

# Market / Trends

With Chief Economist,  
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# Important Information

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# Major Asset Class Performance

## Gold shines amid global distaste for bonds & equities

### Major Asset Class Performance\*

	Oct-18	Sep-18	6-month	12-month	Momentum Rank**
Gold (\$US)	2.0%	-0.9%	-7.7%	-4.5%	7
Aust. Bonds	0.5%	-0.4%	2.2%	3.1%	3
Cash	0.2%	0.2%	1.0%	1.9%	4
Int. Bonds	-0.2%	-0.4%	0.2%	0.2%	6
Aust. Property	-3.1%	-1.8%	4.0%	7.3%	1
Int. Equities (\$A)	-5.5%	-0.1%	2.3%	7.7%	2
Aust. Equities	-6.1%	-1.3%	-0.4%	2.9%	5
World Currencies per \$A	1.5%	-0.6%	4.1%	6.9%	
Int. Equities (hedged)	-6.9%	0.5%	-1.7%	0.7%	

Global stocks took a tumble in October, reflecting ongoing concerns with regard to US interest rates and tech stocks. In local currency terms, global stocks lost 6.9%, though this was limited to 6.1% in \$A terms due to weakness in the \$A vs. foreign currencies.

Gold was the best performing asset class in the month, as rising bond yields also limited returns from fixed-income markets despite the slump in stocks. Australian equities dropped in line with global stocks, while losses in listed property were more limited.

In terms of relative momentum, listed property has regained top spot, while international equities have been relegated to second. Gold remains the worst performing asset class in terms of momentum despite last month's bounce, followed by global bonds.

### Asset Class Performance



### Performance relative to the S&P/ASX 200 Index



Source: BetaShares, MSCI, Bloomberg

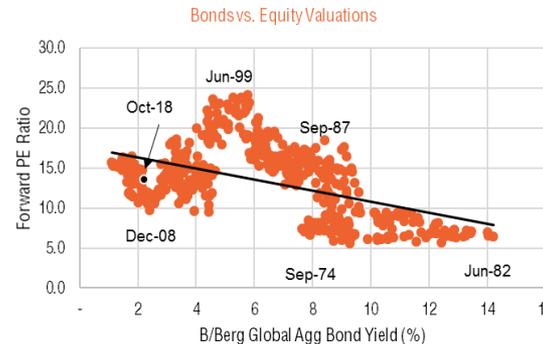
\***ASSET BENCHMARKS** Cash: UBS Bank Bill Index; **Australian Equities**: S&P/ASX 200 Index; **Australia Bonds**: Bloomberg Composite Bond Index; **Australian Property**: S&P/ASX 200 A-REITs; **International Equities**: MSCI All-Country World Index, unhedged \$A terms; **Commodities**: S&P GSCI Light Energy Index, \$US terms. \*\* Rank based on equally-weighted average of 6 & 12 month return performance.

# Global Equity Fundamentals



*Rising rates are taking their toll, despite solid earnings and reasonable valuations*

**MSCI All-Country Equity Index**



Source: Bloomberg

Last month's drop in equities mean the month-end highs of earlier this year have yet to be reclaimed.

Despite rising earnings, the solid lift in bond yields through this year have taken their toll. The global PE ratio ended October at 13.6, compared with 16.4 at end-January.

The good news is that earnings expectations are still holding up (at least so far), with 10.7% growth in forward earnings projected by end-2019.

Relative to the current level of global interest rates, moreover, equity valuations appear on the cheaper side of fair value.



# Global Equity Trends – BetaShares funds

## Gold miners and US value hold up in October

### Global Equity Exposures

	<u>Oct-18</u>	<u>Sep-18</u>	<u>6-month</u>	<u>12-month</u>	<u>Momentum Rank*</u>
MNRS	2.4%	-1.2%	-14.4%	-18.2%	10
QUS	-4.0%	-0.3%	7.9%	12.9%	2
BNKS	-4.9%	-0.8%	-8.3%	-6.1%	9
HEUR	-5.3%	-0.9%	-6.3%	-7.1%	8
FOOD	-5.8%	2.7%	-1.5%	-3.6%	6
DRUG	-5.8%	2.8%	9.0%	9.9%	3
NDQ	-6.7%	-0.8%	12.9%	22.0%	1
FUEL	-8.8%	3.1%	-3.5%	7.1%	5
HJPN	-8.8%	5.3%	-5.9%	-5.1%	7
HACK	-12.4%	-0.4%	-3.1%	12.5%	4
MSCI AC Index	-6.9%	0.5%	-1.7%	0.7%	
S&P 500	-6.8%	0.6%	3.4%	7.3%	
S&P/ASX 200 Index	-6.1%	-1.3%	-0.4%	2.9%	

In a major counter trend move, gold stocks (such as MNRS) did well last month while tech exposures (such as HACK) suffered some of the biggest declines.

Being currency unhedged, the performances of QUS and NDQ were helped by a modest decline in the \$A vs. the \$US.

In terms of relative momentum, however, NDQ remains the strongest performer, followed by QUS and DRUG.

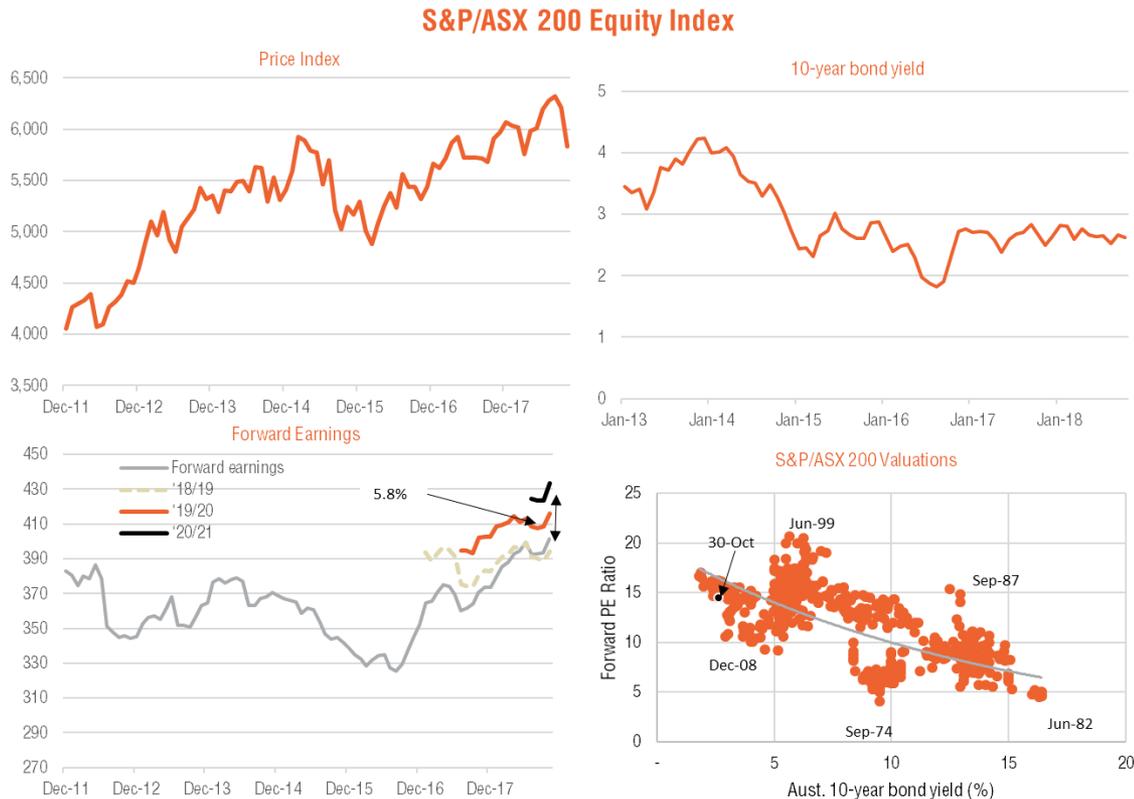
Despite last month's bounce back, MNRS remains the weakest performing exposure on the basis of relative momentum.

\* Rank based on equally-weighted average of 6 & 12 month return performance.



# Australian Equities

*Valuations rather than earnings have pushed prices higher in recent months*



source: bloomberg

Australian equities dropped in October, even though earnings expectations were revised up after they had experienced a weakening trend in recent months. Firmer bulk commodity and oil prices supported earnings upgrades in the energy and materials sectors.

The market's vulnerability, however, likely reflected the fact that valuations had been pushed high relative to global stocks during the mid-year rally.

The market's PE ratio has now dropped from 16.1 at end-August to 14.4 at end-October. Relative to bond yields, this valuation appears reasonable.

Current earnings expectations, meanwhile, imply growth in forward earnings of around 6% by end-2019.



# Australian Equity Trends – BetaShares funds

*Financials bounce for the second month in a row*

## Australian Equity Exposures

	<u>Oct-18</u>	<u>Sep-18</u>	<u>6-month</u>	<u>12-month</u>	<b>Momentum</b> <u>Rank*</u>
RINC	-2.4%	-1.4%	2.5%	1.4%	2
QOZ	-5.9%	-0.5%	-0.9%	1.7%	3
QFN	-5.9%	-2.2%	-2.5%	-7.8%	7
QRE	-6.6%	5.4%	-0.1%	16.0%	1
EINC	-6.6%	-1.8%	-3.7%	-3.2%	6
EX20	-6.9%	-1.3%	-2.7%	3.0%	4
SMLL	-7.7%	-0.9%	-5.7%	0.7%	5
S&P/ASX 200 Index	-6.1%	-1.3%	-5.9%	-0.4%	

It was also a sea of red across our Australian equity sector/thematic funds in October. Being a relatively defensive exposure, RINC had the smallest decline in the month, while the small cap focused SMLL had the largest decline.

In terms of relative momentum, the top three performers are QRE, RINC and QOZ.

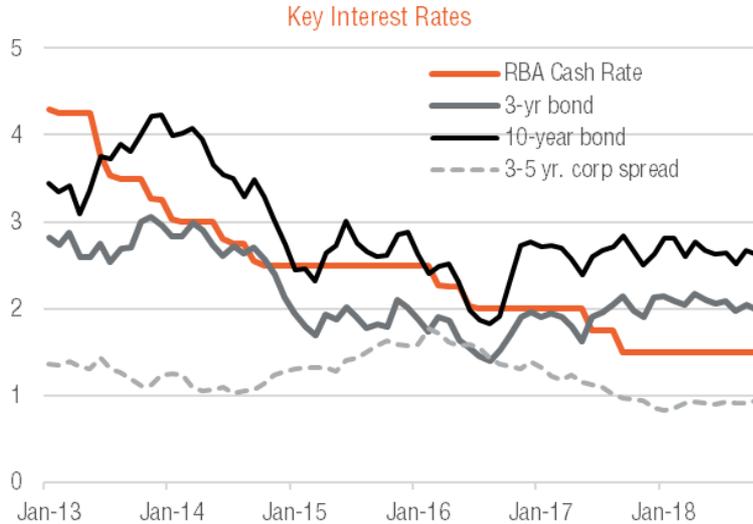
The large-cap heavy financial sector (QFN) continues to lag in relative performance.

\* Rank based on equally-weighted average of 6 & 12 month return performance.



# Aust. Cash and Bonds

*Steady local rates supports fixed-income returns*



The equity sell-off was associated with a small decline in hybrid returns during the month, while relatively steady local bond yields supported fixed-income returns.

The relatively benign local interest rate environment continues to favour duration and credit exposures such as CRED, relative to cash (AAA) and floating-rate bonds (QPON).

Over the past year, CRED has also handily outperformed the widely followed Australian Composite Bond Index.

## Australian Cash & Bond Exposures

	End-month	<i>Total return performance</i>			
	Yield*	<b>Oct-18</b>	<b>Sep-18</b>	<b>6-month</b>	<b>12-month</b>
AAA ETF	2.0%	0.2%	0.2%	1.1%	2.1%
QPON's Index	2.9%	0.3%	0.2%	1.6%	2.6%
HBRD Fund (Net)	3.9%	-0.4%	0.1%	3.1%	3.6%
CRED's Index	4.1%	0.8%	-0.6%	2.6%	4.0%
AusBond Composite Index	2.5%	0.5%	-0.4%	2.2%	3.1%
Bank Bill Index	1.8%	0.2%	0.2%	1.0%	1.9%

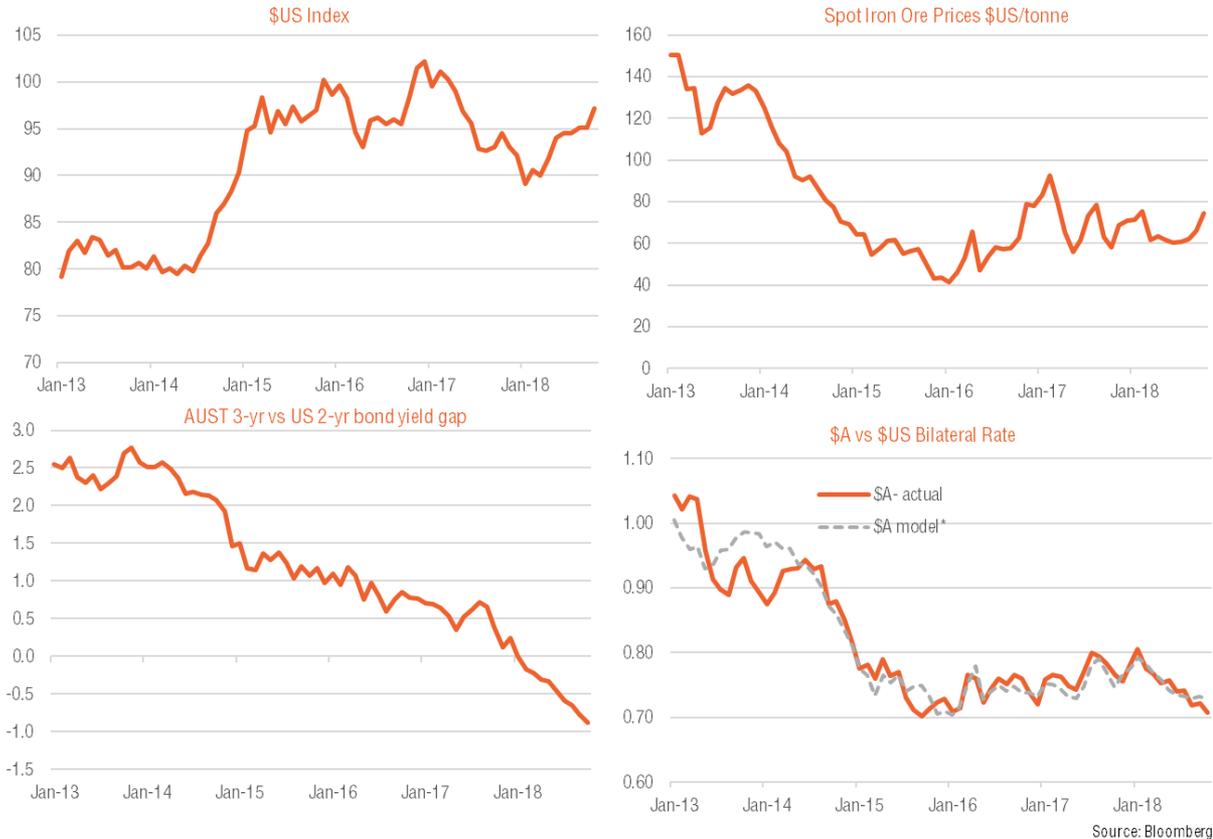
\*Yield-to-maturity for the AusBond Composite Index and the indices tracked by QPON and CRED. Running yield for the HBRD Fund. AAA's yield based on current interest rates earned on the Fund's bank deposits, net of management fees.



# Australian Dollar

## Downside pressures persist

### \$A Outlook



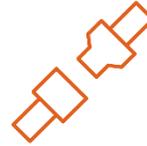
Despite a turn up in iron-ore prices, the \$A weakened in October, reflecting broad strength in the \$US and a further narrowing in interest-rate differentials with the US.

Modelling suggests the \$A is currently around fair value given these fundamentals.

Assuming broadly flat iron-ore prices, a stronger \$US and a continued narrowing in interest rate differentials suggests the \$A could well ease further in the months ahead – potentially breaking below US70c by year-end.



# BetaShares Product Range



## Australian Equities

A200  
QOZ  
QFN  
QRE  
EX20  
SMLL  
FAIR



## Global Equities

NDQ  
UMAX  
QUS  
FUEL  
FOOD  
HACK  
BNKS  
HEUR  
HJPN  
MNRS  
DRUG  
ETHI



## Equity Income

HVST  
YMAX  
UMAX



## Managed Risk/ Defensive Equity

HVST  
AUST  
WRLD



## Hybrids

HBRD



## Cash & Fixed Income

AAA  
QPON  
CRED

## Short

BEAR  
BBOZ  
BBUS

## Geared

GEAR  
GGUS

## Currency

USD  
POU  
EEU  
AUDS  
YANK

## Commodities

QAG  
QAU  
OOO  
QCB

## Active

EINC  
RINC  
GLIN  
RENT  
DMKT





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The screenshot displays the BetaShares website interface. At the top, there is a navigation menu with links for 'ABOUT US', 'OUR FUNDS', 'EDUCATION', 'INSIGHTS', 'ADVISERS & INST', and 'YOUR HOLDINGS'. The main content area features several key sections:

- BETASHARES/ INV REPORT**: A leading and comprehensive effort into the usage of ETFs in the Australian market. Includes a 'Request a copy' button.
- BETASHARES/ INVESTMENT TRENDS ETF REPORT**: A leading and comprehensive research effort into the usage of ETFs in the Australian market. Includes a 'Request a copy' button.
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- Most Viewed Funds**: A table listing popular funds with columns for Name, Code, and Category.

NAME	CODE	CATEGORY
Global Sustainability Leaders ETF	ETSE	International Shares
Australian Cleantech Climate Fund	15AC	Equity Income
Equity 2016 Momentum Fund	15MX	Equity Income

The screenshot shows the 'Bassanese Bites' newsletter content. It features a header with the name 'Bassanese Bites' and a photo of a man. Below the header, there are three main article titles:

- Trump throws markets a bone
- Wall Street at Record Highs
- A Focus on Trump Trades



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