Smartsave

Quarterly commentary and outlook June 2018^

Economy and Markets

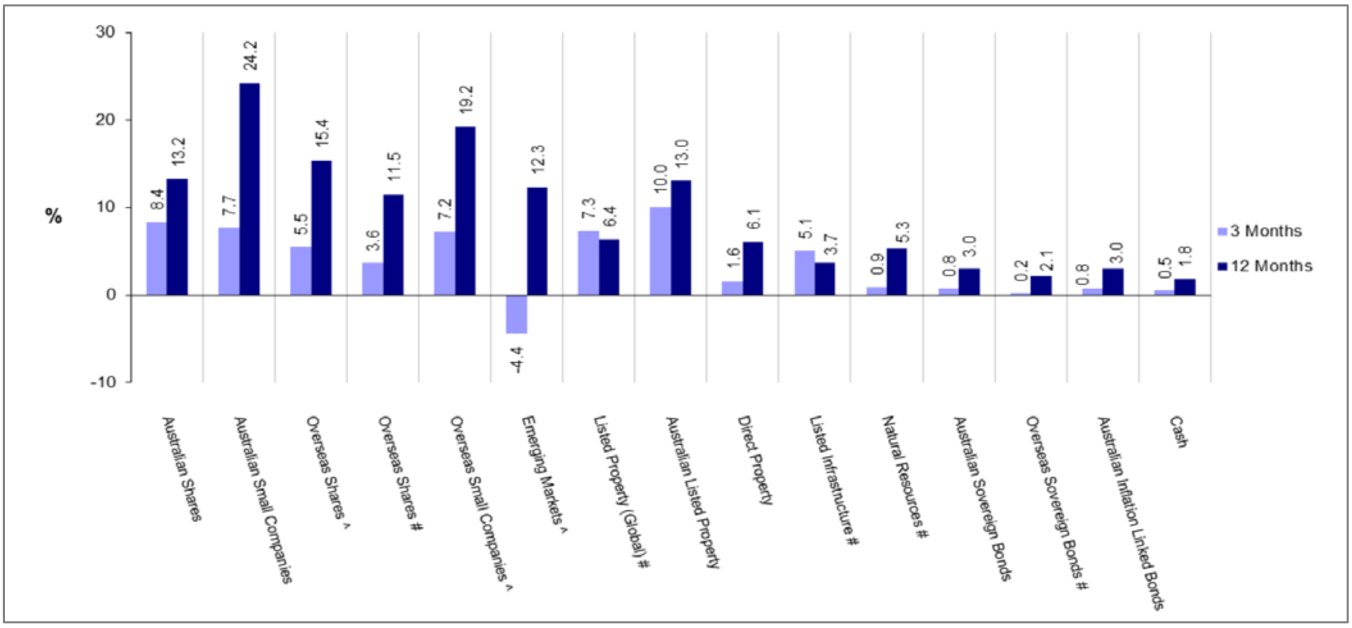
Following synchronised growth and low volatility for much of 2017, the halfway mark of 2018 reflects a different landscape, with:

- Economies starting to diverge
- Volatility returning to markets
- United States (US) dollar (USD) appreciation ailing emerging markets, and
- The Global Manufacturing Purchasing Managers' Index (PMI) slowing down to an 11-month low, albeit still reflecting expansion, despite continued strength coming out of the US.

Australian Q1 economic growth data was released in June, reflecting the highest annual growth rate (3.1%) since Q2 2016, spurred on by a strong quarter for exports, government spending and household consumption. Domestic manufacturing has followed a similar positive trend as June data indicated a 55.0 PMI, up from 53.2 in May and 54.3 in April – reflecting expansion in the manufacturing sector – as measured by Commonwealth Bank. The share market also fared well, as the ASX/S&P 300 grew 8.4% over the June 2018 quarter to outperform most major international regions. Financials lagged while Energy and Materials contributed strongly as commodity prices appreciated alongside an aiding depreciation in the Australian dollar (AUD) (relative to the USD) for exporters. Healthcare also benefitted.

Following ongoing economic and corporate strength, the US Federal Reserve continued to tighten monetary policy settings, hiking rates by 0.25% in June to a range of 1.75% to 2.00%. Continued hikes also contributed to a stronger USD. Interestingly, the US yield curve flattened further over the quarter, now at levels not seen since the years immediately preceding the Global Financial Crisis. With the recent tightening applying further pressure on shorter term yields and renewed risk awareness on the back of trade tensions (resulting in a recent fall in 10-year yields), the spread between US 2-year and 10-year yields stood at only 33 basis points (bps) at the end of the June quarter, marking the lowest it's been since August 2007. The strong Australian market and depreciating AUD created generally favourable conditions for diversified Australian investors over Q2 2018, particularly those with unhedged international equity exposures. The major laggard to portfolios was Emerging Markets (EM) equities, falling 4.4% as measured by the MSCI EM Index in AUD terms, as EM currencies faced significant pressures and Chinese equities sold off.

Financial Market Returns to 30 June 2018



Note: Past performance is not a reliable indicator of future performance. Performance shown only for asset classes that are applicable to sector MMFs benchmarked against a single index.

^ Mercer Multi-Manager Funds Quarterly Report - Three Months to 30 June 2018

Mercer Market Insights Australia, March 2018.

Returns are based on actual investment options, and are net of all investment fees, administration fees and taxes. Past performance should not be relied upon as an indication of future returns.

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