Economic update

5 August 2015

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Myooran reviews events in Australian and overseas markets during July.

How did markets perform in July?

What a difference a month makes. In June, financial markets were consumed by fears of a Greek exit from the eurozone - news that saw share markets fall around the globe. July was a contrast to June, with the formulation of a last minute deal that saw Greece remain in the eurozone. As a result, July was a good month for investors with gains recorded by most of the world's major share markets. But, there were pockets of market declines in July.

The S&P/ASX 200 Index, a measure of the Australian share market, gained 4.4% in the month of July, recovering some of the 5.3% decline in June. Despite the rally, the S&P/ASX 200 Index remains 1.6% below where it was three months ago, as weakening commodity prices caused resource stocks to weigh on index levels. Among the sectors, Health Care was the standout, rising 9.6% in accumulation terms as a sharply lower Australian dollar (AUD) benefitted the globally exposed sector. A selloff in commodity prices weighed on the Resources sector (-1.7%).

The MSCI All Country World index - the global share market benchmark - rose 5.6%, whilst the MSCI Emerging Markets Index fell 2.5% (unhedged in AUD terms). The global share market benefitted from better than expected company earnings in the US and Europe. Among the larger stock indices, the STOXX Europe's 600 Index led performance (+4.0%), while the UK's FTSE 100 Index was up 2.7%, US S&P500 Index was up 2.0% and Japan's Nikkei 225 Index was up 1.7%. All these numbers are in local currency terms. In contrast, a sharp downturn in the Shanghai Composite Index, including a one day fall of 8.5% (the biggest in eight years), weighed on the performance of emerging markets.

It is noteworthy that July saw another decline in the AUD, as it reached a six year low, falling 4.8% against the US dollar.

There were sizeable movements in the commodity markets. The most noteworthy was the 21% decline in the West Texas Intermediate oil price in July 2015. Spot gold declined 6.5% in July, with the commodity price falling for six consecutive weeks to the lowest level since March 2010.

On the economic front, the Reserve Bank of Australia kept cash rates on hold at 2.0%, but they have now removed the wording around wanting a lower AUD. All eyes meanwhile are on the US, with the key question being whether their Central Bank will raise interest rates in September of this year. In Europe, at its July board meeting, the European Central Bank opted to keep key interest rates on hold, and their asset purchase programme - a form of stimulus - remains intact.

What were the key factors driving global markets?

Concerns that Greece would default on its end of month loan repayment to the International Monetary Fund (and possibly leave the eurozone) unsettled markets in June. These concerns were alleviated as a last minute deal was formulated that enabled Greece to get vital additional funding and remain in the eurozone. This buoyed markets in July. The reality is that Greece's problems have not been resolved - their debt levels are still at unsustainable levels and they are effectively "kicking the can down the road". So, this is not the end of the Greek saga. That's why investors should be prepared for more market volatility.

The other feature was the continued market volatility in China, with wild intra-day movements witnessed, even despite some strong Governmental intervention to prop up the share market.

How are MLC's portfolios positioned?

We remain in a highly uncertain investment environment. Therefore we're placing a greater emphasis on controlling risk in our portfolios as opposed to return generation.

We continue to be concerned about stretched share market valuations and the continuing high levels of debt in the global economy. And there are particular vulnerabilities for Australia flowing from slower and less investment intensive growth in China. Therefore we continue to position our portfolios defensively.