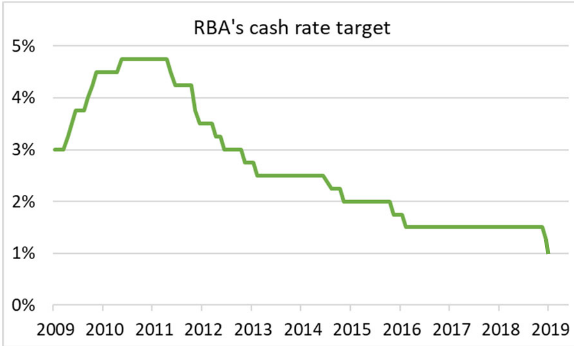
Market Update

EOFY Special Newsletter Edition

As at 3 July 2019

2018/19 Market highlights



The 2018/19 financial year ended with the Reserve Bank of Australia (RBA) lowering the cash rate by 25 basis points to 1.25 per cent. This cut did not come as a surprise. On 2 July 2019, RBA declared another 25 basis points cut and brought the cash rate down to historical low 1%. The two consecutive cuts were officially announced to boost employment and inflation, especially under the spill over effect of trade wars between U.S. and China and uncertainties surrounded around Brexit.

Lower rates will alleviate some financial pressure on households and the residential property market as most financial institutions are passing on full or partial rate cut on mortgages in Australia. Federal government tax cut plan, which is yet to be passed at Upper House to date, will provide another lever to the households and economy. Sluggish wage growth and persistent low inflation may require further actions along with an easing monetary and fiscal policies.

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Among **defensive securities**, European and Japanese markets still combat slowing economic growth in their zero/negative rate territory with quantitative tightening out of sight. The **emerging market debt and high yield bonds** have remained stable over the course of the financial year. **Australian government bonds** rallied significantly and pushed yields to a historical low (lower yields imply higher prices). U.S. treasuries have also attracted growing interests and ended with much lower yields (higher prices). The Federal Reserve is starting to face increased pressure on rate cuts and have openly signalled willingness to consider various options. **Property and infrastructure** markets in Australian and U.S. have been consistently positive as a result of a falling yield curve, low interest rates and high occupancy. **Shares**, on the other hand, experienced higher and prolonged selloffs. Most stock indices in developed economies had intensive up and downs due to external shocks, but well supported by low unemployment rates.

Technology and healthcare sectors crawled through the year battling stricter scrutiny and fiduciary investigations. **Consumer staples and discretionary segments** exhibited a defensive nature the trade war intensified. **In the U.S.** a tax cut early in the year boosted economic activities and corporate earnings, but the effect has faded. Share buybacks financed by debt continue to be supportive of share prices but also increased debt levels. **Back in Australia**, financial sectors struggled and underperformed the index due to the Banking Royal Commission and profit squeeze. Banks rallied back quickly as the investigation concluded and election results finalised. Mining and resources companies benefit from strong commodity export with a lower Australian dollar while retail and construction industries face growing challenges.

The financial year 2018/19 has seen a bit of turbulence around the world. The resignation of Teressa May put Brexit into more uncertainty, while some countries in the European Union have entered recession. Emerging markets started strong and inevitably suffered from the trade war between the U.S. and China. Muller's report on the presidential investigation increased dispersion between parties and the 2020 election. Here in Australia, we have witnessed the conclusion, but not closure, of the Banking Royal Commission and federal election.

With increasing volatility expected in the coming months, we will continue to actively research and monitor any potential risks and opportunities in dynamic markets. Sandhurst will continue to react with caution to ensure balance and diversification in our funds. Welcome to 2019/20 financial year.