

AUGUST 2016

- ▶ Following the sell-off in equities after the UK's Brexit decision, equities staged a strong recovery in July, helped by expectations of more central bank stimulus measures in the major economies.
- ▶ Crude oil prices fell 14% on renewed concerns about oversupply.
- ▶ China economic data continued to show that the government stimulus measures are supporting the economy.
- ▶ US economic data was somewhat mixed. June non-farm payrolls figures recovered from the very low reading in May but GDP growth in the second quarter was slower than expected.
- ▶ Economic data in Europe has continued to be fairly good with moderate economic growth but recent business and consumer surveys in the UK point to a sharp slowdown in activity in the coming months.
- ▶ Australia's economy is in reasonably good shape with consumers and businesses finding conditions reasonably good but weak inflation and wages growth have prompted the RBA to cut interest rates again to 1.50% in early August.

July market performance

Equity Markets – Price Indices	Index	At Close 31/07/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5643.96	6.3%	-0.7%
Japan	Nikkei	16569.27	6.4%	-19.5%
Hong Kong	Hang Seng	21891.37	5.3%	-11.1%
UK	FTSE 100	6724.43	3.4%	0.4%
Germany	DAX	10337.50	6.8%	-8.6%
US	Dow Jones	18432.24	2.8%	4.2%
EMU*	Euro 100	1018.04	4.6%	-14.7%
World**	MSCI – Ex Aus (Gross) (Hedged)	1316.50	4.0%	-3.1%

Property – Price Index	Index	At Close 31/07/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1518.29	5.3%	18.4%

Interest Rates	At Close 31/07/2016	At Close 30/06/2016	At Close 31/07/2015
Aust 90 day Bank Bills	1.86%	1.96%	2.15%
Australian 10 year Bonds	1.87%	1.99%	2.76%
US 90 day T Bill	0.26%	0.26%	0.07%
US 10 year Bonds	1.45%	1.47%	2.18%

Currency***		At Close 31/07/2016	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	0.76	2.07%	3.50%
British pound	A\$/STG	0.57	2.77%	21.65%
Euro	A\$/euro	0.68	1.41%	2.26%
Japanese yen	A\$/yen	77.89	1.97%	-14.39%
Trade-weighted Index		63.30	1.28%	3.09%

* 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

July was a strong month for equities as investors shrugged off the UK's decision to leave the European Union and companies reported better than expected earnings in the US and Europe. Over the month most of the economic data painted a picture of moderate economic growth, falling unemployment and strong housing construction activity.

US

In the United States, non-farm payrolls rose by 287,000 jobs in June, reversing the very weak reading in May, and more in line with the 200,000 monthly average jobs over the past few years.

Other activity indicators, such as retail sales were also reasonably strong. Over the past three months, retail sales, excluding the more lumpy retail categories, were up 7.4% on an annualised basis, the highest rate of growth in two years.

More recently the second quarter US Gross Domestic Product (GDP) growth figure was disappointing. The economy grew at an annualised rate of 1.2% in the June quarter, which was well below the 2.6% economists had expected. Weakness in business inventories and investment offset what was otherwise strong private consumption growth.

Europe

In Europe, the Euro area economy grew 0.3% in the June quarter, in line with market expectations. Annual growth in GDP did, however, slip marginally to 1.6% year-on-year from 1.7% in the prior quarter. However, the Spanish economy continues to recover strongly with GDP growing 3.2% year-on-year.

In the UK, the GfK consumer confidence survey taken after the Brexit vote saw the index drop the most in 22 years with an eight point decline to an index reading of -9. However, at -9 the index is only just below the 20-year average. Meanwhile in Europe, the European Commission's initial July consumer confidence reading showed consumer sentiment in Europe did not drop much following the Brexit decision. The index fell 0.7 points to -7.9, which is still above the long-run average.

Concerns over the health of the Italian banking sector have continued into July, particularly after the European Banking Authority released details of its stress test which showed several Italian banks were some of the weakest of the 51 European banks tested.

China

In China, the economy continues to perform reasonably well, supported by government stimulus measures and construction activity. GDP grew at 6.7% in the June quarter, slightly ahead of expectations, and industrial production growth picked up to 6.2% year-on-year in June, compared with 6.0% growth in May. Retail sales growth also picked up to 10.6% year-on-year in June, up from 10.0% in May.

Asia region

Japanese economic data continues to show that the economy is struggling to generate growth. Industrial production is down 1.9% over the past year, real household spending is 2.2% lower over the past 12 months and inflation is still in negative territory.

To try to combat the softness in the economy, and the strong Yen which is hurting competitiveness, the government announced a large ¥28 trillion fiscal stimulus package and the Bank of Japan announced it would double its purchases of exchange-traded funds. However, both packages disappointed investors who had hoped for more audacious measures to bolster economic growth.

Australia

In Australia, headline inflation in the June quarter was in line with market expectations with a rise of 0.4% over the quarter (+1.0% year-on-year) compared with a decline of 0.2% in the March quarter. Underlying inflation was a touch higher than expected at 0.5% for the quarter and 1.5% year-on-year but this is below the RBA's 2-3% annual inflation target.

At the August RBA Board meeting, the Board announced a 25 basis point cut in Australia's cash rate to a record low of 1.50%. The Board concluded that the "prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy". The decision to cut rates again, in spite of economic indicators that have generally been strong, and inflation in line with the RBA's own forecasts, suggests that there is a greater risk of further interest rate cuts if inflation remains below the RBA's target range for an extended period.

EQUITY MARKETS

- ▶ The China Shanghai Composite Index rose 1.7% in June.
- ▶ Emerging market shares returned 4.3% in local currency terms with Brazil's Bovespa Index up 11.2%.
- ▶ The German DAX Index was up 6.8%.
- ▶ The broader Euro 100 was 4.6% higher.
- ▶ The Japanese Nikkei Index rose 6.4%.
- ▶ The US Standard & Poor's 500 Index returned 3.7% in July.
- ▶ Australia's S&P/ASX All Ordinaries Index gained 6.3% for the month.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	2.85%	8.06%	9.38%	8.54%
	S&P/ASX 50 Acc.	-1.36%	6.61%	9.72%	8.65%
	S&P/ASX Small Ordinaries Acc.	22.29%	8.72%	2.38%	4.43%

The S&P/ASX 200 Accumulation Index returned 6.3% in July with all sectors posting gains for the month. Consumer discretionary and consumer staples were the best-performing sectors with returns of almost 9% over the month. Small cap shares outperformed larger companies again with a total return of 8.6%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	0.2%	-2.2%	-21.7%
Materials	7.8%	5.2%	6.3%
Industrial	7.2%	8.8%	19.7%
Consumer Discretionary	8.9%	14.8%	22.7%
Consumer Staples	8.5%	3.3%	2.4%
Health Care	7.0%	14.2%	18.3%
Financials (ex Property)	6.0%	4.9%	-7.3%
Info Tech	3.9%	2.8%	2.6%
Telcos	4.2%	8.0%	-1.9%
Utilities	7.0%	17.1%	26.6%
Property	5.4%	12.0%	24.2%

BIG MOVERS THIS MONTH

Going up

↑	Consumer Discretionary	8.9%
↑	Consumer Staples	8.5%
↑	Materials	7.8%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	-3.35%	13.47%	17.07%	11.77%
	MSCI World Ex Aus (Gross) in Local	-0.57%	9.14%	10.96%	11.18%
	MSCI World Small Cap (\$A)	-0.99%	13.89%	17.32%	14.28%
Emerging	MSCI Emerging Mkts Free	0.97%	5.02%	3.43%	5.98%
	MSCI AC Far East Free (ex Japan)	-1.53%	3.92%	2.52%	0.05%

Developed share markets returned 4.1% in July, more than offsetting the losses in June after stocks dropped following the Brexit decision in the UK. In developed markets, German shares had the best return for the month with a rise of 6.8%.

Equity markets were buoyed by reasonably good earnings reports in the US and Europe and investor expectations for more monetary and/or fiscal stimulus in the UK, Japan and Europe.

Emerging market shares rose 4.3% in July helped by gains in Brazil and India. Price-to-earnings ratio valuations in developed markets have returned to the 15-18 times range, with European and Japanese shares at lower multiples than the US and Australian markets. Emerging market shares are trading on around 12.5 times forward earnings.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	24.23%	20.85%	20.85%	17.00%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	12.95%	13.78%	13.44%	16.46%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) was up 5.4% in July and 24.2% over the 12 months to 31 July 2016. The S&P/ASX 300 A-REIT Index was up 5.4% in July and up 18.4% over the past 12 months.

Over one, three, five and seven years, the A-REITs outperformed Global REITs. Currency-hedged global property, as represented by the FTSE EPRA/NAREIT Index, was up 12.95% over a one-year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	6.42%	6.20%	6.54%	6.79%
	Australian 90 Day Bank Bill	2.18%	2.43%	2.93%	3.39%
Global	BarCap Global Aggregate Index	5.75%	8.47%	9.26%	4.55%
	BarCap Global Agg. Index Hedged	8.79%	7.59%	7.58%	8.03%

Australian bonds returned 0.7% in July as 10-year Commonwealth Government bond yields fell by around 10 basis points as investors began pricing in a potential rate cut from the RBA. The 10-year bond yield fell from 2.01% to 1.90% per annum and the two-year bond yield fell from 1.60% to 1.54% per annum.

International bond markets had a mixed month. In markets where yields are in negative territory such as Japan and Germany, yields rose, and in the UK and US which still have positive bond yields, yields were slightly lower. The Barclays Global Aggregate Bond Index (A\$ hedged) returned 0.70% in July.

Australian dollar

The Australian Dollar strengthened by 1.5 US cents to US\$0.76 in July helped by stronger equity and iron ore prices. Other currencies such as the Yen and Euro were largely unchanged against the US Dollar.

Against the US Dollar, the Australian Dollar rose 2.1% for the month, and on a Trade-Weighted Index basis, the Australian Dollar was 1.3% stronger.

The information contained in this Market Update is current as at 8/8/2016 and is prepared by GWM Adviser Services Limited ABN 96 002 071749 trading as ThreeSixty Research, registered office 105-153 Miller Street North Sydney NSW 2060. This company is part of the National Australia Bank Group of Companies.

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