

ASG INVESTMENT UPDATE SEPTEMBER 2018



ECONOMICS

- Geopolitical risks remain adding to investment market volatility
- Global trade wars between USA and China with the imposition of tariffs and 'protectionism' theme
- Economic growth strong in the US at +4.1% annualised on last quarter
- Australian housing prices under pressure with Australian macro prudential controls impacting credit growth
- Australian economic growth at about 3.4%, slow wage & credit growth, household indebtedness, a lower savings ratio and drought in farming areas
- Global inflation is a risk, at present about 2% in US and Australia. Could rise if economic activity picks up

GROWTH ASSETS

- Flatter US equity market.
- FAANG's produce solid corporate earnings
- Emerging markets offer value, volatility remains. Eg Turkey where currency is down 40% this year
- Australian equities have been softer as the Royal Commission into financial services has impacted upon financial stocks and with political risks.

DEFENSIVE ASSETS

- US Fed and now Bank of England raising official short term interest rates. US at 1.75% to 2.0% range
- Australian short term interest rates appear on hold. Cash rate remains at 1.5%. Aust banks raising home loan rates
- US interest rates remain above Australian levels for the first time in 20 years
- Global bonds volatile with large differences between interest rate levels in different countries

CURRENCY

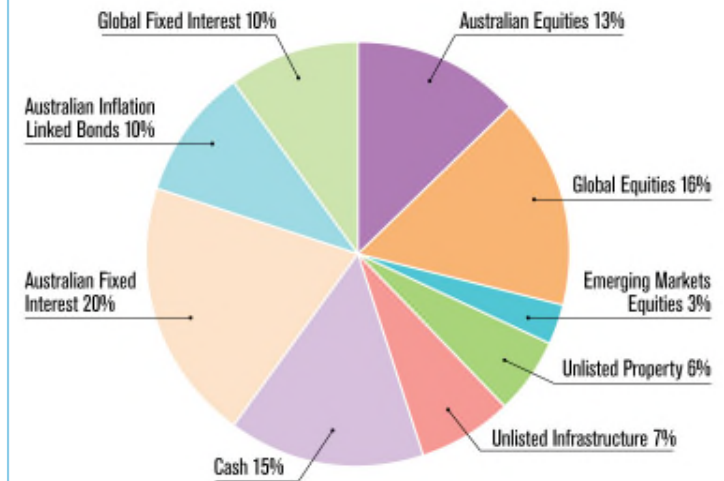
- Global currencies are being influenced by Central Bank alterations to official interest rates and the removal of quantitative easing
- AUD lower vs USD as US Fed raises interest rates and money flows back to the 'safety' of the US dollar
- Commodity prices influence AUD, especially iron ore
- Expect volatility in AUD. Will 70c on AUD/USD hold

PORTFOLIO POSITIONING

- Underweight global bonds. Expect 'lower for longer' global interest rate environment influencing returns
- Overweight unlisted Australian property
- Australian equities offer a solid yield, but Global equities have considerably more diversification, however, are near all time highs
- Value style of investing remains difficult as investors play market momentum

CHARTS

PEF AU Long term asset allocation



Declared rate of return for the Sept 2018 quarter.

PEF AU 0.90%

Three themes:

1. Investment markets do experience times of volatility, especially equity markets, which can occur in a short space of time.
2. Diversification in the portfolio is important.
3. Focus on the long term investment objectives. ASG's investment portfolios have a conservative balanced risk profile.

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