

# MONTHLY SUMMARY

## MARKET SUMMARY

- **Equities: Same theme, different month** – International markets were once again propped up by US Mega-tech stocks. In local currency terms, the ASX200 (+1%) underperformed the US S&P500 (+3.5%), the MSCI World ex Australia Index (+2%) and the MSCI Asia Pacific ex Japan Index (+3.5%). The Nasdaq powered ahead rising another 6%, while the Indian (+6.8%), Korean (+6.1%) and Taiwanese (+9.3%) equity markets all rallied strongly. Europe underperformed, dragged down by the French market which fell 6.2% following a surprise snap legislative election announcement. In AUD terms, the MSCI World ex Australia Net Total Return Index rallied 1.53%.
- **ASX contributors** – In Australia, the best performing sectors were Financials ex property (+5.1%), Consumer Staples (+4.6%) and Utilities (+4.6%). Conversely, the worst performers were Materials (-6.5%), Energy (-1.6%) and Industrials (0.2%). Chinese growth concerns weighed on commodity prices hurting resource companies. Large caps outperformed small caps. Taking market capitalisation (size) into account, the top ASX200 contributors were the major banks and CSL. Conversely the major miners and Lithium producers weighed on the market. Globally, IT, Communication Services and Consumer discretionary sectors performed best.
- **Bonds rallied** – US & Australian 10-year bond yields both fell 10bp to 4.40% and 4.31% respectively. However, at the front end of the curve bond yields in Australia rose (indicative of the higher inflation reading locally) whereas they fell in many other developed markets. Most yield curves remain inverted indicative of rate cut expectations over the medium term.
- **Australian Economic data** – The RBA kept rates steady at 4.35%, however the market quickly priced in a ~50% chance of a rate hike following a higher-than-expected inflation reading (4% year-on-year vs 3.8% expected) versus only a 5% chance of a hike earlier in the month. The divergence in rate moves for the RBA relative to other central banks (who are more likely to cut rates) is notable. Employment rose by 40k in May and the unemployment rate dropped marginally to 4%. Housing prices continued to increase in June (+0.7% month-on-month) supported by tight supply recently impacted by the rising level of building construction insolvencies. The AUD/USD appreciated by 0.3% to 66.70c.
- **Global economy** – US rates were unchanged at 5.5%. The USD remained firm. US inflation remained well behaved (CPI at 3.3% year on year). Non-farm payrolls rose 272k and the unemployment rate rose a touch to 4%. The market retained its view that there would be two rate cuts by year-end in the US. US Consumer confidence fell, retail sales softened, and housing activity data was weak. Despite revising up its inflation and wage forecasts, the European Central Bank cut rates 25bp to 3.75%. While in China, Fixed Asset Investment rose 4% in May with infrastructure and manufacturing continuing to offset the negative property trends. Property data in China continues to show broad weakness in sales, construction activity and home prices.
- **Ex Energy, Commodities fell on poor Chinese sentiment** - The LME Metal index fell 4.6% led by Nickel which sank 13.4%. Iron ore fell 8% to US\$106/t and wheat plummeted 18%. Oil bucked the trend rising 6%.
- **Earnings and valuations** – In aggregate, ASX200 12-month-forward earnings were marginally positive. The ASX200 remains mildly expensive with the price to earnings (PE) multiple of 16.6x above long-term average levels (15x). Globally, earnings expectations rose (+0.8%). Interestingly, earnings expectations for the Russell 2000 (US small caps) rose 4.3%.