WEEKLY UPDATE

15th JULY 2019

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	70,222	-0.77%	8.02%	11.53%
MSCI World Ex-Aus. (Unhedged)	10,345	-0.13%	5.43%	11.83%
MSCI World Ex-Aus. (Hedged)	1,796	0.21%	2.67%	5.71%
Bloomberg AusBond 0+ Composite	10,135	-0.61%	3.08%	9.02%
BloombergBarclays Global Agg. (Hedged)	1,040	-0.39%	2.86%	6.65%
S&P/ASX300 Property	60,071	-2.47%	9.60%	21.67%
FTSE/Epra NAREIT (Hedged)	2,861	-0.32%	2.22%	9.55%
S&P Global Infrastructure (Hedged)	5,506	0.03%	5.45%	12.37%
BarclayHedge Global Hedge Fund Index (USD)	5,670	N/A	0.09%	-1.43%
AUDUSD	0.7020	0.57%	-2.13%	-5.24%
AUDEUR	0.6228	0.19%	-1.94%	-1.91%
AUDNZD	1.0490	-0.40%	-1.11%	-4.13%
AUDGBP	0.5583	0.21%	1.71%	-0.48%
AUDJPY	75.7650	0.07%	-6.04%	-10.04%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, Barclays, 14th July 2019

The US quarterly reporting season kicks-off in the US this week with analysts increasingly expecting low, or even negative, earnings growth. Tensions with Iran continue to escalate, and a US deal with China appears no more likely than a month ago.

The market shrugged off concerns last week and reached new highs as Jerome Powell testified in Washington, seemingly succumbing to demands for an interest rate cut at the end of the month.

Governor Lowe also appeared in the capital last week, helping the Treasurer pressure States to spend more. Last week's forward-looking data suggested that any post-election boost in economic confidence was very short-lived.

Major Chinese data will start the week on Monday, before a stream of US data. The EU will appoint a new Commissioner, and the UK will complete the Tory PM selection process this weekend.

US markets hit a new all-time high on Friday. In fact, the majority of developed global markets are trading close to the highs, with the notable exception of Japan. The same is true of Australia, which reached a new high on 5th July.

In both Australia and in the US, analysts are increasingly worried about an earnings recession - two negative quarters of profit growth. Markets have nevertheless pushed higher on expectations of monetary easing.

Last week, both the head of the Federal Reserve and the head of the Reserve Bank of Australia met with branches of government; FOMC Chairman Powell testified in Congress while Governor Lowe met with Treasurer Josh Frydenburg. That is perhaps where the similarities end; Australia and the US are in different stages of the cycle. That fact was underlined by the data last week.

Governor Lowe was asking the Treasurer for help. The concern in Australia is that economic growth is still not particularly strong, inflation is low, and unemployment is at tolerable, if stubbornly immovable, level. The recent boost in confidence following the Liberal election win seems to have disappeared as soon as it arrived. Business confidence has turned down again and job advertisements are not rising in number, while consumer confidence continues to trend lower.

The one notable uptick has been in the housing data. But this creates a problem for the Reserve. With APRA recently loosening the mortgage affordability tests, some macro-prudential conservatism has been removed. There are reasons why this may be a good thing, for example, creating fairer outcomes across different classes of borrowers. But this comes at the cost of higher leverage in the system. The RBA has spoken extensively about how this undermines Australia's resistance to external shocks. And with interest rates already down to 1%, there's less policy ammunition held in reserve.

The RBA, quite rightly, wants more concerted and decisive policy action to boost growth now before an external shock materialises. Of course, the recent income tax cuts will help. But tax cuts don't help the unemployed. Nor do they really boost business investment, at least not without a long lag.

Governor Lowe is not alone in impressing these concerns on the Treasurer. The governor of the Bank of England and former governor of the Bank of Canada, Mark Carney, relayed the same thoughts on Mr Frydenberg's recent trip to London. In response, the government has stated that they will be addressing a program of reforms - welcome, but with so long a lag as to be essentially irrelevant. The central bankers really want to see fiscal expansion, which would involve abandoning the budget surplus, the one sacred cow that the Liberals won't touch. The result; an underwhelming headline in the AFR as an "aligned" Lowe and Frydenberg urge States to fast-track infrastructure. Read: the Treasurer knows what is needed but won't do it, while Lowe is so desperate as to be willing to suffer the cringeworthy photo opp that necessarily accompanies the meeting. Meanwhile, market pricing has quietly adjusted to reflect expectations of only one more possible cut by the end of the year.

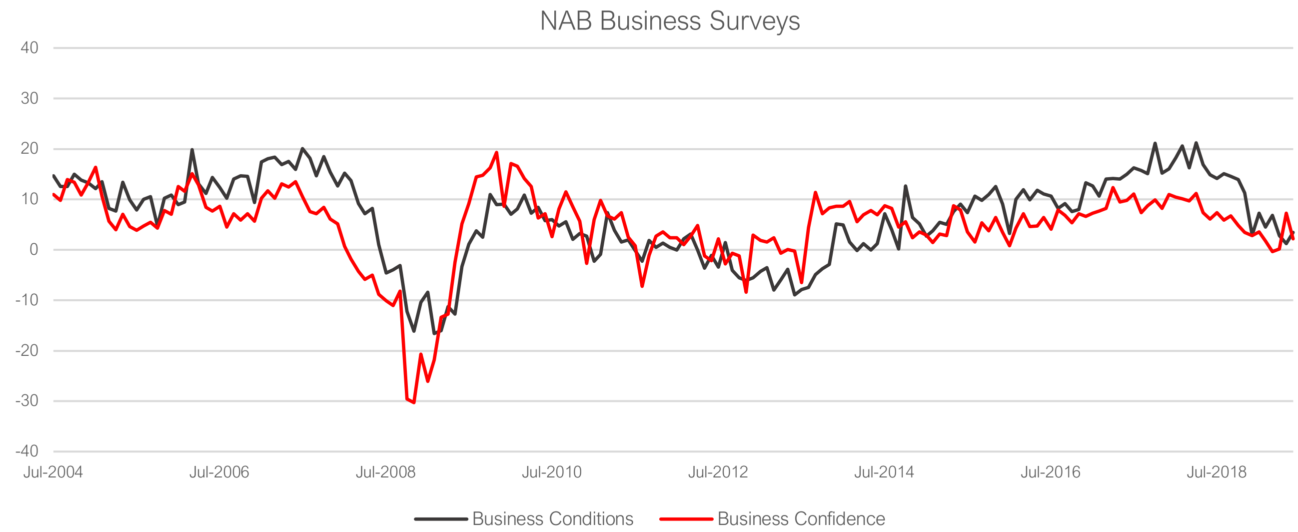
The contrast with the embattled Fed chair is stark. Constantly berated by the White House, and bullied by the bond market, Jerome Powell cut a tired and lonely figure on the Hill last week. Backward-looking data is much stronger in the US. Core CPI increased to 2.1% in June, real wages are at 1.5% yoy, and initial the unemployment is low by historical standards. Indeed, even though the JOLTS report was a little softer, job openings remain at a high level, and the same can be said of small business optimism. The areas of concern are in the industrial sector, in particular, related to manufacturing and trade.

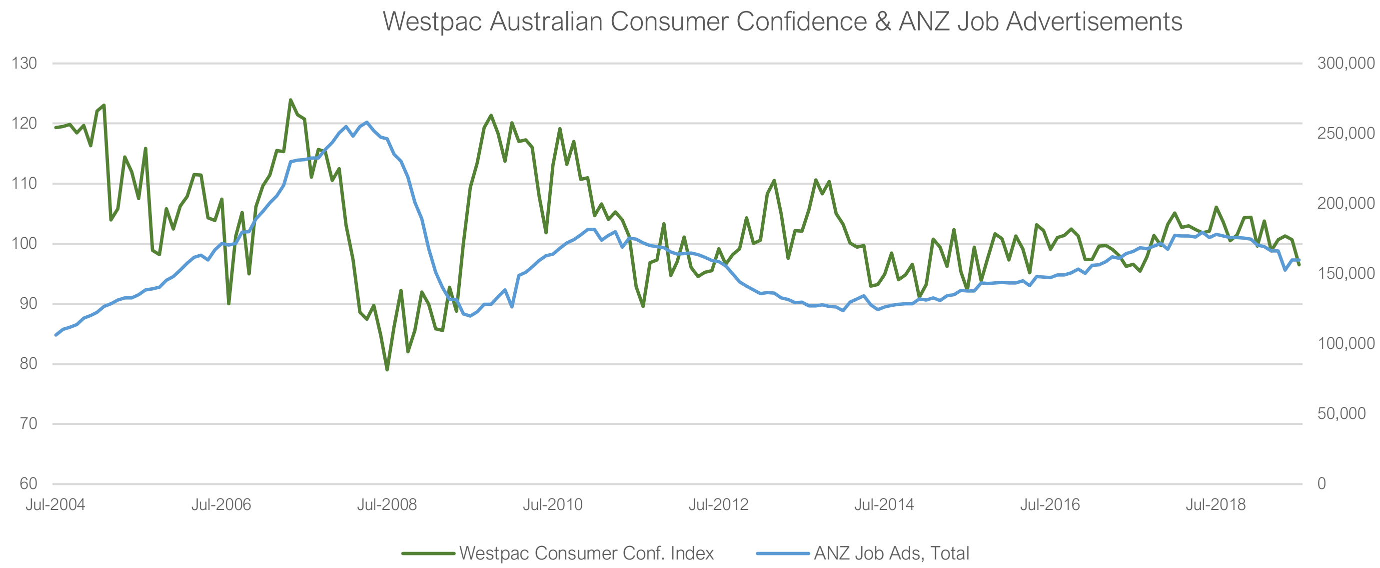
The Fed has adopted the term "cross-currents" to refer indirectly to the administration's trade policy and the risks it poses to the economy. Here the outlook remains pretty bleak. Despite the resumption of talks, the Washington Post reported that China is about to take a harder line with the US. China has not made the "almost immediate" purchases of farm goods that Trump heralded at the G20. Instead, China has re-organised the negotiation team, including the drafting of so-called hard-liners preparing to take a tougher stance. In addition, Iran continues to provoke the west. A British tanker was threatened by Iranian forces in the Strait of Hormuz last week, apparently in response the British detention of an Iranian tanker off Gibraltar; a tanker that was bound for Syria in breach of international sanctions. The British are sending another warship to accompany US forces in the region, while in the Pacific Scott Morrison posed for pictures on a US aircraft carrier, leading to speculation that Australia will also soon commit forces.

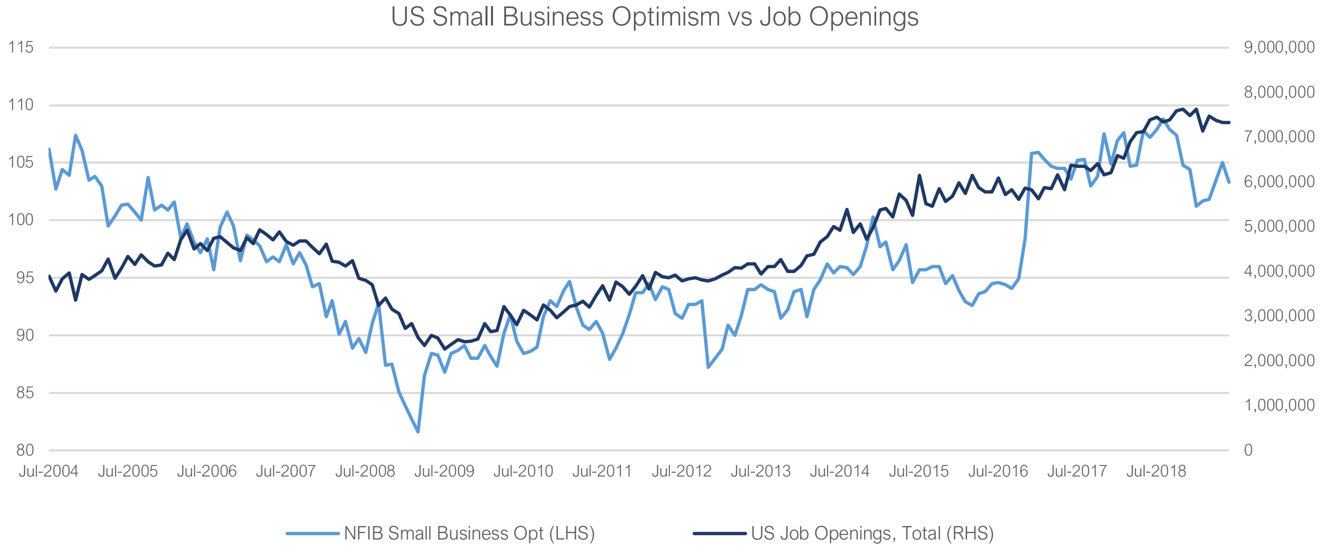
The Fed appears willing to give the market what it wants. Our view is that this is a good thing, but because 2.5% did seem a little too tight, but only by 50bps or so. The market is now expecting a quarter-point cut at the end of July, followed by three more over the next 12 months, bringing the rate down to 1.5% next July. The yield curve has slightly steepened, with the 10yr yield rising to essentially the same as the 3m T-bill. If the Fed delivers the cut as expected, this recession warning signal will no longer be flashing red.

Bond markets may be indicating better times, but an earnings recession remains very possible. It is more likely that earnings growth will be very close to zero for a couple of quarters, on both the US and Australia. That makes both markets seem expensive, with more justification for a premium in the US. However, there are plenty of opportunities to invest at better valuations elsewhere in the international equity market.

This week sees important GDP and other data from China on Monday, and more data for the Fed to consider. The EU will confirm a new head of the Commission with Germany's Ursula van der Leyen the favourite to be appointed, and the process to determine Theresa May's successor in the UK will come to a head next weekend.



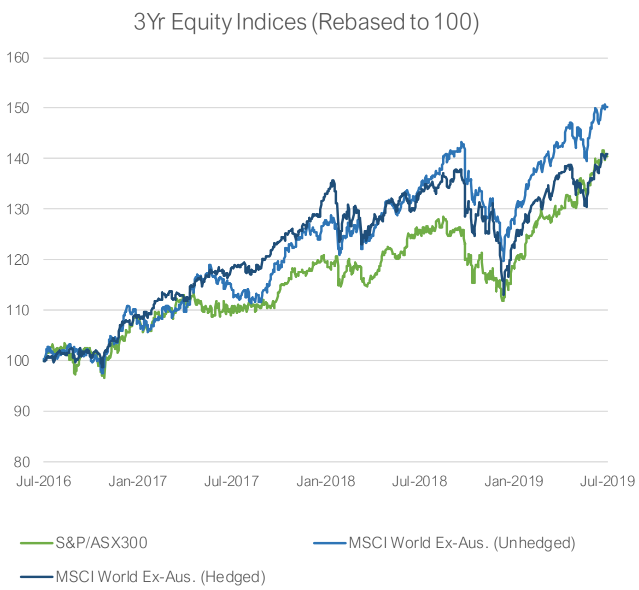


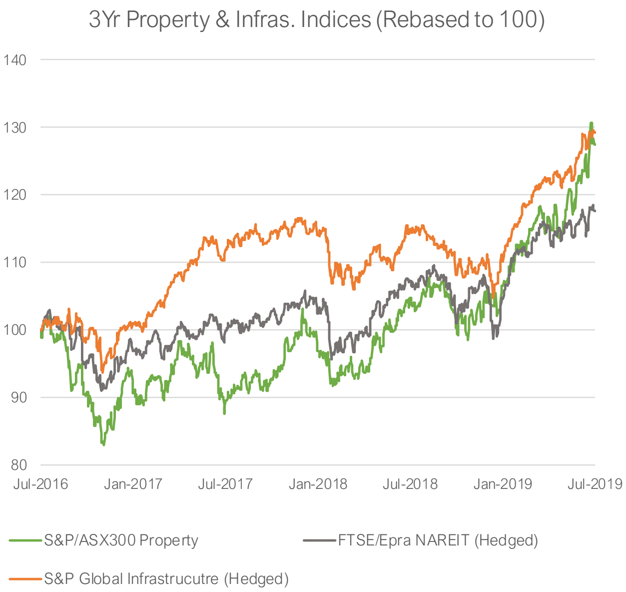


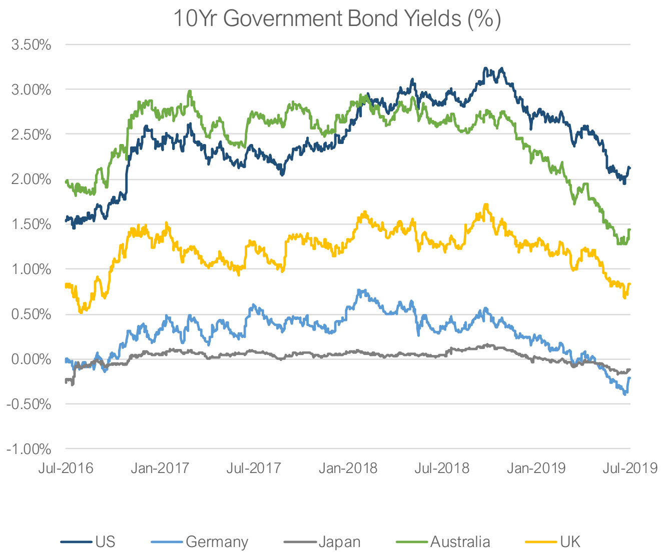
Source: Bloomberg, NAB, Westpac, ANZ, NFIB, BLS, 14th July 2019

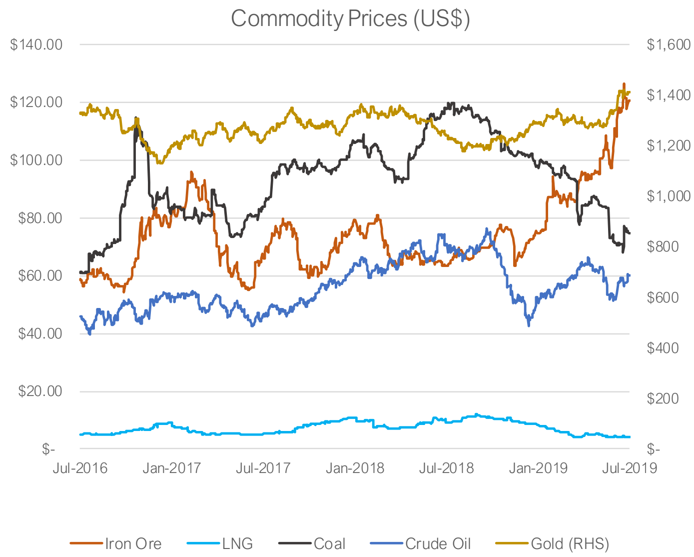
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		RBA Minutes	Westpac Leading Index	Employment	
US	Empire Manuf. Survey	Retail Sales; Ind.Prod.; Capacity Utilisation	Fed.Beige Book; Housing Starts; Building Permits; MBA Mortgage Apps	Philly Fed Survey; Leading Index; Weekly Jobless	UMich Cons. Sentiment
Europe	Finnish CPI	ZEW Survey; UK Employment	Eurozone & UK Inflation; Italian Ind. Orders	UK Retail Sales; Dutch Employment	ECB Current Acc.
Japan				Trade Balance	CPI; All Ind.Activity Index
China	Q2 GDP; Ind.Prod; Retail Sales; Fixed Asset Inv				









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