

# Economic update

5 August 2015



**Myooran Mahalingam**  
Portfolio Manager  
Global Equities and Listed Property

*Myooran reviews events in Australian and overseas markets during July.*

## How did markets perform in July?

What a difference a month makes. In June, financial markets were consumed by fears of a Greek exit from the eurozone - news that saw share markets fall around the globe. July was a contrast to June, with the formulation of a last minute deal that saw Greece remain in the eurozone. As a result, July was a good month for investors with gains recorded by most of the world's major share markets. But, there were pockets of market declines in July.

The S&P/ASX 200 Index, a measure of the Australian share market, gained 4.4% in the month of July, recovering some of the 5.3% decline in June. Despite the rally, the S&P/ASX 200 Index remains 1.6% below where it was three months ago, as weakening commodity prices caused resource stocks to weigh on index levels. Among the sectors, Health Care was the standout, rising 9.6% in accumulation terms as a sharply lower Australian dollar (AUD) benefitted the globally exposed sector. A selloff in commodity prices weighed on the Resources sector (-1.7%).

The MSCI All Country World index - the global share market benchmark - rose 5.6%, whilst the MSCI Emerging Markets Index fell 2.5% (unhedged in AUD terms). The global share market benefitted from better than expected company earnings in the US and Europe. Among the larger stock indices, the STOXX Europe's 600 Index led performance (+4.0%), while the UK's FTSE 100 Index was up 2.7%, US S&P500 Index was up 2.0% and Japan's Nikkei 225 Index was up 1.7%. All these numbers are in local currency terms. In contrast, a sharp downturn in the Shanghai Composite Index, including a one day fall of 8.5% (the biggest in eight years), weighed on the performance of emerging markets.

It is noteworthy that July saw another decline in the AUD, as it reached a six year low, falling 4.8% against the US dollar.

There were sizeable movements in the commodity markets. The most noteworthy was the 21% decline in the West Texas Intermediate oil price in July 2015. Spot gold declined 6.5% in July, with the commodity price falling for six consecutive weeks to the lowest level since March 2010.

On the economic front, the Reserve Bank of Australia kept cash rates on hold at 2.0%, but they have now removed the wording around wanting a lower AUD. All eyes meanwhile are on the US, with the key question being whether their Central Bank will raise interest rates in September of this year. In Europe, at its July board meeting, the European Central Bank opted to keep key interest rates on hold, and their asset purchase programme - a form of stimulus - remains intact.

## What were the key factors driving global markets?

Concerns that Greece would default on its end of month loan repayment to the International Monetary Fund (and possibly leave the eurozone) unsettled markets in June. These concerns were alleviated as a last minute deal was formulated that enabled Greece to get vital additional funding and remain in the eurozone. This buoyed markets in July. The reality is that Greece's problems have not been resolved - their debt levels are still at unsustainable levels and they are effectively "kicking the can down the road". So, this is not the end of the Greek saga. That's why investors should be prepared for more market volatility.

The other feature was the continued market volatility in China, with wild intra-day movements witnessed, even despite some strong Governmental intervention to prop up the share market.

## How are MLC's portfolios positioned?

We remain in a highly uncertain investment environment. Therefore we're placing a greater emphasis on controlling risk in our portfolios as opposed to return generation.

We continue to be concerned about stretched share market valuations and the continuing high levels of debt in the global economy. And there are particular vulnerabilities for Australia flowing from slower and less investment intensive growth in China. Therefore we continue to position our portfolios defensively.

---

### Important information

This information is provided by MLC Investments Limited (ABN 30 002 641 661 AFSL 230705) as Responsible Entity, a member of the National Australia Bank group of companies, 105–153 Miller Street, North Sydney 2060.

This information may constitute general advice. It has been prepared without taking account of individual objectives, financial situation or needs and because of that you should, before acting on the advice, consider the appropriateness of the advice having regard to your personal objectives,

You should obtain a Product Disclosure Statement (PDS) relating to the financial products mentioned in this communication issued by MLC Investments Limited (ABN 30 002 641 661), and consider it before making any decision about the product. A copy of the PDS is available upon request by phoning the MLC call centre on 132 652 or on our website at [mlcinvestmenttrust.com.au](http://mlcinvestmenttrust.com.au).

An investment in any financial product offered by MLC Investments Limited is not a deposit with or liability of, and is not guaranteed by National Australia Bank Limited or its subsidiaries (NAB). NAB does not guarantee or otherwise accept any liability in respect of any product offered by MLC Investments Limited.

Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. The performance returns reported in this communication is before management fees and taxes.

While MLC Investments Limited has taken all reasonable care in producing this communication, subsequent changes in circumstances may occur and impact on its accuracy.