MarketWrap

financial services partners

Market Highlights – June 2016

- Share markets bounced strongly on central bank support and the improved growth outlook
- The rally has started to broaden from commodities to technology, financials and health
- The Australian dollar fell sharply on expected further rate cuts and US rate hike projections

Share market rally broadens

Share markets rallied strongly from their February lows in May. The rally was initially driven by a strong recovery in the energy, metals and mining sectors, following support from the large Chinese stimulus measures. However, over recent months the rally has broadened to the previously poorly performing technology, financial and healthcare sectors.

Three key developments have shaped the investment environment over recent months:

- **US Federal Reserve (Fed) rate hike expectations were brought forward** to around mid-year in May, while the Reserve Bank of Australia (RBA) cut rates with expectations of further rate cuts to come. This contributed to a somewhat stronger US dollar (USD) and a sharp weakening in the Australian dollar (AUD).
- **The share market rally sustained and broadened.** The rally in returns from oil and commodities spread to the relatively poorly performing technology, financial and health care sectors. The broadening of the rally was surprising given that US Fed rate hike expectations had been brought forward.
- **China stimulus reduces risks.** The Chinese government's measures to boost credit growth continued to provide genuine support to the industrial sector through a lift in residential construction and infrastructure investment. However, the impact of stimulus measures on commodity prices eased in part due to higher prices resulting in extra supply being brought on.

Through May the outlook for global economic growth, while remaining soft, stabilised. In addition, the late 2015 sharp earnings downgrade cycle also consolidated, with early signs of an improvement in US earnings.

In Australia, the surprise dip in inflation (-0.2% in the first quarter of 2016) drew a rapid response from the RBA with rates cut by 0.25% on 3 May, and prospects for further rate cuts factored in. In conjunction with easing commodity prices, the cut was rapidly transmitted into a sharp downward correction in the AUD, which had been surging upwards on higher commodity prices.

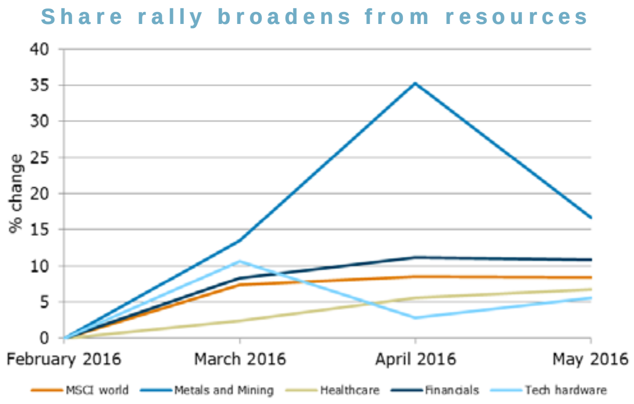
While Australian inflation and wages remained soft, GDP lifted strongly at 1.1% over the quarter and 3.1% over the year. This result suggests that the economy continues to weather the downturn in mining investment. Solid consumer spending and strong growth in both housing construction and exports helped to offset the slump in mining investment.

Shares

Global developed share markets rose strongly by 1.3% in USD terms in May. The US market continued to recover solidly despite expected Fed rate hikes being brought forward. Returns were up 1.5% as the rally broadened to technology, financials and healthcare. European shares were up 1.7% while Japan was up 2.9%, although Japanese returns are still well down year to date in local currency terms.

The Australian share market had another strong month, up 3.1% and up 3.8% calendar year to date. The solid bounce was led by a recovery in the banking sector, likely supported by lower rates and the weaker AUD easing concerns regarding the possible magnitude of non-performing loans.

Emerging market shares were down 3.9% in USD terms following the impact of a higher USD and some softening in Chinese industrial activity.



Source: Bloomberg, ANZ Wealth

Bonds

Despite the rally in riskier assets, bond returns continued to lift despite expected Fed rate hikes being brought forward. Support for bond returns likely reflects soft growth and inflation, possible further central bank support from the European Central Bank (ECB) and the RBA cutting rates. US

10-year yields rose to 1.85%, while core European longer-term bond yields edged up.

Conditions across credit markets generally continued to improve as the bounce in commodity and energy prices helped reduce stress in the high yield market and the energy sector.

Similar to shares, the credit market rally broadened to other sectors outside of the troubled resource and energy sectors. Across investment grade corporate bonds, central bank stimulus measures, particularly by the ECB, continued to support returns. This underpinned a strong return from corporate bonds which drove a 0.6% return from global fixed interest in May. Australian fixed interest performed strongly in May at 1.3%, buoyed by RBA easing.

Currencies

The risk on environment saw the USD strengthen somewhat on the bring forward in expected Fed rate hikes, while the AUD tumbled on RBA rate cuts. The AUD fell around 5% against the USD. The sharply lower AUD boosted unhedged returns.

Major asset class performance as at 31 May 2016 (%)

Sector	1 month	3 months	12 months	5 Years
Australian Shares	3.1	11.7	-2.1	7.3
Global Shares (hedged)	1.9	8.2	-3.0	11.3
Global Shares (unhedged)	6.0	7.5	1.6	15.3
Global Emerging Markets (unhedged)	1.4	8.1	-13.0	2.8
Global Small Companies (unhedged)	6.7	10.7	2.7	15.7
Global Listed Property	1.9	8.5	8.7	11.3
Cash	0.2	0.6	2.3	3.2
Australian Fixed Income	1.3	1.3	4.6	6.6
International Fixed Income	0.6	1.8	6.1	7.4

Source: JP Morgan & ANZ Wealth

Indexes: Australian Shares - S&P / ASX300 Accumulation, Global Shares (hedged/unhedged) - MSCI World ex Australia, Global Emerging Markets - MSCI Emerging Free Net in AUD (unhedged), Global Small Companies (unhedged) - MSCI World Small Cap exAustralia, Global Listed Property - FTSE EPRA/NAREIT Developed Rental Index exAustralia (hedged), Cash - Bloomberg Bank Bill, Australian Fixed Income - Bloomberg Composite Bond All Maturities, International Fixed Income - Barclays Global Aggregate Bond Index (hedged).

Please note: Past performance is not indicative of future performance