



Markets faltered...

- The rally from December lows faltered in May with most equity markets down for the month.
- Global shares were down 6% and 4.4% in hedged and unhedged terms, respectively.
- Domestically, Australian shares outperformed international this month with 1.7% performance in May.
- Australian communication shares rallied on the prospective takeover bid for Vocus by Swedish firm EQT Infrastructure.
- The Australian dollar (AUD) fell against major currencies as the weaker economic results increased calls for interest rate cuts. A rise in global trade tensions also detracted from the dollar as it is treated as a “risk on” currency. In situations that suggest weaker economic growth the Australian dollar tends to struggle.
- Fixed income and bond substitutes such as listed property rose in May as well both domestically and globally.
- International fixed income was up after the increase in trade war tension between the US and China. The introduction of tariffs against Mexico as a real possibility added to these concerns of weaker growth. Disappointing flash PMI results added to concerns of weaker US growth seeing bond yields fall as a result.

confidence to end the month as the Coalition was viewed more favourably in the private sector.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	1.7	11.1	7.7
Global shares (hedged)	-6.0	0.6	8.4
Global shares (unhedged)	-4.4	8.8	12.2
Global small companies (unhedged)	-4.9	0.0	11.7
Global emerging markets (unhedged)	-5.8	-0.3	8.0
Global listed property (hedged)	1.1	15.5	8.6
Cash	0.2	2.0	2.1
Australian fixed income	1.7	9.0	5.0
International fixed income	1.4	6.0	4.7

Source: Bloomberg & IOOF, 31 May 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.

With skewed economic news...

Globally

- Chinese economic numbers disappointed expectations with weaker than expected retail sales and industrial production.
- Global business surveys pointed to weaker growth with the Markit Global Manufacturing PMI slipping into contractionary territory.
- The US Federal Reserve left interest rates on hold but took a dovish tone in recent remarks seeing markets price in rate cuts (with bond yields falling as a result)
- Other central banks eased in May or in early June in response to a weaker global growth environment.

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. This confirmed market expectations that saw bonds be bid up and yields fall.
- The unemployment rate rose slightly to 5.2% while leading business surveys suggest weaker employment growth ahead.
- The Coalition government was returned to power with a slightly larger majority.
- This saw an uptick in sentiment towards property markets with the correction in property prices continuing to slow. It also saw an uptick in business

Currency markets

Exchange rates	At close on 31/5	1 month change %	1 year change %
USD/AUD	0.69	-1.6	-8.3
Euro/AUD	0.62	-1.2	-4.0
Yen/AUD	75.1	-4.4	-8.8
Trade weighted index	60.0	0.8	-4.5

Source: Bloomberg & IOOF, 31 May 2019. All foreign exchange rates are rounded to two decimal places where appropriate.

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