

# Market Wrap

July 2018

## At a glance

Global stocks in July rose for a second consecutive month after the strong US economy and lower corporate tax rate helped US companies post healthy earnings growth for the second quarter. European and US trade tensions cooled, while a rise in the Australian dollar trimmed gains for those who have unhedged investments in global equities. During the month, all 11 sectors rose in US-dollar terms. Healthcare (6.1%) and financials (4.3%) rose most while real estate (1.2%) lagged. The Morgan Stanley Capital International (MSCI) World Index jumped 3.2% in US dollars while the index added 2.5% in Australian currency.

## Australia

Australian stocks rose for the fourth consecutive month, and the fifth month in six, as reports showed the economy is expanding without stoking inflation concerns. Among upbeat outcomes, the economy added 50,900 jobs in June, to keep the jobless rate at 5.4%. The Westpac-Melbourne Institute index of consumer confidence rose 3.9% in July to 106.1, where 100 is the neutral level, while the NAB survey showed business conditions rose 1 point in June to +15. Consumer prices only rose 0.4% in the June quarter, to give a 12-month rate of 2.1%, an outcome at the lower end of the Reserve Bank of Australia's 2% to 3% target range for inflation. The central bank's policy-setting board kept the cash rate at the 1.5%, on which it has sat since August 2016. The S&P 200 Accumulation Index rose 1.4%.

## US

US stocks rose for the third month in four after companies posted robust earnings as fiscal stimulus revved up the economy. Financial research and data company FactSet said that 83% of the companies that had reported earnings by July 27 had announced earnings per share above estimates – a 'beat rate' that, if it were to hold for all companies, would be the highest since FactSet began tracking this measure in 2008. Also significant was that FactSet found few companies complained that tariffs would impede future earnings. Reports released during the month showed the economic growth has accelerated,

and so too has inflation. The US economy expanded at an annual rate of 4.1% in the second quarter due to a surge in consumption and investment, the economy's fastest expansion since it recorded a burst of 4.9% in the third quarter of 2014. In other buoyant news, the country added 213,000 jobs in June (though the jobless rate rose from May's 18-year low of 3.8% to 4%), jobless claims fell to their lowest level since 1969 and the ISM manufacturing gauge rose to 60.2 in June, where a reading above 50 signals expansion. Consumer prices rose 2.9% in the 12 months to June, the fastest pace in six years, while the Federal Reserve's preferred gauge of inflation came in at 1.9% for the 12 months, to fan some concerns the Fed might tighten monetary policy more than expected to keep inflation to its 2% target. The S&P 500 Index surged 3.6%.

## Europe

European stocks rose for the first time in three months after European companies posted higher-than-expected earnings. US President Donald Trump and EC President Jean-Claude Juncker met and agreed to "work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods", a statement that boosted hopes the US and EU would avoid a trade war. In economic news, a report showed the eurozone economy only expanded 0.3% in the second quarter, the slowest pace in more than two years, while the eurozone jobless rate stayed at 8.3% in June, its lowest level since 2008. The Euro Stoxx 50 Index slid 1.7%.

## Asia and emerging markets

Japanese stocks recorded a second consecutive monthly gain as global trade tensions eased and Japan signed a trade agreement with the EU that abolishes most tariffs, even as signs emerged that Japan's economy is cooling. A report showed industrial production slid for a second straight month in June, though another said the jobless rate fell to a 26-year low of 2.2% in May. To protect the economy, the Bank of Japan signalled it would persist with crisis-level monetary stimulus when it stated that it would keep interest rates at "extremely low" levels. Chinese stocks rose for the second month in three – and

over a month when US tariffs hit US\$34 billion worth of its exports after the People's Bank of China in late June eased monetary policy and investors judged that the threats and counterthreats between Beijing and Washington wouldn't lead to a trade war. Gains were limited after a report showed that China's economy only expanded 6.7% in the second quarter from a year earlier, a two-year low. Japan's Nikkei 225 Index gained 1.1%, China's CSI 300 Index added 0.2% while the MSCI Emerging Markets Index rose 1.7% in US dollars, its first gain in six months.

*Movement in benchmark indices are in local currency unless stated otherwise. As is common practice, all indices mentioned are price indices apart from the MSCI indices and the S&P 200 Accumulation Index.*

*Sources: J.P. Morgan, FactSet, Bloomberg and national statistical including the Australian Bureau of Statistics, Eurostat, the US Department of Commerce and the US Department of Labor.*

## Speak to us for more information

If you have any questions, please speak to your Count Financial Adviser.

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