Australian Monthly Wrap

June Economic Wrap

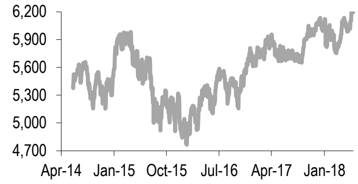
In a nutshell, both leading and hard economic data point to resilience in the global economy led by the US. This resilience is being tested however with Europe and China as points of weakness in the global economy. Business sentiment has been hit as well by an escalation in trade tensions between the US and China with the two trading tariffs in early July after a long and tortuous build-up. The tariffs are not only bilateral however with both Europe and NAFTA members Mexico and Canada incurring US tariffs and returning fire targeting US agricultural and consumer exports such as craft whiskey. Australia continues to track in a mixed fashion, on the one hand retail sales have tracked higher during the June quarter, recording 0.4% monthly growth for May while on the other hand, house prices continue to correct and the trade surplus drew lower in both April and May relative to performance in the March quarter.

In markets, the month of June was marked by the ongoing strength of the US Dollar (USD) which appreciated against its major partners driven in part by the relative outlook between the US economy and the rest of the world, notably Europe. US leading economic indicators and hard data are holding up, offering supports for the Federal Reserve's ("The Fed's") efforts to raise interest rates which it did by a further 0.25% to take US rates to 2% overall. The European outlook remains weaker with the ECB signalling the postponement of rate hikes until at least June-August next year while planning to end its quantitative easing (bond buying) programme at year-end. USD strength weighed on emerging market equities as did trade war concerns leading to their continued underperformance this year after ending 2017 strongly (see chart 4). The ASX outperformed global markets (see chart 2) with the strength led by the ongoing bid for growth stocks such as Appen and Afterpay over value (see chart 3).

Key economic news – The Reserve Bank of Australia left the cash rate on hold at 1.50% as expected. June marked the ninth consecutive month of contracting home prices in Australia according to the latest CoreLogic data with the weakness focused in Sydney and Melbourne. In the US, the Fed raised interest rates to 2%, widening the relative gap to Australia while recording solid production growth and employment growth figures.

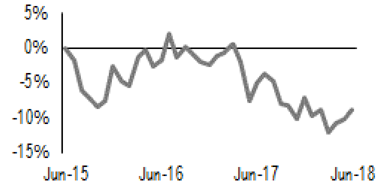
Key company news – two new names in Afterpay Touch Group (ASX: APT) and Appen Ltd (ASX: APX) benefited from their inclusion in the ASX200 as well as earnings upgrades to date as part of a general shift in sentiment chasing growth companies with stellar performance in 2018. Mining services company Ausdrill was the weakest performer of the quarter suffering from a mix of security issues at a Malian mine as well as revenue downgrades on a key servicing contract. AMP was a close second reflecting the negative media attention and expected regulatory burden its testimony at the Royal Commission has garnered to date over regulatory and legal infractions by its financial advisers and poor governance by its board members, several of whom have since resigned.

1. S&P/ASX 200 Price Index



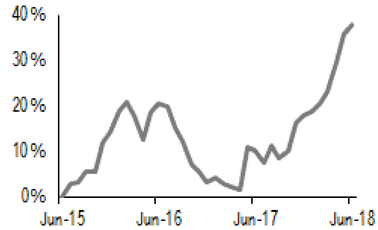
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



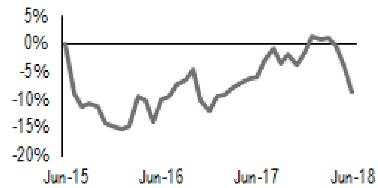
Source: Bloomberg, IOOF

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)				Best and Worst S&P/ASX 200 Performers			
	Monthly	%Δ	Quarterly	%Δ	Top five stocks		Bottom five stocks	
▲	Consumer Discretionary	2.03	Consumer Discretionary	10.34	Monthly			
▲	Consumer Staples	6.15	Consumer Staples	11.88	Appen Ltd	+31.0%	Ausdrill Ltd	-27.5%
▲	Energy	7.76	Energy	19.65	Gateway Lifestyle	+29.4%	Mineral Resources Ltd	-13.4%
▲	Financials ex Property	4.05	Financials ex Property	2.28	Aust Pharma Indus Ltd	+25.5%	Galaxy Resources Ltd	-13.2%
▲	Financials	4.05	Financials	2.28	Afterpay Touch Group Ltd	+19.6%	Bellamy's Australia Ltd	-12.2%
▲	Health Care	2.63	Health Care	16.40	Nanosonics Ltd	+18.8%	Ramsay Health Care Ltd	-12.0%
▼	Industrials	-0.29	Industrials	4.23	Quarterly			
▲	IT	6.30	IT	10.89	Wisetech Global Ltd	+66.2%	Ausdrill Ltd	-32.0%
▲	Materials	1.73	Materials	11.55	Seven West Media Ltd	+55.6%	AMP Ltd	-28.7%
▲	Property Trusts	0.46	Property Trusts	8.17	Appen Ltd	+50.4%	Bellamy's Australia Ltd	-21.7%
▼	Telecommunications	-5.77	Telecommunications	-13.68	Afterpay Touch Group Ltd	+45.2%	Automotive Holdings Grp	-18.8%
▲	Utilities	5.11	Utilities	8.42	Beach Energy Ltd	+44.4%	Technology One Ltd	-18.1%

Source: Bloomberg, IOO

Equity review

Major Market Performance, June 2018

	Australian Indices	Jun-18 Price	1M return (%)	Mar-18 Price	3M return (%)
▲	S&P/ASX 200	6195	3.04	5759	7.56
▲	All Ordinaries	6290	2.71	5869	7.17
▲	Small Ordinaries	2859	0.76	2666	7.26
	US Indices				
▲	S&P 500	2718	0.48	2641	2.93
▼	Dow Jones	24271	-0.59	24103	0.70
▲	Nasdaq	7510	0.92	7063	6.33
	Asia Pacific Indices				
▼	Hang Seng	28955	-4.97	30093	-3.78
▲	Nikkei 225	22305	0.46	21454	3.96
	UK & Europe Indices				
▼	FTSE 100	7637	-0.54	7057	8.22
▼	CAC40	5324	-1.39	5167	3.02
▼	DAX Index	12306	-2.37	12097	1.73

Source: Bloomberg, IOOF

US equity market

The S&P 500 index finished the month up 0.5%. The market performance was strong across most sectors with eight in the green, and three in red territory. The worst performers were industrials (down 3.4%), financials (down 2%) and IT stocks (down 0.4%). Consumer staples were the stand out (up 4.1%) with positive months for real estate (up 3.9%) and consumer discretionary shares (up 3.5%). US tech stocks declined following the proposed crackdown on Chinese investment in US tech companies by the Trump Administration which was subsequently softened as discussed later in this report.

Australian equity market

The S&P/ASX 200 index finished the month up 3%. On a sector level, the best performers were energy (up 7.8%), IT (up 6.3%) and consumer staples (up 6.2%). The worst-performing sectors were again telecommunications (down 5.8%) and industrials (down 0.3%). The weakness in telecommunication stocks was driven again by the ongoing competitive and earnings challenges facing Telstra (ASX: TLS) with the company's plans to face these, as outlined in the June Strategy Day, poorly received by the market. This ongoing price weakness also reflects the vanishing dividend premium accrued over the company's history with analysts forecasting further cuts being necessary to shore up its franchise.

Fixed Income

	Fixed Income	Jun-18 yield	1M mvt (bps)	Mar-18 yield	3M mvt (bps)
	Aussie Cash rate	1.50	--	1.50	
▼	10-year Bond Rate	2.63	-0.04	2.60	▼
▼	3-year Bond Rate	2.06	-0.04	2.05	▼
▲	90 Day Bank Accepted Bills SFE-Day	2.10	0.12	2.02	▲
▲	US 10-year Bond Rate	2.86	0.00	2.74	▲
▲	US 3-year Bond Rate	2.62	0.07	2.38	▲

Source: Bloomberg, IOOF

During the month of June, the Australian yield curve fell evenly with long term rates declining in line with short term rates. The Australian 3-year bond yield fell 4bps and the 10-year bond yield fell 4bps. The U.S. yield curve steepened with the 3-year bond yield rising 7bps and the 10-year bond yield flat for the month. The US 3-year rose and held those gains on the back of the Federal Reserve ("the Fed") raising rates to a range of 1.75%-2% in line with expectations. In addition, the pace of future US rate hikes pointed towards a second hike later this year, a possibility noted in the March report on the Fed when it last increased rates. The slump in long-term rates and Australian bond yields echoed a global retreat to safety driven by geopolitical events, in particular trade tensions between the US and China and, spreading to other nations with both the European Union, Canada and Mexico imposing their own retaliatory sanctions.

In April, we highlighted how the 3-month bank bill rate continued to hold at elevated levels. It has retraced its decline in May to rise by 12bps sparking concerns over "out of cycle" mortgage rate increases as lenders feel pressured to increase rates to preserve their net interest margin (i.e. what they charge customers minus the cost of borrowing). We observed this behaviour in several smaller lenders with Bank of Queensland for example raising mortgage rates slightly to preserve margins. The RBA's tone on this appears to have shifted with the concession that factors aside from US structural issues appear to be driving the elevated rates although it still maintains a positive view citing the decline in average mortgage rates in recent times.

Currencies

	Currencies	Jun-18 Price	1M return (%)	Mar-18 Price	3M return (%)
▲	$A vs $US	74.05	-2.15	76.79	-3.57
▲	$A vs GBP	56.07	-1.49	54.82	2.27
▲	$A vs YEN	82.01	-0.42	81.61	0.48
▲	$A vs EUR	63.37	-2.09	62.35	1.64
▲	$A vs $NZ	109.30	1.10	106.14	2.98
▲	$US vs EUR	85.58	0.06	81.14	5.47
▲	$US vs GBP	75.72	0.68	71.34	6.14
▼	$US vs CHF	99.06	0.49	95.40	3.84

Source: Bloomberg, IOOF

The Australian dollar (AUD) was down against major global currencies in June falling sharply to USD 0.7405 on the back of ongoing trade concerns between China and the US, weaker industrial data coming out of China and the growing interest-rate differential to US rates with the gap rising to 0.5% following the Fed's rate increase. The weakness against the pound came from a shift in market expectations on the next Bank of England rate hike with expectations pulled forward by the surprise shift to a hawkish stance from Chief Economist Andrew Haldane.

The US Dollar (USD) continued to appreciate over the month on the back of solid economic data relative to Europe and renewed expectations on the pace of Federal Reserve hikes following the 0.25% increase in rates at the June meeting. Even though the ECB signaled the end to its quantitative easing programme this year, the relative interest rate gap remains sizeable especially given its guidance to hold rates steady at current negative levels until at least June-August, next year.

Commodities

	Commodities	Jun-18 Price	1M return (%)	Mar-18 Price	3M return (%)
▲	Aluminium	2164	-6.32	2008	7.80
▼	Copper	297	-3.86	306	-3.21
▲	Nickel	14836	-2.33	13312	11.45
▼	Gold	1255	-3.85	1333	-5.91
▲	Silver	16	-2.09	16	-1.54
▲	Crude Oil - Brent	79	2.38	70	13.05
▲	Lead	2412	-1.81	2396	0.65
▼	Zinc	2892	-6.65	3274	-11.68
▲	Iron Ore	64.80	-1.74	69.70	-7.03

Source: Bloomberg, IOOF

Commodity prices corrected to varying degrees except for oil. The weakness was notable in base metals such as copper which is seen as an economic bellwether i.e. positive economic growth expectations translate into higher copper prices because of its widespread demand for industrial use. Trade war concerns weighed on investor sentiment leading to a downgrade of economic growth expectations on the back of falling global trade which is expected to be the fall out of the tariffs being deployed between the US, its NAFTA partners and China. In addition, the relative strength of the US economy bolstered USD relative to other currencies, making commodities more expensive and weighing negatively on prices as a result.

Crude Oil enjoyed another positive month even though increased production was signalled as a result of the late June OPEC meeting that looked to roll back some of the production cuts that had been supporting oil prices to date. A combination of factors served to offset this anticipated increase in supply including renewed US efforts to curtail Iranian oil access to export markets, the ongoing impact of Venezuela's reduced production and greater than expected demand for oil in the US economy drawing down stockpiles more than expected.

Australia

The RBA left the cash rate on hold at 1.50% in June in line with market expectations. It dampened its outlook on the global economy slightly and highlighted the uncertainty that US trade policy has introduced for the global economic outlook. Also featuring was a concern with short-term bank borrowing costs in Australia with a deviation from previous public statements highlighting the divergence with US rates (which our market typically follows). The Bank did not go into further beyond highlighting that other factors besides US structural ones were driving this increase and that it continues to watch this space. It also continued to maintain confidence that the growing job vacancy rate, a sign of demand for workers, would translate into stronger wage growth in time and by implication stronger inflation to justify the case for an interest rate hike.

As we highlighted in May, net exports played an important role in the March quarter GDP print. The release of another month of trade data with the May numbers highlights the lower contribution we should expect net exports to make for the June quarter figures (released in Sep-18) with a smaller trade surplus of 400m recorded (consensus: 1.2bn). This result dims the forward outlook slightly for June quarter GDP numbers

Dwelling approvals continued to fall in May with a decline of 3.2% (consensus: 0.0%) worse than market expectations. The weakness was led by an 8.6% drop in new housing approvals from April more than offsetting a 4.3% rise in new non-housing (i.e. apartment) approvals. This decline is viewed as a leading indicator of future construction activity pointing towards a declining contribution of residential construction in future GDP figures. This follows on from the latest CoreLogic report on national property prices which noted a decline of 0.2% in June, the ninth-consecutive monthly decline since prices peaked in September last year.

Retail sales grew 0.4% in May compared to April (consensus: 0.3%) continuing the pick up from a weak March quarter. In trend terms sales improved by 0.3% on April driven by food retailing (41% of total retail sales) and recovery in department stores which had a 0.55% improvement over the month. This helped offset weakness in other categories with clothing and accessories and, the café and restaurant segments recording flat sales in May. In contrast to the potential GDP negative of declining housing approvals, this points towards a stronger contribution of consumer demand to June quarter GDP results reported in September.

The unemployment rate fell to 5.4% (consensus: 5.6%) while the participation rate also fell from 65.6% in April to 65.5% in May. The decline in the participation rate explains most of the fall in unemployment as lower participation in the workforce removes those dissatisfied workers from headline statistics, lowering the unemployment rate. If participation was constant at the April rate, the unemployment rate would have remained at 5.6%. The labour force gained 12k net jobs (consensus: 19k) with part-time employment rising by 32.6k jobs offset by a decline in full-time employment of 20.6k positions. This continues the up-down nature of employment growth in recent years with part-time work rising by 1.7% or 66k jobs since the start of the year while full-time employment growth has been flat bucking last year's trend of sizeable growth in full-time work. In addition, a broader measure of labour market slack, the underutilisation rate (the sum of the unemployment and underemployment rates) held steady at 13.9% in May, remaining elevated relative to the 10-year average of 13.3%.

Australian job vacancy data highlights the ongoing disconnect between wage growth and demand for workers with a notable uptick from the Feb-18 data that saw Victoria leading the country as it recorded an annual rise in vacancies of 52%. That strength was offset slightly by signs of slowing growth in NSW (up 11%) and Queensland (up 20%) reflecting the weaker pace of jobs creation this calendar year compared with prior quarters. This strength adds to the RBA case that eventually demand for workers will tell in wage growth. This was the historic relationship observed until 2013-14 with growth in job vacancies a leading indicator of wage growth. It has since broken down with one explanation being that new jobs are skewed more to less-secure and less-well-paying part-time roles

United States

The U.S. Federal Reserve ("The Fed") increased the federal funds rate by 0.25% to 2% and upgraded its positive economic outlook for the US economy. US non-farm employment numbers rose by 213,000 and the unemployment rate rose by 0.2% to 4% in June, driven by the reverse of the effect highlighted in the Australian unemployment rate i.e. rising participation as more workers began seeking work again drove up the unemployment rate. Wages growth increased slightly to 2.7% for the year ended Jun-18 (May-18: 2.6%) adding to the Fed's optimism on the US outlook. Interestingly however real wages (wages after May-18 inflation of 2.8% is allowed for) remain slightly negative for the year. This may tell on Fed policy in the future if this situation persists as falling incomes in real terms would be less able to maintain spending if interest rates are also rising.

The Markit Services PMI for June was 56.5 falling slightly by 0.3 points from its May reading of 56.8. This was driven by a rise in the average cost burdens faced by producers due to a mix of supplier shortages, the recently imposed tariffs and reports of higher fuel prices with firms able to pass on some of the higher input costs to clients. Both output and new business orders increased albeit at a slower rate with business confidence remaining elevated for the year ahead. Manufacturing conditions softened with the Markit Manufacturing PMI falling from its May reading of 56.4 to 55.4, still marking the strongest quarterly performance since the Sep-14 quarter result. The main contributors were a weaker uptick in new business orders as well as a difficulty among producers in sourcing raw materials with buying activity and stocks of purchases growing at weaker rates. The other major challenge was the persistence of capacity pressures indicating demand remains strong. It is worth noting that business optimism declined, driven by fears over the potential impact of trade wars and tariffs to the US economy with a decline in export sales also recorded for the first time since July 2017. The overall composite fell to 56.2 from 56.6 in May with this reading consistent with a strongly growing US economy including the fastest growth rates in new jobs in several years. On the downside price pressures remained elevated and likely to feed through into consumer inflation while business confidence has softened slightly.

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. The US also antagonised other major trading partners with the EU, Canada and Mexico all levying their own tariffs in response to the implementation of tariffs on their steel and aluminium exports to the US. The exact, ultimate impact of these exchanges 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.

China

Chinese industrial output expanded by 6.8% year-on-year in April (consensus: 6.9%) below market expectations while fixed-asset investment growth slowed to 6.1% per annum (consensus: 7%). Retail sales expanded less than expected at 8.5% per annum (consensus: 9.6%) with economists sticking by forecasts that economic growth will slow from the March quarter print of 6.8% to approach 6.5% even without any direct shocks from the trade dispute with the US. The Markit manufacturing PMI for June fell fractionally to 51.0 from 51.1 in May. New orders grew at a moderate pace, as did growth in output, in line with the increases observed in April and May. A notable drag was a third-consecutive monthly fall in new export sales with reports of subdued foreign demand. Manufacturers responded with a further reduction in workforce numbers, the steepest rate of job shedding for the past 11 months with inventory builds hinting at a cautious approach with stocks of both purchased and finished items declining at the end of the quarter. The level of positive sentiment was the lowest recorded for six months with producers citing concerns of rising input costs and stricter environmental policies that has seen manufacturers pass on costs at the steepest rate since last September. a slightly faster pace in May with input buying also growing but at a slower rate than observed in April. Services activity helped offset this weakness rising from 52.9 in May to 53.9 in June and turn helping the overall China Composite rise from 52.3 in May to 53.0 in June. Both employment and new business indices rose moderately although these gains were offset by input costs growing more than prices charged, crimping services firms' profit margins and leading confidence to dip from the recent high in May.

The composite level data highlighted the weakness in manufacturing indices, especially employment, with the overall composite employment index deteriorating as did the future output expectations index pointing towards weaker business confidence going forward. This potentially builds the case for more policy easing in China, especially if the tariffs announced in early July weigh on business sentiment further.

Europe

On the geopolitical side markets eventually calmed from the Italian saga although the dispersion between core and periphery EU nation yields remains elevated following the events in late May. They did re-awaken temporarily on concerns over Germany with Chancellor Merkel facing a strong political challenge to be proactive on illegal immigration into Germany with harsher measures, akin to Australia's own detention centres, being advocated in the deal agreed upon between members of her ruling coalition.

The ECB left its interest rate settings unchanged in its June meeting. It offered guidance on the end to its quantitative easing (bond-purchasing) agreement which was pencilled in for the end of this year. The current pace of bond purchases of €30bn is expected to gradually decline leading up to December. Since the programme began over €2 trillion-worth of EU bonds have been acquired by the ECB while interest's rates have been held at below-zero levels. Monetary policy was also guided to remain accommodative given low levels of core inflation (1% for May) with President Draghi stating that rates would remain on hold until the summer of 2019 (i.e. June-August).

The Bank of England left interest rates unchanged at 0.5% in its June meeting. A surprise for markets was the change in voting by Chief Economist Andrew Haldane who changed his vote in favour of an interest rate hike to 0.75%. This increased expectation of an eventual rate hike later this year. In other news, the outlook on the British exit from the European Union remains murky with the departure of several ministers leading negotiations including Foreign Secretary Boris Johnson adding to the uncertainty. 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 in March next year. It remains a space to watch as while the move towards Brexit hasn't been as catastrophic as put forward in the lead up to the vote, it has been costly for the UK economy in terms of different business interests looking to relocate, the exchange rate being hit affecting people's living standards and more. Further turmoil could affect both the UK economy and that of the broader Eurozone with implications for both equity and fixed income markets.

The Markit Eurozone Composite PMI bucked the trend of the last three months rising to 54.9 from a reading of 54.1 in May. Weakness in manufacturing, a fall from 55.5 to 54.9 in June, was offset by a rise in the services industry, rising from 53.8 to 55.2.

In the manufacturing industry, firms continued to experience a synchronised weakening in growth of both output and new order volumes with Germany recording an 18-month low of 55.9 as trade concerns weighed on sentiment which is now at its lowest level in over two-and-a-half years. The largest concern is the export book for many firms with a real fear that this growth could soon go into decline. By contrast the services industry has a more localised, domestic exposure less harmed by export concerns. Rising trade did affect business confidence but in terms of the harder data, services firms saw acceleration in both new business and output reflecting in part some seasonality introduced by an unusually high number of holidays in May with backlogs of work also rising for the thirty-seventh consecutive month. These concerns point towards a common theme over the month, the damage of trade wars not only in terms of the direct harm to trade flows proper but also the flow-effects on business confidence and how investment occurs in the economy. Overall global production indices remained elevated, pointing towards potential for a bounce back if these trade disputes should get resolved although the outlook on this remains murky.

Emerging Markets

In the Emerging Markets (EM) space a running theme has been the vulnerability of these economies to a weakening in global demand and their general exposure to the commodities cycle. These concerns played out in June with EM equities continuing their underperformance of developed markets, contributed to in part by continued weakness relative to the US Dollar. Of note was the election victory by President Erdogan as the Turkish economy remains challenged by high inflation and a substantially weakened currency with the monetary policy outlook continuing to look clouded to investors fearful that President Erdogan will prefer maintaining higher levels of economic growth and the inflation that comes along with it rather than raising interest rates as has occurred in Indonesia for example.

A case of EM weakness can be seen in China, specifically in the A-Shares market which has a more domestic focus and has been particularly hard hit with a correction of over 20% this year marking the onset of yet another bear market and boding ill for planned IPOs for different businesses by the Chinese tech giants including Tencent's mooted listing of its online music streaming business on US exchanges.

Company news (best and worst performers over the month)

Seven West Media (SWM) saw earnings upgraded on the back of increased television advertising growth with UBS analysts noting that for every 1% increase in overall television advertising spending, SWM gains $5m to its bottom line. Earnings before interest expense and tax (EBIT) for FY18 were guided to be $230m, the midpoint of previously iterated guidance with strong growth in the company’s online offering Seven Plus also a highlight.

Wisetech Global (WTC) upgraded its revenue and earnings forecasts for the full year ahead of its Investor Day briefing to start May. This saw revenue growth upgraded from 207m-217m to 210m-220m and EBITDA flat at 71m-75m. The Investor Day itself was well-received with the stock appreciating materially on the back of clearer messaging on recent acquisitions as well as articulation of the vision for the company’s future (including expansion into other verticals). Other news flow included the widening of its share register with the issuance of $100m to institutional investor Capital Group, a sign of faith in the firm as well as ongoing small SAAS business acquisitions to deepen its core logistics software offering.

Appen Ltd (APX) benefited from a positive earnings outlook with its underlying EBITDA measure guided to grow by 78% - 96% for FY18. Part of this is driven by its well-received acquisition of US company Leapforce which is forecast to be earnings accretive and benefit its business model as a key data vendor to AI users with Leapforce adding both new data and revenues allowing Appen’s EBITDA margins to expand further (the marginal cost of each $1 of additional revenue is spread over a growing revenue base, causing new sales to fall to earnings). Inclusion in the ASX200 index benefited performance thanks to the increased analyst coverage and, buying by passive managers looking to replicate the index.

Afterpay Touch Group Ltd (APT) benefited from its inclusion in the ASX200 which saw passive mandates increase allocations. Its US launch was well-received by investors as was the sizeable growth noted in its Q3 update which highlighted an expansion in underlying sales of 400% compared to the first three quarters of FY17.

Beach Energy Ltd (BPT) saw an uplift in its share price following an ongoing rally in oil prices, up 13.1% over the quarter in US Dollar terms, which increases earnings for the energy producer as seen through strong free cashflow generation and reduction in gearing for the March quarter (reported to the market in late April). In addition to this macro effect playing out, Beach has been making successful acquisitions, taking 100% ownership of the Otway Gas Project in late June as well as continuing the exploration and expansion of existing assets to make record oil production levels in the March quarter.

Ausdrill (ASL) corrected on the back of several project updates that hit earnings. The first was the Yanfolia mine in Mali being operated and developed further by ASL’s subsidiary which had a security incident whereby several people died in clashes with the Malian National Guard that halted production. In addition, it downgraded one of its construction and operation contracts for the Wodgina mine by half, reducing prospective revenues to $90m for the first three years while providing an uncertain update for its Kalgoorlie operations, unable to ascertain when full production could resume following a wall failure in an open mine pit.

AMP Ltd (AMP) fell over the quarter as the wake of the Royal Commission disclosures of various offences perpetrated by its financial advisers over the years weighed on the company and saw it face a mix of class actions and fund outflows as well as prompting concern of a regulatory backlash amongst investors. The news was also accompanied by disruption at the Board level with the departure of several directors, taking accountability for the governance failures that led the company down this path which also claimed the immediate resignation of outgoing CEO Craig Meller as well as Chairwoman Catherine Brennan to be replaced by acting CEO Mike Wilkins and former CBA David Murray respectively.

Bellamy’s Group (BAL) sank following an analyst note from Goldman Sachs 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 with the market following like-wise over the quarter.

Automotive Holdings Group (AHG) was sold off following a disappointing trading update that lowered expectations of a recovery in profit margins from FY17 citing the difficulty in maintaining automotive retailing margins and regulatory concerns as well as a prolonged recovery in the Western Australian market. Of concern to investors was the delay in realising the sale of its refrigerated Logistics division to Chinese firm HNA which had been subject to numerous headlines noting its liquidity issues and potential inability to repay debts that had fuelled a global acquisition drive by the firm in recent years. These ultimately came to pass in early July with the sale being terminated.

Technology One (TNE) disappointed in its first-half results with negative operating cashflows and disappointing results in its consulting segment with a larger loss of $0.5m driven by a longer than expected period in the firm’s UK operations reaching breakeven scale. This coupled with the headwinds of switching to a SAAS-business model (it suppresses earnings in the short-term but creates a more secure, and lucrative recurring revenue stream than selling one-off licences) saw the market downgrade expectations even though the firm still guided to a 10% to 15% rise in its full-year earnings. On this last point, there was clearly some confusion on its guidance with the firm restating its earnings expectations for FY18 after concern emerged that its initial announcement had been misinterpreted as referring to underlying earnings growth.

Source: ASX company announcements, Bloomberg

Movers and Shakers for June 2018

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month ∆ (%)	Quarter ago close ($)	Quarter ∆ (%)	Year ago, close ($)	Year ∆ (%)
WTC	Wisetech Global Ltd	15.66	14.70	6.5	9.42	66.2	6.92	126.3
SWM	Seven West Media Ltd	0.84	0.82	2.4	0.54	55.6	0.72	17.5
APX	Appen Ltd	13.37	10.21	31.0	8.89	50.4	3.99	235.1
APT	Afterpay Touch Group Ltd	9.35	7.82	19.6	6.44	45.2	2.95	216.9
BPT	Beach Energy Ltd	1.76	1.64	7.0	1.22	44.4	0.57	210.2
IEL	IDP Education Ltd	10.51	9.68	8.6	7.45	41.1	5.09	106.5
APO	APN Outdoor Group Ltd	6.28	5.69	10.4	4.64	35.3	4.81	30.6
XRO	Xero Ltd	45.01	40.97	9.9	33.44	34.6	24.19	86.1
IPH	IPH Ltd	4.45	4.50	-1.1	3.39	31.3	4.80	-7.3
WHC	Whitehaven Coal Ltd	5.78	5.26	9.9	4.45	29.9	2.87	101.4

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago close ($)	Month ∆ (%)	Quarter ago close ($)	Quarter ∆ (%)	Year ago close ($)	Year ∆ (%)
ASL	Ausdrill Ltd	1.84	2.53	-27.5	2.70	-32.0	1.84	0.0
AMP	AMP Ltd	3.56	3.90	-8.7	4.99	-28.7	5.19	-31.4
BAL	Bellamy's Australia Ltd	15.54	17.70	-12.2	19.84	-21.7	6.91	124.9
AHG	Automotive Holdings Group Ltd	2.85	2.78	2.5	3.51	-18.8	3.35	-14.9
TNE	Technology One Ltd	4.25	4.30	-1.2	5.19	-18.1	5.76	-26.2
MTS	Metcash Ltd	2.61	2.90	-10.0	3.13	-16.6	2.40	8.7
TLS	Telstra Corp Ltd	2.62	2.80	-6.4	3.14	-16.6	4.30	-39.1
GXL	Greencross Ltd	4.48	4.50	-0.4	5.29	-15.3	6.05	-26.0
RHC	Ramsay Health Care Ltd	53.98	61.33	-12.0	62.32	-13.4	73.60	-26.7
JBH	JB Hi-Fi Ltd	22.52	23.99	-6.1	25.81	-12.7	23.37	-3.6

Source: Bloomberg, IOOF

Long-term asset class performance to June 2018 (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	3.3%	8.5%	4.3%	13.0%	9.0%	10.0%	9.1%	6.4%	9.6%	8.9%
	World ex Australia	2.2%	5.7%	6.2%	15.4%	10.0%	14.8%	15.0%	9.1%	7.4%	4.2%
	World ex Australia (Hedged)	0.3%	3.6%	1.3%	11.5%	9.8%	12.9%	12.6%	9.0%	10.0%	N/A
	Emerging Markets	-1.8%	-4.4%	-1.2%	12.3%	7.0%	9.6%	6.9%	5.0%	10.0%	N/A
Property	Australian Property	2.2%	10.0%	3.0%	13.0%	9.7%	12.0%	13.5%	6.0%	5.8%	N/A
	Global Property	5.5%	9.1%	4.9%	8.2%	8.3%	11.4%	12.7%	7.7%	N/A	N/A
Fixed income	Australia government bonds	0.5%	0.8%	1.8%	3.0%	3.3%	4.3%	5.2%	6.0%	5.5%	5.7%
	Australia corporate bonds	0.3%	0.7%	1.5%	3.8%	4.0%	4.8%	5.7%	6.7%	5.9%	6.1%
	Australia floating rate bonds	0.2%	0.6%	1.0%	2.6%	2.9%	3.2%	3.9%	4.4%	4.9%	N/A
	Global government bonds (Hedged)	0.3%	0.3%	0.9%	2.5%	4.0%	5.1%	5.9%	6.8%	6.6%	N/A
	Global corporate bonds (Hedged)	-0.3%	-0.5%	-1.9%	0.7%	4.4%	5.4%	6.5%	7.7%	6.9%	N/A
	Global high yield bonds (Hedged)	-0.4%	-1.1%	-1.9%	1.2%	6.6%	7.3%	8.6%	10.3%	10.2%	N/A
	Emerging Market bonds (Hedged)	-1.5%	-4.1%	-6.1%	-2.3%	5.1%	6.2%	6.8%	8.4%	9.4%	10.0%
Cash	S&P/ASX Bank Bill Index	0.2%	0.5%	0.9%	1.8%	1.9%	2.2%	2.7%	3.3%	N/A	N/A

Source: Bloomberg, IOOF

* AUD total returns as at Jun-18 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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