

Markets rallied on rate cuts...

- The rally from December lows resumed in June with most equity markets up for the month.
- Global shares were up 5.9% and 5.3% in hedged and unhedged terms, respectively.
- Domestically, Australian shares lagged international markets this month with 3.7% performance in June.
- Australian communication shares rallied led by strong performance in Telstra ([ASX: TLS](#)) while property-exposed stocks such as REA Group ([ASX: REA](#)) benefitted from falling interest rates and an uptick in property market sentiment.
- The Australian dollar (AUD) rose against major currencies as the prospect of easing monetary policy stances globally saw a bid for the Australian dollar particularly versus the Federal Reserve stance previously to keep rates on hold (which had made the US dollar relatively more attractive).
- Fixed income and bond substitutes such as listed property rose in June both domestically and globally.
- International fixed income was up on the prospect of additional central bank easing. The prospect of falling interest rates makes existing bonds more attractive so much so that almost 25% of the Barclays Global Aggregate is offering a negative yield. Disappointing PMI results added to fears of weaker global growth as well driving bond yields lower.

With disappointing economic news...

Globally

- Chinese economic numbers disappointed expectations with weaker than expected industrial production and manufacturing PMI in contractionary territory.
- Global business surveys pointed to weaker growth with the Markit Global Manufacturing PMI remaining in contractionary territory.
- The US Federal Reserve left interest rates on hold but took a dovish tone in recent remarks and projections seeing markets price in rate cuts (with bond yields falling as a result)

Locally

- The Reserve Bank of Australia (RBA) responded to its labour market concerns and market pricing by cutting rates by 0.25% in early June and again by 0.25% in early July. This confirmed market expectations that saw bonds be bid up and yields fall.
- The unemployment rate remained at 5.2% although employment growth surprised on the upside. Leading business indicators such as the NAB Business Survey and job vacancies still suggest weaker labour markets ahead.
- The Coalition successfully passed its tax reform package in early July. This will see cash tax offsets be offered as part of FY19 tax returns.

- We saw an uptick in sentiment towards property markets continue with the correction in property prices slowing further.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	3.7	11.5	8.9
Global shares (hedged)	5.9	6.2	9.3
Global shares (unhedged)	5.3	11.9	13.2
Global small companies (unhedged)	4.6	2.6	12.2
Global emerging markets (unhedged)	4.9	6.6	8.7
Global listed property (hedged)	0.9	7.7	7.5
Cash	0.1	2.0	2.1
Australian fixed income	1.0	9.6	5.1
International fixed income	1.3	7.2	4.8

Source: Bloomberg & IOOF, 30 June 2019

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance.

Currency markets

Exchange rates	At close on 30/6	1 month change %	1 year change %
USD/AUD	0.70	1.2	-5.2
Euro/AUD	0.62	0.6	-2.6
Yen/AUD	75.7	0.8	-7.7
Trade weighted index	60.1	0.2	-4.0

Source: Bloomberg & IOOF, 30 June 2019. All foreign exchange rates are rounded to two decimal places where appropriate.

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