Economic Wrap

April 2019

Summary

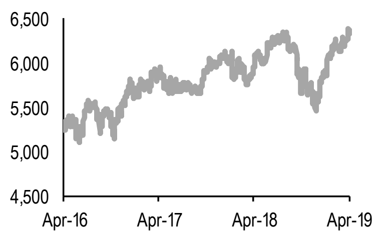
- Hard economic data surprised in the US with strong growth in the March quarter attributed to temporary factors. Signs of emerging weakness in leading indicators point towards slowing growth for this year.
- Global economic momentum has slowed in 2019, led by weakness in Europe and China. Recent results have been better than expected but the outlook remains for weaker growth. The announcement of tariff increases by the US add to this expectation.
- On the Australian front, some of the warning signs called out last year such as the prospect of weaker consumption came to fruition along with weaker property markets, as we saw March quarter inflation disappoint along with softer survey data prompting calls for interest rate cuts by the RBA.
- In keeping with the slower growth outlook Australian bonds have rallied further while US yields ticked up on the back of stronger than expected growth into March.

Markets – April was marked by a continuation of "risk on" sentiment with most asset classes (except Australian property and global government bonds) offering positive returns (see page 10) led by equities with unhedged global equities up 4.6% and Australian small caps up 4.1% respectively. Optimism was stoked on the trade front during April but has since weakened in May following the implementation of additional tariffs by the US. We saw emerging market equities fade slightly relative to developed markets (see chart 4) with ongoing US Dollar strength a notable driver. The ASX underperformed global markets slightly (see chart 2) with value continuing to underperform growth stocks on a relative basis (see chart 3) as tech company and other growth stocks benefitted from the continuation of "risk on" sentiment.

Key economic news – The Reserve Bank of Australia shifted its policy setting the ground for an interest rate cut should the labour market begin to show signs of weakness. April marked further contraction in house prices in Australia with a fall of 0.5% according to the latest CoreLogic data. The weakness remained focused in Sydney and Melbourne, down 0.7% and 0.6% respectively. The announcement of the Federal Budget was well-received with the proposal of tax cuts seeing a slight spike in consumer optimism, but attention remains focused on the upcoming Federal election and the promises of the favourites to win, the ALP.

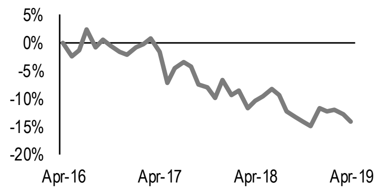
Key company news – Downgrade season was a feature with the likes of Flight Centre Travel Group (ASX: FLT) citing a weaker consumer as a reason for not meeting guidance. DuluxGroup (ASX: DLX) and Crown Resorts (ASX: CWN) were the beneficiaries of takeover offers with the former looking likely to proceed and the latter retaining much of its takeover premium even as Wynn Resorts withdrew its offer.

1. S&P/ASX 200 Price Index



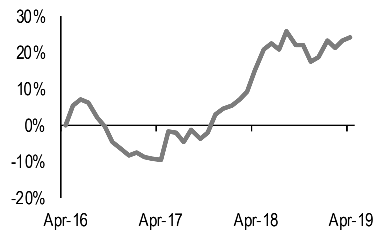
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



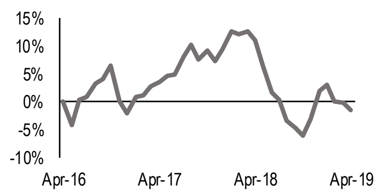
Source: Bloomberg, IOOF

3. MSCI Australia Growth relative to MSCI Australia Value



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, US$ terms



Sector and stock returns

ASX/S&P 200 Sectors (GICS)

	Monthly	%Δ	Quarterly	%Δ
▲	Consumer Discretionary	4.89	Consumer Discretionary	11.12
▲	Consumer Staples	7.35	Consumer Staples	8.66
▲	Energy	1.47	Energy	2.75
▲	Financials ex Property	4.40	Financials ex Property	9.67
▲	Financials	4.40	Financials	9.67
▲	Health Care	2.78	Health Care	4.46
▲	Industrials	2.80	Industrials	10.40
▲	IT	7.27	IT	17.80
▼	Materials	-2.11	Materials	5.84
▼	Property Trusts	-2.56	Property Trusts	4.58
▲	Telecommunications	2.40	Telecommunications	8.74
▼	Utilities	-0.47	Utilities	3.19

Best and Worst S&P/ASX 200 Performers

Top five stocks		Bottom five stocks	
Monthly			
Eclipx Group Ltd	+58.6%	Pilbara Minerals Ltd	-22.8%
DuluxGroup Ltd	+31.8%	Galaxy Resources Ltd	-22.3%
Nearmap Ltd	+23.5%	Evolution Mining Ltd	-12.8%
Magellan Financial Grp Ltd	+22.5%	Washington H. S Patt.	-12.6%
Afterpay Touch Group Ltd	+22.1%	New Hope Corp Ltd	-10.6%
Quarterly			
Breville Group Ltd	+75.2%	Eclipx Group Ltd	-54.5%
Nearmap Ltd	+63.7%	St Barbara Ltd	-36.1%
Afterpay Touch Group Ltd	+60.8%	New Hope Corp Ltd	-32.9%
Appen Ltd	+58.6%	Pact Group Holdings Ltd	-30.6%
Magellan Financial Grp Ltd	+56.3%	Syrah Resources Ltd	-29.1%

Source: Bloomberg, IOOF

Equity review

Major Market Performance, April 2019

	Australian Indices	Apr-19 Price	1M return (%)	Jan-19 Price	3M return (%)
▲	S&P/ASX 200	6325	2.34	5865	7.86
▲	All Ordinaries	6418	2.50	5937	8.10
▲	Small Ordinaries	2855	4.02	2595	10.02
	US Indices				
▲	S&P 500	2946	3.93	2704	8.94
▲	Dow Jones	26593	2.56	25000	6.37
▲	Nasdaq	8095	4.74	7282	11.17
	Asia Pacific Indices				
▲	Hang Seng	29699	2.23	27942	6.29
▲	Nikkei 225	22259	4.97	20773	7.15
	UK & Europe Indices				
▲	FTSE 100	7418	1.91	6969	6.45
▲	CAC40	5586	4.41	4993	11.89
▲	DAX Index	12344	7.10	11173	10.48

Source: Bloomberg, IOOF

Global equity markets

The S&P 500 index finished February up 3.9% while the tech-heavy NASDAQ fared slightly better, up 4.7%. The market performance was positive across most sectors with Financials, Information Technology (up 6.4%) and Telecommunication Stocks (up 6.2%) the top performers. Defensive sectors such as Real Estate (down 0.6%) and Health Care (down 2.7%) were amongst the poorer performers compared to the overall market.

Global equity markets rallied during the month led by strong earnings results in the US with tech giant Microsoft briefly entering the trillion-dollar club (in terms of market value) as its cloud-computing continues to grow strongly while sales of Windows also surprised on the upside to see overall revenues expand 14% from a year earlier. Elsewhere Chinese stocks also rose, continuing their recovery from last year. Their performance was muted slightly by remarks from the People's Bank of China advocating a more measured approach to future stimulus where the market had perhaps been overly optimistic in terms of what was priced in. UK equities benefitted from the delay in Brexit implementation until 31 October reducing the risk of a disruptive economic shock.

Australian equity market

The S&P/ASX 200 index finished the month up 2.3%. Most sectors were in positive territory with utilities (down 0.5%), property trusts (down 1.9%) and mining stocks (down 2.1%) the only exceptions. South32 (ASX: S32) fell in line with the decline of base metal prices while property trust Scentre Group (ASX: SCG) also declined after a March quarterly update disappointed market expectations. The IT sector and Consumer Staples sectors were the standouts (both up 7.3%). Key to this performance was the announcement of a share buyback with a sizeable franking credit component by Woolworths (ASX: WOW) following the sale of its Petrol business to EG Group for $1.1bn. In addition, Woolworths guided towards new cost-saving measures for its troubled BIG W business with the closure of 30 stores over the next three years as well as two distribution centres.

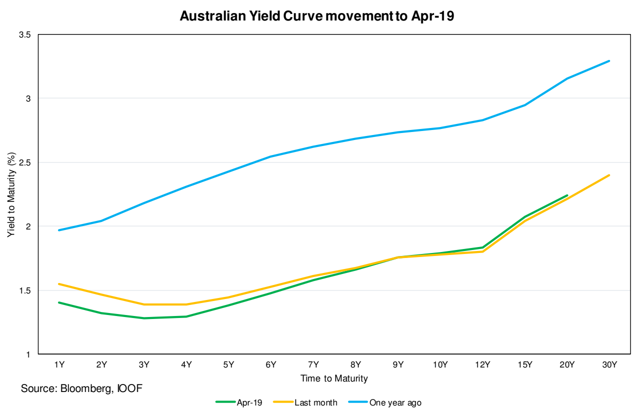
Fixed Income

	Fixed Income	Apr-19 yield	1M mvt (bps)	Jan-19 yield	3M mvt (bps)
	Aussie Cash rate	1.50	--	1.50	--
▲	10-year Bond Rate	1.79	0.01	2.24	-0.46
▼	3-year Bond Rate	1.28	-0.11	1.75	-0.47
▼	90 Day Bank Accepted Bills SFE-Day	1.56	-0.21	2.045	-0.49
▲	US 10-year Bond Rate	2.50	0.10	2.63	-0.13
▲	US 3-year Bond Rate	2.24	0.03	2.43	-0.19

Source: Bloomberg, IOOF

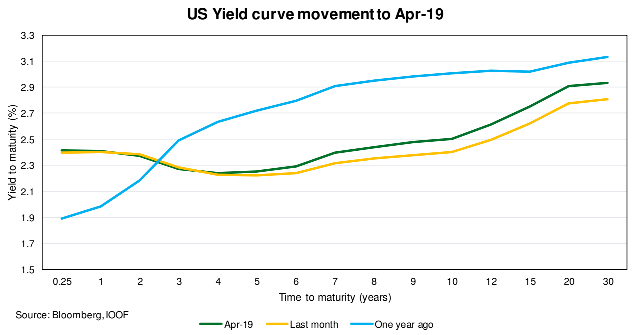
The Australian yield curve flattened further in April most notable in shorter durations with the 3-year bond yield declining 11bps and the 10-year bond yield rising slightly by 1bp. In Australia, bond yields continue to be weighed down by a mix of concerns. While the labour market has continued to hold up well in recent months other economic indicators point towards a slowdown domestically. Weaker retail sales (discussed below), a disappointing inflation print of 1.3%, below the RBA target band of 2%-3% and subdued business survey indicators are examples of this. Taken together this has seen investors price in expectations of a cut in interest rates to 1.25% by September this year. Investors armed with this expectation of lower interest rates have bid up shorter-term bonds with the result that yields have fallen.

5. Australian yield curve movements to April 2019



The U.S. yield curve steepened following strength in economic growth for the March quarter. The US economy grew above expectations at 3.2% during the quarter thanks in part to greater than expected contributions by net exports and a build-up in inventory stock. The Federal Reserve left rates on hold in its May 1 session with expectations of such playing a part in longer term yields increasing.

6. US yield curve movements to April 2019



Currencies

	Currencies	Apr-19 Price	1M return (%)	Jan-19 Price	3M return (%)
▼	$A vs $US	70.48	-0.68	72.73	-3.09
▼	$A vs GBP	54.09	-0.65	55.48	-2.50
▼	$A vs YEN	78.55	-0.15	79.19	-0.81
▼	$A vs EUR	62.86	-0.63	63.53	-1.05
▲	$A vs $NZ	105.60	1.26	105.19	0.39
▲	$US vs EUR	89.17	0.03	87.36	2.07
▲	$US vs GBP	76.73	0.03	76.28	0.59
▲	$US vs CHF	101.93	2.42	99.42	2.52

Source: Bloomberg, IOOF

The Australian dollar (AUD) fell by 0.68% to USD 0.7048. The weakening state of the economy outside of the labour market has prompted calls for rate cuts. These have intensified since the RBA shifted to a more neutral policy setting by moving away from its refrain that the next move in rates "was likely to be up". In its latest May meeting for example the Bank called out the need for stronger labour market outcomes to get inflation back to target with the implication that it is likely to cut rates should this not occur. The US Dollar rose against most major currencies as investors rewarded the stronger performance of the US economy relative to other countries such as Europe and Japan. This marks a continuation of trends from last year with a notable divergence of PMI data between the US and other developed markets. The relative growth outcomes is also a useful illustration with the US printing 3.2% economic growth in the March quarter vs 1.2% in Europe. Investors also grew more optimistic on the Brexit front following an extended delay agreed with the EU until 31 October. This saw the pound appreciate against other currencies as investors anticipated a less disruptive exit following further negotiations between leading UK parties to reach a compromise that can pass through Parliament.

Commodities

	Commodities	Apr-19 Price	1M return (%)	Jan-19 Price	3M return (%)
▼	Aluminium	1773	-6.75	1916	-7.44
▼	Copper	290	-1.29	280	3.70
▼	Nickel	12148	-6.20	12498	-2.80
▼	Gold	1286	-0.99	1332	-3.45
▼	Silver	15	-1.45	16	-7.83
▲	Crude Oil - Brent	73	6.45	62	17.63
▼	Lead	1913	-4.99	2115	-9.55
▼	Zinc	2915	-1.31	2716	7.33
▲	Iron Ore	93.24	8.80	76.03	22.64

Source: Bloomberg, IOOF

Commodity prices fell over the month except for crude oil and iron ore. Iron ore prices continued to be supported by the suspended production from Brazil following the January dam collapse. In addition, production disruption due to Cyclone Veronica had also tightened industry supply. The short-term outlook appears supportive with a combination of declining Chinese stockpiles (less inventory to draw upon requires new iron ore to fulfil) and better steel mill margins (higher profitability encourages more iron ore inputs to take advantage of the situation). Aluminium prices have been affected by record Chinese export production in January and March. However, industry observers believe environmental reforms in China will curb some of this production while at the same time stimulus will increase demand and together be supportive for aluminium later this year.

Oil prices were supported by voluntary output cuts earlier this year by OPEC and its allies. In addition, the Trump Administration ended the sanction waivers that had allowed several oil importers including India to continue purchasing oil from Iran with implementation following on 3 May. The combination of this initiative and ongoing sanctions against Venezuela helped spur prices higher during the month.

Australia

A slew of negative data has seen markets price in a rate cut by September. Growth has slowed since June 2018 due to weaker private consumption and investment growth with inflation also disappointing. The housing market decline is also expected to weigh on the economy and has done so already via weaker rent and new housing inflation. The Budget is expected to provide some growth stimulus, but we are cautious on this front given the prospective change in government with the upcoming Federal Election.

The Australian Budget was released with the ruling Coalition government outlining both additional tax cuts and increased infrastructure spending. Notable winners include retailers with some shorter-term tax relief to Australian taxpayers with an increase in the low-to-middle income tax offset as well as firms bidding for infrastructure work and those that will benefit from completed projects. The bulk of the tax cut package will not have an immediate impact with the cuts deferred for a number of years. The Labor Opposition has outlined plans to exceed the Coalition promises as well as increase health care spending with these to be funded by its increased tax take from tax reforms including changes to negative gearing and imputation credits.

The government announced the Federal Election will be held on the 18th May. Major changes to announced policy by the Coalition government would appear unlikely. The initial changes outlined by the Opposition would have a mixed impact with some supportive of consumer spending, but others in terms of tax reform unclear in the full scope of their economic impact. We do note that the combination of negative gearing, imputation credit and capital gains tax reforms could have a negative impact on certain asset classes such as Australian shares or hybrids that benefit from additional demand due to the tax arbitrage available to those on 0% tax rates for example. The concern of these proposed changes has already seen

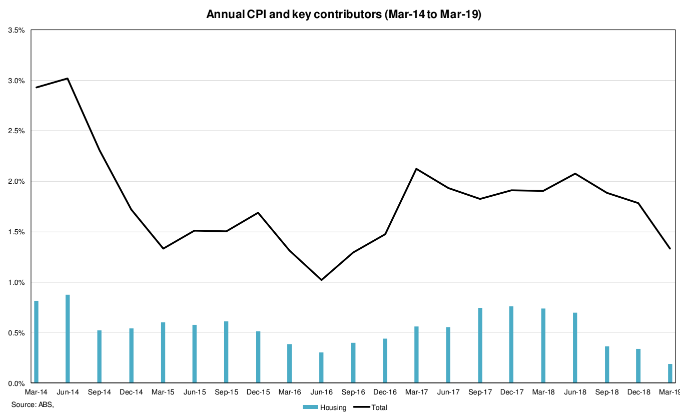
In its May meeting the RBA left rates on hold at 1.5% again. The Bank explicitly called out labour market strength as a key pivot for any rate cut stating that "further improvement in the labour market was likely to be needed for inflation to be consistent with the target". This implies further erosion of the unemployment rate presumably through stronger jobs growth as being a necessary condition to stop the Bank from cutting rates. In addition, the Bank downgraded key forecasts for this year from the February *Statement on Monetary Policy*:

- Underlying inflation: 1.75% (down from 2%)
- Real economic growth: 2.6% (down from 3%)

These moves point to the mid-May labour market update and those in subsequent months as key areas to monitor going forward. As we highlighted in recent webinars and prior monthly reports we believe leading indicators are suggestive of weaker labour markets in the months ahead.

Australian March quarter inflation disappointed expectations with growth in inflation flat over the quarter (consensus: +0.2%) and up 1.3% year-on-year. There were notable rises in vegetable prices (up 7.7%), driven by the drought and adverse weather conditions, and secondary education (up 4.2%), following the start of the new school year. These were offset by a substantial decline in petrol costs (down 8.7%) as well as domestic (down 3.8%) and international (down 2.1%) holiday costs. Another drag on inflation was weak growth in housing inflation with rental growth up only 0.1% for the quarter and new dwelling prices falling 0.2% over the same period, a sign of weakness in property markets. This continues the trend of weakening contribution to overall inflation (the black line) over the last year (the blue bars) accounting for 0.2% of annual inflation in March 2019 vs a 0.7% contribution in March 2018.

7. Annual CPI and housing contribution (Mar-14 to Mar-19)



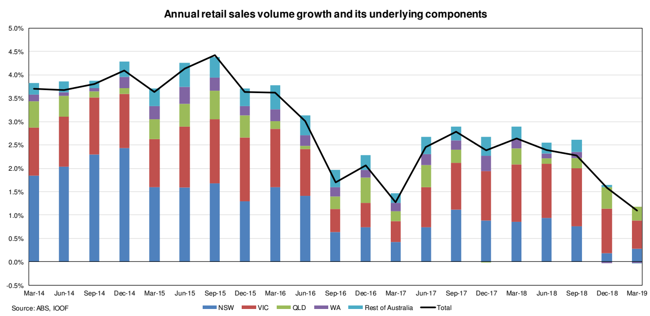
While the RBA focus in the latest minutes appeared fixated on the still solid state of the labour market this points towards a weaker economic backdrop. The RBA did note in the April Minutes that it believed in the effectiveness of a rate cut from current low levels and inflation sizeably below the target band of 2-3% adds to the case for a rate cut. Markets moved aggressively to price this in with a 0.25% rate cut now expected in September this year according to the implied futures pricing on the ASX.

House prices declined at a slower pace of 0.5% during April with Sydney and Melbourne falling 0.7% and 0.6% respectively. Canberra was the sole exception, up 0.4% during the month. Remarks from CoreLogic suggest the worst of the downturn in terms of month-on-month declines with clearance rates while still weak, showing tentative signs of recovery. Running against this cautious optimism we saw dwelling approvals decline 15.5% from February to March (consensus: -12.5%) and 27.3% over the year to March. Key to this result was a drop off in unit approvals which contributed 90% of the monthly drop (of 15.5%) and 63.8% of the annual decline. These latest figures imply some further weakness in residential construction dragging on GDP growth consistent with our previous remarks.

The trade balance for March 2019 beat expectations with a surplus of 4.949bn (consensus: 4.5bn) driven by the decline in month-on-month export growth being largely offset by a smaller decline in import growth. Exports fell 1.8% (or by $703m) largely attributable to a 626m drop in non-monetary gold with iron ore exports also falling due to weather disruptions but being mostly offset by higher coal volumes. The meat industry benefited from issues in Chinese pork production helping lift rural goods exports by $129m. Import spending fell by 1.5% (or by $512m) due to a drop-in capital goods spending with industrial transport and equipment buying falling by $344m. There was also weakness in consumption goods due to low demand for vehicles. Taken together these results and those of earlier months suggests trade as a net positive for GDP growth in the March quarter (with data being released in early June).

Retail sales beat expectations in the month of March up 0.3% month-on-month (consensus: 0.2%) led by the food and “eating out” segments. However real retail sales missed for the March quarter with a small decline of -0.1% (consensus: +0.3%). Real retail sales for the December quarter were also revised downwards to 0% (previously recorded as 0.1% growth). Drivers for the quarterly result included weak sales from department stores (down 1.2%) and household goods (down 0.6%) while on a state view NSW was the only one to record an uptick in volumes (up 0.6%). On an annual basis the volume slowdown is notable with NSW, Victoria and Queensland the only states making a positive contribution as shown in Chart 7 below.

7. Retail sales volume growth and contributors (Mar-14 to Mar-19)

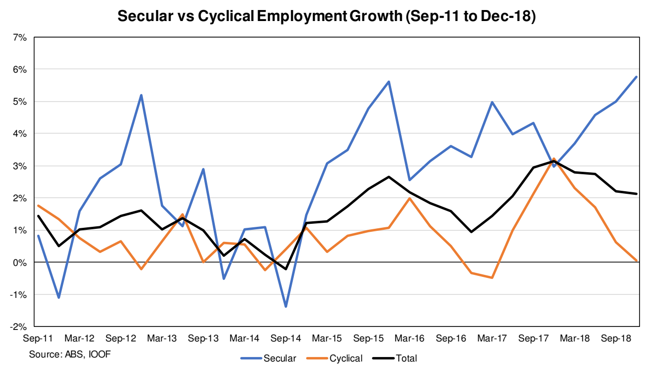


We also note that another driver was the implied price impact during the quarter which was elevated thanks to food price inflation. However, given the lower weighting of food retail sales in the National Accounts we expect the overall volume story to contribute to a weaker March quarter GDP result in early June.

The unemployment rate rose slightly to 5% in March (consensus: 5%), up from 4.9% in February, the first increase since November last year. Employment growth surprised with total employed persons rising by 25.7k (consensus: +15k) continuing its positive trend in recent months. The bulk of this increase came in full-time jobs with 48.3k growth offset by weakness in part-time job creation with the loss of 22.6k part-time roles. The annualised 3-month change highlights jobs growth (+2.25%) slightly below population growth (+2.31%) with the slight weakness driven by part-time job creation. This is a rosier picture on the labour market front than we saw at the beginning of 2018 with the February numbers also revised upwards thanks to a reduction in full-time job losses recorded in the initial release. In addition, if we had seen the participation rate hold steady (it increased by 0.1% to 65.7%) the unemployment rate would have remained at 4.9%. Given the emphasis placed on the labour market in the RBA April minutes we expect that this latest report may weigh against a rate cut in the short term. The RBA case for a cut, taking their remarks at face-value would require a more sustained deterioration in labour market outcomes.

On that note, leading indicators including the ANZ job advertisement series as well as NAB Business Survey capacity utilisation offer some reason for caution. Weaker trends in both point towards slower job creation (and an uptick in unemployment) which if they play out will weigh on the RBA decision to keep rates on hold or cut. We close with a snapshot of secular vs cyclical jobs growth based on an experimental ABS dataset in Chart 8. This showcases the strength of **secular** growth (government, healthcare, education, utilities and professional services) vs that of more **cyclical** components of the economy. The slowdown in **total employment growth** suggests some economic slowing already underway that has been offset by a mix of government funding and secular tailwinds such as an aging population. Interestingly within that 0% growth, construction job creation is positive but given the decline in building approvals we should not be surprised if this weakens in future months.

8. Annual employment growth (secular vs cyclical) to Dec-18



On balance the risks to the Australian economy remain tilted to the downside. This is reflective of the slowing economic momentum elsewhere in the world as well as the high indebtedness of Australian households. While slower growth remains the likelier outcome, we acknowledge the possible deployment of interest rate cuts and government spending to support the economy.

United States

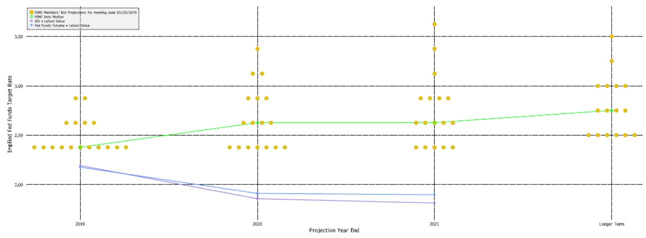
The US economy has performed well relative to other developed markets with jobs creation and business expansion both notable. Business optimism has softened following the latest trade news and a weaker demand environment, both suggesting slower growth going forward.

Trade negotiations with China looked to be on track for resolution with camps on both sides reporting incremental progress in recent months. This has sharply changed however in the past week. According to Reuters, Chinese negotiators walked back on key points of agreement in early May. This was corroborated by statements from US Trade Representative Lighthizer and Treasury Secretary Mnuchnin. The manoeuvre prompted a threat of tariff escalation by President Trump. He outlined an increased in existing tariffs on $200bn of Chinese imports from 10% to 25% from 10 May. In addition, he stated his willingness to extend 25% tariffs further to some $325bn worth of Chinese imports should they fail to come to the table and negotiate. China has responded with threats of its own and has also sent Vice Premier Liu He to Washington to continue trade talks rather than pull the delegation. At the time of writing, the US has implemented the increase to 25% with an open possibility of Chinese retaliation given limited progress in talks underway. How the situation develops from there is uncertain and we will continue to monitor and provide updates for the impact on the global economy and asset classes.

The US economy surprised with growth at an annualised rate of 3.2% for the Marcher quarter (consensus: 2%). The surprise strength was driven by a combination of a reduced drag from net exports and a sizeable build in inventory (the largest seen since 2015), both factors that are seen as temporary. Growth excluding these factors and government spending only grew 1.3% for the quarter suggesting the case for slower growth this year remains on foot when these temporary boosts fade in future quarters. To focus on inventory builds for example these can only extend for so long. Either companies are able to sell the inventory (less likely if consumption is weak) or they have to write down stock for example (with a negative impact to business profits). We continue to observe the trajectory of US growth to see how more stable sources of demand performance in future quarters. Absent the impact of these temporary factors it appears that the economy did slow, consistent with positive but weaker PMI results, and it remains to be seen what level it will settle at.

In addition to the growth figures it is notable that core PCE, a measure of underlying inflation tracked by the Federal Reserve only grew at 1.3% for the quarter, below the Fed target of 2%. As we note below the Fed is perceiving this as attributable to temporary headwinds and expect it to tick up slightly in coming quarters. It is a useful illustration however that signs of an inflation "break out" to higher levels appears to lack impetus, weakening any short term case for rate hikes.

The US Federal Reserve Minutes for March noted that a majority of committee members believe that risks warranted a steady stance through 2019, while some thought a rate hike might be needed if the economy performed as expected with growth above the long run trend. Participants also highlighted significant uncertainties regarding the economy and global growth, and these, along with muted inflation, supported the patient approach. The Federal Reserve left rates unchanged on its 1 May meeting as well citing disappointing inflation results as attributable to temporary headwinds. As the below chart indicates there remains a mismatch between the Fed view (in green) and that of the market (in purple and blue) in terms of where interest rates will be at the close of 2019, 2020 and 2021 respectively.



Source: Bloomberg, Federal Reserve

Manufacturing conditions improved in April with the Markit Manufacturing PMI up slightly from its March reading of 52.4 to 52.6. The improvement was tied to an additional increase in new orders as well as efforts by producers to clear backlogs. The new business order growth was in turn assisted by a mix of greater advertising spend and new product creation. Exports sales growth ticked up slightly although global trade tensions and slowing foreign demand continue to be cited as limiting factors on export growth.

According to Markit these results were consistent with manufacturing being a slight drag on growth (because of its slower pace) to mark the start of the June quarter. They indicated that an uptick in output to a print of 53.5 or higher would be needed to increase factory production growth. The current readings are consistent with our messaging of previous monthly reports, positive but weaker growth this year.

The Markit Services PMI for April was 53, a notable uptick on its March reading of 55.3. The weaker result was driven by a more subdued demand environment with new business order growth slowing while uncertainty and increased competition saw weaker business expectations. New exports order growth was positive but small, similar to the March result while cost pressures remained subdued. The Composite Index (services and manufacturing combined) fell to 53 in April, down from 54.6 in March with the uptick in manufacturing output offset by a weaker environment for services sectors. Taken together these surveys point towards weaker growth for the June quarter of 1.9% according to Markit economists. This is broadly in line with the consensus 2% annualised growth as economists see a slower US economy going forward i.e. the temporary factors highlighted above are abating over time. This is in line with our economic outlook presented in the December quarterly where we see the pace of growth in the US slowing while noting that cost pressures have abated, weakening the case for rate hikes by the Fed.

China

Economic momentum has held up in manufacturing but slowed on balance. Slower growth is expected as part of the government's target for 2019 but with targeted stimulus to remain supportive. The trade deal status with the US has escalated following the end of the month and may require more aggressive government intervention to support the 2019 growth target.

Chinese GDP growth for the March quarter stabilised at 6.4% (consensus: 6.3%). Key drivers included the increase in government stimulus and stronger credit growth with regulators prepared to relax certain restrictions that were in place last year. An uptick in March factor output also contributed. At an underlying level industrial production rose 8.5% for the year (consensus: 5.9%), retail sales by 8.7% (consensus: 8.4%) and fixed asset investment by 6.3% (consensus: 6.3%). The beat on expectations has seen some observers call out the December quarter as a trough for Chinese growth.

On credit growth, we note that this increase in GDP was supported by a 9% rise in total social financing (a measure of credit growth). We caution that such credit expansion may not be sustained at the same pace throughout the year given Chinese regulator concerns over excessive leverage. In addition, as policymakers have given themselves a 6-6.5% target range they may feel less pressured to increase monetary easing. Weakness in export orders for notable trading partners such as Japan (exports fell 2.4% year-on-year in March) may be pointing to some underlying weakness in the Chinese economy that we continue to observe as well.

The Markit manufacturing PMI for April remained in positive territory for a second month but fell slightly from 50.8 in March to 50.2 in April. The still positive level was supported by stronger new business orders which were domestic driven with new export orders falling slightly in the month. Still weaker demand conditions led manufacturers to avoid building their inventories too much in the month while cost inflation rose only slightly. Business confidence strengthened to its highest levels in almost a year. Pressure in the job market continued with the unemployment rate remaining at a relatively high level. The People's Bank of China struck a conservative tone on further stimulus through required reserve ratio cuts (which means banks need to hold less reserves to back their lending) given the trade backdrop in the past week we anticipate some further stimulus may be necessary to support underlying economic growth. The Chinese economy given its greater reliance on exports is seen as more vulnerable to a trade war escalation with Bloomberg Economics estimating a 0.5%-0.9% headwind to growth if the 10% tariffs are elevated to 25%.

Services activity rose slightly to 54.5, up from 54.4 in March and marking its second-highest level since May 2012. This helped offset the slight decline in manufacturing activity to see the overall China Composite fall to 52.7 from its nine-month high of 52.9 in March. The stronger services result was driven by additional growth in new business orders supported by a mix of new products and firmer underlying demand for services. Importantly the demand was not just limited to the domestic front with new export orders increasing at their sharpest pace since late 2014 with service providers responding through job creation to satisfy their need for labour. Business confidence remains a challenge for both manufacturers and the services industry remaining soft overall even as manufacturer optimism hit a 11-month high.

Europe

Trade concerns and a weak consumption outlook weigh on the European economy. Brexit has been delayed until later in the year following flexible deadlines from EU leaders. A surprise GDP result has sparked calls for a trough in European growth, but still weak survey data suggests caution is warranted.

A key event to mark the beginning of April was the extension of Brexit until 31 October. Originally a “no deal” scenario for the UK to exit was on the cards for 12 April. This was further delayed until October following negotiations between PM May and European leaders. Under the interim arrangement there is capacity for the UK to leave earlier if a deal agreeable to both MPs and EU leaders can be ratified in Parliament. If this is not done prior to European elections (an increasingly likely possibility) then the UK is expected to participate but play a reduced role in decision making until a final exit can be resolved. To that end PM May is in negotiations with Opposition Leader Jeremy Corbyn seeking to find an agreeable compromise that MPs form both parties can back as a majority. Some press reports point to a softening of the May government hard-line stance that could see a softer Brexit outcome occur. At present the outlook remains uncertain although the willingness of EU leaders to extend further points towards flexibility in order to avoid a disorderly Brexit. This should on balance be supportive of a less disruptive final outcome if and when it occurs.

In closing it remains worthwhile to reiterate our February remarks as follows. *It is useful to contemplate why in particular we focus on Brexit and give it this attention. In that light, we note that direct UK exposures in model portfolios is limited and diversified (i.e. there is no sizeable overweight that investors in the models are exposed to in either bonds or equities). Second-order effects that hit other markets and asset classes may arise in time and we will address such risk management concerns as and when they arise.*

The Bank of England struck a hawkish tone in its most recent meeting. Governor Carney pointed out that investors underestimated the chances of rate hikes in three to five years’ time arguing that an increase in economic growth above 1.5% would be enough require higher rates to prevent excessive inflation. These remarks accompanied the decision to leave rates on hold at 0.75% with the Bank stating it would limit any rate hikes to a single 0.25% increase as Brexit uncertainty and weaker investment undermine the economy’s momentum in the medium term.

On the ECB attention has turned to the choice of success to President Mario Draghi with some reformist candidates reportedly in the works. While it is an institution with the slow-moving energy that term implies, a material shift in the President role could foreshadow further changes in ECB policy particularly given their struggles to lift inflation up to the 2% target over the course of Draghi’s tenure.

The Eurozone economy grew faster than expected for the March quarter with unemployment falling to its lowest in over a decade according to Eurostat flash estimates. GDP in the 19 countries sharing the Euro rose 0.4% quarter-on-quarter (consensus: 0.3%) and 1.2% on a year-on-year basis (consensus: 1.1%). This was also ahead of ECB expectations of 0.2% quarterly growth with the unemployment rate falling to 7.7% in March (down from 7.8% in February). Further detail to accompany the preliminary estimate will be released later in May and shed light on key areas of strength and weakness. This includes how suspect or not the quality of this growth result is, if accompanied by quirks such as an abnormal inventory build or net exports then we can attach less weighting for our European outlook.

In addition, the prospect of more aggressive US trade policy remains a live issue. In response to US threats over Airbus subsidies the European Commission has drafted a list of some €20bn of US imports that it could response with tariffs against. A report has been given to President Trump by the US Commerce Department on the subsidies given to European automakers. This may see additional tariff threats as a source of negotiating leverage for future trade agreements with the EU. On balance, the trade situation remains a concern we continue to watch and if it escalates further presents a downside risk to European growth in particular.

The Markit Eurozone Composite PMI declined slightly in April with a reading of 51.5, down from 51.6 in March. The region’s key manufacturing industry improved slightly with a reading of 47.9 in April, up from 47.5 in March pointing towards a slower contraction of business activity. German industry remains a point of weakness with a reading of 44.4 dragging the overall sector down. Key drivers included weakness in new orders both domestically and internationally. The month also saw increased erosion of work backlogs (implying there is less of an excess of bid-for work to be done). Against this trend of weaker new business employment growth improved marginally outside of Germany with manufacturer outlook for the next year remaining negative there. This slight uptick is still consistent with the lowest reading in the past 6 years and is in line with a contraction in factory production at a quarterly rate of 1% suggesting a notable economic drag according to Markit. These results need to be weighed against the relatively strong flash forecast of growth in the March quarter, ahead of expectations implied from these surveys. As further details are released we will get a better understanding of key growth drivers in the quarter and the sustainability of that growth trajectory. This will assist in our conviction for when European growth momentum will begin to recover.

In April the Services sector PMI declined from 53.3 in March to 52.8 pointing to a weaker rate of expansion. An uptick in new business growth was welcome and supportive of hiring efforts particularly in Germany. The weakness was attributable to Spain and Italy, offsetting a pick up in both Germany and France (which returned to expansion). Overall these figures point to quarterly economic growth of 0.2% according to Markit with the outlook plagued by the state of the manufacturing sector which is experiencing its steepest downturn since 2013.

Company news (best and worst performers over the month of April)

Eclipx Group Ltd (ECX) saw its share price rise on limited news flow with investors digesting the turnaround path outlined towards the end of the March quarter. A key part of this strategy will be the sale of non-essential parts of the business including Grays and Right2Drive. In addition, the company's continued support by its lenders and long lead time until key debt refinancing is required saw shares rally substantially from an arguably "oversold" state. In addition, the departure of long-serving CFO and Executive Director Garry McLennan who presided over the acquisition of these currently poor-performing business segments was well-received by investors with prices closing up 9% of the day of the announcement alone.

DuluxGroup Ltd (DLX) shares rose strongly following a takeover bid by Nippon Pain Holdings to acquire the firm for $9.80 per share in cash, a high multiple of 16.1 times the firm's FY18 EV/EBITDA multiple and a 35.4% premium to the three-month volume weighted average price of DLX shares. The bid has been accepted by the Dulux board and recommended to shareholders with both an interim and an additional special dividend being added to give investors access to the company's excess franking balance.

Nearmap Ltd (NEA) stock reached all-time highs following strong growth in its US business and inclusion in the ASX 200 benchmark which prompted additional buying by index fund managers helping spur the share price higher. Nearmap provides detailed geospatial map technology to business and government clients for a range of applications including construction, architecture and roofing to name a few. The company has been richly rewarded with investors as its opportunity in the US has scaled rapidly to see the firm guide to a FY19 cash flow break even position on the back of this rapid growth. The decline in churn has helped increase the embedded value of its existing clientele with investors willing to attach a high valuation for the opportunity this presents in terms of an ongoing subscription revenue stream as the firm has successfully upsold customers new features to the tune of 77% growth since FY18.

Crown Resorts Ltd (CWN) soared in early April following preliminary confidential takeover talks with Wynn Resorts that valued the Australian casino operator at $10bn of $14.75 per share, a considerable premium to its pre-bid price of approximately $11.74 as at April 8. Following the leak of these talks Wynn Resorts subsequently withdrew from discussions but the share price retained much of its takeover bid premium with investors speculating another bidder might eventuate or Wynn might return after demonstrating the value of the Crown franchise.

Pilbara Minerals Ltd (PLS) shares struggled due to two factors. First its March quarter update saw a 17% decline quarter-on-quarter in spodumene sales due to disruption from Cyclone Veronica. Second the update also highlighted sustained low lithium prices in China driven by changes to Chinese government subsidies as well as an increase in production from Australian mines. Together these see market expectations for the sector as less rosy than even a year ago prices declining accordingly in response to the overcapacity and inventory building that occurred in 2018.

Washington H. Soul Pattison (SOL) saw its value decline in line with that of key holding New Hope Corporation (NHC). Part of this was due to ongoing fears of a "go slow" approach by Chinese authorities limiting coal shipments. In addition, New Hope fell short of analyst earnings expectations and failed to declare a special dividend that would have released excess franking credits ahead of the Federal Election.

Flight Centre Travel Group Ltd (FLT) disappointed with a profit downgrade of over 14% citing weaker consumer confidence and business disruption as key causes. On the disruption front the company attributed a distraction to the business from the introduction of a new wage model for frontline sales staff, new sales systems and review of its brick-and-mortar network. It also follows a class action by workers alleging systematic underpayment and breaches of the *Fair Work Act*.

Viva Energy Group (VEA) fell after the uptick in oil prices in 2019 saw its petrol station business struggle. In particular for the year to April underlying earnings were $30 million to $35 million lower than expected with the business guiding towards weaker retail margins until June as oil price volatility was expected to continue. The firm was also hit by speculation concerning ACCC review of its proposed acquisition of fuel retailer Liberty Oil over its potential impact on competition within the fuel market.

Source: ASX company announcements, Bloomberg, *Australian Financial Review*, *Sydney Morning Herald*

Movers and Shakers for month of April 2019

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month ∆ (%)	Quarter ago close ($)	Quarter ∆ (%)	Year ago, close ($)	Year ∆ (%)
ECX	Eclipx Group Ltd	1.02	0.64	58.6	2.23	-54.5	3.25	-68.8
DLX	DuluxGroup Ltd	9.75	7.40	31.8	6.85	42.3	7.76	25.6
NEA	Nearmap Ltd	3.47	2.81	23.5	2.12	63.7	0.94	271.1
MFG	Magellan Financial Group Ltd	44.61	36.43	22.5	28.54	56.3	23.36	91.0
APT	Afterpay Touch Group Ltd	25.59	20.95	22.1	15.91	60.8	5.99	327.2
HLS	Healius Ltd	3.12	2.63	18.6	2.91	7.2	3.69	-15.4
BRG	Breville Group Ltd	19.24	16.28	18.2	10.98	75.2	11.39	68.9
A2M	A2 Milk Co Ltd	15.96	13.62	17.2	12.08	32.1	11.31	41.1
WEB	Webjet Ltd	16.86	14.55	15.9	11.98	40.7	10.85	55.4
CWN	Crown Resorts Ltd	13.29	11.51	15.5	11.95	11.2	12.96	2.5

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month ∆ (%)	Quarter ago close ($)	Quarter ∆ (%)	Year ago close ($)	Year ∆ (%)
PLS	Pilbara Minerals Ltd	0.61	0.79	-22.8	0.65	-6.2	0.92	-33.7
GXY	Galaxy Resources Ltd	1.46	1.88	-22.3	2.00	-27.0	3.06	-52.3
EVN	Evolution Mining Ltd	3.19	3.66	-12.8	4.01	-20.4	3.21	-0.6
SOL	Washington H. Soul Pattinson	22.99	26.31	-12.6	26.31	-12.6	19.41	18.4
NHC	New Hope Corp Ltd	2.69	3.01	-10.6	4.01	-32.9	2.16	24.5
S32	South32 Ltd	3.34	3.73	-10.5	3.53	-5.4	3.72	-10.2
VEA	Viva Energy Group Ltd	2.21	2.45	-9.8	1.84	20.1	N/A	N/A
RRL	Regis Resources Ltd	4.79	5.30	-9.6	5.20	-7.9	4.72	1.5
FLT	Flight Centre Travel Grp Ltd	38.40	42.05	-8.7	43.03	-10.8	55.90	-31.3
NST	Northern Star Resources Ltd	8.19	8.95	-8.5	8.77	-6.6	6.39	28.2

Source: Bloomberg, IOOF

Long-term asset class performance to April 2019 (in AUD)

					Annualised						
	Asset	**1-mth**	**3-mth**	**6-mth**	**1-yr**	**3-yr**	**5-yr**	**7-yr**	**10-yr**	**15-yr**	**20-yr**
Shares	Australia	2.4%	9.3%	10.9%	10.4%	11.1%	7.5%	10.1%	10.0%	8.9%	8.2%
	Australia - mid cap	3.0%	8.3%	6.1%	4.1%	12.6%	12.3%	12.3%	11.5%	9.6%	9.5%
	Australia - small cap	4.1%	11.0%	11.9%	7.2%	11.8%	9.1%	5.2%	7.4%	6.3%	5.6%
	World ex Australia	4.6%	12.0%	9.6%	14.3%	14.5%	13.6%	16.4%	12.1%	7.4%	4.4%
	World ex Australia (Hedged)	3.9%	9.2%	8.5%	8.4%	13.0%	10.3%	13.1%	14.1%	9.1%	N/A
	World - small cap	3.8%	9.6%	7.4%	7.7%	13.5%	13.0%	16.4%	13.7%	8.8%	8.6%
	Emerging Markets	3.0%	6.9%	14.6%	1.8%	14.3%	9.9%	9.1%	8.0%	8.9%	N/A
	Global Infrastructure	1.6%	9.4%	13.8%	20.5%	12.3%	13.2%	15.3%	10.7%	N/A	N/A
	Global Infrastructure (Hedged)	0.9%	6.8%	12.7%	14.8%	10.6%	10.1%	12.2%	14.6%	N/A	N/A
Property	Australian Property	-2.6%	5.3%	13.2%	17.7%	8.0%	12.9%	14.1%	14.2%	6.0%	N/A
	Global Property	-0.4%	5.7%	11.5%	17.6%	8.1%	11.5%	13.2%	12.2%	N/A	N/A
	Global Property (Hedged)	1.1%	4.5%	2.9%	15.5%	8.5%	8.6%	10.6%	16.2%	N/A	N/A
Fixed income	Australia Total Market	0.3%	3.1%	5.5%	7.9%	4.2%	4.9%	4.9%	5.5%	5.9%	5.8%
	Australia government bonds	0.2%	3.2%	6.0%	8.4%	4.1%	5.0%	4.8%	5.4%	5.9%	5.8%
	Australia corporate bonds	0.6%	2.9%	4.5%	6.7%	4.8%	5.0%	5.5%	6.3%	6.2%	6.1%
	Australia floating rate bonds	0.3%	1.2%	1.7%	3.1%	3.1%	3.1%	3.6%	4.6%	4.7%	5.0%
	Global Total Market (Hedged)	0.0%	1.8%	4.7%	5.0%	3.1%	4.7%	5.1%	6.5%	6.7%	6.8%
	Global government bonds (Hedged)	-0.2%	1.4%	4.4%	4.7%	2.9%	4.8%	5.1%	6.1%	6.6%	N/A
	Global corporate bonds (Hedged)	0.6%	3.1%	5.9%	5.8%	4.1%	5.0%	5.9%	8.4%	7.0%	N/A
	Global high yield bonds (Hedged)	0.9%	3.1%	5.4%	4.7%	7.3%	6.1%	8.1%	12.7%	9.8%	N/A
	Emerging Market bonds (Hedged)	0.1%	2.5%	8.1%	5.3%	5.1%	5.9%	6.2%	9.8%	9.4%	10.6%
Cash	Bloomberg AusBond Bank Bill Index	0.2%	0.5%	1.0%	2.0%	1.9%	2.1%	2.4%	3.0%	4.1%	4.4%

Source: Bloomberg, IOOF

* AUD total returns as at Apr-19 assuming reinvestment of dividends

** Returns reflect index performance excluding any fees; Actual ETF/managed fund performance will vary due to both fees and tracking error.

Appendix – Index sources

Asset class	Index
Australia	S&P/ASX 200 Accumulation Index
Australia - mid cap	ASX Accumulation Midcap 50 Index
Australia - small cap	ASX Accumulation Small Cap Ordinaries Index
World ex Australia	MSCI World ex Australia Net Total Return (in AUD)
World ex Australia (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
World - small cap	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets	MSCI Emerging Markets EM Net Total Return AUD Index
Global infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Australian Property	S&P/ASX 200 A-REIT Accumulation Index
Global Property	FTSE EPRA/NAREIT Developed Index Unhedged in AUD Net Total Return
Global Property (Hedged)	FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return
Australia Total Market	Bloomberg AusBond Composite 0+ Yr Index
Australia government bonds	Bloomberg AusBond Govt 0+ Yr Index
Australia corporate bonds	Bloomberg AusBond Credit 0+ Yr Index
Australia floating rate bonds	Bloomberg AusBond Credit FRN 0+ Yr Index
Global Total Market (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global government bonds (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global corporate bonds (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global high yield bonds (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash	Bloomberg AusBond Bank Bill Index

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