

## Market Highlights - July 2015

- Developed market economic growth is becoming more synchronised
- Global shares rebound on a Greece solution although emerging markets struggled
- Bond yields rallied as global growth concerns resurfaced
- The US dollar (USD) rose in the month as the Fed looks to lift rates later this year

### Synchronised growth across developed market economies

Economic data continues to improve across the developed economies as the recovery in Europe continues to progress, though some of the leading economic indicators are beginning to fray at the edges. The US economy continues to expand at a moderate pace as a broad range of indicators support this momentum which should allow the US Federal Reserve (Fed) to commence its long awaited process of interest rate increases later this year. Elsewhere, recent stimulus measures in China are starting to have some impact on the data as industrial production and retail sales were above market expectations.

Chinese Q2 GDP was reported at 7.0% which is consistent with the government's growth objective although, the transition of the Chinese economy towards consumption and services is likely to see growth adjust to a lower trend moving forward. July economic data was strong in Australia as the unemployment rate continues to hold steady at 6.0% at a time when business conditions measured in the NAB survey, return to an above average level.

### Shares

Global share markets rallied strongly in the month as the risk premiums associated with a 'Grexit' and a bursting equity market bubble in mainland China fade away. European shares were the major benefactor of the Greek resolution, up 4.6% in July, which helped to reverse part of the decline in the second quarter this year. Japanese shares continued to perform well, up 1.8% in the month as the impacts of a weaker Yen continue to drive strong corporate earnings. US shares also performed strongly, up 2.0% in the month as the current reporting season confirms reasonable earnings growth.

Figure 1: Chinese Real GDP and Industrial Production



Source: Bloomberg, ANZ Global Wealth

Emerging market shares fell 7.2% in USD terms during July despite attempts by the Chinese authorities to stabilise their share market. The slowdown in China and lower economic growth in the emerging countries due to a weaker trade cycle

resulted in poor investor sentiment across the region. Australian shares rose 4.6% in the month to outperform developed market shares. This was led by the industrial sector of the market, which is benefitting from the lower Australian dollar.

## **Bonds**

Global government bond yields rallied in the month of July as concerns of a slowdown in global economic growth resurfaced. While developed market growth becomes better balanced across the major regions, it is the marked slowdown in emerging market growth, partially led by the slowdown in the Chinese economy, that may hinder the improvement in economic momentum across the developed markets. With bond yields in the US down 25bps and German yields 15bps lower, global fixed income returned just 1.2% during the month. In Australia, uncertainty across the economy's transition to non-mining sectors (at a time when business investment is set to roll over) has held down shorter dated bond yields as the market still perceives the possibility for the Reserve Bank of Australia (RBA) to cut the cash rate. This resulted in a return of 1.3% for Australian fixed income.

## **Currencies**

The USD rose in July against the major cross rates as the economic data continued to support the Fed raising interest rates later in the year. This was supported by stronger US Q2 GDP growth (without the weather affected weakness in Q1) and indicators of stronger housing activity. The AUD fell against most currencies in the month, finishing the month 5.3% lower against the USD at US73.1c. The fall in the AUD boosted the returns of global shares in unhedged AUD terms this month.

## **Implications**

Signs of an ongoing recovery across developed market economies confirms the view of more synchronised growth this year. However, this progress is now susceptible to the apparent weakness in the emerging world as growth slowed to reflect a more benign trade cycle. This comes at a time when the Chinese economy is also slowing down as it transitions away from old sectors of the economy which are more reliant on investment to new sectors which are dominated by services and consumption. Nevertheless, this level of economic growth when combined with what are extremely accommodative central bank policies are still expected to be supportive for growth assets.

However, as markets become more fully valued, returns are likely to moderate and come with higher volatility. Meanwhile, global bond yields are still expected to rise from here as the Fed embarks on raising interest rates, although the policy of quantitative easing in Japan and Europe should help to offset rising global bond yields to some extent. In Australia, bond yields are expected to outperform its global counterparts given the uncertain outlook for the domestic economy and the possibility for further action by the RBA.

## Major asset class performance as at 31 July 2015 (%)

Sector	1 month	3 months	12 months	5 Years
Australian Shares	4.3	-0.8	5.5	9.2
Global Shares (hedged)	2.8	1.4	14.8	14.8
Global Shares (unhedged)	6.6	7.4	33.7	16.8
Global Emerging Markets (unhedged)	-2.6	-6.5	9.6	4.9
Global Small Companies (unhedged)	4.3	7.7	34.5	18.3
Global Listed Property	5.4	0.0	9.3	11.7
Cash	0.2	0.6	2.6	3.6
Australian Fixed Income	1.3	0.4	6.7	6.7
International Fixed Income	1.2	-0.1	6.4	7.3

Source: JP Morgan & ANZ Global 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, Global Listed Property - FTSE EPRA/NAREIT Developed Rental Index exAustralia (hedged) with FTSE EPRA/NAREIT Developed Index ex Australia (hedged) used before April 2015, 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.

This information is current at 5 August 2015 but is subject to change. This information is issued by the Australia and New Zealand Banking Group Limited (ABN 11 005 357 522, AFSL 234 527). The information is general in nature and does not take into account a potential investor's personal needs and financial circumstances. This information is not to be construed as investment or financial product advice, and should not be relied upon as a substitute for professional advice. Before acting on this information, potential investors should consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Potential investors should read the relevant Product Disclosure Statement (PDS) available at [onpath.com.au](http://onpath.com.au) and consider whether the particular product is right for them. Although all the information in this document is obtained in good faith from sources believed to be reliable no representation of warranty, express or implied is made as to its accuracy or completeness. Past performance is not indicative of future performance. The value of investments may rise or fall and the repayment of subscribed capital is not guaranteed.