Antipodean Advisory

Antipodean Private Pty Ltd
133 Alexander Street
Crows Nest NSW 2065
Phone: 1300 101 250
Mobile: 0438 893 571
Email: michael@antipodeanadvisory.com
Web: www.antipodeanadvisory.com

June 2019 Market Wrap

Monday 1 July 2019

The Australian equity market completed June in positive territory to close out a good financial year. Both stocks and bonds rallyied with the Australian ten year bonds hitting another historic low 1.272% yield.

After a setback in May, a dovish (possible lower rates) Federal Reserves and optimism surrounding a potential trade deal during the G20 talks contributed to a rebound in US equities. The S&P Europe 350 is having its best year in decade's year on year gains to 17% the highest at the year's midpoint since 1998. Which is interesting given lacklustre growth figures and a worsening global economic outlook did enough to convince the market the European Central Bank would likely return to stimulus.

What next?

- Reserve Bank of Australia
  - June saw the first rate cut of 0.25 point since August 2016
  - Market looking at the final cash rate between a range of 1.00% or 0.50%.

Graph of the Cash Rate

Source: RBA

- Federal Reserve (US)
  - Market has priced two cuts of 25 bpts
  - Federal Reserve is watching numbers and trade wars
- Australian Tax Cuts
  - Australian voted for smaller Government & lower taxes
  - Reserve bank has called for Fiscal stimulus to help the economy
  - Big question does the Senate respect voters and pass the changes

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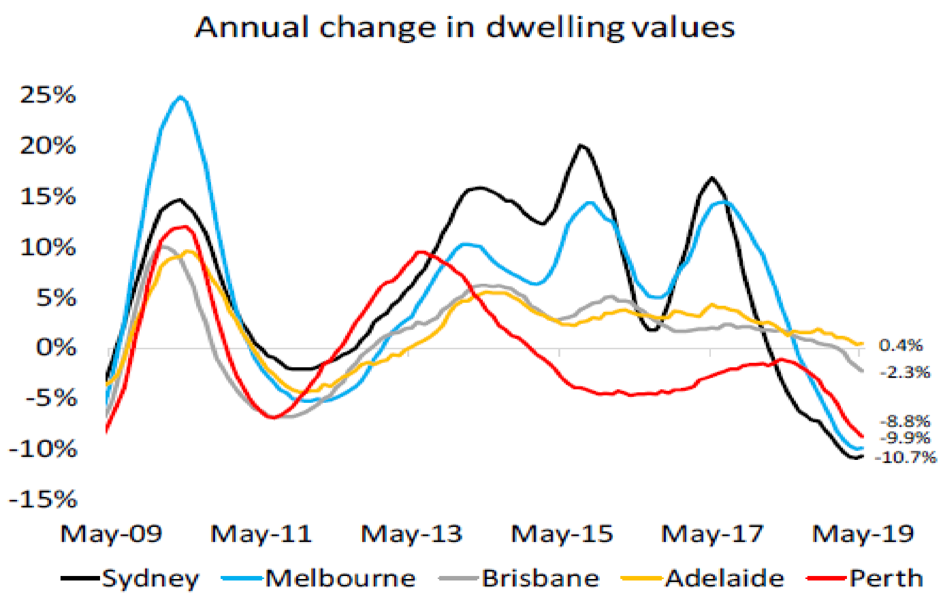
- Bond yields
    - The collapse in bond yields has been stark, swift and global, upending expectations that the world's economy would be strong enough to support a return to normal monetary policy after years of easy money
    - The drop is investors expecting a recession may be looming, and that central banks will have to step in with lower rates to try to forestall it.

As pointed out above, trades wars and slower growth in China are all factors in play. Another factor is a sense among investors that the global economy – hampered by aging demographics and weak productivity – just can't break out of a decade of tepid expansion and generate significant inflation. For savers around the world, meanwhile, low bond yields are punishing. The Bond market is saying a slowdown is coming and the equity markets clearly have a different view.



The property market cycle continues its correction with lower transaction volumes than a year ago and well below the decade average, days on market has begun to moderate, vendor's are having to offer larger discounts in order to secure a sale discounts, slower credit growth, increased supply, record high consumer debt levels and reduced investment lending all at play. The market has been blunted by the Royal commission review of reasonable lending, run off of interest only loans bring much tighter credit conditions. Positives for property are possible further rate cuts. This should help clear some of the excess stock on/coming to market.

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Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+7.19%	+9.59%	+14.03%
Nasdaq	+7.42%	+6.60%	+20.66%
S&P 500	+6.89%	+8.22%	+17.35%
Russel 2000	+6.90%	-4.66%	+16.17%
Europe 600 Index	-5.46%	-4.61%	+9.30%
UK FTSE 100 Index	+3.69%	-2.77%	+10.37%
Hong Kong Hang Seng	+6.10%	-1.42%	+10.43%
Japan Nikkei 225	+3.28%	-4.61%	+6.30%
China Shanghai Composite	+2.77%	+4.62%	+19.45%
ASX 200 (Australia)	+3.70%	+6.85%	+19.73%

Australian Dollar

	Close	52 week Range
AUD	0.7028%	0.6740-0.7484%

Government Bonds

	Close	52 week Range
US 3 Month	2.125%	1.912-2.487%
US 10 Years	2.006%	1.974 – 3.263%
US 30 Years	2.531%	2.477 - 3.465%
Australia 10 years	1.335%	1.272-2.799%

Source: Wall Street Journal.

If you have any questions or concerns, please don't hesitate to contact me.

Regards

Michael Clapham