debt covenants are being weakened in order to meet investor demand. Covenants in loan and bond documents exist to protect lenders, restricting borrowers. Weakening covenants is a typical sign that we are well and truly in the late stages of the credit cycle.

Macquarie expect the RBA to remain on the sidelines until 1Q20 with modest economic growth and still sub trend wage growth unlikely to eat into substantial spare capacity across the economy for some time to come. Australian versus US long bond yield spreads have continued to contract and sit at their lowest level since May 1998. We see little scope for this spread to materially widen over the coming 12 months as the RBA remains on hold while the Fed continues it tightening path. We maintain our underweight call on fixed interest with a preference for short duration credit securities in A$. We expect sovereign yields to creep higher with credit spreads having seen their maximum tight levels. Other funding markets remain well bid albeit, at slightly larger spreads.

Commodities – Like a box of chocolates

- A stronger US dollar, escalating trade tensions and the unwinding of synchronised global growth have muddied the commodity story.
- Nickel, precious metals and uranium are preferred on a 12-month view while coal, iron ore, manganese, lithium and cobalt are least preferred;
- Lithium, cobalt, nickel and copper on a 5-year view, underpinned by electric vehicle (EV) demand.

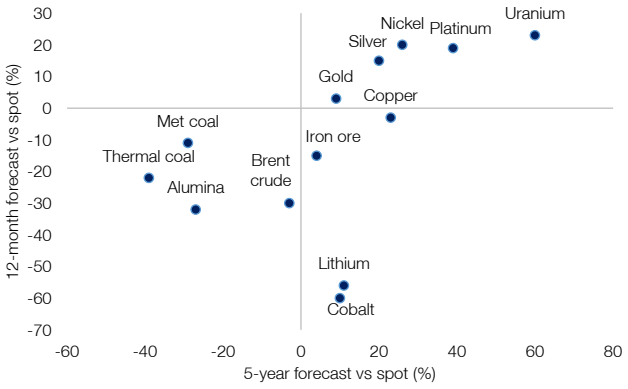
The euphoria surrounding commodities earlier this year has dissipated. The combination of synchronised global growth and a weaker US dollar had lifted all boats, but as we highlighted (Aging bull, February 2018), we didn't expect these tailwinds to last.

We continue to expect divergent returns from the commodities complex. Macquarie's commodities team has a preference to metals over bulks with a view China's raw material driven growth cycle is very mature with demand increasingly shifting to the metals complex.

On a 12-month basis, Macquarie's pecking order is i) Nickel – supported by stainless demand, industry reform and electric vehicles driving stock drawdowns and deficits out to 2022 ii) Precious metals – an inflation / recession hedge although recent USD strength a headwind iii) Uranium – supply cuts to rebalance trade.

The chart below illustrates price forecasts on a short and long-term basis. Nickel is the preferred exposure to the EV thematic with lithium and cobalt facing near-term supply growth. Copper is the other long-term pick with demand expected to outstrip supply growth.

EV underpins long-term support



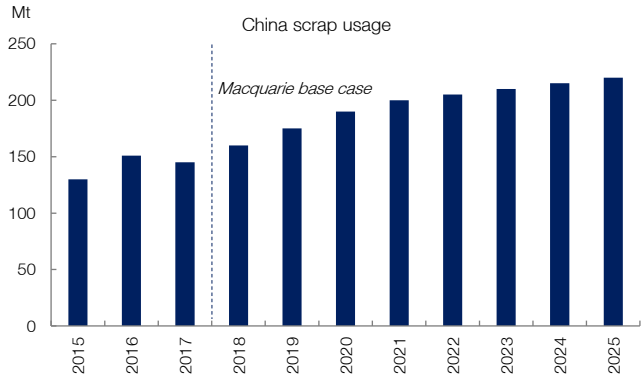
Source: Macquarie Research, MWM Research, June 2018

Iron ore has retraced in recent months on the back of surging Pilbara shipments with the spot price falling back to our commodity team's forecast of US$66/tonne (t). Macquarie is neutral to bearish on iron ore, having previously been more bearish, following the price correction. Macquarie's commodities team believes iron ore can rally to US$70/t as Australian shipments ease in July, but are neutral to bearish on the outlook with a US$62/t forecast for 2019.

Current pricing is supported by the cost curve and the supply outlook. The current spot price is in line with the seaborne breakeven marginal cost which should support pricing, while a higher oil price also lifts the curve. While fears of oversupply persist, seaborne supply is actually set to fall for the first time since 2009 due to a number of mid-tier mine closures and disruptions e.g. Koolyanobbing and Minas Rio. Demand will likely soften in 2H18 but ongoing steel capacity cuts will underpin demand for high grade ores. Low grade ore is expected to remain at a 30-40% discount. Overall, supply/demand looks reasonably balanced with a China destock the primary risk.

Thinking longer-term, iron ore faces a structural headwind as China looks to increase its usage of scrap steel. While it is very much early days, scrap ticks several policy objectives including environmental outcomes and reduced reliance on Western suppliers. Macquarie forecasts scrap consumption to increase 50 Megatonnes (Mt) over the next five years as the marginal cost of scrap falls. As such, China's iron ore consumption is forecast to reduce through to 2025 with low grade / high cost suppliers to exit the market.

China scrap consumption to weigh on iron ore LT



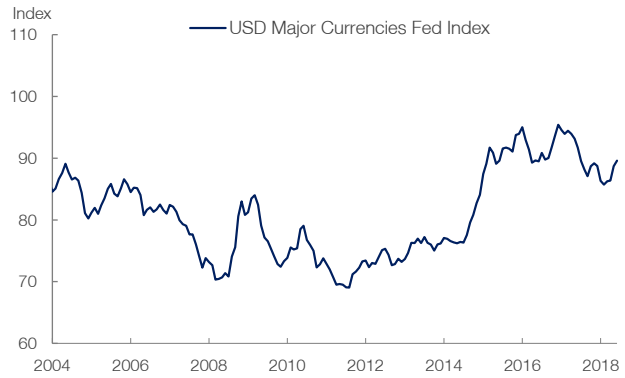
Source: Macquarie Research, MWM Research, June 2018

Currencies – USD is King

- Global trade tensions are pushing the US dollar higher. Macquarie expects this to remain the case over the near term.
- Renminbi to show further weakness against the US dollar as Chinese growth weakens; and
- Downside risk to the AUD on rising risk aversion and weakening Chinese outlook.

The US dollar has continued to strengthen on the back of increased uncertainty surrounding trade, benefitting from its safe haven status. Couple this with the Fed continuing its rate tightening and the increasing divergence in economic performance between the US and the rest of the world. Add to this a backdrop of tightening global liquidity and markets can be expected to be more volatile over the near term. Macquarie expects the US dollar to continue to rally as the US outpaces elsewhere. Into continued dollar strength, the yen is usually the only beneficiary.

US dollar continues to strengthen against the majors

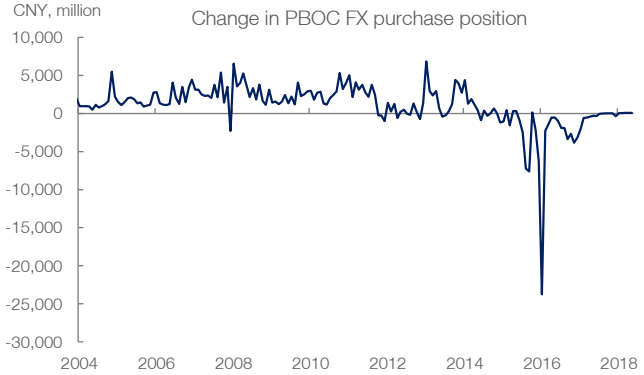


Source: FactSet, MWM Research, July 2018

Renminbi: down she goes

The continuing strength in the US dollar has seen the renminbi fall to its lowest level of the year. Our medium term view for the renminbi is negative. Growth is slowing with Macquarie's China economist expecting GDP to slow to 6.2% in 4Q18 from 6.8% in 1Q and that's before taking into account any direct impact of trade wars. The tendency is for Beijing to allow currency weakness when the economy slows. There is little evidence that the People's Bank of China (PBOC) has intervened in the currency to date based off reported PBOC currency (FX) purchases.

Little change in the FX positioning of the PBOC



Source: FactSet, MWM Research, July 2018

Indeed there is little incentive for the PBOC to intervene given policy communication on the 28th June showed a change in tone from the objective of keeping "liquidity stable" to ensuring "sufficient domestic liquidity". Given intervention to curb currency weakness involves buying renminbi versus the US dollar which siphons liquidity, direct currency intervention is at odds with the newly stated objective. Macquarie's target is for a further depreciation of the renminbi (both onshore and offshore) versus the US dollar to a target of 6.90 in the next 3 months.

Euro: Super Mario the new widow maker

Net positioning in the Euro moved from long to short during the month of June, leveraged money appeared to capitulate after being long the Euro FX contract.

Leveraged funds move from net long to net short

Source: Commitment of Traders, FactSet, MWM Research, July 2018

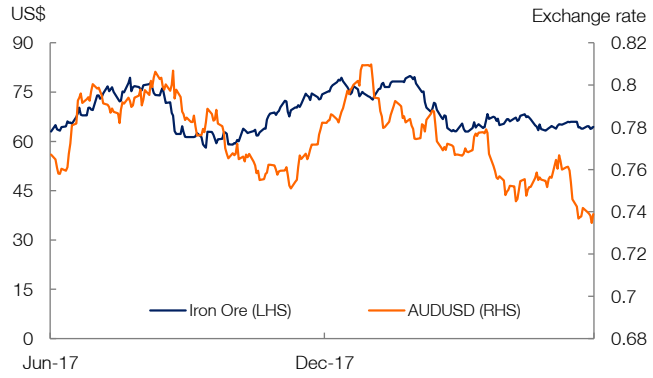
The EUR weakened on the rates guidance offered by the ECB. The bank surprised many by announcing the extension of the negative rate policy at least through to the end of 3Q 2019. Also announced was that the end of the year will see the end of its asset purchase

program which was more broadly expected. The extension of the negative rates policy basically extends the rates disadvantage between the Eurozone and the US. We expect that EURUSD will remain soft and to remain around 1.16 handle.

AUD: dancing to China's music

Typically the AUD is closely linked to commodity prices and a strengthening US dollar is usually negative for both.

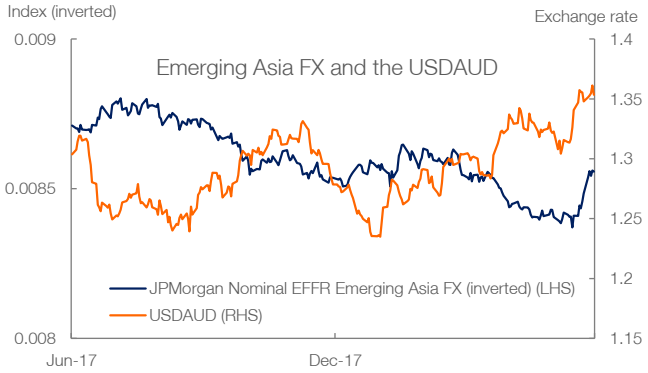
The AUD is closely linked with commodity prices



Source: Bloomberg, FactSet, MWM Research, July 2018

But in recent months, moves in the Australian dollar has reflected closer linkages with the Asian region. This suggests that perhaps that it is not the strength in the US dollar driving AUD weakness rather it's the weakness in China. We expect the AUD to remain under pressure in the near term and Macquarie sees plenty of scope to test 0.7180 over the next couple of months.

The AUD is showing links with EM Asian FX



Source: FactSet, MWM Research, July 2018

Monthly performance - June 2018

Australian equities

The Australian market rose sharply during June, with the benchmark index S&P/ASX 200 reaching a 10 year high at 6,250. The S&P/ASX 200 Accumulation Index surged by 3.3%, bringing the FY18 return to a 13% gain. The S&P/ASX Small Ordinaries Accumulation underperformed the large cap index, but managed to finish with a 1.1% increase for June. Energy was the leader among the S&P/ASX 200 sectors, despite the disruptions from the OPEC meeting in Vienna, closing up 7.8% for the month The worst performer was Telecoms (-5.8%), the only sector closing trade in negative territory.

Amongst larger companies the best returns were from Woodside Petroleum (WPL, +9.4%) and Suncorp Group (SUN, +8.6%). Telstra (TLS, -6.4%) continued to weaken during June with the company lowering its FY19 earnings guidance due to a tougher market outlook, accompanied with cost out measures, and an intention to create a separate infrastructure unit.

The S&P/ASX Small Ordinaries Accumulation Index (+1.1%) underperformed S&P/ASX 200 Accumulation Index, driven higher by Gateway Lifestyle (GTY, +32.4%) and the natural gas producer Liquefied Natural (LNG, +31.8%). The laggards were Blue Sky Limited (BLA, -34.4%) and Retail Food Group (RFG, -34.2%), the latter flagging a substantial loss for its financial year.

International equities

The US Federal Reserve lifted the cash rate by another 25 bps as the market expected, the second rise in 2018. Global trade tensions between the US and other nations put the equity markets on alert, injecting more volatility into the monthly trade. The Nasdaq was the outperformer in US market, with a 0.9% advance. The S&P 500 Index (+0.5%) was the next best, and the Dow Jones lagged behind, drifting lower by 0.6%.

Concerns about a trade war spread across to European markets as well, with divergent performances among the regional indices. Spain (IBEX 35, +1.7%) managed to end the month in positive territory, with the other indices, including Germany (DAX, -2.4%), France (CAC 40, -1.4%), Italy (MIB 30,-0.7%), and UK (FTSE, -0.5%), all suffering losses.

The China stock markets plunged on the back of the US announcing heavier tariffs on imports from China. The Shanghai Composite lost 8% in the context of increasing volatility. Hong Kong's Hang Seng Index (-5%) followed the Mainland market slash, but to a lesser extent.

Japan's Nikkei didn't make much progress during the month, ending June marginally higher 0.5% return.

Property

Australian REITs (+2.2%) has extended its rally for the fourth consequent month. Viva Energy REIT (VVR, +9.8%) led the rise of real estate sector, supported by its completion of an $80 million institutional placement. The underperformers were Mirvac Group (MGR, -3%) and Stockland (SGP, -1.1%).

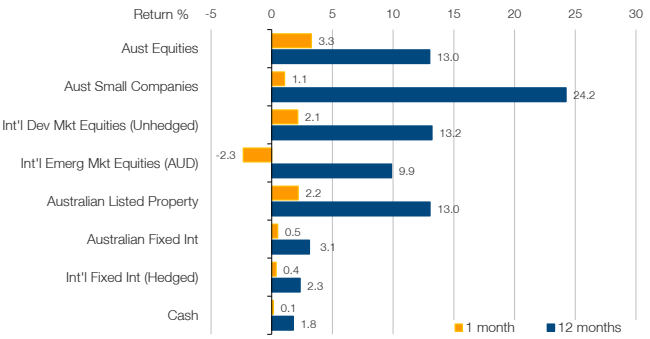
Fixed interest and cash

The US 10-year bond yield was flat for the month of June, closing at 2.87%, slightly coming off its 3.0% 7-year record high. The 10-year Australian government bond yield drifted lower, closing at 2.64%, down 3bps. The Bloomberg AusBond Composite 0+Yr Index was marginally higher for the month with a 0.5% gain, with both Government bonds (+0.6%) and Corporate bonds (+0.3%) lifting fractionally. Long-term bonds (+10-year, +1.1%) outperformed the short-term bonds (0-3 years, +0.2%) on index points basis.

Currency

Thanks to the Fed's second rate hike this year, the positive momentum since April continued for the US dollar. The $A/$US broke the support trading level $0.75, closing the month at $0.7407. The Australian dollar witnessed weaker trade against other majors in June, including the Euro (-2.1%, 0.6339), UK Pound (-1.5%, 0.5609), and Japanese Yen (-0.4%, 81.99), but was stronger against the New Zealand Dollar (+1.1%, 1.0929).

Market Performance – June 2018



Source: IRESS, Bloomberg, MWM Research, July 2018

Market performance – June 2018

Market Indices	1 month %	3 month %	YTD %	1 year %	3 year %pa	5 year %pa
30-June-18						
Australian Shares						
S&P/ASX 200 Accumulation	3.27	8.47	4.29	13.01	9.04	9.98
S&P/ASX 200	3.04	7.56	2.14	8.27	4.30	5.22
All Industrials Accumulation	3.26	6.65	2.64	7.76	7.70	10.27
All Resources Accumulation	3.30	16.36	11.43	40.70	15.01	8.38
All Industrials	2.97	5.52	0.43	3.03	2.81	5.28
All Resources	3.30	16.35	9.44	35.86	11.16	4.69
S&P/ASX 100 Accumulation	3.46	8.45	4.22	12.05	8.57	9.82
S&P/ASX Small Ordinaries All Accumulation	1.06	7.67	4.67	24.25	15.01	11.56
International Shares						
MSCI World Index Hedged in A$	0.25	3.09	0.24	9.42	7.66	10.59
MSCI World Index (A$ Unhedged)	2.15	5.08	4.94	13.21	7.86	12.45
MSCI Emerging Markets (A$ Unhedged)	-2.35	-5.05	-2.46	9.87	4.67	7.01
Regional Markets (local currency returns)						
Dow Jones	-0.59	0.70	-1.81	13.69	11.27	10.24
S&P 500	0.48	2.93	1.67	12.17	9.63	11.10
Toronto Comp	1.35	5.92	0.42	7.22	3.80	6.06
Nikkei	0.46	3.96	-2.02	11.34	3.30	10.28
STOXX® Europe 600 Net Return	-0.63	3.97	-0.35	2.94	2.71	8.86
German Dax	-2.37	1.73	-4.73	-0.16	3.98	9.11
FTSE 100	-0.53	8.22	-0.66	4.43	5.41	4.21
Hang Seng	-4.97	-3.78	-3.22	12.38	3.32	6.84
NZSE 50	2.94	6.85	4.69	13.27	11.45	10.33
Property						
S&P/ASX 200 Property Trust Accumulation	2.19	10.04	2.99	13.04	9.70	12.01
Cash and Bonds						
Bloomberg Composite Bond All Maturities	0.50	0.83	1.71	3.10	3.42	4.39
Bloomberg Bank Bill Index	0.14	0.48	0.91	1.77	1.94	2.22
Citigroup World Government Bond Index Hedged	0.37	0.16	0.79	2.34	3.89	5.04
Citigroup World Government Bond Index Unhedged	2.12	0.33	4.86	5.79	4.18	5.53

Source: IRESS, Bloomberg, MWM Research, July 2018

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