

## Risk assets faltered

- The rally from December faltered slightly with most equity markets down for the month.
- Global shares** were down 2% and up 0.3% in hedged and unhedged terms, respectively.
- Domestically, **Australian shares** underperformed international markets this month with -2.4% performance in August.
- Australian health care stocks continued to perform strongly with CSL (ASX: CSL) seeing its FY19 results favourably received as the company guided to earnings growth by another 7% to 10% for FY20. This followed 17% growth in FY19 to \$US1.91bn in line with market expectations and even allowed for the short-term hit to profitability of switching to a direct distribution model.
- The **Australian dollar (AUD)** fell against major currencies following another bout of trade-induced fears for global growth. The prospect of a weaker Chinese economy due to harsher tariffs has contributed to speculation against the Australian dollar as has stronger iron ore supply which reduces resource earnings (a key support for the AUD).
- Fixed income and bond substitutes such as **listed property** rose in August both domestically and globally. Unhedged assets outperformed hedged equivalents in line with the depreciation of the AUD.
- International fixed income** continued to rise on the prospect of additional central bank easing and demand for safe haven assets. The prospect of falling interest rates makes existing bonds more attractive so much so that almost 30% of the Barclays Global Aggregate is now offering a negative yield (due to investors bidding prices higher). Weaker US PMI results have stoked fears of weaker global growth as well, driving bond yields lower.

## With disappointing economic news...

### Globally

- US-China trade tensions flared up with new US tariff threats realised in early September with more waiting in the wings.
- These fears have abated somewhat with the restart of trade negotiations between China and the US in October.
- Global business surveys pointed to weaker manufacturing growth with the Markit Global Manufacturing PMI remaining in contractionary territory.

### Locally

- The Reserve Bank of Australia (RBA) remained on hold in early September and reiterated the need for a government response to slowing economic growth.
- The Australian economy grew in line with expectations at 0.5% for the quarter and 1.4% for the year to June 2019.
- This slower rate of growth was driven by weakness in both consumer and business spending as well as a decline in inventories.
- The outlook for growth may see some room for an uptick from these levels given still strong resource demand as well as the full impact of the RBA rate cuts and government tax refunds to be felt in the September quarter. That being said we continue to favour defensive exposures for the Australian economy as

weak wage growth and household indebtedness act as constraints to a material uptick in consumption.

- The unemployment rate remained at 5.2% while employment growth surprised on the upside. Leading business indicators such as the NAB Business Survey continue to suggest weaker labour markets ahead.
- We saw an uptick in sentiment towards property markets continue with some appreciation in Sydney and Melbourne.
- A resumption of stronger credit growth has also appeared with 4.2% growth in the number of commitments for owner-occupiers (consensus: 1.5%). This may see financial stability concerns raised for future RBA rate decisions.

## Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	-2.4	9.0	7.9
Global shares (hedged)	-2.0	0.5	8.6
Global shares (unhedged)	0.3	7.6	13.5
Global small companies (unhedged)	-1.2	-2.4	12.5
Global emerging markets (unhedged)	-2.7	2.7	7.2
Global listed property (hedged)	2.0	8.6	7.4
Cash	0.1	1.8	2.0
Australian fixed income	1.5	11.2	5.3
International fixed income	2.2	10.0	5.1

**Source:** Bloomberg & IOOF, 31 August 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 31/8	1 month change %	1 year change %
USD/AUD	0.67	-1.6	-6.3
Euro/AUD	0.61	0.8	-1.0
Yen/AUD	71.6	-3.8	-10.3
Trade weighted index	58.9	-1.0	-5.3

**Source:** Bloomberg & IOOF, 31 August 2019. All foreign exchange rates are rounded to two decimal places where appropriate. **Please note:** Past performance is not indicative of future performance

Disclaimer: This information is current as at 30 June 2019 but is subject to change. This information has been prepared on behalf of Financial Services Partners Pty Ltd ABN 15 089 512 587 AFSL 237590, a wholly owned subsidiary of IOOF Ltd ABN 21 087 649 625 AFS Licence No. 230522. Whilst care has been taken in preparing this information, Financial Services Partners and its related entities do not warrant or represent that the information is accurate. To the extent permitted by law, Financial Services Partners and its related entities do not accept any liability from the use of the information. Past performance is not indicative of future performance. The value of investments may rise or fall and the repayment of capital is not guaranteed. The information is not to be construed as investment or financial product advice, and should not be relied upon as a substitute for professional advice. The information provided is of a general nature and has been prepared without taking into account a potential investor's objectives, financial situation or needs. Before acting on this information, potential investors should consider whether the information is appropriate for them, having regard to their objectives, financial situation and needs. Financial Services Partners Pty Ltd ABN 15 089 512 587 AFSL 237590 is a wholly owned subsidiary of IOOF Ltd ABN 21 087 649 625 AFS Licence No. 230522.