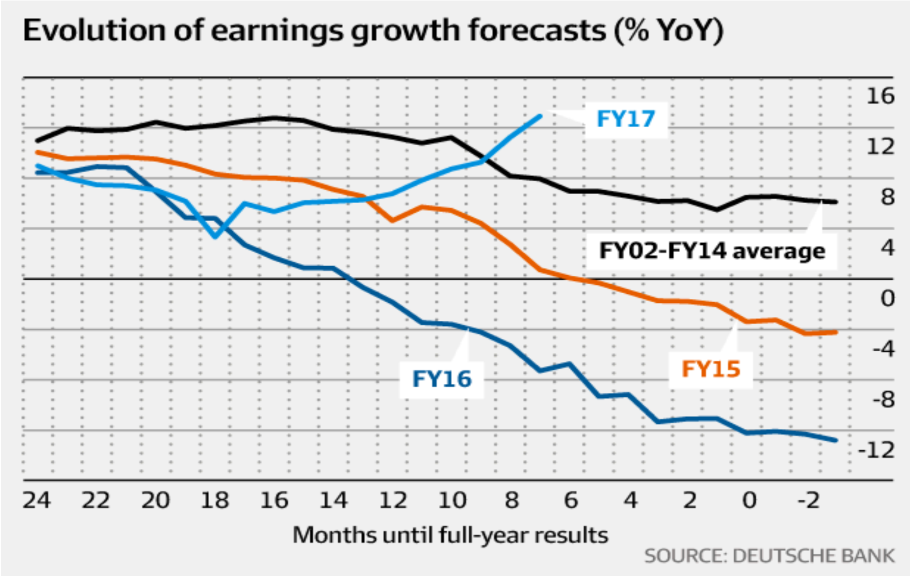


## OUTLOOK

The global economy and equity markets enter 2017 on a considerably firmer footing than last year. Growth momentum has picked up over the second half of 2016 and risk assets, particularly in developed markets, have continued to benefit from the "Trump" rally.

The OECD is forecasting the global economy to grow at 3.3% in 2017 (up from 3% in 2016) and in excess of 3.6% in 2018 (OECD Interim Economic Outlook – 7 March'17). In Australia, real GDP is expected to be on trend (around 2.8%). The macro-economic backdrop here is quite positive and will be supported by:

- Low interest rates (unlikely to change for the remainder of 2017)
- A falling currency (heading back towards the range of 68-72 cents)
- Increased exports
- Steady consumer spending
- Continuing spare capacity in the labour market
- A recovery in commodity prices (which will see resource companies lift their dividends)
- A strong housing market

Turning to technical factors, the month of March is typically a seasonally "soft" month for equities – we've seen the highs and lows of the profit reporting period baked into stock prices and many companies go ex-dividend. Combine this with a significant run-up in large cap share prices (particularly in the US) and we are likely to see some profit taking in the short term which will see markets drift lower into early-mid April'17.

The chartists then split into two camps – those that subscribe to a traditional "sell in May" thesis and those that place greater emphasis on the "7th" year and post presidential election year cycle. Both the latter technical patterns imply a stronger push up through into July, before a pull-back into November'17. Both camps are looking for higher tops later in the year or early 2018.

In light of sound fundamental factors and encouraging technical patterns, we remain constructive on equities.

**Superannuation Reforms**

From 1 July, the following changes to the Australian superannuation system will come into effect:

- **Concessional Caps** – The annual concessional (or pre-tax) contribution cap will be lowered from $35,000 (for those above the age of 49 years) to $25,000.
- **Non-Concessional Caps** – The annual non-concessional (or after-tax) contribution cap will reduce from $180,000 to $100,000. The accompanying bring-forward arrangement will reduce from $540,000 to $300,000 (transitional arrangements will apply). In addition, those with super balances in excess of $1.6m will no longer be able to make non-concessional contributions. Similarly, the bring forward option for those with balances approaching the $1.6m cap will also be curtailed.
- **Transfer Balance Cap** – the amount that an individual will be able to transfer into a tax exempt pension (from accumulation phase) will be caped at **$1.6m**. Note that this cap applies retrospectively, so anyone with a pension balance currently in excess of the cap will need to make arrangements to transfer the surplus back into accumulation mode, or out of the super system altogether, before 30 June'17. Note that the cap only applies at the point of balance transfer – thereafter, pension balances can (for example) rise above the $1.6m cap without any action required.
- **Transition to Retirement Pensions** – TTRPs will **lose their "nil" earnings** tax concession and instead, revert to a 15% earning tax arrangement (commensurate with the existing super tax regime).
- **CGT Relief** – For both the Transfer Balance Cap and TTRP changes, individuals will be given the opportunity to seek capital gains tax relief by way of an **adjusted cost base** for assets transferred back into accumulation phase or out of the super system.

Unfortunately, the Government is still making amendments to the supporting legislation/regulations and, consequently, we have the issue under active notice. In the lead-up to the end of the financial year, we will be in contact with effected clients to recommend appropriate strategies.

Regards

Andrew & Stephen
20 March 2017