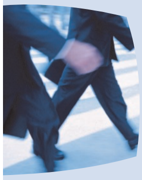
Summer Edition | December 2014







# Blueprint Update

PARTNERING WITH YOU IN SECURING YOUR FINANCIAL FUTURE AND ACHIEVING YOUR LIFETIME GOALS.

## Happy Holidays

The countdown to Christmas has already started for most of us. It is the season of festivities and catching up with friends and family over the summer holidays. It can also be a fairly stressful time for many trying to manage their cashflow with presents and gatherings over the holiday period. We hope you have time to relax with your family and embrace the spirit of Christmas.

From our team at Matrix Norwest to your family, we would like to thank you for your support and wish you a very Merry Christmas and a prosperous New Year for 2015.

Enjoy and we will see you in our next edition….


## Market Update - Global Snapshot

| Country | Index | Index 09/12/2014 | % Change in 12 months |
|---|---|---|---|
| Australia | ASX 200 | 5,372 | 8.85% |
| USA | Dow Jones | 17,852 | 13.68% |
| USA-Tech | Nasdaq | 4,740 | 18.65% |
| UK | FTSE100 | 6,672 | 3.36% |
| Hong Kong | Hang Seng | 24,047 | 2.85% |
| Japan | Nikkei | 17,935 | 16.03% |

*Source: Bloomberg World Stock Indexes as at 10/12/2014*

Matrix Norwest
Financial Planners

# Market Update

### Australian Market

In Australia, the focus is now on consumer and business confidence. Unemployment has increased to over 6%, both business and consumer confidence also have deteriorated since the July high which is likely to flow through to lower growth forecasts in the near future. The non-mining activity is likely to continue to pick up pace but in the face of falling national income and subdued confidence, this will likely require further monetary stimulus in the form of a lower $A and a further RBA interest rate cut. If this occurs, then we would see improving conditions in sectors like housing construction, consumer spending, tourism, manufacturing and higher education.

The government needs to be mindful not to retard the drivers of growth as we come off record terms of trade and a slowing resources sector. Current GDP growth forecast for 2014 is 3% and is below the long term growth of 3.5%.

### Global Market

Global markets are entering a more volatile phase where we are seeing increasing uncertainty. Markets have been unsettled in the short term by a number of factors including the ending of QE in the US and the expectation of rising US interest rates in 2015-16, as well as markets with stretched share prices. Also, concerns of deflation in Europe as well as the significant increase in QE in both Japan and Europe create uncertainty.

With increasing uncertainty around the globe, central banks are likely to continue to provide support through guidance (in the US) and continued quantitative easing in Europe, Japan and China.

The US economy is placing greater emphasis on the Fed's guidance to the ending of QE and a return to higher interest rates. The US economy has generally been performing well and unemployment has steadily declined, now at 5.8% which is providing the catalyst for a return to higher interest rates, although not expected until late 2015 or early 2016. As a result US equities markets now require underlying earnings to grow in order to support the equities valuations.

China and Indian equity markets are continuing to perform strongly, although from a low base. China's Shanghai Composite index is likely to be further boosted as it opens to foreign trading which is seen as a significant advancement. While China has under gone a slowing over the past months, the leadership has responded by providing additional liquidity to the five State Owned banks representing A$18 billion each to spur growth by offering low interest rate loans to the small business and housing sectors.

The Chinese leadership continues to step up the reform process as the country transforms from the export and investment phase to a consumption phase. This consumption phase is likely to generate marginally lower growth over the coming years as the transition to a broader based economy takes effect with less impact than the investment phase has had over the past five years. Positive signs are emerging for China and opportunities starting to emerge in its share market where values are attractive.

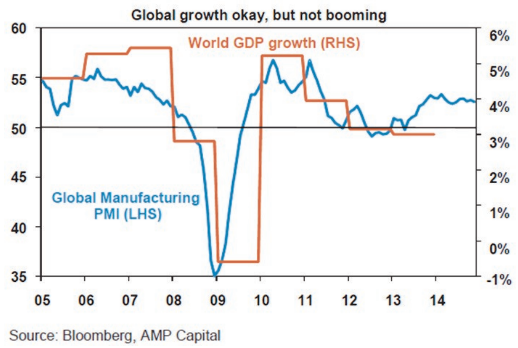
Selected emerging markets are showing signs of improvement and capital flows have turned positive. Fears are still high with many of the emerging markets such as Russia, Turkey, South Africa and Brazil underperforming as well as dealing with geo-political uncertainties, social unrest and currency problems. The Islamic State conflicts in Iraq and Syria and the involvement of the West also increases uncertainty and further escalation may negatively impact global equities markets.

The Japanese equities market continues to be driven on the back of the large QE stimulus being implemented by Prime Minister Shinzo Abe who continues to embark on an ambitious reflation strategy. The Japanese equities market has been responding, although negative growth in the last quarter is creating headwinds. Abe is now undertaking more difficult reforms to re-energise Japan's economy. The aim is to continue to drive down the currency and boost export earnings, which is starting to occur although it will undergo periods of volatility.

### Implications for investors

As always, there seems to be plenty of calls for global recession in the year ahead based on everything from quantitative easing to demographics. However, there remains good reason for cautious optimism.

- Leading indicators of global growth including business conditions PMI's point to continued reasonable growth.




- While this growth is likely to remain uneven between countries, which can be unnerving, it does mean we are a long way from global overheating associated with excessive growth in credit, inflation etc. In many ways the current environment is a bit like the mid to late 1990s where US growth was good but subdued conditions elsewhere kept inflation and interest rates relatively low.
- Falling commodity prices in response to a positive supply response are adding to this.
- As a result, monetary conditions are set to remain relatively easy as major central banks seek to head off deflationary pressures.

*To be continued...*

# Market Update

The continuing sweet spot combination of okay global growth, but still low inflation and easy money is positive for growth assets. But, an eventual rate hike by the Fed and ongoing geopolitical flare ups are likely to cause volatility.

- Global shares are likely to continue to push higher as global growth continues and monetary conditions remain easy. But shares are no longer dirt cheap and so are dependent on earnings growth. This and the ongoing debate about when the Fed will start to raise rates is likely to lead to a more constrained and volatile ride.
- For shares, at present, we favour: Europe (which is still cheap, unloved and likely to see more monetary easing), Japan (which will see continued monetary easing) and China (which also remains cheap) over the US (which may be constrained by a Fed rate hike) and emerging markets generally (which are cheap but messy).
- Australian shares are likely to pick up pace as interest rates remain low and growth continues to rebalance away from resources, but will probably lag global shares again as the $A remains under pressure and commodity prices remain in a long term downtrend.
- Commodity prices may see a bounce from very oversold conditions, but excess supply for many commodities is expected to see them remain in a long term downtrend.
- Very low bond yields point to a soft return potential from sovereign bonds, but it's hard to get too bearish in a world of too much saving, spare capacity & low inflation.
- Commercial property and infrastructure are likely to benefit from the ongoing search by investors for yield.
- Australian house prices are likely to see a continued upswing on the back of low interest rates.
- Cash and bank deposits are likely to continue to provide poor returns, with term deposit rates running around 3%.
- The downtrend in the $A is likely to continue as the $US trends up and reflecting the long term downtrend in commodity prices and Australia's relatively high cost base.

***Source:*** *Bloomberg World Stock Indexes*
*McGregor Asset Consulting November 2014*
*AMP Capital*

*Please note that our office will be closed from Monday, 22nd December 2014 and we will officially re-open on Monday, 12th January 2015*

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