Charles Barton

Weekly Market Commentary

The Global Markets

Australia
The domestic market has strung together a third straight week of gains by rallying to be up 1.21% between both of the indices covered. There was tentative trading throughout the week as investors look forward to the decision of the RBA on Tuesday and the start of reporting season. This is where companies issue their earnings for the 2016 financial year, which allows the market to compare these figured against their forecasts and act accordingly. Throughout the week the banks showed the most support with the big 4 finishing up around 1.90%. In contrast, the energy sector dragged on the market with the oil price continuing to plunge. Next week is likely to provide reactions from investors with the amount of data being released. Since 2004, the MSCI Asia Pacific ex-Japan index in August has ended down 75% of the time (as a result of reporting season). However, with the bond market at record lows and dividend yields notoriously high, investors may look to equities for returns.

The United States
The United States saw a flat week by averaging a gain of 0.15% across the indices covered. The S&P 500 has however continued its longest streak of monthly gains since 2014 after reaching a record high 2 weeks ago. This has been powered by better than expected earnings and the unlikelihood of the Federal Reserve increasing interest rates. The reason being is investors have repriced stocks by factoring in the better than expected earnings resulting in further buying, placing upward pressure on prices. In terms of raising rates, business investment would decrease resulting in less expansion, less earnings, more selling and thus lower prices. As we enter August, a notoriously turbulent month of the year for US markets, history tells us that the S&P 500 has fallen on average 1.40% over the last 20 years in August.

Europe
Across Europe, the indices covered continued to see gains by continuing the rally post Brexit. The FTSE 250 and DAX gained 1.76% and 1.87% respectively while the Euro Stoxx followed suit with a gain of 0.46%. While the FTSE 250 has rebounded to pre-referendum levels, we must realise that in real money terms the stock market is still down as a result from the low levels seen in sterling. As the currency of the UK decreases more in proportion to the rebound in the stock market, the overall result is a loss on the FTSE index instead of the perceived gain. As we look to the data being released in the coming month we should understand that the results of both economic data and company earnings reflect the period before the referendum as the vote came at the tail end of the June.

Asia
The Asian markets saw on average a 0.60% loss between the indices covered. During the week the Bank of Japan disappointed markets and announced no new major stimulus measures would be implemented indicating the central bank will not be providing further support to the economy. As a result, the Yen rose and bonds dropped the most since 2013 due to the decision to keep its bond-buying target and policy rate unchanged, opting instead to boost purchases of exchange-traded funds (ETFs). This leaves bond demand constant in an oversupplied market resulting in buying in the market leading yields higher and bond prices lower. In addition, the ETF purchases will result in further demand of the Yen boosting the currency up to 16% for the calendar year. Although this is perceived as bad news, the Asian region is still outpacing the rest of the world in terms of headline GDP growth. And whilst we are being mindful of the short-term risks to currencies and markets we continue to hook into the long-term growth of the region.

In the Papers

Oil sinks to lowest in three months as supplies seen rising – The Australian Financial Review
Oil dropped to a three-month low in New York amid speculation that US fuel stockpiles increased, bolstering a glut in the world's biggest crude-consuming nation as US crude stockpiles were at 519.5 million barrels in the week ended July 15, more than 100 million barrels above the five-year average, according to the EIA.

Yen races higher after Bank of Japan disappoints – Financial Times
The Bank of Japan's decision to announce no additional economic stimuli, weak US second-quarter GDP data and a fresh slide for oil prices made for a difficult end to the week for global markets. This resulted in the Yen climbing to its highest level against the dollar for nearly three weeks and Japanese government bond prices sinking — initially dragging their US counterparts lower in their wake.

Reserve Bank of Australia is on a knife-edge – The Australian Financial Review
Ahead of the RBA's meeting this Tuesday, governor Glenn Stevens has a lot to consider including Australia's sluggish inflation outlook, unemployment levels and the need to keep the Australian dollar low to remain competitive globally. Recent polls see an interest rate cut at a 60% chance.

US economic growth of 1.2% misses estimates – Financial Times
The US economy expanded at a significantly slower pace than expected in the first half of 2016, data released on Friday showed, adding to concerns that weakness in the global economy and trouble in the oil industry may have had a greater impact when compared to the previously forecasted 2.5%. The lull in growth was caused by a slow in business investment, which may impact the Federal Reserves interest rate decision as a hike would have negative consequences for investment.

S&P 500 rally shows sign of losing momentum – The Australian Financial Review
Powered by better-than-forecast earnings and weakening odds of a Federal Reserve interest rate increase, the S&P 500 jumped 3.6 per cent in July, the biggest advance since March. Technology stocks led the way, climbing more than 7.8 per cent thanks to strength in Alphabet, EBay and Microsoft. However, as reporting season beckons and central bank decisions loom the rally may be cut short with the release of additional data in August.

Post-Brexit rebound in UK stocks comes with a red flag – Financial Times
Although the FTSE 250 - seen as the market barometer for the UK – has rebounded to pre-referendum levels, the lose in the UK sterling has offset that gain resulting in a decrease in the value of the FTSE 250 in real money terms. The rebound also comes with warnings, as the data that will be released in the coming month will not reflect the effect of the Brexit as the vote came at the end of the 2nd quarter of this calendar year.

Market melt-up turns safe havens assets risky – The Australian Financial Review
The volatility and uncertainty in the global markets has seen investors rush towards safe haven assets such as treasury notes, gold, dividend stocks and low-volatility mutual funds. As demand for these assets rise, their prices increase and they become expensive.

ASX Top Performer

GUD – G.U.D. Holdings Limited

GUD Holdings Ltd (GUD) operates in the manufacture and importation, distribution and sale of cleaning products, household appliances, warehouse racking, industrial storage solutions, office storage products, automotive products, locking devices, pumps, pool and spa systems, and water pressure systems, with operations in Australia, New Zealand, France, Spain, China, Malaysia and Hong Kong. GUD currently trades at $10.05 per share after gaining 6.35% in Friday's trading session. The company has been performing extremely well thus far in 2016 after reaching a 52 week low in February and has recently posted their 2016 annual report, which states that underlying profit is up 36% for the financial year from a strong performance for their automotive businesses that were recently acquired.

Global Market Data

	Index	Open (Mon)	Close (Fri)	Gain/Loss	%
Asia-Pacific					
Australia	**S&P/ASX 200**	5,498.20	5,562.40	64.20	1.17%
Australia	**All Ordinaries**	5,574.30	5,644.00	69.70	1.25%
China	**Shanghai Composite**	3,012.82	2,979.34	-33.48	-1.11%
Hong Kong	**Hang Seng**	21,964.27	21,891.37	-72.90	-0.33%
Japan	**Nikkei**	16,627.25	16,569.27	-57.98	-0.35%
Europe					
Germany	**DAX**	10,147.46	10,337.50	190.04	1.87%
United Kingdom	**FTSE 250**	16,983.46	17,282.88	299.42	1.76%
Euopre	**EURO STOXX 600**	340.33	341.89	1.56	0.46%
Americas					
USA	**Dow Jones**	18,567.88	18,432.24	-135.64	-0.73%
USA	**Nasdaq**	5,099.10	5,162.13	63.03	1.24%
USA	**S&P 500**	2,174.75	2,173.60	-1.15	-0.05%

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