August Monthly Market Review

How the different asset classes have fared:
(As at 31st August 2018)

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]	3.2	2.2	1.9	1.9	1.3	1.0	0.5	0.2
Australian Bonds[2]	5.8	4.5	3.1	3.8	2.7	2.7	1.5	0.8
International Bonds[3]	6.6	4.9	3.5	0.8	0.4	1.3	0.5	0.3
Australian Shares[4]	6.6	9.2	11.8	16.0	7.1	7.3	6.0	1.7
Int. Shares Unhedged[5]	9.1	15.2	11.3	24.3	13.5	12.1	9.2	4.1
Int. Shares Hedged[6]	9.7	13.5	13.4	15.0	6.2	6.2	5.1	1.5
Emerging Markets Unhedged[7]	5.2	9.1	10.1	8.4	0.1	-3.5	-0.4	-0.1
Listed Infrastructure Unhedged[8]		13.3	8.0	8.9	7.6	13.7	7.4	1.4
Australian Listed Property[9]	6.0	13.2	10.8	15.7	6.7	13.9	5.9	2.6
Int. Listed Pty Unhedged[10]		12.4	6.5	15.3	10.7	19.9	9.3	4.1

[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]Vanguard International Shares Index, [6]Vanguard Intl Shares Index Hdg AUD TR, [7]Vanguard Emerging Markets Shares Index, [8]FTSE Developed Core Infrastructure 50/50 NR AUD, [9]S&P/ASX 300 AREIT TR, [10]FTSE EPRA/NAREIT Global REITs NR AUD

Financial markets continued to perform strongly in August, with most equity markets recording positive gains. Concern about the effects of rising trade tensions between China and the United States are weighing down emerging-market equities. However, following a period of underperformance, valuations are now looking much more attractive in emerging markets than in many developed equity markets. It is important to recognise that in a diversified portfolio there will be winners and losers at different times. We see little to be concerned about from a fundamental perspective with respect to continuing to maintain an exposure to some emerging market investments.

Australian shares had another good month shrugging off concerns about the Royal Commission. There is a widening divergence in valuations within the Australian share market. Industrial stocks are trading at extremely high valuations while banks look relatively cheap. Investors are clearly factoring in ongoing issues for the banks as the property market cools. We have also seen a number of the banks undertake an out-of-cycle interest-rate increase designed to offset higher funding costs. Banks are acting to preserve bank profit margins but at the expense of potentially alienating many of their customers.

The weaker Australian dollar has boosted returns for investing offshore with unhedged international shares outperforming hedged shares. We expect this trend for a weaker A$ to continue over the coming year as Australian interest rates continue to slip below US rates. The US share market was one of the best performers despite being one of the most expensive equity markets. We continue to favour non-US share markets, many of which are much more attractively priced.

Fixed-interest markets continued to trade sideways. Given that interest rates are so low across the globe, it's very hard for investors to get reasonable returns in this sector without taking high risks. Cash rates in Australia have also remained unchanged for some time and we believe that it is highly likely that the Reserve Bank will keep interest rates at current levels for at least another year.

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