will continue to grow above trend and that China will achieve around 6% pa growth in the financial year ahead (even if it involves authorities deploying more stimulus). Here in Australia, the velocity of economic tailwinds is likely to increase courtesy of a low AUD (with potential to fall further), cheap fuel (which is a significant input cost for many businesses) and low interest rates (with a further cut likely later in the calendar year).

The US profit reporting season has kicked off largely in line with expectations and Australian companies will follow with their results in August. The average earnings growth forecast for the ASX 200 is actually negative (due primarily to resource companies), which leaves scope for earnings to surprise to the upside. Moreover, there wasn't much action during the recent "confession season" (the lead-up to reporting season where companies are now obliged to disclose any material deviations to forecast earnings). This also seems to point to the potential for a move up in Australian shares, albeit with the usual volatility around outlook statements, or lack thereof, for specific companies.

We are entering a seasonally positive time for equities and we suspect that after a period of consolidation (that will take us through into our profit reporting season), the ASX will likely push back towards the 5,800 mark. Many economists and brokers see this level as the likely high for the year, however, given the tailwinds noted above and the prospect of a further interest rate cut (which can now be contemplated with impunity by the RBA given the very recent move by banks to jack-up investment lending rates) we suspect we may move closer to the 6,000 mark by the end of 2015.

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Slightly Overweight):** We remain constructive on Australian stocks, particularly in the second half of 2015. We expect one more interest rate cut from the RBA which, combined with lower oil prices and a softer currency, could see an extended period of outperformance by Australian equities.
- **Global Equities (Neutral):** The US market has enjoyed above average returns for some time and whilst we are still positive on the market, the rising USD together with the prospect of rising interest rates (in the medium term) could act as a handbrake to returns in the short term. We see good value in Asian equities.
- **Property (Underweight):** Listed Property has clearly benefited from the flight to yield (and more recent reductions to interest rates). In the very short term the sector is likely to be buoyed by further M&A activity, but this will then likely signal a period of under-performance.
- **Fixed Interest (Slightly Overweight):** Given the level of interest rates, it is preferable to hold a little less in cash and a little more in fixed interest instruments (such as income securities).
- **Cash (Slightly Underweight):** As a result of our positions in other asset classes, together with historically low interest rates, cash is presently a little underweight.

Regards

Andrew & Stephen
26 July 2015