

## Investment markets update

Global share markets have recovered strongly, until recently. *Chart 1* below shows the one year movement in the Australian share market and you will notice the large gains from July 2012 to March 2013. Volatility returned to the Australian share market in the past eight weeks, caused by concerns around weaker Australian economic growth and the falling Australian dollar which has gone from \$1.06 to \$0.92. See *chart 2*.

**Chart 1: Australian share market - one year movement**



**Chart 2: Australian dollar vs US dollar**

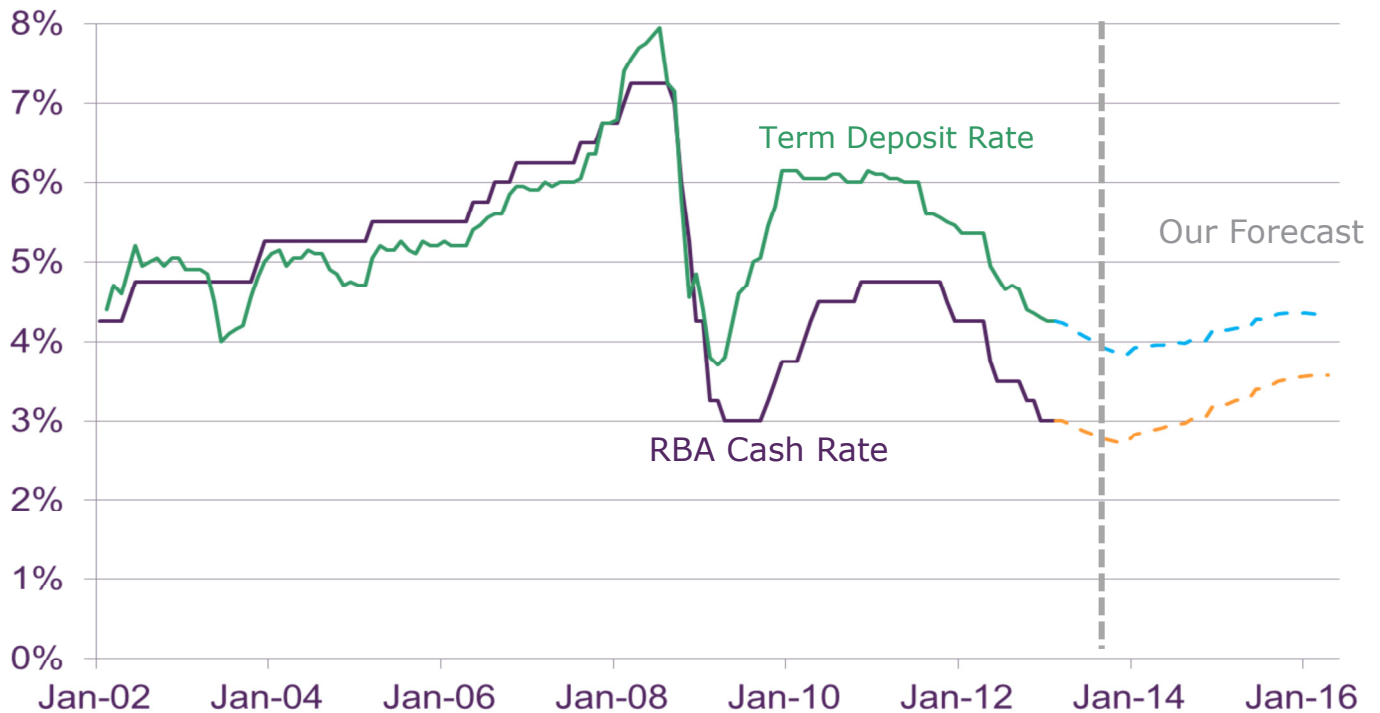


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**Chart 3: Term deposit rates and RBA cash rate**



## Outlook

Asset Class	Our View	Why?
Property	Neutral ➡	Low interest rates will help support property values, however prices are high compared to the world property market and higher unemployment may keep prices from increasing strongly. It should be noted that yields on listed property are still attractive and their balance sheets are in reasonable shape.
Australian Shares	Neutral to Positive ➡➡	Dividend yields from blue chip Australian shares outweigh term deposit rates by a good margin. Certain areas of the Australian market with offshore earnings may benefit from the fall in the Aussie dollar, however certain mining and mining service business's could struggle to increase profits as the mining boom winds down.
International Shares	Likely to be Positive ➡➡	If the Aussie dollar continues to fall vs the US dollar this should help boost returns from international assets that are unhedged. Europe is likely to continue to have poor economic results, China's economic growth is slowing to around 7.5% p.a and we are seeing a reasonable economic recovery in the US.
Fixed Interest	Negative ⬇	Certain Government bond yields are at their lowest levels seen in decades and capital values may suffer in the medium term. Government bonds look overvalued, term deposit rates are very low (see chart 3 above) however corporate bonds are offering some attractive medium term returns.



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## Implications

We believe the biggest investment impact is currently coming from the falling Australian Dollar which is driving overseas investors to sell their Australian investments (equities and bonds) causing our sharemarket and dollar to fall. There is the possibility for this to continue in the short term until the Australian Dollar is back to being "fair value" at around \$0.84 - \$0.92. In the medium term, this can have the reverse impact of bringing money back into the country again to buy back into (what may be) cheaper assets and potential for a number of companies reporting increasing earnings later in the year. Westfield recently reported that a \$0.10 fall in the Australian dollar vs the US dollar can potentially add up to 8% to their annual profit.

Right now, the dividend yield on investments such as ANZ or Commonwealth Bank stands at over 8% when you take into account franking. With the official cash rate at 2.75% (and heading lower), five-year commonwealth government bonds trading at about 3.5% the current yield from the sharemarket is very attractive – particularly with the prospect of some capital upside over the next few years.

To summarise, we expect to experience some less favourable conditions in the coming 3-9 months followed by some opportunities to see markets rally once again at a later stage. What you do will depend on your timeframe for investment and your income requirements. If you are a long term investor (5 years plus) or need high levels of income, this may present a good opportunity to buy more growth investments. Those who need or want to protect their capital should be conservatively invested in defensive assets – if you are too heavily growth focused, you may see some short term capital volatility in the months ahead.

If you have any questions or would like to discuss your portfolio please contact the team at Aspirations Wealth Group:

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