Australian Monthly Wrap

July Economic Wrap

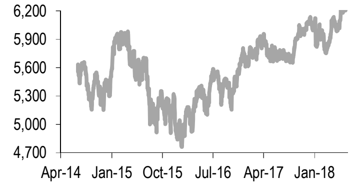
Summary - In a nutshell, both leading and hard economic data point to resilience in the global economy led by the US. This resilience is being tested however with Europe and China continuing to be points of weakness in the global economy as European growth estimates for June came in at a disappointing 0.3% on the March quarter. Business sentiment has been weighed down by the uncertainty on tariffs and trade policy with it being cited as a persistent concern across both developed and emerging markets. Trade tariffs continue to be a talking point with an agreement in principle to de-escalate between the US and the EU on the one hand being offset by the implementation of threatened tariffs by the US and China on the other hand. Australia continues to track in a mixed fashion, on the one hand retail sales have tracked higher during the June quarter and we saw a June trade surplus of 1.87bn, more than double consensus expectations, while on the other hand, house prices continue to correct and headline inflation was below expectations, deferring the case for higher interest rates.

Markets - The month of July was marked by a flat US Dollar (USD) with the Australian dollar appreciating slightly on the back of the surprise trade surplus and strong employment growth. US leading economic indicators and hard data are holding up, offering support for the Federal Reserve's ("The Fed's") efforts to raise interest rates with the next hike anticipated for September seeing bond yields rise higher; longer maturity assets like bonds need to fall in price (and yields to rise) to maintain their premium over cash. The US Dollar was flat over the month with emerging market equities rising slightly (see page 10) but still below developed markets leading to their continued underperformance this year after ending 2017 strongly (see chart 4). The ASX underperformed global markets (see chart 2) with growth stocks in aggregate declining over the month (see chart 3) as previous market underperformers such as Telstra caught a bid this month.

Key economic news – The Reserve Bank of Australia left the cash rate on hold at 1.50% as expected. July marked the tenth consecutive month of contracting home prices in Australia according to the latest CoreLogic data with the weakness focused in Sydney and Melbourne and spreading to other state capitals. In the US, the Fed left interest rates on hold at 2% in August but affirmed its positive view on the US economy firming analyst predictions for a rate hike of 0.25% in September this year.

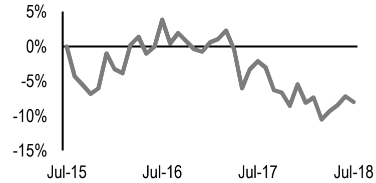
Key company news – Afterpay Touch Group (ASX: APT) continued from its solid momentum in June with positive results in its core ANZ business and strong progress on its launch into the US and other verticals domestically. CIMIC Group (ASX: CIM) benefitted from a positive earnings report and guidance to the market for FY18. Credit Corp Group (ASX: CCP) likewise benefitted from positive results as well as an inaugural full year profit in its US operations. Sigma Healthcare (ASX: SIG) was on the other side of the ledger with disappointing trading updates and the loss of cornerstone client Chemistworks permanently reducing future earnings.

1. S&P/ASX 200 Price Index



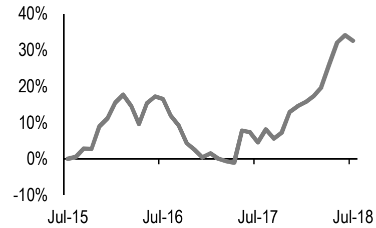
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



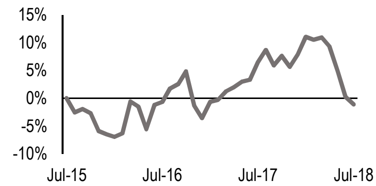
Source: Bloomberg, IOOF

3. MSCI Australia Growth relative to MSCI Australia Value



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, US$ terms



Source: Bloomberg, IOOF

Sector and stock returns

ASX/S&P 200 Sectors (GICS)

	Monthly	%∆	Quarterly	%∆
▲	Consumer Discretionary	2.13	Consumer Discretionary	9.31
▼	Consumer Staples	-0.54	Consumer Staples	5.21
▲	Energy	0.87	Energy	8.95
▲	Financials ex Property	2.05	Financials ex Property	4.23
▲	Financials	2.05	Financials	4.23
▲	Health Care	2.08	Health Care	10.61
▲	Industrials	3.48	Industrials	4.32
▼	IT	-1.20	IT	6.50
▼	Materials	-0.10	Materials	3.54
▲	Property Trusts	0.93	Property Trusts	4.51
▲	Telecommunications	7.90	Telecommunications	-8.66
▼	Utilities	-1.44	Utilities	4.51

Best and Worst S&P/ASX 200 Performers

Top five stocks		Bottom five stocks	
Monthly			
Afterpay Touch Group Ltd	+51.7%	Sigma Healthcare Ltd	-39.5%
Technology One Ltd	+16.2%	Bellamy's Australia Ltd	-29.2%
CIMIC Group Ltd	+14.3%	Evolution Mining Ltd	-20.5%
Super Retail Group Ltd	+14.1%	Sandfire Resources NL	-19.4%
Credit Corp Group Ltd	+13.9%	Nufarm Ltd	-19.3%
Quarterly			
Afterpay Touch Group Ltd	+136.7%	Bellamy's Australia Ltd	-39.3%
Wisetech Global Ltd	+51.9%	Sigma Healthcare Ltd	-36.8%
Seven West Media Ltd	+49.5%	Ausdrill Ltd	-34.6%
Mayne Pharma Group Ltd	+45.6%	Metcash Ltd	-26.9%
IPH Ltd	+33.9%	CSR Ltd	-24.8%

Source: Bloomberg, IOOF

Equity review

Major Market Performance, July 2018

	Australian Indices	Jul-18 Price	1M return (%)	Apr-18 Price	3M return (%)
▲	S&P/ASX 200	6280	1.38	5983	4.97
▲	All Ordinaries	6366	1.22	6072	4.85
▼	Small Ordinaries	2829	-1.06	2737	3.36
US Indices					
▲	S&P 500	2816	3.60	2648	6.35
▲	Dow Jones	25415	4.71	24163	5.18
▲	Nasdaq	7672	2.15	7066	8.57
Asia Pacific Indices					
▼	Hang Seng	28583	-1.29	30808	-7.22
▲	Nikkei 225	22554	1.12	22468	0.38
UK & Europe Indices					
▲	FTSE 100	7749	1.46	7509	3.19
▲	CAC40	5511	3.53	5521	-0.17
▲	DAX Index	12806	4.06	12612	1.53

Source: Bloomberg, IOOF

US equity market

The S&P 500 index finished the month up 3.6%. The market performance was strong across all sectors with all eleven in positive territory for July. The best performers were industrials (up 7.3%), health care (up 6.5%) and financial stocks (up 5.1%). Real Estate and telecommunications stocks were points of weakness (both up only 1%) with Energy stocks likewise struggling to participate in the overall market rise (up 1.7%), dragged down slightly by falling oil prices.

Australian equity market

The S&P/ASX 200 index finished the month up 1.4%. On a sector level, the best performers were telecommunications (up 7.9%), industrials (up 3.5%) and, consumer discretionary and health care stocks (both up 2.1%). The telecommunications space rallied on the back of a positively received restructure announcement by Telstra offsetting some of the damage of a year of declines for the index (and sector) heavyweight inflicted by increased competition and a lack of reinvestment historically. The worst-performing sectors were in the Utilities (down 1.4%) and IT space (down 1.2%) with IT sector heavyweight REA Group (ASX: REA) falling over the month on the back of a less rosy property market outlook that has seen prices continue to decline with CoreLogic recording a tenth consecutive month of national declines in July.

Fixed Income

	Fixed Income	Jul-18 yield	1M mvt (bps)	Apr-18 yield	3M mvt (bps)
	Aussie Cash rate	1.50	--	1.50	--
▲	10-year Bond Rate	2.65	0.02	2.77	-0.12
▲	3-year Bond Rate	2.08	0.03	2.18	-0.09
▼	90 Day Bank Accepted Bills SFE-Day	1.96	-0.14	2.0316	-0.07
▲	US 10-year Bond Rate	2.96	0.10	2.95	0.01
▲	US 3-year Bond Rate	2.77	0.14	2.63	0.14

Source: Bloomberg, IOOF

During the month of June, the Australian yield curve rose unevenly with long term rates rising at a slightly slower pace than short term rates. The Australian 3-year bond yield rose 3bps and the 10-year bond yield rose 2bps. The U.S. yield curve also rose unevenly with shorter rates such as the 3-year yield rising 14bps and the 10-year yield rising 10bps. The US bonds rose on the back of strong US economic growth of 4.1% year on year with market sentiment shifting away from safe-haven assets following the possible de-escalation of trade war fears between the US and the European Union after President Trump and European Commission President Juncker reached an agreement in principle to reduce industrial tariffs over time. Expectations also firmed for an interest rate in September at the next Federal Reserve meeting following the positive economic data with headline inflation also ticking up an additional 0.1%. In addition to the global the month saw Australian bond yields rise on the back of positive employment data with growth ahead of expectations as covered in more detail below.

In June, we highlighted how the 3-month bank bill rate had bounced back from a decline in May to a year-to-date rise of over 30 basis points. In July, it has since retraced those elevated levels falling by 18bps to alleviate some of the pressure on bank funding costs. The major banks have not yet followed suit in raising mortgages unlike smaller peers who are more reliant on overseas funding because of their smaller base of bank deposits. In its August statement the RBA pared back its concerns from the July statement noting that the average mortgage rate has still declined over the past year.

Currencies

	Currencies	Jul-18 Price	1M return (%)	Apr-18 Price	3M return (%)
▲	$A vs $US	74.24	0.26	75.30	-1.41
▲	$A vs GBP	56.57	0.89	54.71	3.39
▲	$A vs YEN	83.02	1.24	82.34	0.83
▲	$A vs EUR	63.51	0.22	62.34	1.88
▼	$A vs $NZ	108.91	-0.36	107.04	1.75
▼	$US vs EUR	85.54	-0.05	82.79	3.32
▲	$US vs GBP	76.19	0.62	72.65	4.87
▼	$US vs CHF	99.03	-0.03	99.09	-0.06

Source: Bloomberg, IOOF

The Australian dollar (AUD) rallied against major global currencies in July rising to USD 0.7424 on the back of a positive employment report later in the month as well as news of Chinese fiscal policy stimulus and the de-escalation of trade rhetoric between the US and the EU which favoured a risk-on sentiment in markets. Although the Bank of England raised rates in August, the currency had already priced in this shift with the weakness of the pound a reflection of ongoing concerns about the final shape that "Brexit" will take with observers becoming increasingly open to the possibility of a "no deal" Brexit and the impact that this could potentially have on the British economy.

The US Dollar (USD) traded broadly flat over the month even after gross domestic product (GDP) grew strongly at 4.1% in the year to June 2018. The flatter US yield curve (short rates rising more than long rates) as well from President Trump attacking both the Fed's tightening and currency manipulation by trading partners capped USD upside.

Commodities

	Commodities	Jul-18 Price	1M return (%)	Apr-18 Price	3M return (%)
▼	Aluminium	2067	-2.81	2247	-7.98
▼	Copper	283	-4.53	309	-8.48
▼	Nickel	13953	-6.14	13661	2.14
▼	Gold	1234	-2.58	1338	-7.81
▼	Silver	16	-3.94	16	-5.62
▼	Crude Oil - Brent	74	-6.53	75	-1.22
▼	Lead	2147	-10.95	2320	-7.45
▼	Zinc	2636	-7.91	3127	-15.70
▼	Iron Ore	64.35	-0.69	65.27	-1.41

Source: Bloomberg, IOOF

Commodity prices fell over the month of July. The weakness was notable in base metals such as copper which is regarded as an economic bellwether because of its widespread demand for industrial uses. Trade war concerns continue to weigh on investor sentiment on the back of fears of falling global trade which is expected to be the fall out of the tariffs being deployed between the US and China. The poor results for manufacturing PMIs both in China and elsewhere in the world with the Global manufacturing PMI declining from 53.0 in June to 52.7 in July driven by wavering sentiment further weighed on commodity prices.

Crude Oil fell over the month with intermittent bursts of volatility following for example the announcement that Saudi Arabia would remove some shipping lanes for its oil tanker routes from the Red Sea after an attack by Houthi rebel forces in Yemen. The July backdrop however was one of stronger supply with the US mid-month announcing the possible offering of waivers to allow countries to continue purchasing Iranian oil even after sanctions are due to come into effect (which they did in early August). Other factors adding to supply included increased Saudi production following criticism from the Trump Administration over excessive oil prices and the re-opening of Libyan ports to allow oil exports to recommence.

Australia

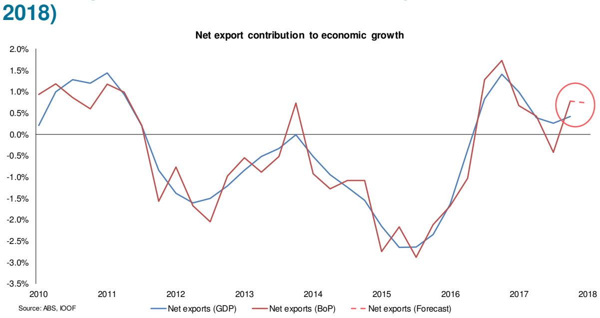
The RBA left the cash rate on hold at 1.50% in July in line with market expectations. The minutes from the July meeting highlighted their ongoing concerns over trade tensions which have been increasingly creeping into public statements on the global economy. On the domestic side, the bank maintained its view that the Australian economy is getting stronger and the next move in interest rates is likelier to be an increase than decrease. This last point has been appearing in recent RBA statements and is something of a brake on commentary as its exclusion, given rates have been on hold for almost 2 years, would be taken as a pessimistic signal on the Australian economy leading the Australian dollar to decline further. The Bank's positivity on the Australian economy can be tied to strong employment growth and non-mining investment although a caveat is the scale of household debt which was called out as an area the Bank was monitoring closely for any warning signs.

Headline inflation in Australia rose 0.4% over the June quarter (consensus: 0.5%) and 2.1% over the twelve months to June 2018. This fell short of market expectations with rising fuel cost inflation due to the higher oil price being offset by weakness in food prices and communication goods driven by stronger competition. Inflation of 2.1% is at the bottom of the RBA target range implies a weaker case for interest rate rises and the RBA has guided that any future hikes will likely require wage growth and higher inflation sustained for a period of time to be justified. This adds to the case of rates being on hold for longer with markets only pricing higher rates between 12 and 18 months from now. In addition, signs from the RBA statement following its August meeting point towards a downgrade in its updated inflation forecast for 2018 (due to be released in the Statement on Monetary Policy on 10 August) with the forecast for 2018 headline inflation dropped from 2.25% to 1.75% on the premise that one-off price declines in the Sep-18 inflation data will result in weaker inflation for the second half of 2018.

Private credit growth was 0.3% for June (consensus: 0.3%), up 0.1% on May and in line with consensus expectations. While personal loan growth was flat month-on-month both business and housing credit grew by 0.3% respectively. Annual growth came in at 4.5% and reflects the slowest such rate since early 2014 as housing credit continues to slow in line with tighter lending standards. This decline in credit growth continues to be reflected in housing prices with the latest CoreLogic data showing prices decline 0.6% over the month, falling at their fastest rate since 2012. In addition to weakness in the leading markets of recent years of Sydney and Melbourne, both Perth and Darwin continue their long-running decline.

In a surprise result, the Australian trade balance for June (exports less imports) more than doubled the consensus forecast by printing 1,873m (consensus: 900m) with exports the primary driver rising 3% on the May figure while imports fell 1% on May values. This points to net exports being a positive contributor to economic growth for the June quarter (See Chart 5). A key driver of this result is the ongoing strength of the Australian resource sector thanks not only to oil-based earnings but ongoing, growing production of iron ore this year with major miners able to offset the decline in prices for lesser quality ore but providing a more premium grade to the market. In USD terms for example, higher quality iron ore prices have risen over 23% relative to lower quality ore. Adding to this the depreciation of the Australian dollar year-to-date translates into strong export earnings from resources as earnings in foreign currencies get an additional boost when converted back into Australian dollars.

5. Net export contribution to economic growth (2010 – 2018)



Source: ABS, IOOF

Retail trade grew 0.4% in June in line with May month-on-month growth (consensus: 0.3%) which was above expectations and led by food retailing which rose 0.4% while clothing and footwear rose a further 1.7% following on from its 2.3% rise in May. Department stores continue to struggle pressured by e-commerce competition with a decline of 1.2% in sales over the month. This result coupled with the positive trade balance bodes well for June quarter economic growth.

The unemployment rate stayed constant at 5.4% (consensus: 5.4%) while the participation rate rose from 65.5% in May to 65.7% in June. The rise in the participation rate explains the lack of movement in unemployment as higher participation in the workforce adds additional workers to headline statistics, raising the unemployment rate. This effectively offset the sizeable net gain in jobs. If participation was constant at the May rate, the unemployment rate would have fallen to 5.1% instead, reflecting the strong gain in net jobs. The labour force rose well-above consensus forecasts with a gain of 50.9k net jobs (consensus: 16.5k) that saw part-time employment rising by 9.7k jobs and full-time employment by 41.2k positions. This continues the up-down nature of employment growth in recent years with part-time work rising by 1.7% or 76k jobs since the start of the year while full-time employment growth year-to-date is positive again, as opposed to flat in May, rising by 39.6k jobs.

United States

The US economy expanded 4.1% in the year to June 2018 (consensus: 4.2%), its fastest rate since the September 2014 quarter, with March quarter growth revised upwards from 2% to 2.2%. Key drivers were consumer spending which grew at 4%, ahead of expectations, and non-residential business investment which rose 7.3%. Some trade war impacts could be seen in the data with net exports contributing 1.06% to the pace of growth partly in response to a surge in soybean shipments ahead of retaliatory Chinese tariffs. Core inflation, inflation excluding food and energy prices, rose 2% annualised in the June quarter in line with the Federal Reserve target of 2% but slightly below the 2.2% level recorded in the March quarter. This result saw the Fed reiterate its gradual rate hiking positioning at the August meeting and firming expectations for a September rate hike.

The Markit Services PMI for July was 56 falling slightly by 0.5 points from its June reading of 56.5. This was driven by a softening in business confidence to a six-month low with service providers highlighting concerns on tariffs and their impact on client demand. In addition, rising operating costs continue to pressure margins in services with higher wage and fuel costs being partially passed on to consumers. Manufacturing conditions softened slightly with the Markit Manufacturing PMI falling from its June reading of 55.4 to 55.3, a five-month low. The main drivers were a softening in output growth and employment with export sales falling for a second consecutive month. Business confidence remains positive with expectations of further increases in new orders driven by domestic demand with foreign demand falling slightly for a second consecutive month. The slowing of expansion can also be attributed to increasing challenges on sourcing sufficient quantities of inputs which coupled with tariff increases is driving costs higher.

Businesses are increasingly able to pass on these higher costs to consumers because of the strong domestic demand situation which is likely to feed into higher inflation in future months

On trade tensions, the US and China saga continued to escalate further, this time into concrete actions with the two countries trading tariffs on $34bn worth of exports in early July. A further $200bn-worth of Chinese goods were also announced in June as possible targets for a 10% tariff initially. In July, this escalated into the threat of a 25% tariff on this collection of goods with China promising to follow suit should it be implemented. On the positive side of the ledger while the US did not remove tariffs on other trade partners it did arrive at an agreement in principle to reduce industrial tariffs with the EU which may crystallise into substantive efforts in the future. The point though is that rhetoric vis-à-vis the EU on trade appears to have softened with markets responding positively as a result. The exact, ultimate impact of these exchanges with China remains uncertain particularly as to how far it can escalate and spread globally. It does appear to be weighing on business sentiment as the US and other Markit PMI measures draw attention to and bears watching to see how it impacts on overall economic growth.

Geopolitically speaking the Trump Administration continues to alienate long-standing partners in the Western Powers with its unilateral efforts to impose sanctions on Iran following its withdrawal from the non-proliferation nuclear deal Iran signed in 2016. This has drawn blocking efforts from the EU looking to legally shield its companies that legitimately trade with Iran as it fights to keep the key tenets of the deal in place (namely that Iran doesn’t acquire nuclear weapons in exchange for better economic treatment). This remains another area to watch globally whether just for destabilising rhetoric between Presidents Trump and Rouhani or more concrete antagonism between the US and the EU.

China

The Chinese economy expanded 6.7% for the year ended June 2018 (consensus: 6.7%), down slightly from the March quarter growth of 6.8%. For pessimists, weaker than expected infrastructure spending and industrial production in June highlights some possible weaknesses emerging within China. However, to these it can be countered that the

Chinese government has guided for growth of 6.5% for the year implying a further slowdown in September and December is in line with expectations. In addition, consumption was stronger than expected with retail sales growing 9% which may help offset further trade tension-related declines. In addition, China's State Council announced an increase in fiscal aid targeting spending in infrastructure and tax cuts to offset the economic headwinds posed by deleveraging and the trade war with the US. To give context on how this has weighed on sentiment both the US and EU Composite PMIs, indicators of business activity, declined in July with political uncertainty and trade cited as major causes for increased pessimism across the private sector.

The Markit manufacturing PMI for July fell slightly to 50.8 from 51 in June. This is approaching contractionary territory (a reading of below 50 signals shrinking business activity) but given the stimulatory fiscal policy some recovery may arise during August. New orders grew at a softer pace, as did growth in output with the continued reduction in staffing due to entrenchment across the manufacturing sector adding to backlogs of work. A notable drag was a fourth-consecutive monthly fall in new export orders with the July fall at its steepest pace for 2 years. Services activity added to the decline falling from 53.9 in June to 52.8 in July helping the overall China Composite fall from 53 in June to 52.3 in July. The composite level data highlighted the weakness in business confidence with expectations about future output remaining above 50 but at its lowest level since November 2015, pointing towards a need for a confidence boost that the State Council action may instil.

Europe

The ECB left its interest rate settings unchanged in its July meeting. Headline inflation rose to an annual rate of 2.1% in July according to Eurostat, ahead of the ECB target of 2% and driven by higher oil prices. However, core inflation, a measure that strips out more volatile energy and food prices, rose to 1.1% from 0.9% in June still well below target levels adding to the case for lower rates for longer as already signalled with rate hike deferred until at least July 2019. The Bank of England increased interest rates to by 0.25% up from 0.5% in August as it sought to build up policy action ahead of the British withdrawal from the European Union in March 2019. Higher interest rates in the economy, the thinking goes, will make the lowering of interest rates a more powerful policy tool if Brexit is more tumultuous than anticipated. As noted in the June economic wrap, the next key meeting is in October this year with both sides yet to agree upon how trade will operate between the UK and EU once it departs. The Bank of England is embarking on stress tests to isolate points of weakness in the financial system ahead of this time to minimise any adverse economic impacts.

The Markit Eurozone Composite PMI resumed its weakness since the start of the year June falling to 54.3 from a reading of 54.9 in June. Weakness in services, a fall from 55.2 in June to 54.2 in July, more than offset strength in the manufacturing industry, rising from 54.9 to 55.1 over the same period. The gains in the manufacturing sector print were driven by improved business conditions in the consumer, intermediate and investment goods sectors with the latter two recording slight upticks in growth. Output also increased over the month as did new business but both were stymied by a slower pace in new export orders as firms battled uncertainty in the economic outlook and worries about tariffs and trade wars. By contrast the services industry showed that the upturn in services business activity remains broad-based across Eurozone nations but the pace of expansion has lost momentum with the rate of growth in new orders increasing a slower pace and business confidence falling to its lowest level since November 2016. Job creation remains positive and above its long-term average. On balance the expansion of business activity at current levels points towards softer economic growth in the September quarter in line with the 0.3% forecast for June quarter GDP issued by Eurostat in mid-July.

Emerging Markets

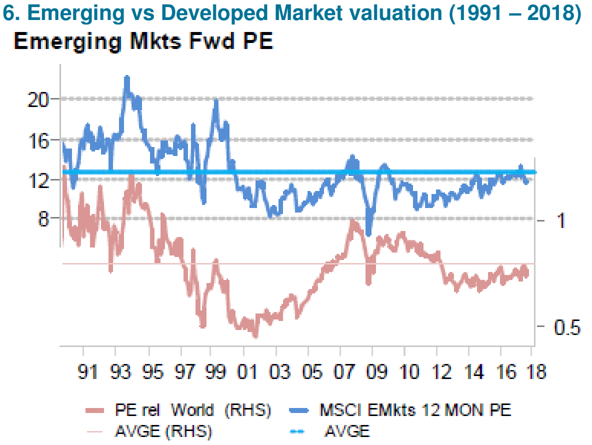
Turning to a positive story, India was one of a few positive stories in the EM space with the Nikkei Composite PMI Index rising from 53.3 in June to 54.1 in July driven by output growth in both the manufacturing and services sectors at the strongest rate seen since October 2016. This points to strong underlying economic growth but the positive sentiment has been qualified by warning signs in PMI data highlighting the rising input cost pressures from a weaker currency and higher global oil prices which subdue economic growth for oil importers nations such as India.

Actionable insights

Emerging market equities

EM equities have been punished substantially over the past year giving back a sizeable chunk of their outperformance in 2017. The area is looking more attractive for allocators with a longer-term mindset as long-term growth prospects for these economies are still strong and valuations have become more attractive, trading at a 25% discount to developed markets (see red line in Chart 6).

6. Emerging vs Developed Market valuation (1991 – 2018)

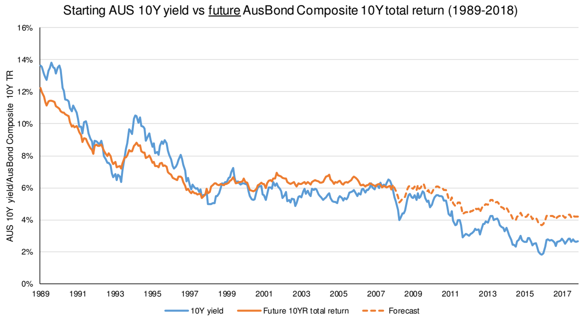


Source: Heuristic Investment Systems

Bonds

Bonds both domestically and globally remain at risk of a rising interest rate environment. At present yields are not high enough to offset the risk of capital loss. In addition, yields are a useful predictor of future returns looking at the Bloomberg AusBond Composite and its future performance given a starting 10-year yield of 2.65%. This index is what Vanguard and iShares ETFs follow (ASX: VAF and ASX: IAF respectively) and Chart 7 gives a useful forecast for future 10-year bond index returns. These are considerably reduced compared to the situation coming out of the global financial crisis where the index returned 6% p.a. from July 2008 to July 2018.

7. A-REITs indicators as at Jul-18

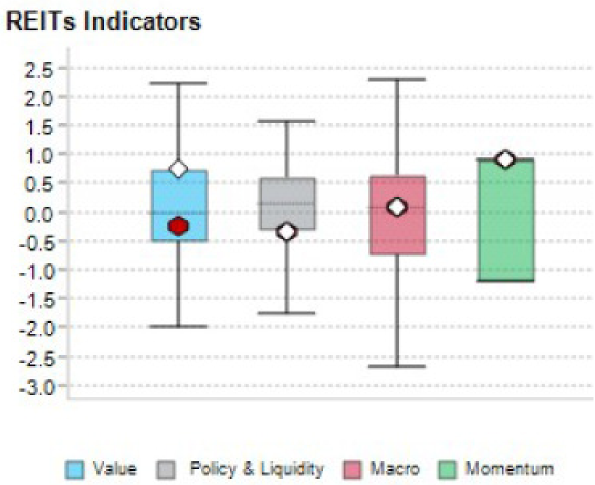


Source: Bloomberg, IOOF

A-REITS

The outlook for REITs looks favourable on a momentum view but the situation has deteriorated in both a policy and valuation (see red dot in Chart 8) setting following the rally in prices over the June quarter with A-REITs one of the strongest performing sectors. The risk for A-REITs remains a sharp rise in bond yields which we do not believe will occur from rising rates domestically but you can expect to see some rise in yields with rising US rates.

8. A-REITs indicators as at Jul-18



Source: Heuristic Investment Systems

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

Afterpay Touch Group (APT) rose strongly on the back of an earnings upgrade that saw underlying sales (retail transactions completed using Afterpay) grow 289% on FY18 with estimated FY18 Group revenue and underlying EBITDA at 142m and 33m-34m respectively. In addition, the company reported strong receipt of its offering for its US expansion, ongoing progress towards an additional warehouse receivables funding facility to facilitate further growth and expansion into other retail verticals.

Technology One (TNE) rose following the positive receipt of a report highlighting the impact of a change in accounting standards with the adoption of AASB 15 in FY19 leading to better comparable performance against other SaaS businesses globally. The adoption of rateable recognition of revenue on a daily basis will avoid the historic skew in earnings to the second half and give the accounts the annuity-style return profile that investors find attractive in these SaaS offerings leading to a re-rating by the market.

CIMIC Group (CIM) benefited from a positive earnings result and the confirmation of its guidance for FY18 NPAT to deliver between $720m and $780m with the company growing earnings for the first half by 12% to $363m (CIMIC reports using a calendar year as its financial year). The company continues to benefit across its portfolio of construction services with key project announcements in the year and a further $80bn being tendered for and $330bn of projects expected for 2019 and beyond offering a rosy future outlook.

Super Retail Group (SUL) benefitted from positive retail sales figures in June ahead of market expectations with the clothing and personal accessories category rising strongly, a key segment of Super Retail's product offering across its retail network. There has also been an ongoing rally in their shares following the well-received acquisition of Watpac.

Credit Corp Group (CCP) rose on the back of strong FY18 financial results with earnings rising 17% and its US operations making the first full year profit. In addition, the company issued a positive guidance of 4% - 7% growth in earnings for FY19 with dividends also guided to rise by 4.5% - 7.5%. The rally also reflected a bounce back following allegations comparing the firm's operations to extortionate pay-day lending practices; concerns over these appear to have faded.

Sigma Healthcare (SIG) shares fell following the loss of key customer My Chemist/Chemist Warehouse Group from FY20 onwards with the contract going to NZX-listed EBOS Group. In addition, the company downgraded its guidance for FY19 and FY20 to an EBIT of $75m and $40m-$50m respectively citing softer trading conditions in the former case and the loss of the Chemist Warehouse contract in the latter case. The stated intention to engage in capital management including maintaining its existing share buyback program was insufficient to offset the cumulative negative impact of the preceding announcements.

Bellamy's Group (BAL) sank following an analyst note from Goldman Sachs in July highlighting that the company was likely to experience delays in receiving regulatory approval in China for its China-labelled infant formula products and on this basis downgrading earnings expectations. This pointed towards weaker investor sentiment with a broker downgrade from Morgans in late June and a downgrade from Citi in early August weighing on the stock.

Evolution Mining Group (EVN) dropped following the guidance to reduced profits due to a higher AISC figure both in the Jun-18 quarter and guided for FY19 that saw operating and capital spend costs increase by $100 per ounce, an 11% increase which will translate into lower profits, ounce for ounce. Macro factors also weighed on the share price with base metals and gold prices falling over the month (Evolution produces both copper and gold from its mining operations)

Sandfire Resources NL (SFR) fell on the back of macro factors with base metals and gold prices falling over the month (Sandfire produces both copper and gold from its mining operations). In addition, delays in the acquisition of 100% of its Springfield joint venture as well as its FY19 production guidance were poorly received by the market. The forecast increases in production costs due to sub-grade copper at one of its mines as well as higher diesel prices was an additional factor.

Nufarm Ltd (NUF) shares fell following a downgrade to its Australia & New Zealand business earnings with an expected FY18 EBIT (Earnings Before Interest and Tax) of between $5m and $10m compared to the previous year's $51.6m. The main driver for the downgrade was extended dry weather conditions in Australia with one of the driest autumns on record leading to a poor winter crop season and consequently a weak market for crop protection products (Nufarm's main business). In addition to poor FY18 results, the extension of forecasts for dry weather continuing into FY19 saw an anticipated reduction in earnings for the next financial year and the signalling of a possible impairment for FY18 to reflect the loss in carrying value of its ANZ business. There was also a smaller reduction in earnings of $12m from delays in receiving French government approvals for several products.

Source: ASX company announcements, Bloomberg

Movers and Shakers for July 2018

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago, close ($)	Year Δ (%)
APT	Afterpay Touch Group Ltd	14.18	9.35	51.7	5.99	136.7	3.10	357.4
TNE	Technology One Ltd	4.94	4.25	16.2	4.96	-0.4	5.37	-8.0
CIM	CIMIC Group Ltd	48.33	42.30	14.3	45.39	6.5	41.42	16.7
SUL	Super Retail Group Ltd	9.24	8.10	14.1	7.21	28.2	8.39	10.1
CCP	Credit Corp Group Ltd	20.58	18.07	13.9	17.96	14.6	16.96	21.3
MYX	Mayne Pharma Group Ltd	0.99	0.87	13.8	0.68	45.6	0.96	3.1
TPM	TPG Telecom Ltd	5.76	5.17	11.4	5.58	3.2	5.61	2.7
BXB	Brambles Ltd	9.88	8.88	11.3	9.87	0.1	9.24	6.9
RWC	Reliance Worldwide Corp Ltd	5.95	5.36	11.0	4.59	29.7	3.24	83.7
IPH	IPH Ltd	4.90	4.45	10.1	3.66	33.9	4.52	8.4

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago close ($)	Year Δ (%)
SIG	Sigma Healthcare Ltd	0.49	0.81	-39.5	0.78	-36.8	0.96	-49.0
BAL	Bellamy's Australia Ltd	11.00	15.54	-29.2	18.11	-39.3	7.05	56.0
EVN	Evolution Mining Ltd	2.79	3.51	-20.5	3.21	-13.1	2.22	25.7
SFR	Sandfire Resources NL	7.38	9.16	-19.4	7.94	-7.1	5.79	27.5
NUF	Nufarm Ltd	7.15	8.86	-19.3	9.12	-21.6	8.24	-13.3
APX	Appen Ltd	10.86	13.37	-18.8	9.64	12.7	4.17	160.4
SBM	St Barbara Ltd	4.12	4.83	-14.7	4.27	-3.5	2.71	52.0
SAR	Saracen Mineral Holdings Ltd	1.88	2.19	-14.4	1.89	-0.8	1.35	39.4
RRL	Regis Resources Ltd	4.46	5.12	-12.9	4.72	-5.5	3.83	16.4
IGO	Independence Group NL	4.50	5.14	-12.5	5.17	-13.0	3.01	49.5

Source: Bloomberg, IOOF

Long-term asset class performance to July 2018 (in AUD)

	Asset	1-mth	3-mth	6-mth	Annualised 1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	1.4%	5.8%	6.2%	14.6%	8.0%	9.2%	10.0%	7.0%	9.5%	8.8%
	World ex Australia	2.6%	5.2%	6.5%	20.2%	8.4%	13.8%	16.1%	9.5%	7.2%	4.3%
	World ex Australia (Hedged)	3.2%	4.9%	0.7%	13.4%	10.0%	12.5%	13.5%	9.5%	10.0%	N/A
	Emerging Markets	1.6%	-4.1%	-4.1%	12.1%	8.5%	9.3%	7.6%	5.3%	9.4%	N/A
Property	Australian Property	1.0%	6.3%	7.5%	14.2%	8.0%	12.4%	14.8%	6.6%	5.9%	N/A
	Global Property	0.5%	7.3%	10.0%	11.1%	5.0%	11.1%	13.3%	7.5%	N/A	N/A
Fixed income	Australia government bonds	0.1%	1.4%	2.3%	3.0%	2.9%	4.2%	5.0%	5.8%	5.5%	5.7%
	Australia corporate bonds	0.2%	1.1%	1.8%	3.4%	3.8%	4.6%	5.6%	6.5%	6.0%	6.1%
	Australia floating rate bonds	0.3%	0.7%	1.1%	2.5%	2.9%	3.2%	3.8%	4.4%	4.9%	N/A
	Global government bonds (Hedged)	-0.2%	0.4%	1.3%	2.0%	3.4%	4.9%	5.7%	6.6%	6.7%	N/A
	Global corporate bonds (Hedged)	0.6%	0.6%	-0.7%	0.6%	4.2%	5.3%	6.3%	7.7%	7.1%	N/A
	Global high yield bonds (Hedged)	1.7%	0.4%	-0.8%	1.9%	7.2%	7.2%	8.6%	10.6%	10.4%	N/A
	Emerging Market bonds (Hedged)	2.8%	0.2%	-3.5%	-0.5%	5.8%	6.5%	6.8%	8.5%	9.8%	10.1%
Cash	S&P/ASX Bank Bill Index	0.2%	0.5%	1.0%	1.8%	1.9%	2.2%	2.7%	3.3%	N/A	N/A

Source: Bloomberg, IOOF

* AUD total returns as at July 2018 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
World ex Australia	MSCI World ex Australia Net Total Return Index in AUD
World ex Australia (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
Emerging Markets	MSCI Emerging Markets EM Net Total Return AUD Index
Australian Property	S&P/ASX 200 A-REIT Accumulation Index
Global Property	MSCI World Real Estate Net Total Return Index in AUD
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 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	S&P/ASX Bank Bill Index

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Research Analyst Disclosures:

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