Apt.

WEALTH PARTNERS

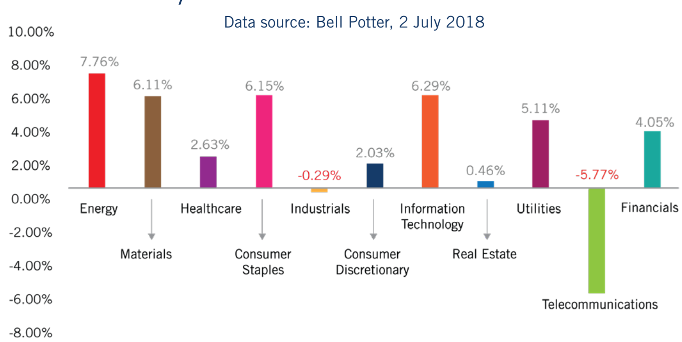
RESEARCH UPDATE

Market Watch - July ‘18

Global markets finished flat for the month as fears of escalations in the global trade war offset the release of strong economic data in the United States and Europe. The S&P 500 Index rose 0.48% to 2,718 points and the Nasdaq rose 0.92% to close at 7,510 points.

The S&P/ASX 200 Index (ASX 200) hit a 10 year high in June, outperforming global markets rising 3.04% to 6,194 points.

S&P/ASX 200 Sector Performance



Sector Performance

The best performing sectors in the 2018 financial year were energy, information technology and health care which again drove the ASX 200 higher in June.

The Energy sector rose 7.76% as oil prices continued to rally. Santos increased 7.0% after it surprised the market by announcing it would resume dividend distributions earlier than expected.

Information Technology performed strongly, rising 6.29%, driven by profit upgrades and local investors looking to gain exposure to the strongly performing technology theme in the US.

The Financials sector rose 4.05% as ANZ Banking Group announced an increase to the existing on-market share buyback and Commonwealth Bank announced it intended to divest its wealth management and mortgage broking businesses.

The Consumer Staples sector increased 6.15%, driven by Wesfarmers which rose 8.34% after announcing it had finalised the divestment of its UK hardware operations, more than offsetting the 10% decline in Metcash which announced the loss of a major customer in South Australia.

The Utilities sector rose 5.11% driven by increased corporate activity in the sector with APA Group receiving a takeover offer from overseas buyers.

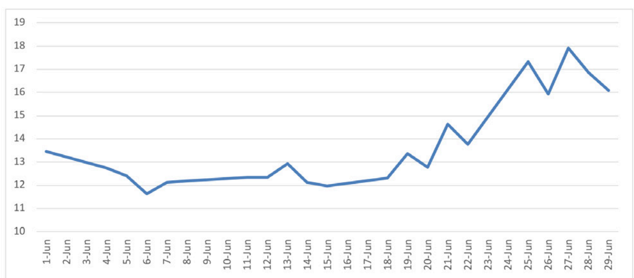
Telecommunications was the worst performing sector, ending the month 5.77% lower as Telstra declined 6.43% following an investor strategy day that released profit guidance for the 2019 Financial Year that was below market expectations.

Economic Highlights

Australia: The Reserve Bank of Australia (RBA) expects GDP growth to average over 3% in 2018 and 2019 driven by improved business conditions, high export prices and ongoing public infrastructure investment. However, the RBA left the cash rate unchanged at 1.50% as low growth in household income, high debt levels and strong competition in retailing resulted in a subdued outlook for inflation. A cash rate hike isn’t being factored in until late 2019.

United States: The Federal Open Market Committee (FOMC) raised interest rates to a target range of 1.75%-2% as the labour market and economic activity continued to strengthen. The FOMC also indicated there would be another increase this calendar year. The US announced US$34 billion in new tariffs on Chinese goods containing ‘industrially significant technology’ in response to perceived intellectual property theft. China was quick to respond with retaliatory tariffs on US agricultural products which led to an increase in volatility towards the end of the month.

Graph 2: Chicago Board Options Exchange Volatility Index (VIX) (USD) Price – 1 June 2018 to 30 June 2018



Data Source: Yahoo Finance, 5 July 2018.

Apt Wealth Partners (AFSL 436121 ABN 49 159 583 847

Apt.
WEALTH PARTNERS

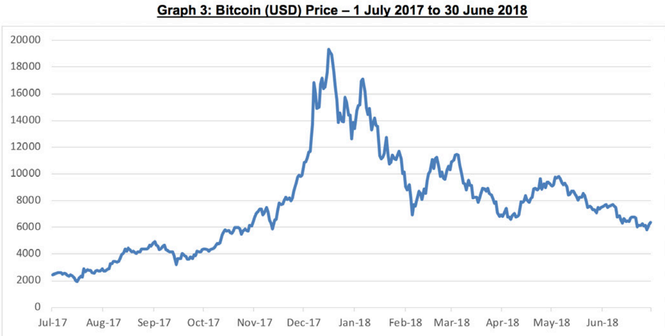
Economic Highlights cont.

Eurozone: The European Central Bank announced that it will reduce its monthly bond purchases from €30 billion to €15 billion in September, before a complete end to net purchases at the end of December 2018. Interest rates are expected to remain near zero and principal repayments from maturing bonds will be reinvested for as long as necessary to ensure a sustainable recovery.

China: The People's Bank of China lowered the reserve requirements for major banks by 0.5%. The cut is expected to release RMB 500 billion to lend to small-and-micro enterprises to support the economy as trade tensions grow. The Shanghai Composite fell 8.01% in June, bringing total losses for the calendar year to 13.90%. On 1 June China's A-shares were added to the MSCI global index which has increased investors' exposure to the market.

Cryptocurrency: Major cryptocurrencies accelerated their decline in June after a successful hack led to the loss of 30% of the coins traded on a major South Korean exchange. After the meteoric rise in 2017, the major currency Bitcoin has declined 67% since its December 2017 high.

Graph 3: Bitcoin (USD) Price – 1 July 2017 to 30 June 2018



Data Source: Coindesk, 2 July 2018

What to watch for

The repercussions of the global trade war between the United States and its trading partners are beginning to affect company operational decisions. Iconic motorcycle manufacturer Harley-Davidson announced that it will relocate production from the United States to Asia and South America to avoid passing on European Union tariffs to customers.

Australian banks are experiencing an increase in overseas wholesale funding costs which will likely result in out-of-cycle mortgage rate increases as costs are passed on to borrowers. This will place pressure on household expenditure as a greater portion of income is directed towards loan repayments.

The Organisation of Petroleum Exporting Countries (OPEC) and Russia announced an increase to production of 1 million barrels a day, but supply disruptions in Libya, Venezuela and Angola is expected to result in a net increase of only 30,000 barrels in the short term. This combined with the announced sanctions by the United States on Iran could see the oil price continuing to rally.

Conclusion

Global volatility is expected to continue, driven by continued trade wars which impacted the US market at the end of June. The tariffs placed on China by the US are expected to come into effect on 6 July, which has raised concerns that other countries will retaliate by imposing their own tariffs. This will be a main focus for markets in the short term. However, we continue to see rising interest rates and inflation as the largest risk over the longer term.

Disclaimer

This Research Update was prepared by Adam Bajcarz and approved by Sarah Gonzales on behalf of Apt Wealth Partners Pty Ltd (ABN 49 159 583 847 AFSL 436121). This report was prepared with freely available market information.

This research update is intended as general information only and has been prepared without taking into account your particular objectives, financial situation and needs. Before making an investment decision based on the information contained in this research update you should assess your own circumstance or consult your financial planner.

Apt Wealth Partners, its directors, employees and associates are not liable for any loss or damage arising from reliance placed in the contents of this Research Update. To the extent permitted by law all such liability is excluded.

Sydney • Melbourne • Geelong
1800 801 277
aptwealth.com.au
info@aptwealth.com.au