

Investment Update December 2015



Aspirations Wealth Group
Build and Protect your Wealth

Our aim at Aspirations Wealth Group is to keep our clients informed regularly about their portfolio, investments and markets. Below we have provided a review of 2015 and our outlook for 2016.





Review of 2015:

The 2015 year has been an interesting year for investors as worries about China, emerging countries and the USA Federal Reserve caused volatility and uneven returns across asset classes. Key themes for the past year have been:

- **Weak global growth.** This has been the story for the last few years. Global growth failed to take off due to a slowing of the manufacturing sector in the US, another downturn in Japan, a further slowing in China and deep recessions in Brazil and Russia. As a result global growth remained uneven and stuck around 3%. While this is causing ongoing market volatility amongst investors - it's not bad. Remember that stronger growth would only bring inflation and then higher interest rates.
- **Falling commodity prices.** The plunge in commodity prices continued during 2015 as surging supply faced slower demand led by China. It has been bad news for commodity producers but good news for most developed countries.
- **Low interest rates.** The USA Fed is moving towards its first rate hike after seven years at 0%, however rates remain at all time lows in Australia, UK, Europe and Japan.
- **Geopolitical threats.** Terrorist attacks in Paris, the escalating war in Syria and tensions in the South China Sea all caused periodic fear, but without much lasting impact. However uncertainty remains a cause for market volatility.
- **Property.** Property had a good year, but mainly due to house price gains in Sydney and Melbourne. However, gains slowed significantly in the December quarter.
- **Shares.** Australian shares will finish the year where they started, with poor results in mining and some large industrials, however healthcare remains robust. International shares provided solid returns over the year and were again the best performing investment.
- **The \$A.** The Aussie dollar fell another 10% this year and this helped boost the returns from global shares.

Note that returns from the average balanced superannuation fund still exceeded cash and inflation in 2015, but are on track for their softest results since 2011.



2015 Price Movement for Australian Share Market





2015 Price Movement for USA Share Market





2015 Price Movement for UK Share Market





Outlook for 2016:

There are good reasons to believe we will simply see a continuation of the constrained uneven global growth that we have been seeing over the last few years. Major economic downturns are invariably preceded by either economic or financial overheating and there are no signs of that. There has been no major global bubble in real estate or business investment, inflation remains low, share markets are not unambiguously overvalued and global monetary conditions are easy.

The US Fed is likely to raise rates which is likely to be gradual reflecting constrained US growth and low inflation. Monetary easing is set to continue elsewhere, which in turn will also limit the extent of Fed tightening to the extent it puts upwards pressure on the value of the \$US. As such, apart from a left field shock, it is hard to see what will drive a major global economic downturn at present.

At the same time, it is hard to see what will drive a sharp acceleration in economic growth either. Rather, the structural combination of slower population growth, a more cautious approach to debt and structural problems in the emerging world will keep a lid on global growth. Consistent with this leading growth indicators point to steady growth. Not collapsing, but not booming either.

The combination of okay global growth, still low inflation and easy money remains positive for growth assets. But ongoing emerging market uncertainties combined with Fed rate hikes and geopolitical flare ups are likely to cause volatility.

Global shares are likely to trend higher helped by a combination of relatively attractive valuations compared to bonds, continuing easy global monetary conditions and continuing moderate economic growth.

For shares we favour Europe (which is still unambiguously cheap and seeing continued monetary easing), Japan (which will see continued monetary easing) and China (which will also see more monetary easing) over the US (which may be constrained by the Fed and relatively high profit margins) and emerging markets generally (which remain cheap but suffer from structural problems).

Australian shares are likely to improve as the drag from slumping resources profits abates, interest rates remain low and growth rebalances away from resources, but will probably continue to lag global shares again as the commodity price headwind remains.

The downtrend in the \$A is likely to continue as the interest rate differential in favour of Australia narrows, commodity prices remain weak and the \$A undertakes its usual undershoot of fair value. Expect a fall to around \$US0.65.



The chart below shows the actual returns from various assets over the past two years and also a forecast for 2016.

Total return %, pre fees and tax	2014 actual	2015* actual	2016 forecast
Global shares (in Aust dollars)	15.0	14.4	15.0
Global shares (in local currency)	10.0	4.5	9.0
Asian shares (in local currency)	5.8	-5.7	6.0
Emerging mkt shares (local currency)	5.2	-4.7	5.0
Australian shares	5.6	-0.2	7.0
Global bonds (hedged into \$A)	10.4	3.5	2.0
Australian bonds	9.8	2.3	2.3
Global listed property securities	28.2	5.8	7.0
Aust listed property trusts	27.0	9.9	7.0
Unlisted non-res property, estimate	8.5	12.0	9.5
Unlisted infrastructure, indicative	12.0	14.0	10.0
Aust residential property, estimate	9.0	10.0	4.0
Cash	2.7	2.1	1.9
Avg balanced super fund, ex fees & tax	8.5	4.7	7.5



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