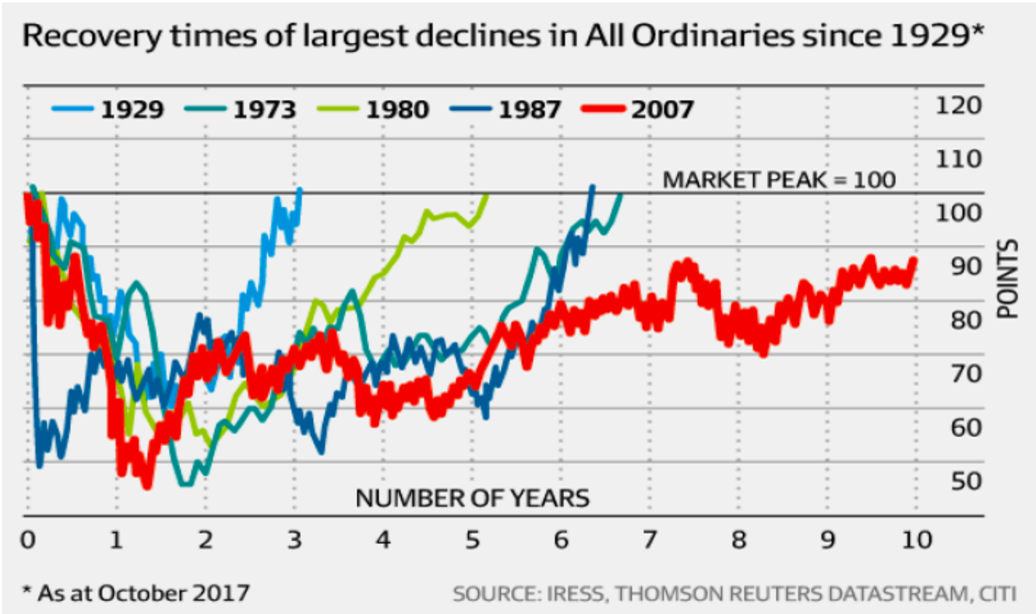
OUTLOOK

The macro economic backdrop remains supportive around the globe, both now and into the foreseeable future. We see Australia at an earlier stage in the business cycle with consequential potential for the ASX to outperform the Dow Jones in 2018. In this regard, the current profit reporting season in Australia which is just completing has seen over 90% of companies declare profits - the highest level since before the GFC.

Paul Taylor (Head of Equity Investments at Fidelity) writing in the AFR late last month postulated that Australia was benefiting from the aftermath of the GFC. He noted that the "2007 crisis was a balance sheet down turn, which take longer to recover from. But on the upside, the length of the recovery and the repair work done to corporate balance sheets has helped to build a stronger foundation for the market."



We acknowledge that there are some uncertainties on the horizon (eg the likely pace of US interest rate increases, the budgetary impacts of Trumps company tax cuts & infrastructure spending, levels of margin lending, geo-political instability - to name a few); but the probability attaching to these "black swans" is not high. That said, simmering concerns about these, and similar issues, will see equity markets subject to considerably more volatility over 2018 than has been the case over recent years.

We believe a first quarter floor is now in pace for Australian & Global equities. If the ASX 200 stays above 5,850 over coming weeks, it is then likely to take out the post-GFC high of 6,150 on its way to a (new) seasonal high in late April. Given the trading patterns of markets to this point, we then expect a reasonable correction based on the "sell in May and go away" premise. The second half of the calendar year then looks quite promising with both US and (particularly) Australian markets potentially moving to new highs.

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Slightly Overweight):** We expect a short term bounce in Australian stocks before a correction into May. Macro economic and fundamental metrics point to ASX outperformance in 2018.
- **Global Equities (Slightly Underweight):** The US market is looking vulnerable after a number of strong years. Uncertainty about "Quantitative Tightening" may spook markets.
- **Property (Underweight):** Listed Property has clearly benefited from the flight to yield (and reductions to interest rates), but these macro tailwinds have now fully abated. REITs are off over 12% since December.
- **Fixed Interest (Slightly Overweight):** Given the level of interest rates, it is preferable to hold less in cash and a little more in fixed interest instruments (such as income securities).
- **Cash (Slightly Overweight):** As a result of our positions in other asset classes, our net cash position is slightly overweight.

Regards

Andrew & Stephen
23 February 2018