

# ASG INVESTMENT UPDATE DECEMBER 2019



## ECONOMICS

- Geopolitical and economic developments continued to be a focus of markets with a phase one deal agreed in the ongoing US & China trade machinations, improved economic data in the US and Europe, currency market concerns and reduced uncertainty around Brexit as the Conservative Party won the UK election.
- In December 2019 the Reserve Bank of Australia kept the cash rate to 0.75%, a record low level. The market is divided as to whether it will move lower or remain on hold over the coming months.
- Australian economic growth may rise with increases in Australian house prices, infrastructure expenditure and possibly fiscal policy supporting growth. However, the impact of bushfires may dampen economic growth in some areas of the economy.
- The US Federal reserve kept interest rates on hold in December at 1.50% to 1.75% following a reduction in October.

## GROWTH ASSETS

- Australian equities fell sharply in late December 2019, however, remained slightly positive for the quarter with a 0.7% return.
- US S&P500 rose over the quarter to be 7.7% higher, in local currency terms.
- Volatility was lower as developed equity markets incrementally moved towards new all time high levels.
- Emerging market equities had a solid quarter.
- Unlisted assets continue to provide solid returns without listed market volatility.

## DEFENSIVE ASSETS

- Australian 10 year bond yields rose over the quarter leading to a 1.3% negative return on the Bloomberg AusBond Composite Index. 10 year bond yields are at about 1.37%.
- Major global bond yields rose in December 2019. US 10 Year bonds are at 1.9%, and were higher for the quarter. That could change if investors seek 'risk off' assets.
- US interest rates remain above Australian levels.

## CURRENCY

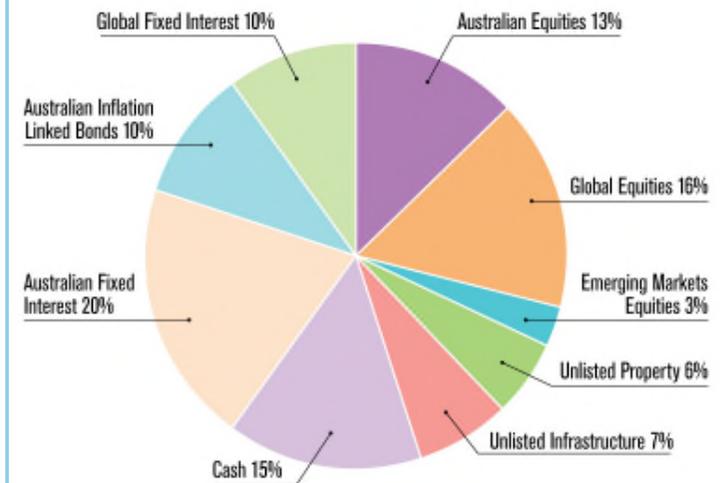
- Global currencies are being influenced by Central Bank adjustments to official interest rate policy.
- AUD continues to trade below the 69c AUD/USD level, but, remains volatile.
- Global events, trade, commodity prices (especially iron ore) and interest rate levels are currently the main drivers of the AUD.
- Expect continued volatility in AUD vs trading partners.

## PORTFOLIO POSITIONING

- Overweight unlisted Australian property – Office & Healthcare.
- Mildly overweight developed market equities, with equity markets near all time high levels.
- Underweight global bonds. Expect 'lower for longer' global interest rate environment to impact investment returns.
- Neutral to Australian Fixed Income following recent yield declines to historic low levels and now stabilisation.

## CHART

**Pathway Education Fund - Australia  
Long Term Asset Allocation**



**Declared rates of return for the DECEMBER 2019 quarter.**

**PEF AU 0.75%**

Three key themes:

1. Portfolio construction with diversification is important.
2. Keep a focus on the long term investment objectives. ASG's investment portfolios have a conservative balanced risk profile.
3. Equity and bond markets do experience times of volatility which can occur in a short space of time.

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