Monthly Market Review – As at 31 July 2017

How the different asset classes have fared:

(As at 31st July 2017)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr %	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash[1]	3.8	2.5	2.2	1.8	1.0	0.9	0.4	0.1
Australian Bonds[2]	6.2	4.3	4.2	-0.2	2.5	1.9	0.5	0.2
International Bonds[3]	7.4	5.2	5.0	0.1	2.2	2.5	0.8	0.4
Australian Shares[4]	3.7	10.8	5.3	6.6	3.1	3.9	-2.1	0.2
Int. Shares Unhedged[5]	5.2	18.2	12.4	10.6	2.8	5.2	-1.6	-1.7
Int. Shares Hedged[6]	6.5	15.8	10.0	20.8	9.2	9.2	3.2	0.1
Emerging Markets Unhedged[7]	2.7	10.7	7.7	18.9	13.8	13.1	3.2	1.8
Listed Infrastructure Unhedged[8]	N/A	17.1	12.5	4.8	5.1	8.5	-1.0	-1.6
Australian Listed Property[9]	0.4	13.0	10.4	-10.6	-3.3	1.5	-5.6	-0.2
Int. Listed Pty Unhedged[10]	N/A	13.1	10.3	-10.1	-5.4	-0.6	-3.8	-2.3

[1]Bloomberg AusBond Bank 0+Y TR AUD, [2]Bloomberg AusBond Composite 0+Y TR AUD, [3]Bloomberg Barclays Global Aggregate TR Hdg AUD, [4]S&P/ASX All Ordinaries TR, [5]MSCI World Ex Australia NR AUD, [6]Vanguard Intl Shares Index Hdg AUD TR, [7]MSCI EM NR AUD, [8]FTSE Developed Core Infrastructure 50/50 NR AUD, [9]S&P/ASX 300 AREIT TR, [10]FTSE EPRA/NAREIT Global REITs NR AUD

International Shares

Developed Markets

Global share markets experienced a strong rally over the past 12 months, but now seem to have moved into a choppy sideways period of consolidation.

In local currency terms, all major share markets lost ground over the month. US shares gave up 2%; Japanese shares were down 3%; and European shares finished the month behind by 0.4%. The Australian dollar rallied over July meaning currency hedged international shares investors made up the lost ground and saw a positive monthly return.

Over twelve months developed market shares have done well. European shares have performed the best (19%) in local currency terms. The European economies, led by Germany, appear to have at last emerged from a prolonged period of stagnation. This, combined with undemanding valuations and the rejection of populist anti-EU candidates in a number of elections, has underpinned the rally.

Emerging Markets

Emerging market shares continued their rally over July. Market confidence that a synchronised global economic recovery was underway, along with investors seeking out relatively better valuations than developed markets, combined to sustain investor interest.

Brazilian shares managed to appreciate by 7% (in USD terms) despite the economy being in its worst slump since the Great Depression and a rolling corruption scandal engulfing the whole political system. Indian shares appreciated by 4% (also in USD terms) as confidence in the Modi government's reform agenda remained intact. Despite lingering doubts over debt and the need for structural economic reform, Chinese shares also appreciated over the month (5% USD terms). The Chinese authorities are placing a premium on market stability currently, in the lead up to the Communist Party's Congress later this year.

Australian Shares

Local shares eked out a small positive gain for the month. Mining stocks led the way, up 5%. The miners benefited from the "synchronised world economic recovery" narrative, with demand for commodities seen as strengthening alongside global growth. The other big sector of the Australian share market, the banks, also had a positive month. They appreciated by a bit over 1%, recovering from some of the sell-off of previous months. Industrials pulled the overall index down with -1%.

Bonds and Cash

A continuing absence of inflation saw bond markets ratchet back expectations on the pace of monetary tightening by central banks, resulting in a nudging down of yields over the month. With bond prices moving in the opposite direction to yields this saw bond investors enjoy mild positive gains over the month.

In cash markets, the RBA once again left the cash rate at 1.5% in its August meeting. In the statement accompanying the decision the central bank pointed to the high debt Australian households are carrying while at the same time experiencing low income growth. While the bank would like to support the consumer by cutting rates, it doesn't want to fuel still buoyant residential markets by doing so. Interest rates in Australia are likely to stay unchanged for some months yet.