GODFREY PEMBROKE

market update

- Continued improvement in US economic growth following a revised down Q1 GDP of -2.9%.
- European economic data impacted by the Iraq civil war crisis.
- Chinese economy stabilising, with manufacturing data at a six month high.
- Australian economic data suggests interest rates will be on hold well into 2015.

What's inside?

June market performance

Equity Markets – Price Indices	Index	At Close 30/06/2014	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5382.03	-1.7%	12.7%
Japan	Nikkei	15162.10	3.6%	10.9%
Hong Kong	Hang Seng	23190.72	0.5%	11.5%
UK	FTSE 100	6743.94	-1.5%	8.5%
Germany	DAX	9833.07	-1.1%	23.5%
US	Dow Jones	16826.60	0.7%	12.9%
EMU*	Euro 100	1053.90	-0.6%	23.3%
World**	MSCI – Ex Aus (Gross)	1245.26	1.3%	19.6%
Property – Price Index	**Index**	**At Close 30/06/2014**	**% Change 1 Month**	**% Change 12 Months**
Listed Trusts	S&P/ASX 300 A-REITS	1052.50	0.6%	3.9%
Interest Rates		**At Close 30/06/2014**	**At Close 31/05/2014**	**At Close 30/06/2013**
Aust 90 day Bank Bills		2.69%	2.70%	2.82%
Australian 10 year Bonds		3.54%	3.66%	3.76%
US 90 day T Bill		0.03%	0.03%	0.03%
US 10 year Bonds		2.53%	2.48%	2.49%
Currency* **		**At Close 30/06/2014**	**% Change 1 Month**	**% Change 12 Months**
US dollar	A$/US$	0.94	1.41%	3.11%
British pound	A$/STG	0.55	-0.51%	-8.53%
Euro	A$/euro	0.69	1.07%	-2.11%
Japanese yen	A$/yen	95.62	0.97%	5.16%
Trade-weighted Index		72.00	0.70%	0.84%

* Top 100 European stocks trading on the FTSE
** Price Index – **Source:** msci.com
*** All foreign exchange rates rounded to two decimal places **Source:** FactSet.
Past performance is not a reliable indicator of future performance.

Global economies

As we reach the middle of 2014, there are further signs that global synchronised economy growth is gaining traction.

Although the US Federal Reserve has revised down its economic growth projections for 2014 and 2015, the US economy is recovering from the extremely weak, weather related, Q1 GDP growth in 2014.

After a sluggish economy in the early part of 2014, China is also showing signs of stabilising, with improved June Purchasing Managers' Index data. This stabilisation reflects the impact of the recent targeted stimulus program.

The June Eurozone manufacturing data was weaker than expected, largely due to oil price increases and uncertainties created by the Iraq civil war crisis.

At this point in the year, Australian economic growth remains below trend. The RBA has kept the cash rate at 2.5% in July, and it's anticipated that interest rates will remain at this level well into 2015.

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US

The June US manufacturing data was consistent with an improving economy, delivering the highest index reading since May 2010 with new orders rising sharply.

In the US the Federal Reserve Chairperson, Janet Yellen, has indicated that interest rates will remain near zero for an extended period.

The Government has indicated it will dial down its Treasury purchases to US$35b, commencing 1 July 2014 with the intention to have this program finished by year end 2014.

Q1 US GDP was revised down to -2.9%. This was the biggest quarterly drop since Q1 2009 and the largest downward revision since 1947.

Existing home sales were significantly stronger than expected in May (+4.9%). April results were revised up to 1.5% from 1.3%, with gains led by the single family sector.

US Non-farm payrolls continued to improve (+288k); with the unemployment rate declining to 6.1% from 6.3% with an unchanged participation rate.

The housing data provides more evidence of a revival from the winter-weather hit, though it's too early to conclude that the housing sector is back to good health.

Europe

Over to the Eurozone, the June Purchasing Managers' Index data disappointed. This related to both the manufacturing and service sectors. France's manufacturing data continued its recent weaker trend, while Germany's rose marginally. The decline was mainly due to a drop in optimism in the industry and construction sectors, and a drop in consumer spending.

Other factors that have weighed on Eurozone growth include the fears that fighting in Iraq would push oil prices higher, as well as concerns of further escalation in the Ukraine crisis.

The European Central Bank (ECB) has introduced a raft of measures aimed at stimulating the Eurozone economy, including negative interest rates and cheap long-term loans to banks. It cut its deposit rate for banks, from zero to -0.1%, to encourage banks to lend to businesses rather than hold on to money.

The ECB is the first major central bank to introduce negative interest rates. The ECB also cut its benchmark interest rate to 0.15% from 0.25% and also indicated that further stimulus would occur if required.

In contrast, June UK manufacturing data was stronger with all the key components showing improvement. The UK has had one of its best quarterly manufacturing performances over many years. Interestingly, production levels have risen strongly, and order books have increased while job creation is at its highest for over three year.

China

China's factory growth rose to a six-month high in June, with improving domestic and foreign demand. This recent Purchasing Managers' Index data is indicative of stabilisation, adding to signs that the economy is regaining strength after an unsteady start to 2014.

Growth in factory output, retail sales and fixed asset investment all improved with retail sales recording its best gains in five months.

With both domestic and external demand expanding, it's expected that the recent stimulus will continue to support a recovery in the economy.

If necessary, further accommodative policy initiatives can be expected. Government officials have indicated that the Chinese economy will not suffer a hard landing, and will continue to grow at a medium to high pace in the long term without strong stimulus.

China has set an annual target for economic growth of around 7.5 % in 2014.

These trends remain in line with NAB expectations, and as such, NAB forecasts for Chinese economic growth are unchanged at 7.3% in 2014 (before slowing to 7% in 2015).

Asia region

Japanese manufacturing activity expanded in June, a sign that domestic demand has quickly recovered from a sales tax increase at the start of April.

The tax hike caused a dip in consumer spending and factory output, but the economy is showing signs that it will quickly bounce back.

Manufacturing Purchasing Managers' Index in Japan increased to 51.1 in June.

Australia

Recent consumer sentiment data has shown some recovery following the impact from the May Federal Budget.

At its July meeting, the RBA left the cash rate unchanged at 2.50%. It retained a neutral bias, identifying that 'the most prudent course is likely to be a period of stability in interest rates'.

It's expected that the economy will grow below trend and the RBA prefers a lower $A.

Resource sector investment spending is starting to decline significantly and the inflation outlook is benign, with the economy at sub-trend growth.

Interestingly, the June house price data showed solid rises in home prices across Sydney (1.7%) and Melbourne (1.8%). The lower interest rates are certainly increasing housing demand and will provide an important component to growth in the Australian economy.

It's anticipated that the renewed house price momentum will keep the RBA on a rate hold.

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Equity markets

Global markets had a solid month with the MSCI ex-Aust up 1.3%.

Japan was the standout equity market, up 3.6% in June.

Australia, UK and Germany were the worst equity market performers, down -1.7%, -1.5% and -1.1% respectively.

Australian equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 Acc.	17.25%	9.95%	10.95%	2.10%
	S&P/ASX 50 Acc.	17.29%	11.69%	11.94%	3.47%
	S&P/ASX Small Ordinaries Acc.	13.11%	-2.94%	3.43%	-5.51%

The S&P/ASX 300 Accumulation Index had a disappointing month in June, declining by -1.45%.

The S&P/ASX All Ordinaries Index was down -1.7% in June.

For the 12 months to 30 June 2014, the S&P/ASX 300 Accumulation Index posted a solid gain of 17.25%; while the large market caps, comprising the S&P/ASX 50 Accumulation Index, had a similar performance, returning 17.25%.

The Consumer Staples and Healthcare sectors were the worst performing sectors in June, declining -4.5% and -3.2% respectively. Property and Utilities were the best performing sectors, increasing 3.3% and 1.1% respectively. Overall, the performance of the ASX sectors was disappointing with most sectors down sharply.

Sector	1 Mth	3 Mths	1 Yr
Energy	-1.2%	5.1%	17.5%
Materials	-1.4%	-3.1%	18.1%
Industrial	-2.6%	-0.1%	16.1%
Consumer Discretionary	-1.8%	-1.6%	17.5%
Consumer Staples	-4.5%	0.3%	6.0%
Health Care	-3.2%	-1.9%	10.7%
Financials (ex Property)	-1.1%	1.2%	21.9%
Info Tech	-1.6%	-0.2%	13.6%
Telcos	-2.7%	1.7%	15.6%
Utilities	1.1%	7.3%	17.2%
Property	3.3%	9.2%	11.1%

Global equities

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Global	MSCI World Ex Aus Acc. ($A)	22.52%	13.78%	15.21%	3.50%
	MSCI World Index Hedged ($A)	21.95%	13.26%	14.93%	2.49%
	MSCI World Small Cap ($A)	24.03%	17.84%	15.81%	4.29%
Emerging	MSCI Emerging Mkts Free	14.10%	4.43%	9.89%	3.91%
	MSCI AC Far East Free (ex Japan)	13.45%	4.17%	10.01%	0.04%

The MSCI World (ex-Australia) Accumulation Index posted a solid return in June, up 1.3%.

The Japanese Nikkei Index was the outstanding equity market, up 3.6% in June.

Australia was the worst performing market in June. Apart from Australia, down -1.7%, the UK market also under performed, down -1.5%.

Over the 12 months to 30 June 2014, the German DAX was the best of the major equity markets, up 23.5%.

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Big movers this month

- ↑ Property +3.3%
- ↓ Consumer Staples -4.5%
- ↓ Healtchare -3.2%

Australian dollar (AUD)

In June, the Australian Dollar (AUD) was up relative to the four major currencies. The AUD increased 1.3% against the US Dollar (USD) to finish the month at 94.32 US cents. Over the past 12 months the AUD has increased against the USD, by 3.23%.

In June, the AUD gained 0.88% against the Euro. On a 12 month basis, the AUD was down -1.89% against the Euro.

Against the Japanese Yen, the AUD was up 0.85% in June. On a 12 month basis, the AUD was up 5.22% against the Yen.

Against the British pound, the AUD was down 0.77%. On a 12 month basis, the AUD was down -8.22% relative to the British pound.

Property

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	S&P/ASX 300 A-REIT Acc	11.08%	15.19%	14.26%	-4.93%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	15.67%	13.65%	19.84%	3.14%

In June, the S&P/ASX 300 A-REIT Accumulation Index posted a strong gain of 3.35%, significantly outperforming the broader Australian market.

On a 12 month rolling basis, property continues to underperform compared to the ASX 300 Accumulation Index. In fact, the 12 month return for the S&P/ASX 300 A-REIT Accumulation Index is around 6% lower than the ASX 300 Accumulation Index.

Over the 1 year period, Global REITs have outperformed Australian REITs. Over a 3 year period, global property has underperformed the Australian listed property sector. Over a 5 year period, global property has outperformed the Australian property. Global property, as represented by the FTSE EPRA/NAREIT Index was up 15.67% over the rolling one year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Yr	3 Yrs	5 Yrs	7 Yrs
Australian	UBS Composite 0 + Years	6.09%	7.02%	6.89%	7.08%
	Australian 90 Day Bank Bill	2.64%	3.41%	3.83%	4.46%
Global	BarCap Global Aggregate Index	4.15%	6.97%	1.41%	3.88%
	BarCap Global Agg. Index Hedged	7.76%	7.94%	8.44%	8.58%

US 10-year bond yields were up 2.2% in June, closing the month at 2.5%. Australian 10-year bond yields were down -3.17% and closed the month at 3.5%.

Australian bonds rebounded after a poor June. For the month, the UBS Composite Bond All Maturities Index was up 1.37%.

Global bonds, as measured by the Barclays Capital Global Aggregate Index, posted positive returns for the month of June. The unhedged index posted a small gain of 0.14%, while the hedged equivalent had a solid positive return of 1.17%.

On a 12 month basis, Australian bonds returned -5.86%, but underperformed relative to unhedged global bonds that were up 4.15%. Hedged global bonds were also higher returning 7.76%.