QUAYSTREET
MONTHLY MARKET UPDATE

- AS AT 31 JULY 2019 -

INTERNATIONAL MARKETS

US continues to shine, Fed still decides to cut

The rally in global sharemarkets that began early last month continued in July with the MSCI Index (NZD) rising 2.3%. The US sharemarket and the US dollar were both the standout performers, largely benefitting from a less rosy picture elsewhere in the world. Commodities and emerging markets in particular weakened as global growth forecasts were dialled back. A number of emerging market economies are seeing increasing pressure from raising too much USD denominated debt. This means that as the USD strengthens, their repayment obligations increase, causing a drag on their economic performance.

US corporate earnings were front and centre for investors during the month, with the majority of S&P500 companies reporting earnings comfortably above expectations. Other economic leading indicators that kept investors relatively constructive on the health of the economy included Q2 GDP growth coming in at a respectable 2.1%, and a significant lift in consumer confidence.

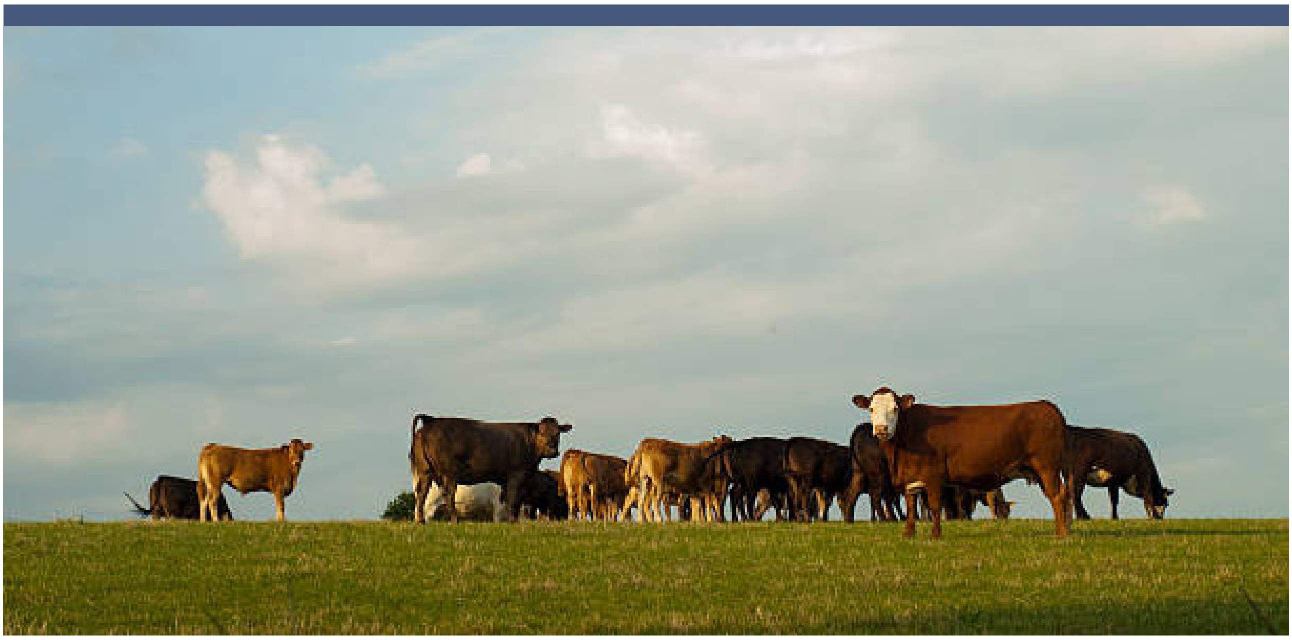
In Europe however, the outlook continues to deteriorate, which was reflected in the performance of most EU sharemarkets. Economic indicators released over the month mostly pointed towards a slowing in activity. The numbers were also heavily impacted by Germany, which up until recently was the driving force behind European growth. But now, the largest economy and exporting powerhouse is suffering as global demand for its products has weakened significantly, with fall of cars exported to China being the biggest contributor.

As the headwinds to global growth intensify, authorities and governments are being spurred into action. So far this year, 16 central banks have cut interest rates at least once. This now also includes the US Federal Reserve, which cut rates by 0.25% on the last day of the month.

MARKET PERFORMANCE

INTERNATIONAL INDICES	1 MONTH RETURN	1 YEAR RETURN
MSCI WORLD (USD)	0.5%	3.6%
MSCI WORLD (NZD)	2.3%	6.9%
S&P 500 (USD)	1.4%	8.0%
STOXX 600 (EUR)	0.3%	1.4%
NIKKEI 225 (JPY)	1.2%	-2.5%

CURRENCIES	RATE	MONTHLY % CHANGE
AUD/NZD	0.9580	0.10%
GBP/NZD	0.5397	2.08%
EUR/NZD	0.5924	0.29%
USD/NZD	0.6592	-1.88%
JPY/NZD	71.581	-1.20%



NEW ZEALAND MARKET

Where ATM goes, NZX follows

New Zealand was once again one of the top performing developed markets in the world, with the S&P/NZX 50 Index returning 3.4% and bringing the year to date return to 23.2%. Much of this performance could be attributed to index heavyweight a2 Milk (ATM), which was up 22.8%. This was mainly driven by improved sentiment following several positive research reports and strong Lyttleton Port infant formula export data. ATM also has a sizeable stake in milk producer Synlait Milk, which returned 9.2% and hosted an investor day this month.

On the opposite end of the ledger, Gentrack (GTK) was the worst performer, returning -14.5%. The company updated its earnings guidance for FY19 EBITDA to NZ$27m – NZ$28m, which represents a 10% - 13% downgrade from previous guidance. This was due to delays in customer projects and bad debt risk in the UK.

Pushpay Holdings (PPH) also found itself on the wrong end of the bourse returning -12.8% after the company's co-founder and former CEO Chris Heaslip sold more than 12 million shares at $3.70. This was not entirely unexpected following the announcement of his retirement in May; however, it was a large parcel and did weigh on investor confidence. The remainder of his stake is under escrow for 18 months.

MARKET PERFORMANCE

NEW ZEALAND INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/NZX50	3.4%	21.7%
S&P/NZX Mid Cap	1.3%	19.5%

All equity index returns are calculated on a total return basis.

NZ TOP 5 INDEX PERFORMERS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
a2 Milk Co	22.8%	72.3%
Ryman Healthcare	9.8%	8.1%
Tourism Holdings	9.6%	-27.6%
Synlait Milk	9.2%	-7.6%
EBOS Group	7.7%	27.9%

NZ BOTTOM 5 INDEX PERFORMERS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
Gentrack Group	-14.5%	-18.8%
Pushpay Holdings	-12.8%	-19.3%
Auckland International Airport	-5.5%	45.1%
Scales Corp	-3.2%	2.7%
Kathmandu Holdings	-3.2%	-25.5%

AUSTRALIAN MARKET

Rush on Gold & Infant Formula Stocks

The Australian market continued its streak for the seventh consecutive month, with the S&P/ASX 200 Index returning +2.9%, taking its total return to +23.2% for calendar 2019. Defensive sectors outperformed, with Consumer Staples returning +9.8%, and Healthcare +5.9%.

Top performers in the index were the mid-tier Gold miners Resolute and St. Barbara, which rode the stronger Gold price to returns of +33.0% and +25.9% respectively. The infant formula space was also strong – the dual-listed A2 Milk struck all-time highs and returned +23.6%, followed closely by competitor Bellamy's with +21.5%. The worst performers were satellite communications company SpeedCast, which returned -45.8% after a profit warning, and contractor CIMIC, which returned -18% following a softer than expected result and outlook comments.

MARKET PERFORMANCE

AUSTRALIAN INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/ASX200 (AUD)	2.9%	13.3%
S&P/ASX Small Cap (AUD)	4.5%	7.6%

All equity index returns are calculated on a total return basis.

In the macroeconomic sphere, unemployment remained at 5.2% and retail sales edged up 0.1% month-on-month. The policy limelight was on the households during July, with the RBA cutting interest rates to a record low of 1.00%, a retrospective tax cut beginning to flow, and a loosening of the serviceability curb on borrowing capacity. Whilst building approvals, home loan volumes, and Sydney/Melbourne property prices now appear to be stabilising, it remains to be seen whether the triple shot of stimulus will reinvigorate the anaemic household sector.

AU TOP 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Consumer Staples	9.8%	14.6%
Health Care	5.9%	16.9%
Information Technology	5.0%	26.8%
Consumer Discretionary	4.8%	5.9%
Industrials	3.4%	19.1%

AU BOTTOM 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Materials	1.0%	20.7%
Energy	1.7%	-5.1%
Financials	1.7%	8.0%
Utilities	1.9%	9.3%
Property	2.6%	21.2%

FIXED INTEREST MARKETS

The race to zero

In what is starting to feel like a case of Groundhog Day, it was another month of strong returns for global bond markets driven by further falls in government bond yields. The culprits remain the same; US-China trade tensions, concerns over slowing economic growth, inflation remaining below central bank targets and market expectations of stimulatory monetary policy. What has been interesting is the strength of conviction in market expectations, as reflected in the pricing of shorter term bonds. The prices being paid imply very little resistance to the scenario of significantly lower interest rates in the next 12 months across nearly every developed market. If this scenario plays out we can expect cash rates below 1.5% in US, Canada and South Korea, below 1% in New Zealand and Australia, close to zero in the UK and remaining below zero in Japan and the Eurozone. For many of these regions long term government bonds are close to, or at their all-time lows and the global build-up of negative yielding bonds continues. Approximately 25% of all developed market government bonds are now trading at negative yields, and the face value of both corporate and government bonds with negative yields is at its highest level ever at over USD $14 trillion.

Fortunately, there are no examples of negative yielding bonds in New Zealand yet, where the average yield of the S&P NZX Corporate Bond and S&P NZX Government Bond Indices are 1.9% and 1.2% respectively. However, these yields have fallen significantly over the last 12 months, which has driven strong returns for the New Zealand bond market. This continued in July with returns of 0.8% and 0.7% respectively.

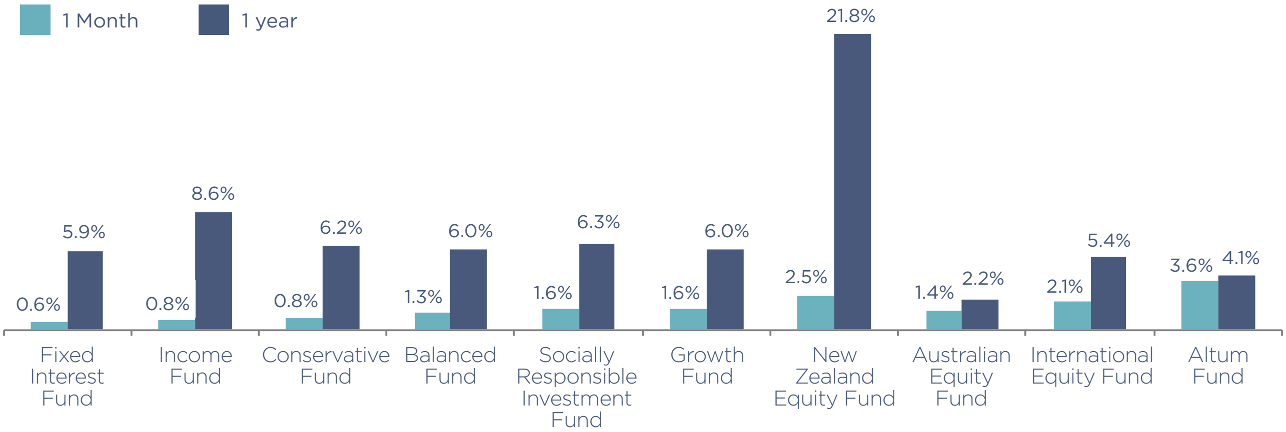
BOND INDICES

INDEX	1 MONTH RETURN	1 YEAR RETURN
NZ Government Bond	0.72%	8.53%
NZ Inv. Grade Bond	0.78%	7.39%
Australian Government Bond	1.02%	11.73%
Australian Corporate Bond	1.11%	9.08%
Barclays Global Agg Hedged (NZD)	0.73%	8.02%

CURRENT INTEREST RATES

INTEREST RATES	RATE	RATE 1 YEAR AGO
NZ OCR	1.50%	1.75%
NZ 5yr Swap	1.30%	2.56%
NZ 10yr Gov	1.44%	2.76%
RBA Cash	1.00%	1.50%
AU 10yr Gov	1.19%	2.65%

FUND PERFORMANCE OVERVIEW



For more information, Unit Prices and Fund Updates visit quaystreet.com or contact our Client Services Team
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ASSET MANAGEMENT

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