Monthly Market Review – As at 31 August 2017

How the different asset classes have fared:
(As at 31st August 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	1.2	0.9	0.4	0.1
Australian Bonds[2]	6.1	4.2	3.9	-0.7	2.5	1.7	-0.7	0.0
International Bonds[3]	7.4	5.3	4.9	1.0	3.2	2.5	1.1	1.0
Australian Shares[4]	3.6	10.5	5.4	8.9	3.9	2.6	1.3	0.8
Int. Shares Unhedged[5]	4.8	17.4	12.1	10.1	3.6	4.6	-3.5	0.8
Int. Shares Hedged[6]	7.0	15.3	9.8	17.3	11.1	6.2	1.9	0.3
Emerging Markets Unhedged[7]	2.7	11.0	8.2	18.0	17.1	14.4	2.7	2.9
Listed Infrastructure Unhedged[8]	N/A	17.5	12.7	9.9	8.1	9.1	-2.7	2.8
Australian Listed Property[9]	-0.2	13.3	10.3	-6.7	-1.8	-1.0	-3.2	1.5
Int. Listed Pty Unhedged[10]	N/A	12.7	9.8	-7.9	-5.1	-2.0	-3.9	0.3

[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

Despite the ongoing saga that is the Trump Whitehouse and North Korean missile launches, developed market equities continued to move upward in August, albeit not at the same pace as earlier in the year. It seems increasingly unlikely that Trump's promises of fiscal stimulus via infrastructure spending and tax cuts, that sparked the market euphoria at the start of the year, will actually be implemented anytime soon. A softening in the Australian dollar meant currency unhedged international shares did slightly better than hedged.

Despite the travails of the Trump administration, the US economy continues to do well. GDP growth for the second quarter was revised up to 3% and unemployment fell to 4.2%. While low unemployment still hasn't translated into meaningful hikes in wages, the US consumer (70% of the economy) appears to be in fine spirits. Retail sales increased and consumer sentiment surveys have returned to levels last seen prior to the GFC. In local currency terms, US shares finished the month up 1%.

Europe also continues to see long waited for economic momentum. Economic growth is at 2.2%, the highest since 2011. Leading economic indicators and consumer confidence also remained strong. European shares appreciated 0.8%. Over the last 12 months European shares have been the stand out performers as economic recovery finally took hold and attractive valuations drove gains.

In Japan economic growth came in better than expected. A revival in consumer spending led economic leading indicators into positive territory higher. On the negative side wage growth and inflation remain sluggish. The Yen appreciated in the first half of August as investors sought out safe havens as geopolitical tensions increased. This worked against Japanese exporters resulting in Japanese shares being slightly down (-0.3%) for the month.

Emerging Markets

Emerging market shares continued to do well, outperforming developed economies' share markets. This is also the case over the course of the year so far. Part of the explanation for this is emerging markets shares were simply a lot cheaper than developed markets, particularly US stocks (which make up 60% of the benchmark MSCI World index). A weaker US dollar has also helped, with some emerging market companies having sizeable amounts of debt denominated in US dollars. A weaker US dollar also generally boosts the price of commodities: many emerging market economies are commodity exporters.

Brazilian shares continued their strong rebound, adding another 7% (in USD terms) in August as the economy started to emerge from its worst slump since the Great Depression. Chinese shares meanwhile added 4.9% while Indian equities eased -0.1% over the month.

Australian Shares

Australian shares also had a positive month, although this masks quite different outcomes across sectors. Resources were the big positive, adding 5% for the month. The mining companies took an axe to their cost bases when the iron ore price was sub $US40 tonne back at the end of 2015. With iron ore now hovering just below $US80 tonne Australia's world class miners in RIO and BHP are doing well. The banks didn't do as well, with the CBA (-6.9%) money laundering scandal leading the whole sector down with -2.2% over August. Industrials were broadly flat with -0.2%.

Bonds and Cash

International bonds benefited from some investors seeking out safe havens in response to the tensions with North Korea and the debt ceiling debate in the US. The continued absence of meaningful inflation around the world also helped. The US Federal Reserve (the "Fed") has been the first central bank to begin moving interest rates off the "emergency" levels they have been stuck at since the GFC. But with inflation continuing to undershoot the lower bound of the Fed's inflation target, the market is now pricing in a slow and limited increase in rates. This has seen bond yields continue to drift back from the levels reached when Trump ascended the presidency with inflationary policy promises. With bond prices moving in the opposite direction to yields this has benefited bond investors, allowing some of the losses incurred earlier in the year to be recouped.

The RBA left the target cash rate at 1.5% at its September meeting. It is now over a year since the Bank last moved interest rates (a 0.25% cut back in August 2016). The RBA remains concerned about the low level of wage growth in contrast to high levels of household indebtedness. It is loath to hike rates given this. Higher rates would also see a higher dollar, which is something the RBA explicitly does not want (given the impact on Australian exporters). On the other hand, cutting rates would stoke still buoyant residential property markets something the RBA also doesn't want. Consequently, interest rates are likely to remain on hold into 2018.