

Wilson Pateras Market Outlook

Quarterly Report



October 2017

Market Overview

Global Equities continued to grow despite concerns surrounding North Korea's bomb threats. Such threats continue to cause volatility in financial markets although the noise quickly dissipates following each threat.

Monetary policy across developed countries continued to tighten causing bond yields to rise.

In general, most asset classes continued to show a healthy performance with Global Equities showing the strongest performance followed by Global Property.

Cash and Fixed Interest

Whilst interest rates in Australia have been maintained at record low levels, analysts foresee interest rate increases in Australia are likely to occur in the next 12 months.

The US Federal Reserve Bank raised the rates to 1.25% in June and announced that it still intends to further increase interest rates by the end of the year pushing the US 10-year Treasury bond yields up.

However, the US Federal Reserve Bank recently announced it will begin balance sheet 'normalisation' in October, causing Bond yields to drop by as much as 1.67% in September. The US 10-year Treasury bond ended the quarter up by 0.21%.

Australian Equities

Albeit positive performance, the Australian Share Market continued to underperform global markets. This underperformance has been mainly caused by a slump in iron ore prices, which saw the resources stocks weaken.

The Telco sector also fell by 4.7% in September, the weakest sector for the second consecutive month, while Healthcare and Financials managed a small gain in September, both rising 1.3%.

The All ORDS Accumulation Index ended up 1.02% over the quarter.

International Equities

Global Equities continued to show strong performance. In particular, European and Japanese stocks have continued to show strong gains whilst developing markets showed signs of flatter performance in September.

The S&P Global BMI (US Dollar) Accumulation rose by 5.42%, the S&P Europe BMI (US Dollar) Accumulation rose by 6.77% and the S&P Emerging BMI (US Dollar) Accumulation rose by 8.79% last quarter.

Property

The S&P/ASX 300 A-REIT Accumulation Index showed signs of recovery after some months of negative performance, ending the quarter in the up by 1.94%

In the residential space, Sydney home prices in September fell for the first time in 17 months but strong gains for Hobart and Melbourne have continued according to the latest Core Logic report. Over the quarter, home prices in Hobart, Melbourne and Sydney were up by 3.40%, 2.0% and 0.2% respectively.

Internationally, Global listed property has provided a better outlook. The FTSE EPRA/NAREIT Global Accumulation Index (US Dollar) yielded 2.95% for the quarter.

Market Outlook

Despite concerns over global equity valuations, prospects of good growth in corporate earnings remain positive, particularly in the US market, where President Trump outlined his plans to cut corporate taxes. Coupled with improving growth in Japan, Europe and Emerging Markets, the global earnings outlook remains positive, highlighting the importance of appropriate diversification and exposure to global assets.

Bond yields are likely to continue on the rise in anticipation of further policy stimulus withdrawals by central banks, presenting great opportunities in the Fixed Income space, although, we suggest trading cautiously due to the rapid rise of issuance and trade of CDOs in Corporate US Bonds.

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