

Economic and Market Outlook

January 2020



International economy

Part 1: Overview

In early 2019 the risks of a global recession were increasing. Global trade fell to recessionary levels as the Sino-American trade war showed no signs of abating and it was thought that it was only a matter of time before the slowdown in external trade spilt over to a broader downturn impacting wages and consumption. Bond markets certainly thought so as the flight to safety saw the yield curve invert, a harbinger of recession. Debt problems in Argentina and Turkey stoked renewed fears of another sovereign debt crisis. Further, the uncertainty associated with Brexit was continuing to weigh on production and investment decisions in the United Kingdom (UK) and Europe.

Over the year, however, there has been a gradual de-escalation of risks. Investment market concerns eased in January as the United States reversed course on raising interest rates. The United States has persisted with sanctions rather than military action against Iran (until now). China and the United States have recently come to an in-principle Phase one trade deal, and the recent emphatic victory by UK Prime Minister Boris Johnson suggests that the uncertainty associated with Brexit should soon come to an end.

Overall, the outlook for 2020 has brightened considerably. Growth in the United States should be buoyed by an improvement in manufacturing, low interest rates should support credit growth with renewed momentum in the housing sector, and very low unemployment together with a reduction in household debt should remain broadly positive for consumption generally. Similarly, recent improvements in industrial production and manufacturing surveys in China, together with a stabilisation in fixed asset investment, suggests that China's Authorities will continue to provide appropriate stimulus to avoid a more concerted slowdown. Traditionally, strength in the United States and China typically underpins growth in export oriented economies, including Europe and Japan.

Nevertheless, we remain mindful that economic growth remains very much on an unsustainable trajectory, increasing the risk of a more severe correction if the current structural impediments are not adequately addressed.

It has been an anomaly of our times that bad economic news over the past 12 months has almost inevitably been greeted with exuberance on investment markets. Investors have interpreted the news as a sign that central banks will keep interest rates lower for longer. Investors have been lulled into a false sense of security that central banks will continue to come to the rescue, but this cannot last. The fact is that low interest rates rather than strong economic growth have been propping up investment markets for some time now. Loose monetary policy (low rates and quantitative easing) can only buy time to fix the underlying problems.

The reality is that outside of the United States, unconventional monetary policy has been largely ineffective in restoring sustainable growth. In turn, inflation which is supposed to increase over time with

accommodative monetary policy has instead remained largely suppressed. Low interest rates are not a panacea. Low rates reduce the incomes of retirees. Low rates reduce the viability of insurance and pension funds globally. Low rates allow inefficient companies to refinance and survive instead of allowing capital to be allocated to more productive enterprises.

Low rates have encouraged companies to buy back their own shares or refinance debt rather than invest in new capital to enhance their productivity. Low rates and high household debt have encouraged households to reduce debt rather than invest in productive assets. This is why industrial production, a key driver of aggregate demand, remains well below the pre-GFC highs in most countries except the United States, Germany and China. Indeed, most of Europe, Japan and the UK all remain well below their 2007 highs.

Yet many of the current day problems can still be traced back to the seismic events of the Great Recession in 2008/9, which exposed fragilities that were always going to take time to fix. The failure of Lehman Brothers was a symptom of a much larger underlying problem. Policymakers responded to the symptoms by injecting massive amounts of liquidity into the financial system. Although this was effective in preventing a further seizure of credit markets, it failed to address the root cause which was the excessive build-up of debt by households and corporations. The balance sheets of overindebted households and corporations were always going to take time to repair. The bailout of banks at the peak of the crisis imposed an enormous cost on government balance sheets while the experiment that remains quantitative easing has caused massive expansion of central bank balance sheets. Thus, it is perhaps no surprise that the normal transmission mechanisms for monetary policies have not worked as expected. Monetary policy initiatives help provide liquidity but do not restore solvency. Until debts levels on household, corporate and government balance sheets return to more normalised levels, monetary policy initiatives are likely to remain relatively impotent and potential growth will remain constrained.

Therein lies the crux of the ongoing problem. Although China's economy continues to grow, most of the recent growth has been supercharged by excessive debt taken on by state owned enterprises, local government and the central government itself in the form of the much hyped, but hugely expensive, Belt and Road Initiative. This is unsustainable. In Europe too, despite more than ten years on from the Great Recession, numerous countries remain shackled to crippling sovereign debt burdens that restrict growth opportunities.

The problem is exacerbated within the European Union by the lack of any meaningful fiscal union. Similarly, numerous European banks remain overwhelmed by large tranches of bad loans as does the European Central Bank (ECB) itself, as guarantor. In Japan, the sovereign debt problem is even worse, contributing to sub-optimal growth outcomes for decades now.

Conclusion

The dramatic escalation in tensions between the United States and Iran threatens to derail the improvement in the global growth outlook that was unfolding following the phase one trade deal and ongoing central bank support. Assuming sanity prevails and a war in the Middle East can be averted, much then hinges on the outcome of the United States presidential election in November and the policy direction of China. China has been a key driver of global growth in recent years but now faces significant challenges. In the short term, any mishandling of the uprisings in Hong Kong could derail any trade deal, which would be negative for global growth. Over the medium term, China needs to initiate further market reforms and resume a policy of gradually deleveraging to restore the sustainability of future growth. A rocky path lies ahead.



Part 2: Key economic indicators

United States

Economic snapshot	Last reported result	Comments
Growth (GDP)	2.1% (annualised) Q3'19	Growth in the September quarter accelerated to 2.1% (on an annualised basis), bolstered by an uptick in private inventory investment, rising exports and solid residential fixed investment. Negative impacts on growth were caused by a decline in Personal Consumption Expenditures (PCE's), lower government spending (at the federal, state and local levels) and a continued decline in non-residential fixed investment.
Unemployment	3.5% Nov'19	The unemployment rate in November was the lowest in half a century. The number of unemployed persons remained relatively stable at 5.8 million. Total non-farm payrolls increased by 266,000 in November.
Industrial Production	1.1% m/m Nov'19 -0.8% y/y Nov'19	Industrial production rose strongly in November but remains susceptible to the trade war standoff.
ISM Manufacturing	48.1 Nov'19 49.1 Aug'19	The PMI reading of 48.1 in November was driven by weakness in inventories and new orders.
Retail sales	0.3% m/m Nov'19 3.1% y/y Nov'19	Retail sales increased less than expected in November as consumers pared back their discretionary spending. The core retail sales figure (which excludes autos, gasoline, building materials and food services) increased 0.1% during the month.
Credit growth	5.5% y/y Oct'19	Credit increased by 5.5% year-on-year and sits at \$4.17 trillion.
Outlook	We expect growth to gradually improve through the first half of 2020 as manufacturing bottoms out following the phase one trade deal. Low unemployment, a pick-up in housing activity and moderate credit growth should drive consumption. Uncertainty over the November 2020 election may pare back investment intentions and slow growth modestly over the second half of the year.	

Eurozone

Economic snapshot	Last reported result	Comments
Growth (GDP)	0.2% q/q Q3'19 1.2% y/y Q3'19	Growth continues to be subdued as the Eurozone manufacturing sector remains in recession, hamstrung by uncertainty caused by Brexit and the Sino-American trade war.
Unemployment	7.5% Oct'19	The unemployment rate remains at the lowest level in over a decade.
Industrial Production	-0.5% m/m Oct'19 -2.2% y/y Oct'19	Industrial production fell during October due to a decline in the output of capital goods used for investment.
Manufacturing PMI	46.9 Nov'19 47.0 Aug'19	The PMI improved by a full percentage point in November (from October) but continues to signify a contraction in manufacturing activity.
Retail sales	-0.6% m/m Oct'19 1.4% y/y Oct'19	Retail sales fell over the month as mail order and internet sales were particularly weak.
Credit growth	2.0% y/y Oct'19	The annual growth rate of total credit to euro area residents slowed to 2.0% in October, compared to 2.1% in September. The annual growth rate of credit to general government decreased by a further 1.4% in October after declining 1.1% in September, while the annual growth rate of credit to the private sector remained at 3.2% in October.
Outlook	We expect the recession in Eurozone manufacturing to slowly fade as a result of the phase one trade deal, greater certainty over Brexit and modest fiscal stimulus in Germany. German and French households should also benefit from planned tax cuts. Overall, growth in 2020 is likely to be in the low 1% range.	

Part 2: Key economic indicators (cont.)

China

Economic snapshot	Last reported result	Comments
Growth (GDP)	1.5% q/q Q3'19 6.0% y/y Q3'19	China's growth slowed to lows not seen for three decades as the trade war continues to impact business sentiment and investment.
Unemployment	5.1% Nov'19	The urban surveyed unemployment rate remains below the Government's 2019 target of 5.5%.
Industrial Production	6.2% y/y Nov'19 4.4% y/y Aug'19	Industrial production rose solidly as government stimulus measures help support domestic demand.
Manufacturing PMI	50.2 Nov'19 49.5 Aug'19	The latest reading of 50.2 was an eight-month high and indicates the manufacturing sector is expanding.
Retail sales	8.0% y/y Nov'19 7.5% y/y Aug'19	Retail sales have slowed but remain supported by online sales.
Fixed asset (urban) investment	5.5% calendar y/y Aug'19	Retail sales have gained traction, supported by the government's stimulus measures and strong Singles Day sales.
Outlook	The Government has managed to stabilise growth in recent months to counteract trade weakness via measures to stimulate lending, as well as additional spending initiatives. We expect a minor improvement in manufacturing following the phase one trade deal but nonetheless expect growth to slip below the bottom end of the Government's target of 6.0% to 6.5%.	

NB: The Manufacturing PMI data is compiled by the China Federation of Logistics & Purchasing (CFLP) and the China Logistics Information Centre (CLIC), based on data collected by the National Bureau of Statistics (NBS).

The Manufacturing PMI data is NOT the Caixin Manufacturing PMI.

Japan

Economic snapshot	Last reported result	Comments
Growth (GDP)	1.8% (annualised) Q3'19 1.3% (annualised) Q2'19	Sound growth was underpinned by resilient domestic demand and business spending, offsetting a decline in exports.
Unemployment	2.4% Oct '19	The unemployment rate remains around a 26 year low amid a continued labour shortage.
Industrial Production	-4.5% m/m Oct'19 -7.7% y/y Oct'19	Industrial production declined in October as shipments (exports) fell heavily.
Manufacturing PMI	48.9 Nov'19 49.3 Aug'19	The latest reading of 48.9 implies the manufacturing sector continues to be in a contractionary phase.
Retail sales	4.5% m/m Nov'19 -2.1% y/y Nov'19	Retail sales recovered in November from a sharp fall the previous month as a sales tax hike came into effect.
Outlook	Despite a global trade recession, domestic demand has remained resilient due to government spending initiatives, including Olympic venues and associated infrastructure, that has had flow on benefits to businesses and employees involved. We expect the manufacturing outlook to gradually improve through 2020 due to the phase one trade deal and this, along with an expected consumption boost due to the Olympics, should provide modest support to the economy to offset the recent sales tax hike. In December, Cabinet approved a \$122 billion fiscal stimulus package designed to provide ongoing support to the economy in the aftermath of the Olympics.	

Australian economy

Part 1: Overview

The Australian economy continues to grow at a subdued rate. Whilst government spending remains strong and export growth solid, domestic demand presents a weak picture of the health of the economy. This pattern is unlikely to change significantly as wage growth is forecast to remain muted, a result of the labour market showing no signs of tightening. A more sombre economic picture is painted when one considers the current year-on-year growth rate of 1.7%, almost fully comprised of population growth. In effect, per-capita GDP growth remains almost non-existent.

While the RBA has tempered its forecasts for economic growth over the past six months, it still retains an optimistic outlook for the economy. It expects growth to strengthen to 2¾% over 2020 and around 3% over 2021. The drivers of this increase, according to the RBA, are numerous: accommodative monetary policy, recent tax cuts, ongoing infrastructure spending, a continued rebound in house prices in certain markets and mining investment gaining traction. We believe these forecasts may prove to be, not for the first time, overly optimistic.

The RBA is betting on a sustained improvement in household spending, buoyed by higher wages and an improvement in house prices that typically leads to higher consumer sentiment. But this is at odds with the current weakness in household spending that is testing the worst readings in over a decade as weak wages growth weighs on sentiment. Furthermore, consumers have not increased their spending behaviours in response to recent tax cuts and a further easing of monetary policy, preferring rather to utilise the added disposable income for savings and/or the repayment of debt as many consumers take pre-emptive action against a worsening labour market outlook. Given that Australian households continue to have one of the highest debt to income ratios in the world, we do not expect this pattern to change until debt levels meaningfully reduce.

This observation suggests that further interest rate cuts will probably have little impact on encouraging consumption. Against this backdrop, the prospect of stronger wage growth also looks forlorn for a number of reasons. Firstly, in the absence of meaningful revenue growth, companies are likely to focus on cost savings that will inevitably limit wage growth. Secondly, the focus on offshoring jobs to low wage countries such as India and the Philippines has become commonplace among Australian companies, effectively exposing businesses to a global pool of low paid workers that is likely to limit domestic wage growth for the foreseeable future unless regulations change. Of course there are winners and losers from these developments. Companies using offshoring benefit from lower expenses and higher profits that should flow through to shareholders in the form of higher dividends. Additionally, higher profits allow the companies to expand and hire more workers providing more job opportunities but again this is not assured if revenue growth is stagnant, nor does it follow that job opportunities will be allocated to domestic workers.

As wages are a significant input into inflation, it follows that inflation is likely to remain well contained over the foreseeable future, given the continued slack in the local labour market and the abundance of labour in the global market. In fact, the RBA is forecasting both headline inflation and underlying inflation to only reach 1.9% by June 2021 and 2% by 2022. The lacklustre inflation readings could pave the way for the RBA to further ease monetary policy to levels around 0.25% before consideration and possible execution of unconventional monetary policy options such as Quantitative Easing (QE).

Whether such unconventional measures are successful at improving economic growth remains to be seen. Preferred actions at this stage of the interest rate cycle which aim to drive sustainable growth include increasing government spending and lifting labour productivity levels (productivity fell in 2018 for the first time since this measure was introduced in the mid-1990's). In regards to the former, whilst construction spending by both state and federal governments has been strong and the "infrastructure boom" much spoken about, it has been largely restricted to the major cities, at the expense of regional areas. Furthermore, infrastructure spending, as a proportion of GDP, continues to be weak by historical standards despite the nation's strong population growth. This under-investment in infrastructure has affected growth outcomes, both in an economic sense as well as employment growth due to (i) the high labour intensity of infrastructure projects and (ii) the rise in productivity levels that completed infrastructure projects produce. The result should be a tightening of the labour market and a resultant strengthening of wages, which should lead to a sustainable increase in consumer spending and, consequently, economic growth.

Conclusion

Australia's economy remains hamstrung by low growth, largely driven by stagnant wage growth, high household debt and muted consumer spending. Historically low interest rates have failed to entice households to spend more, but rather have had the opposite effect of encouraging debt reduction. Until household debt levels fall meaningfully, we expect the potential growth rate of the economy to remain constrained as households divert funds to debt repayments rather than goods, services and investments. Significant increases in infrastructure spending from current levels are possible avenues to push both wage growth and inflation higher, ultimately leading to better growth outcomes.

Part 2: Key economic indicators

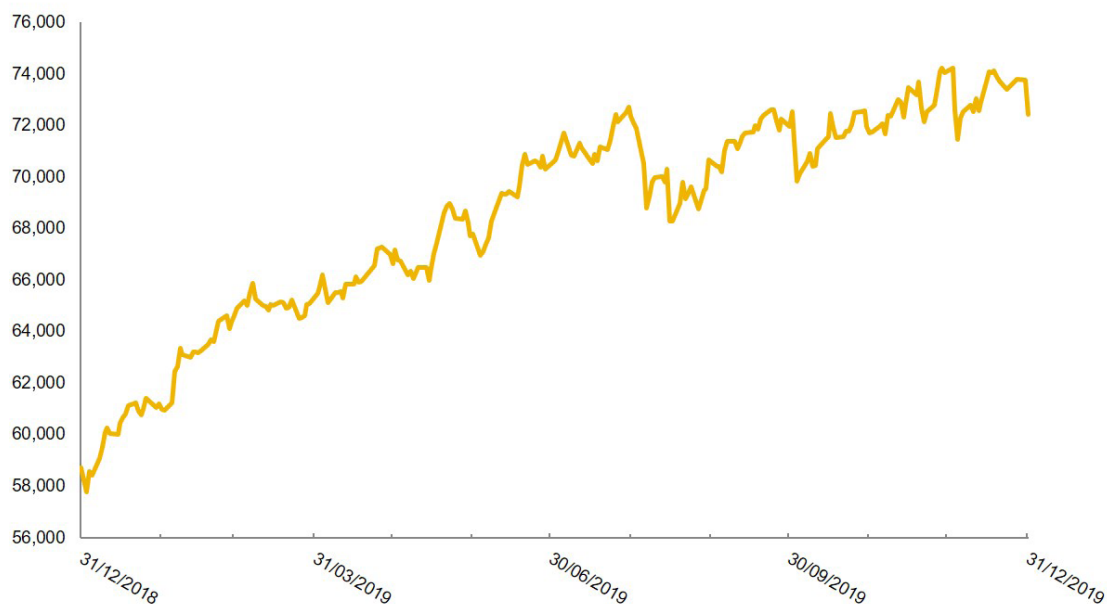
Economic snapshot	Last reported result	Comments
Growth (GDP)	0.4% q/q Q3'19 1.7% y/y Q3'19	The economy continues to grow at a below trend rate, with government spending supporting the GDP reading whilst household consumption remains weak.
	12 month Outlook	Expansive fiscal policy and robust exports are likely to underpin modest, but below trend, growth outcomes.
Retail trade	0.0% m/m Oct'19 2.3% y/y Oct'19	Retail trade remained unchanged in October as individuals concentrate on paying off debt rather than spending their increased disposable income from both lower interest rates and tax cuts.
	12 month Outlook	Retail sales should remain muted as wage growth continues to be negligible and households deleverage.
Manufacturing PMI	51.1 Nov'19 53.1 Aug'19	The Australian Industry Group (AIG) stated that the Performance of Manufacturing Index (PMI) declined in November, but still indicates the sector is expanding.
	12 month Outlook	Manufacturing PMI should remain around current levels due to the slowing economy.
Business investment (private new capital expenditure)	-0.2% q/q Q3'19 -1.3% y/y Q3'19	Private new capital expenditure decreased over the quarter, impacted by lower spending on equipment, plant and machinery.
	12 month Outlook	There remains a solid pipeline of infrastructure projects that should support business investment over the next 12 months. In addition, mining investment is expected to increase from mid-2020 as a number of new construction projects commence.
Unemployment	5.2% Nov'19 5.3% Aug'19	The unemployment rate decreased in November as the economy added 4,200 full-time and 35,700 part-time jobs (on a seasonally-adjusted basis).
	12 month Outlook	We continue to expect the unemployment rate to increase from current levels as the economy continues to slow.
Inflation and interest rates	Inflation: 0.3% q/q Q3'19 1.7% y/y Q3'19	The Consumer Price Index (CPI) increased slightly over the quarter, but is unlikely to rise to the lower end of the RBA's inflation target band of between 2% and 3% without a rise in wages.
	Interest rate: 0.75% Cash Rate Dec'19	The RBA held the official interest rate steady in December but flagged its willingness to further ease monetary policy to support sustainable growth.
	12 month Outlook	The RBA is expected to reduce interest rates further in 2020 before embarking on a Quantitative Easing (QE) programme.
Australian dollar	AU\$1 = US\$0.70	The local currency has remained steady over the past quarter as the trade war continues to constrain strength in the AUD.
	12 month Outlook	The subdued growth outlook is likely to limit strength in the AUD.

Australian equities

Overview

The S&P/ASX 200 Total Return Index returned 3.1% over the six months and 23.4% over the twelve months to 31 December 2019.

S&P ASX200 Accumulation Index



Source: S&P

Outlook

Our outlook for some of the major sectors of the S&P/ASX 200 is as follows:

Banks

The headwinds which continue to pummel the banking sector look likely to persist over the next year. The slowdown in system credit growth, which has been a feature of the post-GFC economic environment, has been exacerbated by the damning findings of the Royal Commission, and AUSTRAC civil proceedings against Westpac. Increased competition between banks for loans are pressuring Net Interest Margins (NIM's), mitigated to some degree by the repricing of loans, which has seen banks not pass on in full the latest RBA interest rate cuts.

The difficult operating environment for banks is also seen by the onerous prudential measures, which continue to increase regulatory capital and compliance costs. Impairments, whilst low, are expected to rise as mortgage arrears rates have been increasing steadily over recent years to the highest in around a decade, notably in Western Australia and the Northern Territory.

Despite the current challenges, the investment case for the banks remains supported by ongoing loan book growth (albeit low), the maintenance of margins, low bad debts, adequate capital reserves and attractive dividends. Nevertheless, share prices across the sector are not overly attractive and so limited gains are likely over 2020.

Resources

The resources sector has performed strongly both over the quarter and the year, notwithstanding the continued headwinds of a protracted trade war and a slowdown in global industrial production which have seen prices for major commodities retreat from 7-year highs reached in the previous quarter. Notwithstanding these declines, iron ore (Australia's largest export) is currently trading 50% higher than forecasts, providing a boon for miners who have benefitted from the added fillip of a weaker Australian Dollar.

Australian equities (cont.)

We expect the downturn in industrial production to bottom out in view of optimism over the phase one Sino-American trade deal which should be positive for resources generally in the short term. This expected improvement however, is already largely factored into share prices.

Retail

The retail sector continues to struggle in the face of a difficult operating environment. Despite tax rebates, sales remain muted as consumers prefer the paying down of debt than spending this added income. Consumers are increasingly viewing the historically low interest rate environment as a sign of weakness in the real economy, choosing to lower their significant household debt levels. This is exacerbated by years of persistently low wage growth, a trend which is likely to continue over the short term. Whilst spending on essential items remains broadly stable, spending on discretionary items has been less resilient, notwithstanding the continued growth in sales made via online channels.

The retail landscape is likely to remain challenging amid a low wage growth/low interest rate environment. This can be seen by the growing list of retailers entering receivership. A predicted gradual pick-up in house prices over the next couple of years could be the catalyst for a prolonged rebound in retail sales. While the ASX-listed omni-channel operators continue to grow their sales, their counterparts with only brick and mortar operations (due to input cost pressures) and those with sub-standard online offerings remain challenged. As a whole, however, due to a continuation of these significant tailwinds, we maintain our neutral view on the sector.

Australian Real Estate Investment Trusts (AREITs)

The AREIT sector performed strongly in 2019, with a total return exceeding 20% as falling bond yields have provided a tailwind for bond-proxies.

The office sub-sector continues to benefit from the tight supply of properties, notably in and around the fringes of the CBD's of Sydney and Melbourne where the current vacancy rates are around 4%. Demand for properties within proximity to these CBD's appears likely to gather pace as the completion of infrastructure projects (namely, the Sydney Light Rail, Sydney Metro and the West Tunnel project) draws near. The risk is that this demand is saturated by excess supply coming online. Outside of these locations, demand is not as solid and could in fact weaken should the business cycle show any signs of slowing.

The retail sub-sector continues to struggle as wage growth remains negligible and consumers increasingly become focussed on lowering debt levels, nullifying fiscal stimulus initiatives. Furthermore, traditional brick

and mortar operators have conceded further ground to omni-channel operators, leading to lower demand for retail properties. Companies like David Jones and Myer, along with Big W and Target, intend to reduce their physical footprint over coming years as retailers of discretionary items continue to suffer in a fierce retail environment, leading to many of these companies entering receivership.

The residential sub-sector continues to benefit from the ultra-low interest rate environment, whilst the decline in property prices appears to have ended. As prices begin to rise, new dwelling construction is likely to pick-up. However, this comes with a delay as planning and approvals may take around one year to be finalised. An example of this can be seen with building approvals as at October 2019 being 40% lower than the peak figure two years earlier. In the meantime, pipelines continue to decrease as developers have focussed on finishing projects rather than restocking.

The industrial sub-sector has benefited from several years of tight supply, resulting in a significant increase in rents. Growth in online sales supports continued investment in global supply chains, with modern industrial facilities experiencing strong e-commerce and logistics demand as a result of the cost efficiencies they can deliver. The solid pipeline of infrastructure projects (notably motorway infrastructure) will continue to make sites within proximity to transport hubs more attractive.

The sector's gearing levels remain moderate and interest rates continue to trend lower. Cashflows are strong and allow for attractive distributions. However, asset prices remain elevated across the sector and gains from these levels appear limited.

Conclusion

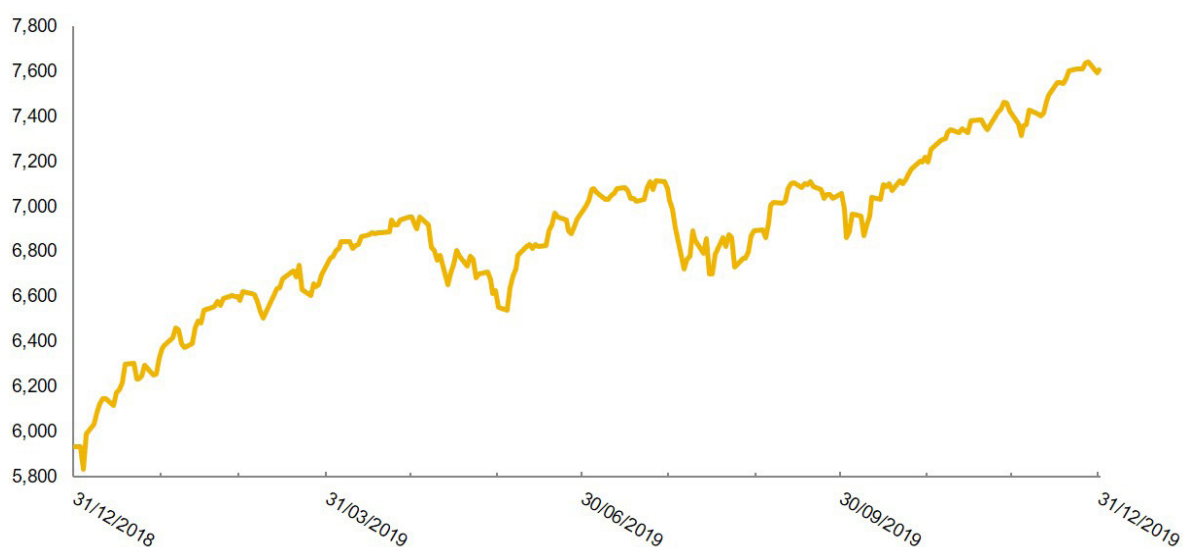
The domestic equity market exceeded expectations in 2019, buoyed by a de-escalation in global risks and strong demand from investors rotating out of low yielding cash and fixed interest investments. To some extent these favourable conditions look set to continue in 2020 given that inflationary expectations remain benign and interest rates are expected to potentially fall further. Nevertheless, the weak earnings outlook suggests that the ASX200 is overvalued when viewed against historical averages, which is likely to limit any upside.

International equities

Overview

The MSCI World (ex-Australia) Accumulation Index (local currency) returned 9.5% over the six months and 28.2% over the twelve months 31 December 2019.

MSCI World ex-Australia Accumulation (Gross) Index (Local Currency)



Source: MSCI

Investors remained resolute throughout 2019 and global equity markets rallied, extending the longest bull run in history. It was perhaps all the more remarkable that this rally occurred against the backdrop of an unresolved trade war that was slowing the global economy, a bond market that was signalling recession, the ongoing saga of Brexit, and the impeachment of President Trump.

Outlook

The recent resolution of a phase one trade deal has strengthened the near term outlook for global equities. We expect a gradual recovery in global manufacturing, low inflation and low interest rates, and ongoing consumer strength in the United States to remain supportive of further earnings growth that may well propel equity markets higher. Yet investors will need to exercise some caution as the search for yield has caused a degree of complacency not seen for many years. This has without doubt contributed to a broad based expansion in earnings multiples, that in most cases are now well above long term, averages. This expansion can only be justified if earnings continue to grow relatively strongly. There remains any number of risks that could threaten earnings growth in 2020, including a reignition of the trade war, a Democratic United States election victory that could rollback corporate tax cuts, and the further rise of nationalism generally.

Valuations

Globally, sharemarket valuations continue to track above long-term averages with some exceptions, notably Europe, where metrics remain relatively cheap when compared to longer term averages.

	Price earnings (1 year forward)	Price/book value	Dividend Yield %
World (all countries)	16 (above long run average)	2.4	2.3%
United States	18.2 (above ten year average of 14.8)	3.2 (average 2.7)	1.8%
Europe	13.8 (below long run average)	1.8	3.4%

Source: S&P and MSCI

In the United States, 2020 operating earnings for S&P500 companies are currently expected to grow by 11.3%. Based on these earnings projections, the S&P 500 is about 9% overvalued.

	EPS Earnings Estimates	S&P 500 Fair Value Estimate	Over/(Under) Value S&P 500 = 2984
2020 CY	\$176.16	2,906	+9%

Conclusion

Although the improvement in the economic outlook augurs well for further earnings growth, we believe global equity markets are expensive. Risks have not been adequately priced into current valuations, leaving little room for disappointment.

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