

TECH BOOM

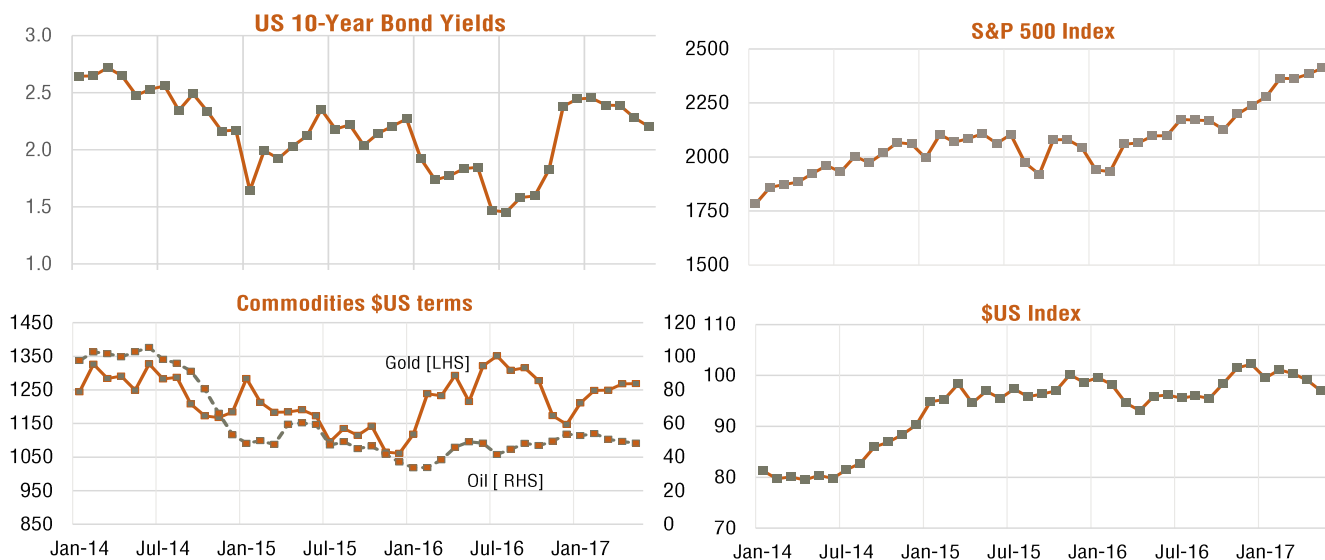
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GLOBAL MARKETS

- The MSCI All-Country World Equity Total Return Index rose a further 1.4% in May, after a 1.3% gain in April, to make it seven consecutive monthly increases. Helped by solid underlying earnings growth, declining bond yields and still reasonable price-earnings valuations, the tech-heavy Nasdaq-100 Index posted particularly strong gains. Persistent weakness in the \$US also helped emerging markets, despite general softness in commodity prices – with oil in particular failing to benefit from OPEC’s long anticipated decision to extend its production cut agreement.
- The notable feature of global markets at present remains persistent weakness in long-term bond yields and the \$US, despite America’s ongoing economic expansion and the stated desire of the US Federal Reserve to raise official interest rates further.

Global Markets

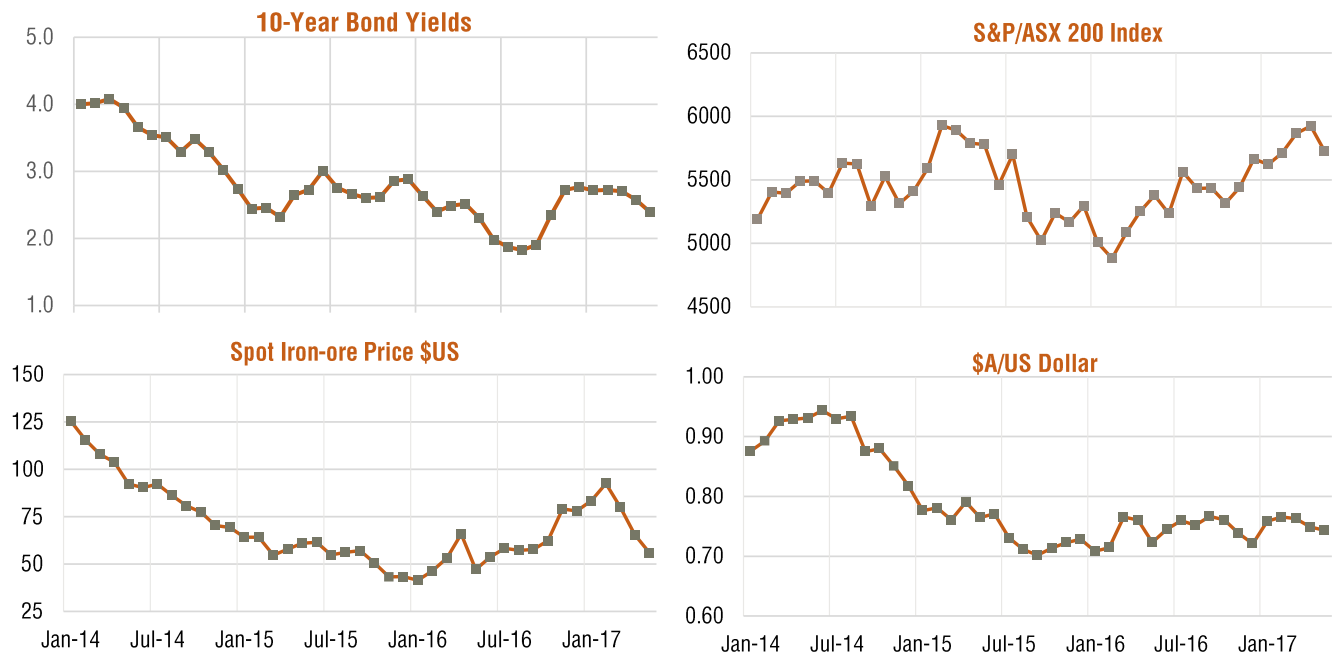


Source: BetaShares, Bloomberg

AUSTRALIAN MARKETS

- The S&P/ASX 200 Index total return index, by contrast, dropped 2.8% last month, dragged down by a 7.7% fall in the financial sector return in the wake of the Federal Government’s decision to impose a new tax on the major banks. Resource stocks rebounded modestly, despite further commodity prices weakness.
- As in the US, local 10-year bond yields dropped further to 2.39%. 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 reasonable and increasingly broad-based global economic growth and persistent low inflation. The low inflation backdrop is important, as it means central banks can remain very cautious in removing policy stimulus – and will be quite willing to support growth again if it stumbles.
- Although US economic growth slowed in the March quarter, this was partly weather related and growth appears to have rebounded well this quarter. What's more, despite some current political troubles, US President Donald Trump isn't going anywhere and seems likely to refocus on his fiscal stimulus promises once the dust settles in Washington.
- It seems likely, therefore, the US Federal Reserve will lift official rates further this month, and at least one of two more times in the second half of the year. In turn, this should eventually produce a rebound in the \$US and bond yields though in a sufficiently orderly fashion that should not threaten the positive equity market backdrop.
- Favoured global investment themes include **Japanese equities** (such as ASX: HJPN, which could benefit from a weaker Yen) and **global banks** (such as ASX: BNKS, which could benefit from higher bond yields). **European stocks** (such as ASX: HEUR) are also performing well as growth improves and political fears ease. Irrespective of bond yields and the \$US, the US **Nasdaq-100 Index** (such as ASX: NDQ) should also continue to be supported by rising US corporate earnings.
- With softer commodity prices and housing activity nearing a peak, however, prospects for economic growth and corporate earnings remain more challenged in Australia. This suggests the local equity market may continue to underperform, and investors should seek portfolio diversification through international exposures.

Asset Class Return Performance

Performance Rank

	May-17	Apr-17	6-mth	12-mth	Month	3-mth	6-mth	12-mth
Cash	0.1%	0.1%	0.9%	1.8%	3	5	5	5
Aust. Bonds	1.2%	0.8%	3.0%	2.5%	2	4	4	3
Aust. Property	-1.1%	2.6%	8.1%	2.0%	5	2	2	4
Aust. Equities	-2.8%	1.0%	7.5%	11.1%	6	3	3	2
Int. Equities - unhedged	2.8%	3.5%	12.4%	14.4%	1	1	1	1
Commodities - hedged	-0.8%	-0.9%	-1.3%	-4.2%	4	6	6	6
Int. Equities - hedged	1.4%	1.3%	11.1%	17.6%				
World currencies vs \$A	1.4%	2.2%	1.1%	-2.8%				

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*

Total return performance

Investment Exposure	ASX Code	May-17	Apr-17	6-mth	12-mth
Cash	AAA	0.2%	0.2%	1.0%	2.1%

Aust. Equities

Aust - Fund. weight	QOZ	-3.1%	0.7%	7.3%	17.2%
Resources	QRE	1.2%	-1.6%	5.8%	28.1%
Financials	QFN	-7.7%	1.9%	5.1%	11.0%
Ex-20	EX20	0.7%	1.6%	11.8%	13.7%

Global Equities - Unhedged

US-Fund. weight	QUS	0.6%	1.8%	4.5%	11.3%
US-Nasdaq	NDQ	4.7%	4.7%	20.3%	26.1%

Global Equities - Currency hedged

Agriculture	FOOD	-0.5%	1.4%	7.5%	13.9%
Health Care	DRUG	1.6%	3.3%	13.3%	8.6%
Global Banks	BNKS	-1.3%	-1.3%	8.8%	29.1%
Energy	FUEL	-1.6%	-3.9%	-4.4%	10.4%
Gold Miners	MNRS	0.5%	0.8%	9.6%	2.7%
Cybersecurity	HACK	1.9%	2.1%	9.7%	26.0%
Europe	HEUR	0.5%	3.3%	21.9%	25.9%
Japan	HJPN	0.2%	1.1%	6.9%	18.3%

Commodities - Currency hedged

Oil	OOO	-2.8%	-12.7%	-8.6%	-15.1%
Gold	QAU	-0.7%	-4.6%	-0.7%	-3.1%
Agriculture	QAG	-1.5%	-7.9%	-5.2%	-13.2%
Composite Basket	QCB	-0.8%	-0.9%	-1.3%	-4.2%

*For comparison purposes, returns are for underlying indices tracked by each ETF, excluding management fees except in the case of AAA

Past performance is not indicative of future performance.

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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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