

Monthly Market Snapshot

JUNE 2019

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets

FRONTIER
ADVISORS



Market Commentary

The past financial year saw an overall slowdown of global economic growth, particularly in Europe, Japan and China, with global trade and manufacturing activity slowing notably. Heightened trade tensions has been a key issue throughout the year, despite hopes that a negotiated settlement will be reached between the US and China. In Australia, house prices falling as the construction boom peaked saw weakness in consumer spending. However, exports were very strong, producing the largest trade surplus since the 1970s, driven by the iron ore price which almost doubled over the year. Conversely, the oil price fell over the year in response to slower global growth.

There has been a major shift in monetary policy over the year, from tightening to an expectation of easing in the future. The US Federal Reserve Bank (the Fed) has moved from increasing rates in 2018 to now expecting to be cutting rates, and the European Central Bank (ECB) has halted quantitative tightening and now expects to retain negative interest rates for a longer period. In Australia, the RBA has moved from an expectation that the next move would be a rate rise to cutting rates. Central banks have been able to move to easing because inflation remains low, below target levels.

The US Fed was a key driver of the volatility in equity markets over the year. Equity markets fell sharply in late 2018 when further tightening was expected, but then rebounded strongly in 2019 to date as the Fed indicated more supportive policy action going forward. The result over the 12 months, was a solid positive return from US equities, while weaker economies, Europe and Japan, produced a small positive and negative return respectively for the year. UK equities were also negative, as the Brexit process remained unresolved and a new Prime Minister appointed in July. Emerging market equities produced a small positive return for the year, weighed down by trade concerns and weaker commodity prices.

Australian equities have been a standout performer over the financial year. Resources stocks have been particularly strong, benefiting from the rise in the iron ore price, but the price rises have been supply side driven (e.g. constraints in Brazil) that are expected to be temporary. Australian banks recovered late in the year as the cut in rates and the Federal election result contributed to signs that house prices are now stabilising.

Bonds, particularly Australian bonds, provided strong returns over the year. The change in monetary policy stance saw bond yields fall significantly globally, with Australian and Euro bonds at historically low yields. Australian bond yields are now materially lower than in the US, which has rarely occurred in history.

The Australian dollar fell over the year, supporting unhedged international equity returns. The US dollar and Japanese yen were the strongest currencies, while the British pound was relatively weak given ongoing Brexit uncertainty.

In the June month, the highly anticipated G20 meeting held in Osaka resulted in a declaration of another trade truce, with Trump agreeing to hold off additional tariffs on China and allowed US companies to resume sales to Huawei Technologies. Equity markets responded positively to the news, producing strong returns across regions. However, this is not significant progress and the ongoing uncertainty will continue to be a key driver of markets going forward.

Domestically, the RBA lowered the cash rate by 25 basis points. Employment growth has moderated, consumption growth is muted and housing construction is falling but there are initial signs that house prices are stabilising.

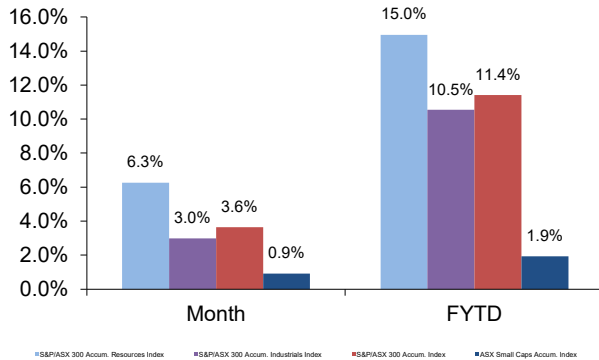
Bond yields fell further across the globe in June, producing positive bond returns for the month.

The Australian dollar increased against the US dollar over the month, even though the RBA cut rates, as market expectations of the US Fed cutting rates increased.

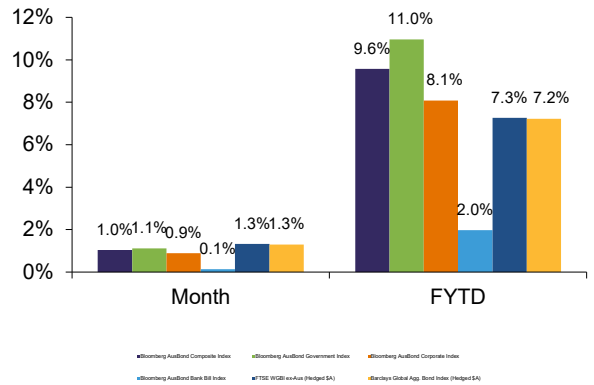
June 2019



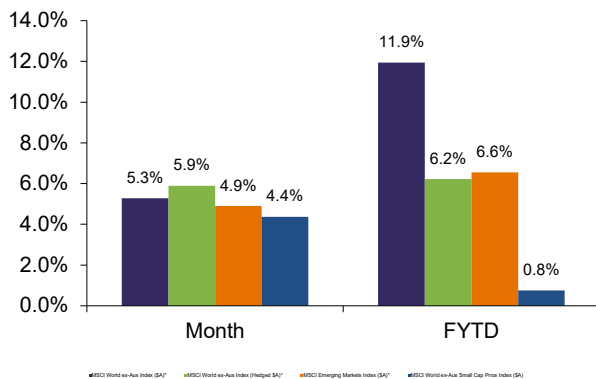
Australian Equities



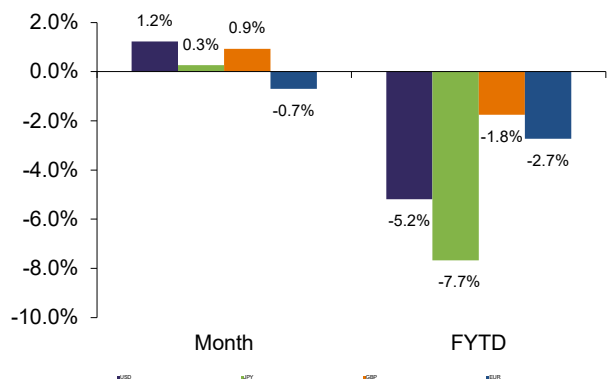
Fixed Income



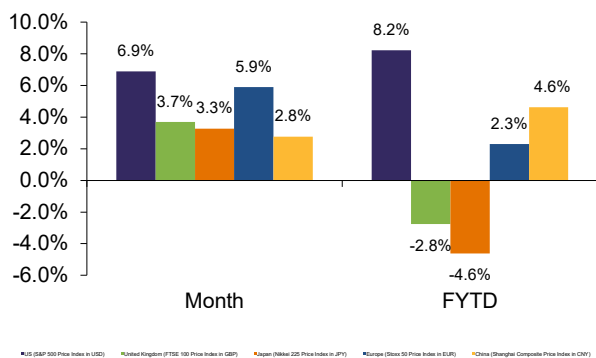
International Equities (\$A)



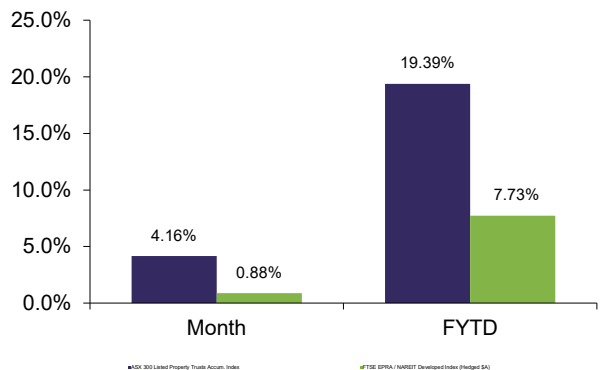
Australian Dollar



International Equities











Property



Source: Bloomberg

Details of the indexes are in the table on the next page

June 2019

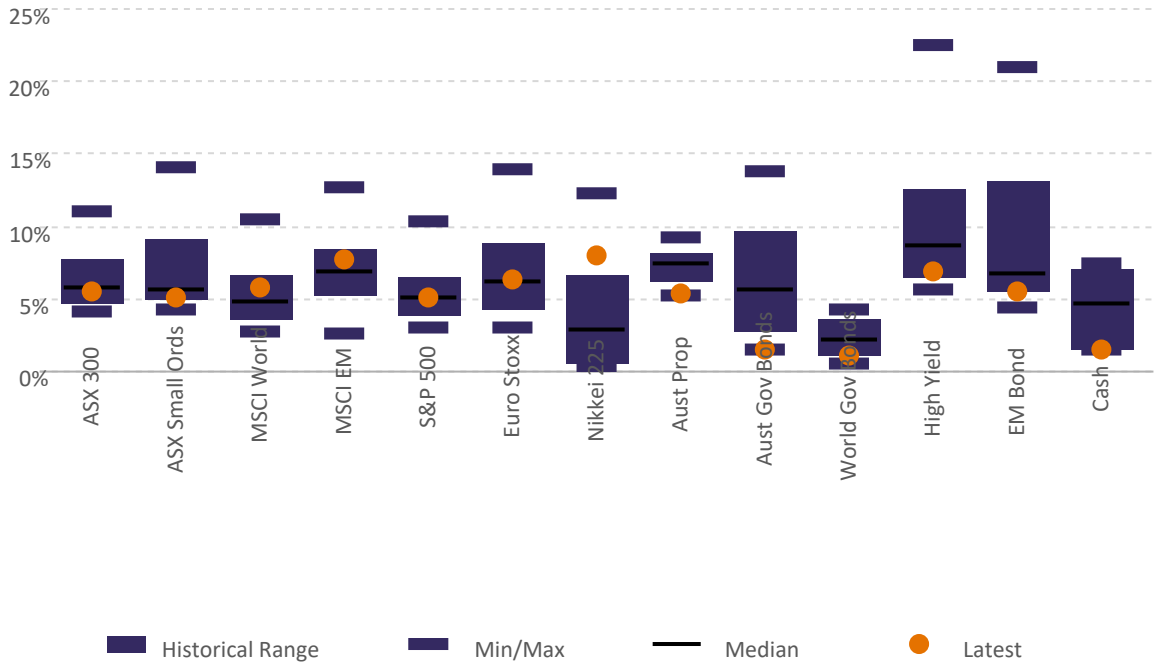
	Index value	Month	3 months	FYTD	1 year
Australian Equities					
 S&P/ASX 300 Accum. Index	69,385	3.6%	8.0%	11.4%	11.4%
S&P/ASX 300 Accum. Industrials Index	136,017	3.0%	8.9%	10.5%	10.5%
S&P/ASX 300 Accum. Resources Index	31,283	6.3%	5.0%	15.0%	15.0%
ASX Small Caps Accum. Index	8,297	0.9%	3.7%	1.9%	1.9%
International Equities					
 MSCI World ex-Aus Index (\$A)*	10,160	5.3%	5.2%	11.9%	11.9%
MSCI World ex-Aus Index (Hedged \$A)*	1,763	5.9%	3.4%	6.2%	6.2%
MSCI Emerging Markets Index (\$A)*	702	4.9%	1.8%	6.6%	6.6%
MSCI World ex-Aus Small Cap Index (\$A)	590	4.4%	2.6%	0.8%	0.8%
US (S&P 500 Index in USD)	2,942	6.9%	3.8%	8.2%	8.2%
United Kingdom (FTSE 100 Index in GBP)	7,426	3.7%	2.0%	-2.8%	-2.8%
Japan (Nikkei 225 Index in JPY)	21,276	3.3%	0.3%	-4.6%	-4.6%
Europe (Stoxx 50 Index in EUR)	3,474	5.9%	3.6%	2.3%	2.3%
China (Shanghai Composite Index in CNY)	2,979	2.8%	-3.6%	4.6%	4.6%
AUD versus ...					
 USD	0.70	1.2%	-1.1%	-5.2%	-5.2%
JPY	75.54	0.3%	-3.8%	-7.7%	-7.7%
GBP	0.55	0.9%	2.1%	-1.8%	-1.8%
EUR	0.62	-0.7%	-2.2%	-2.7%	-2.7%
Property					
 ASX 300 Listed Property Trusts Accum. Index	57,773	4.2%	4.1%	19.4%	19.4%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,792	0.9%	-0.5%	7.7%	7.7%
Oil and Commodities					
 Crude Oil (\$/bbl)	58	9.3%	-2.8%	-21.1%	-21.1%
Copper Spot (\$/tonne)	5,982	3.0%	-7.8%	-9.7%	-9.7%
Gold Spot (\$/ounce)	1,414	7.8%	8.4%	9.5%	9.5%
Australian Fixed Interest					
 Bloomberg AusBond Composite Index	10,176	1.0%	3.1%	9.6%	9.6%
Bloomberg AusBond Government Index	10,686	1.1%	3.4%	11.0%	11.0%
Bloomberg AusBond Corporate Index	10,402	0.9%	2.7%	8.1%	8.1%
Bloomberg AusBond Bank Bill Index	8,940	0.1%	0.4%	2.0%	2.0%
Global Fixed Interest					
 FTSE WGBI ex-Aus (Hedged \$A)	2,469	1.3%	2.9%	7.3%	7.3%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	1.3%	2.7%	7.2%	7.2%
Fixed Income (yields) as at ...					
 Australia Bank Bill	30-Jun-19	31-May-19	31-Mar-19	30-Jun-18	30-Jun-18
Australia 10-Year Government Bond	1.21	1.42	1.77	2.10	2.10
US 10-Year Government Bond	1.32	1.46	1.78	2.63	2.63
UK 10-Year Government Bond	2.01	2.12	2.41	2.86	2.86
Germany 10-Year Government Bond	0.83	0.89	1.00	1.28	1.28
Japan 10-Year Government Bond	-0.33	-0.20	-0.07	0.30	0.30
	-0.16	-0.09	-0.08	0.04	0.04

Source: Bloomberg

*Net dividends reinvested

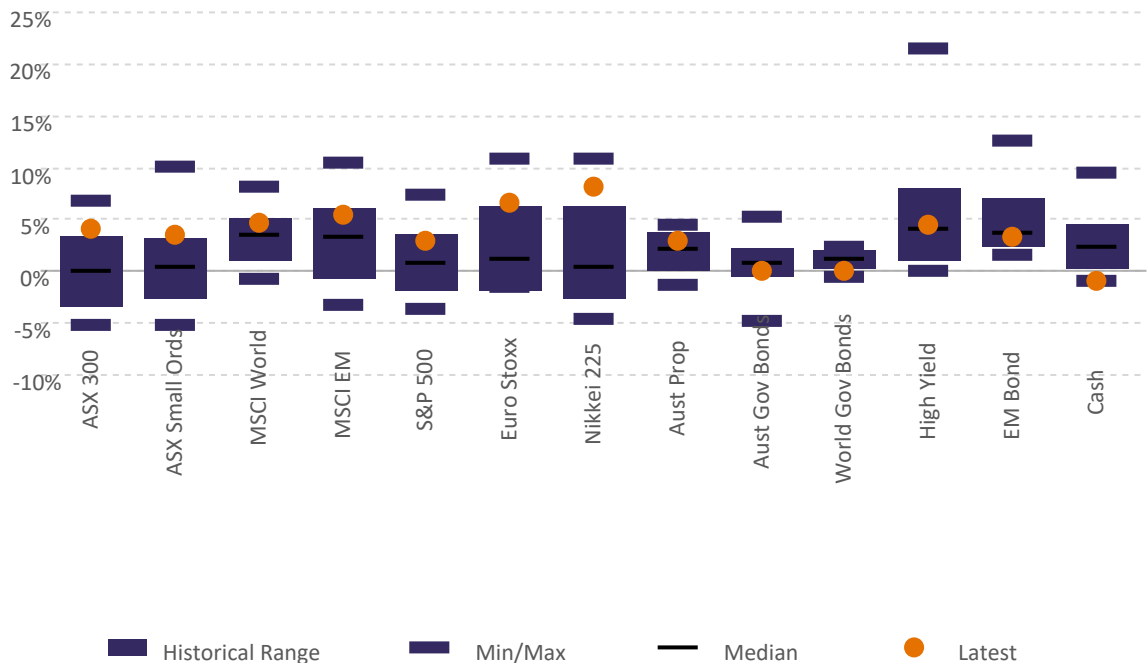
Asset Class Yields Relative to History

Current Yields (equities earnings)



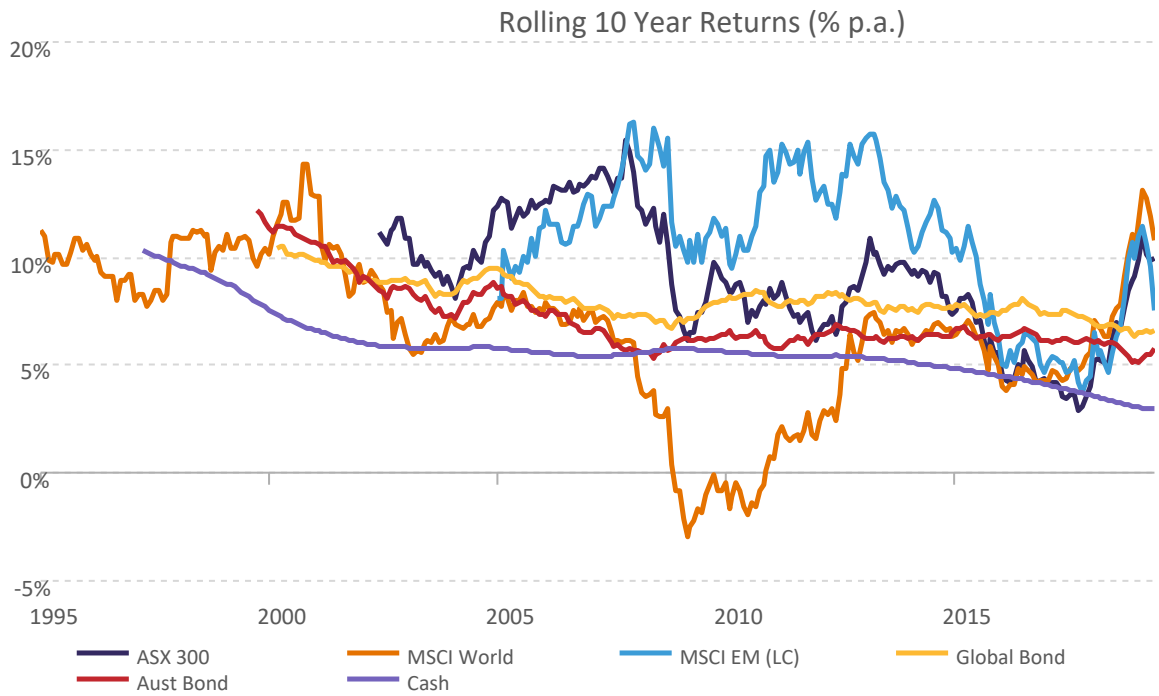
Source: Thomson Reuters Datastream

Relative Yields (vs bond or cash yield)

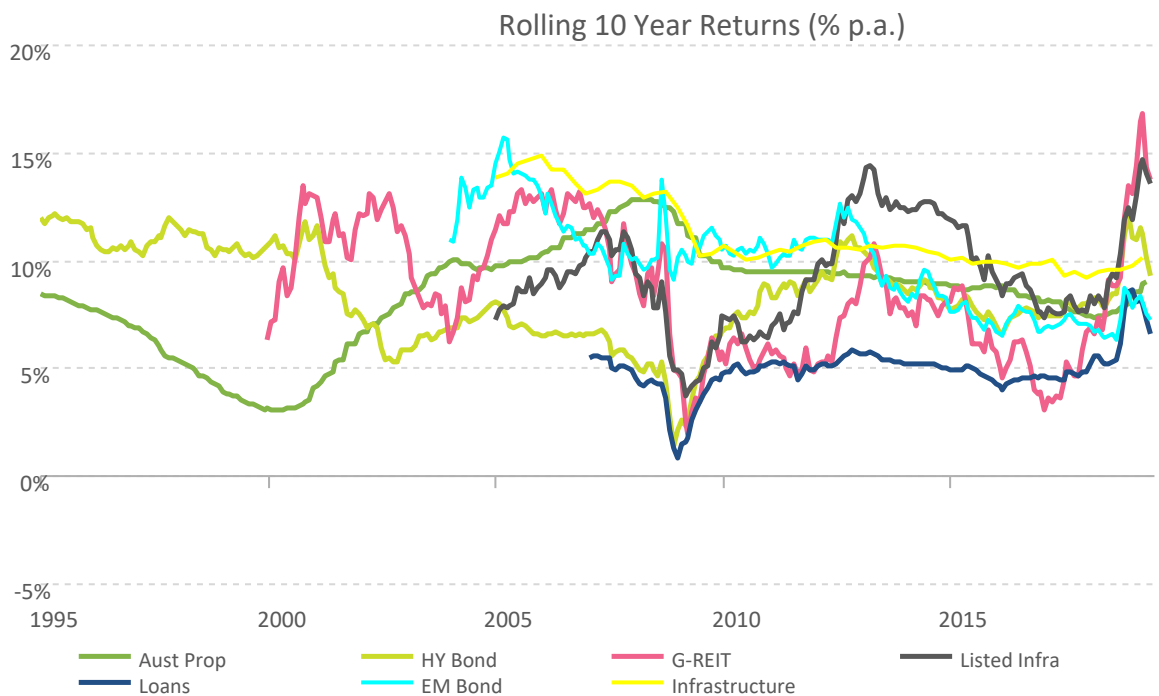


Source: Thomson Reuters Datastream

Asset Class Long-Term Returns



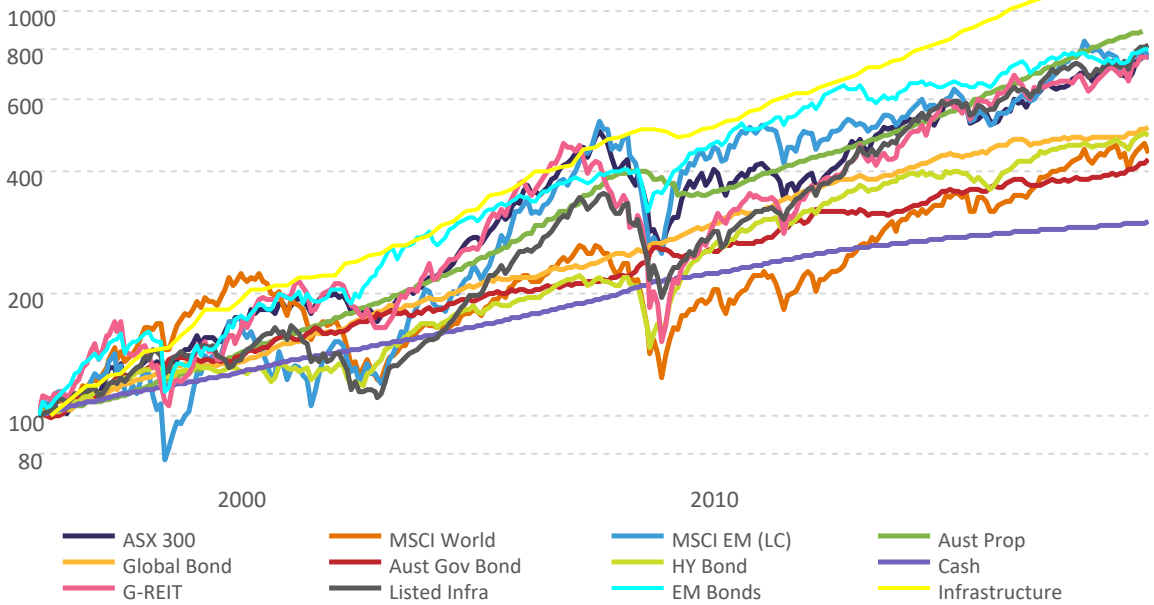
Source: Thomson Reuters Datastream



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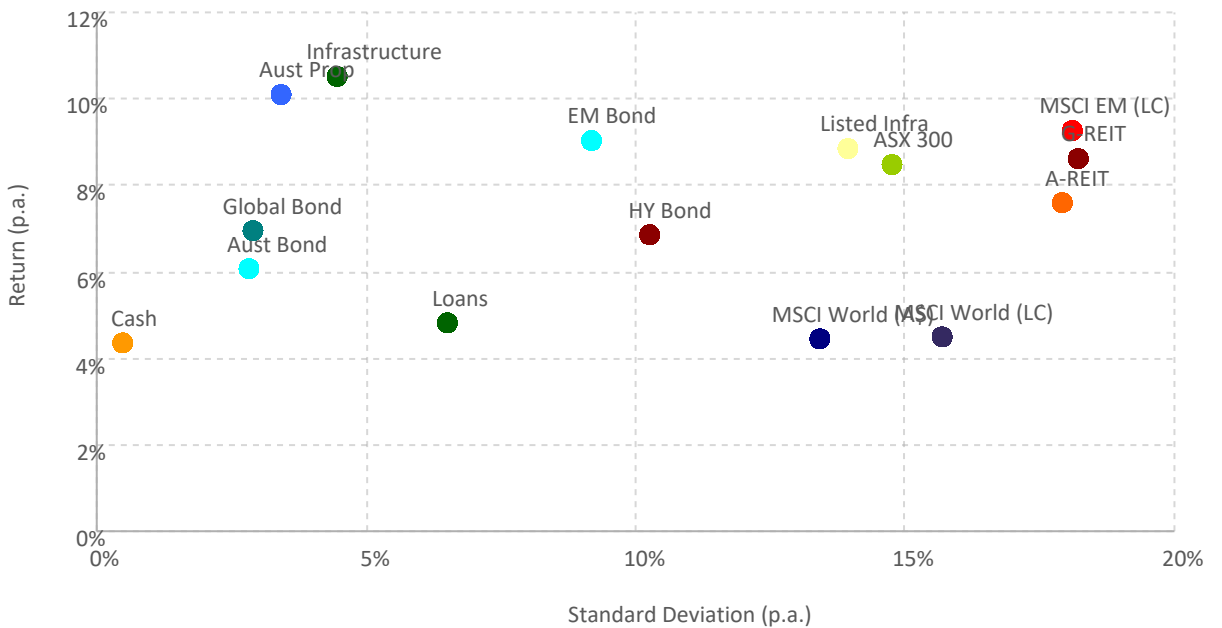
Asset Class Long-Term Returns

Cumulative Values since 1/1/1996 (\$100 reinvested)



Source: Thomson Reuters Datastream

Return-Risk Profile over 20 Years (p.a.) to May 19



Source: Thomson Reuters Datastream

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