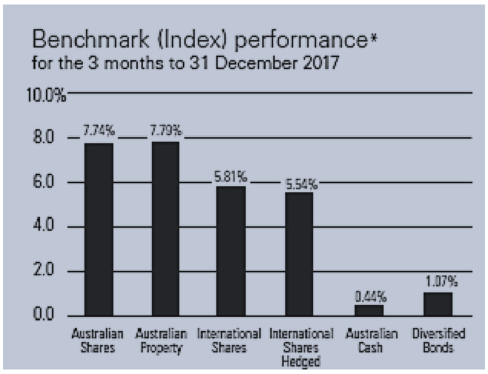
MARKET OUTLOOK

WILSON PATERAS
FINANCIAL PLANNING

# Quarterly Report
## January 2018

## Market Overview

We all can definitely agree that we saw the usual worry list in 2017. President Trump, elections in Europe, China, North Korea and Australian property, to name some but nevertheless a good run for investors. Australian shares delivered a double-digit return of 12.47% for the 2017 calendar year which was a good result compared to the last 5 years. More specifically, ASX ALL ORDS closed at 6167.30 at the end of December 2017.




Whilst International Shares (Hedged) returned 18.7% and Global Listed Infrastructure (Hedged) 14.8% were also standout performers for 2017 calendar year.

Despite of all of these remarkable events, most asset classes have provided positive accumulated returns, with volatility in the share market at an 'exceptionally low volatility'.

## Cash and Fixed Interest

The official cash rate in Australia remains at record low levels with the cash rate remaining on hold at 1.5% since August 2016.

Whilst there is some expectation that interest rates might increase in late 2018, any rate increase is likely to be reasonably measured. The RBA remaining cognisant of the lack of wages growth and high household debt.

The Australian 10 year government bond yield generally traded at about 2.5% as we closed out the year. In comparison, the US 10 year government yield increased slightly from 2.33% to 2.41%.

Investors are increasingly turning to Emerging Markets to satisfy their thirst for yield. Indeed the strong issuance pipeline from Emerging Markets has been more than met by investors demand. However, allocations to these markets come with potential increase in volatility and issues of capital risk.

More generally with global inflation risks rising, bond yields are running below the norm (subject to the reversal of huge inflows of recent years and central bank bond buying starting to slow down), the trend in bond yields is likely to increase. Notwithstanding, we see the rising trend in bond yields as gradual, noting that the US Fed is likely to effect a gradual rate increase and central banks are some way off any form of monetary tightening.

## Australian Equities

The Australian Share Market has continued to deliver positive results. The RBA inflation report noted a dissatisfaction in not meeting the year-on-year expectation of 1.9% (December quarter 2017). Most inflation watchers have seen the food and fuel prices spike to over 2% whilst price decrease in other categories such as clothing and home furnishings keeping the overall measure in check. What matters for policy makers is the underlying rate of inflation which continues to hover just below the bottom and of the RBA's 2-3% target band. In addition, there is little sign in increase of wages growth anytime soon, it will be unlikely that the rate of inflation in Australian economy will have exceptional improvement.

The outperformers were Resources, Healthcare and Information Technology sectors whilst the underperformers were Financials, Industrials and Utilities sectors.



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## International Equities

The Global economy is finally emerging from its post-Global Financial Crisis (GFC) hangover. Global shares increased sharply, supported by strong earnings, low interest rates and growing investor confidence.

While Eurozone, Japanese and Australian shares saw 5-7% corrections along the way, US shares only saw brief 2-3% pullbacks with volatility staying low compared to other countries. It effectively brought the US dollar down as low inflation kept expectations for Federal rate hikes in depression. This helped to boost US shares but dragged on Eurozone shares as the Euro rose.

Asian and emerging market shares were star performers owing their success from leveraging in global growth, rising commodity prices and weaker US dollar which reduced debt servicing costs.

We are expecting global growth in 2018 to move up to 3.7% ranging from around 2% in advanced countries to around 6.5% in China, with the US receiving a boost from tax cuts. Global inflation will generally remain low while it is likely to pick up in the US as spare capacity is declining, wages growth is picking up and as higher commodity prices feeding through.

## Property

Australian Listed Property (A-REITs) was a relatively modest performer delivering a gain of 6.4%. Unlisted Property delivered a solid result with 9.9% gain in value. Australian residential property returns slowed as the heat came out of the Sydney and Melbourne property markets.

## Market Outlook

*Is this sustainable in 2018 with the geopolitical threats looming, USA inflation rises and interest rates?*

A further rise in global growth around 3.9%, driving solid earnings growth with continuing low inflation and easy global monetary conditions should keep investment returns favourable. We expect further volatility as US inflation stirs the Fed hikes more than the market expects, other central banks edge towards less stimulus and political risk increases. Apart from the likelihood of more volatility through the year, global shares will likely trend higher through 2018 on the back of rising earnings and easy monetary conditions remains. We also expect global shares to outperform the Australian market.

President Trump, US inflation rate, Bond yield, Italian election in March, growth in China, Sydney and Melbourne property prices, as well as global business conditions are the main points to watch out for as an investor in 2018.

**We welcome your queries and/or concerns regarding your portfolio, contact either Donald Hands or Lasadi Felsinger on (03) 8419 9800 or by email info@wilsonpateras.com.au.**

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**Index Description** ALL ORDINARIES TR Index AU - This index represents the 500 largest companies in the Australian equities market. MSCI WORLD (AUD Hedged) - The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries*. S&P GLOBAL INFRASTRUCTURE TR Index (AU Hedged) - The index provides investors with liquid exposure to leading publicly-listed Australian infrastructure companies from two distinct clusters: transportation and utilities. The index is derived from the S&P/ASX 300 index. Benchmark (index) performance chart: Vanguard Investor Funds, perfroamnce summary,December quarter end 2017.