

### EQUITIES LOOKING OVER EXTENDED

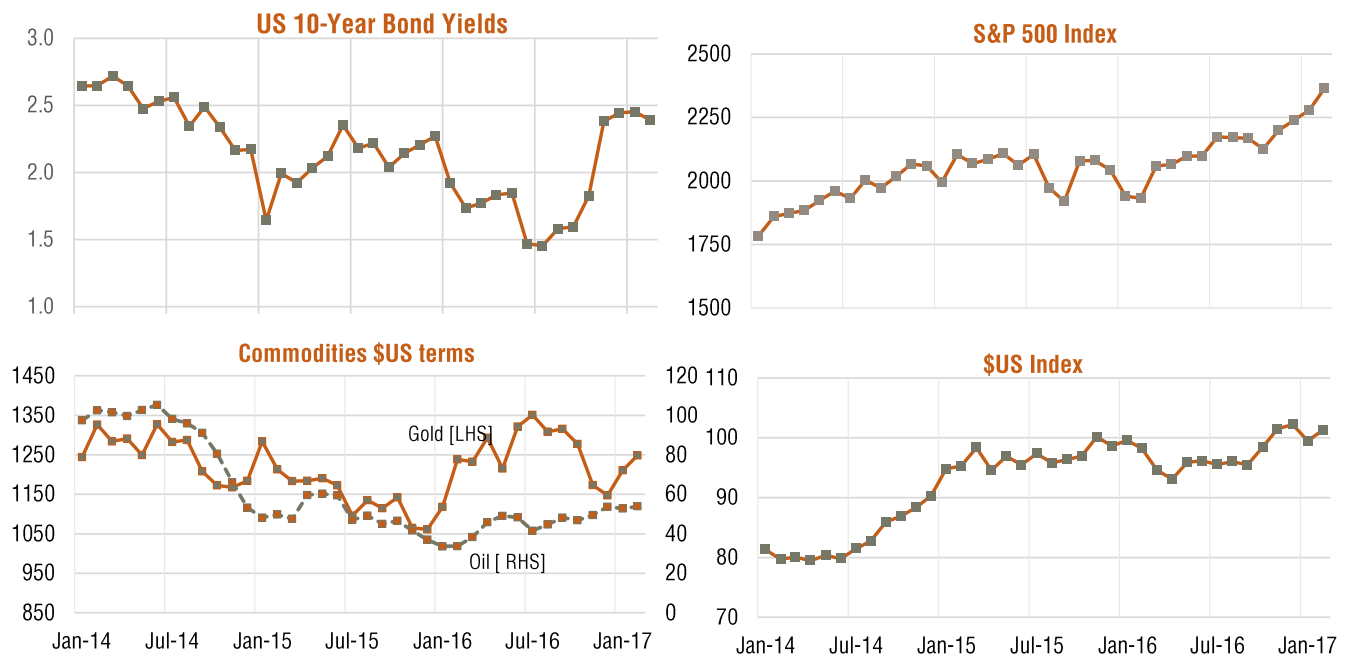
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### GLOBAL MARKETS

- Global equities made further gains in February, still buoyed by signs of an improving economic outlook and limited upside pressure on bond yields and the \$US dollar. America's S&P 500 Index rose 4% in the month to reach new record highs, while European and Japanese equities also made good gains. By sector, health care performed strongly, rising by 6.5%, while global banks rose 3.0%.
- US 10-Year Treasury bond yields eased back to 2.39% from 2.45%, while the \$US index edged back up 1.8%. Both US bond yields and the greenback remain below their highs during the "Trump trade" frenzy in December 2016, and their muted performance last month saw gold post another solid gain of 3.1%. Oil prices, meanwhile, continued to consolidate after the move higher following the OPEC production deal in December.

#### Global Markets

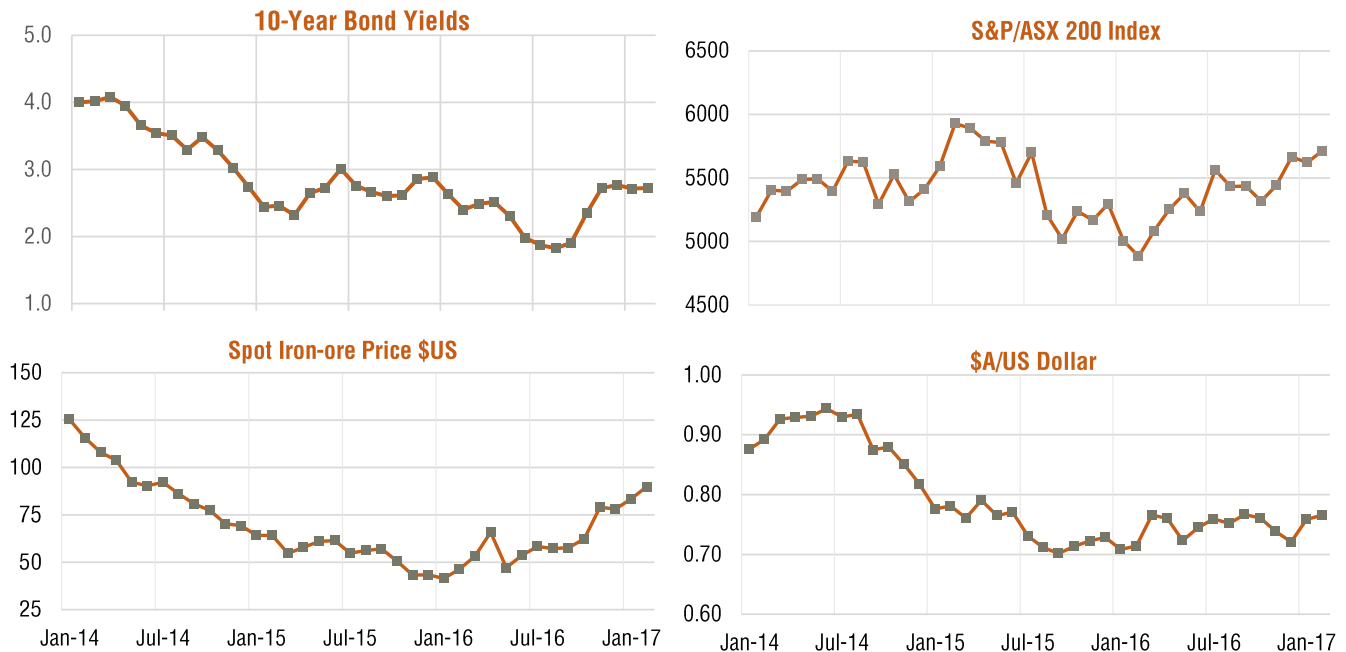


Source: BetaShares, Bloomberg

### AUSTRALIAN MARKETS

- The S&P/ASX 200 Index rebounded in February, though again underperformed global markets in local currency terms, rising by 1.6%, with a retreat in resources stocks, a mixed earnings reporting season, and a firmer \$A holding back the market. Helped by continued strength in iron ore prices, the \$A lifted 0.9% to US76.6c, which is toward the top of the US72-77c range since mid-2016.
- Local 10-year bond yields were broadly flat, rising to 2.72% from 2.71%. RBA expectations remained steady, with the market expecting no change in official rates over the remainder of the year.

### Australian Markets



Source: BetaShares, Bloomberg

## OUTLOOK

- The outlook for equity markets remains encouraging, with corporate earnings in both Australia (at least in the resources sector) and the US starting to lift. Forward earnings in both Australia and the US edged higher in February, as did PE ratios. But although outright equity price-to-earnings valuations are at above-average levels in both Australia and the US, they are close to “fair-value” when considered against the still generally low level of bond yields.
- That said, equity market gains – especially in the lead US market – are looking technically over extended, and there is a growing risk of at least a moderate “buy the rumour/sell the fact” correction once the extent of US President Donald Trump’s fiscal stimulus plans are better known.
- Meanwhile, the US Federal Reserve is still sounding hawkish, and there’s a growing risk it will hike rates at its March 14-15 policy meeting – which is not fully priced by the market. Also worth watching are European political developments, given polls suggesting the National Front will have a strong showing in the French Presidential election beginning in late April. Locally, an eventual correction in sky-high iron-ore prices also seems inevitable.
- Apart from a possible near-term equity correction, on the view that bond yields and the US dollar will eventually join equity markets in trending higher, tactical favoured investment themes include **Japanese equities** (such as ASX: HJPN, which should benefit from a weaker Yen) and **global banks** (such as ASX: BNKS, which should benefit from higher bond yields).
- Assuming only a modest eventual correction in iron-ore prices (due to ongoing Chinese demand for cleaner imported ore for steel production) a rising earnings outlook also supports the **local resources sector** (ASX: QRE). Yield seeking investors could also continue to **support the financials sector** (ASX: QFN), as higher bond yields pressure “bond proxies” such as listed property and infrastructure.

Asset Class Return Performance					Performance Rank			
	Month	3-mth	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.1%	0.4%	0.9%	2.0%	6	6	4	5
Aust. Bonds	0.2%	0.6%	-2.3%	1.4%	5	5	5	6
Aust. Property	4.1%	5.9%	-5.9%	7.9%	1	2	6	4
Aust. Equities	2.3%	5.9%	7.2%	22.1%	2	1	2	1
Int. Equities - unhedged	2.0%	4.2%	5.9%	14.6%	3	3	3	2
Commodities - hedged	0.6%	3.7%	8.0%	10.7%	4	4	1	3
Int. Equities - hedged	3.1%	7.3%	9.5%	23.0%				
World currencies vs \$A	-1.1%	-2.9%	-3.2%	-6.8%				

Total returns for the month Source: Bloomberg

**ASSET BENCHMARKS** Cash: UBS Bank Bill Index; **Australian Equities:** S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **International Equities:** MSCI All-Country World Index, unhedged \$A terms; **Commodities:** S&P GSCI Light Energy Index, \$US terms

### Returns for Selected BetaShares ETF Exposures\*

Investment Exposure	ASX Code	Total return performance			
		Month	3-mth	6-mth	12-mth
<b>Cash</b>	AAA	0.2%	0.5%	1.0%	2.2%
<b>Aust. Equities</b>					
Aust - Fund. weight	QOZ	1.8%	6.7%	12.2%	30.2%
Resources	QRE	-3.3%	4.8%	12.1%	37.7%
Financials	QFN	3.3%	6.7%	12.5%	22.0%
Ex-20	EX20	2.6%	9.2%	6.1%	19.4%
<b>Global Equities - Unhedged</b>					
US-Fund. weight	QUS	2.1%	2.5%	9.2%	18.7%
US-Nasdaq	NDQ	3.4%	7.2%	10.3%	19.8%
<b>Global Equities - Currency hedged</b>					
Agriculture	FOOD	1.3%	6.0%	7.5%	21.8%
Health Care	DRUG	6.5%	9.7%	4.6%	12.9%
Global Banks	BNKS	3.0%	10.2%	25.2%	43.7%
Energy	FUEL	-1.3%	-0.5%	8.9%	29.4%
Gold Miners	MNRS	-3.4%	8.7%	-11.1%	17.4%
Cybersecurity	HACK	2.9%	7.4%	14.0%	37.2%
Europe	HEUR	4.1%	11.0%	11.8%	22.3%
Japan	HJPN	1.5%	6.4%	19.3%	25.4%
<b>Commodities - Currency hedged</b>					
Oil	OOO	1.4%	4.7%	12.0%	28.9%
Gold	QAU	0.7%	4.0%	8.7%	11.9%
Agriculture	QAG	0.9%	3.0%	6.9%	6.2%
Composite Basket	QCB	0.6%	3.7%	8.0%	10.7%

\*For comparison purposes, returns are for underlying indices tracked by each ETF, excluding management fees except in the case of AAA  
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BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages approximately US\$100B.

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