vantagepoints

quarterly financial commentary

Summer 2017/18

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Market Commentary
Global and Australian Market Analysis

Little has changed in investment markets since earlier in the year, with the continuation of key themes. Financial market volatility and interest rates both remain very low, economic indicators suggest the global economy is growing, and profitability, sentiment and stock prices are all relatively buoyant. This has meant that 2017 to date has been a good year for most growth investment markets despite geopolitical developments in North East Asia and the Middle East.

Australian share prices have risen more modestly than many offshore markets, with prices quite flat for much of the year before ticking up in the past couple of months. Australian real estate investment trusts fell quite sharply midyear but have steadily recovered since then.

The Australian Dollar has also declined in recent months, boosting returns from offshore markets. Since the start of the year it has risen against the USD and Japanese Yen and fallen against the consistently strengthening Euro. The European economies and markets have experienced significant improvement in sentiment.

Notwithstanding post election gridlock in Germany, major European elections have not gone the way of hardline nationalist politicians as had been feared earlier, whilst the weaker European economies are now starting to emerge stronger from several years of fiscal austerity and reform.

Whilst a number of market indicators suggest further calm in the short term, we consider valuations to be our main guide to long term returns. As has been the case for some time, we are concerned about high valuation levels in US stock markets, which dominate the composition of Global stock market aggregates. Therefore we continue to recommend a lower than normal weighting to international stocks. Most other stock markets, including Australia's, offer better value and hence our underweight recommendations are mostly aimed at avoiding overvalued US stocks.

Government Bonds (fixed interest investments) and diversified hedge fund strategies have eked out modest positive returns whilst corporate bonds have provided above average returns. Gold mining stocks have been poor performers despite a moderately higher $A gold price. Trend following hedge funds have recovered strongly since September but have had a weak year overall.

Sector	Commentary	Outlook
Australian Shares	Australian market wobbled through the middle of the year but has been stronger in the past couple of months	We still assess valuations as "normal" in a historical context
International Shares	Share prices continued to rise $A reasonably valued	US shares still expensive, other major markets are more reasonable value
Listed Property / Real Estate Investment Trusts	Prices dropped mid-year but rebounded quite strongly	We still hold a neutral view, but sector pricing has returned toward the upper end of our comfort zone
Fixed Interest Securities	Modest Government bond returns, but corporate bonds, loans and notes performed well	Government fixed interest securities are still expensive globally. Australia too, although to a lesser degree Corporate debt and hybrid markets offer less value than in the past, but we recommend maintaining allocations
Alternatives	$A gold price is higher but gold stock prices have been lower. Alternative strategies (hedge funds) provided varied returns. Trend followers made a late fightback to produce modest gains or losses for the year (with variation between individual funds)	Gold exposure continues to have a unique role in portfolio construction and gold stocks are reasonably priced. We also continue to advocate selected hedge fund exposure to diversify from shares and bonds markets

MERRY CHRISTMAS

Christmas is a time that reminds us that there is more to life than work. Embrace the season and all the pleasures it delivers. We wish you and your family a peaceful, safe and happy Christmas. We look forward to exploring the New Year with you and seizing the opportunities it offers.

Our office will be closed from 5pm Friday 22nd December 2017 and will reopen on Tuesday 2nd January 2018.

If you have an urgent matter during this time, please contact the CEO, Mike Glossop on 0409 252 501.

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