pulling risk off the table too soon, can result in missing out on significant upside.

US v China Trade Wars

As we have observed previously, ignoring geopolitical tensions has been a good strategy over the last decade or more. President Trump first imposed tariffs on Chinese goods back in July'18. Since this time there has been retaliatory action from China and (again) by the US. Since July'18 the US equity market has risen almost 10% and the Chinese market over 7%.

The reality is that neither China nor the US will benefit from a prolonged trade war. Their respective equity markets seem to understand this fact and have largely priced in a "resolution", notwithstanding short term rhetoric (and financial pain).

The utterances following the recent G20 meeting have been positive, but Trump will probably be expecting to squeeze a little more from any "deal". Accordingly, we expect that after a period of further negotiation, the US will likely apply the final tranche of tariffs (10%) on the remaining imports from China in September'19. Importantly, however, the key to a Trump presidential re-election lies in the swing states that have been hardest hit by the tariff war – including Iowa, Michigan, Penn & Ohio. To consolidate his popularity in these states, Trump needs to bring back business orders & reinstate crop sales. Accordingly, we would expect a trade agreement to be reached later this calendar year – clearing the decks for the run-up to the presidential elections in 2020.

OUTLOOK

Whilst global economic growth has slowed, an extended run of accommodative monetary policy is likely to support equity markets over the medium term ("don't fight the Fed"). Here in Australia we are positioned at an earlier point in the economic/business cycle and (along with Asia and in due course Europe) have the potential to outperform US equities.

Whilst there are certainly risks on the horizon, many of which are geopolitical in nature, (eg US/China trade, Brexit, Iran, North Korea etc), the impact of these factors is not likely to be large or prolonged.

We favour a pull-back in global equities over the shorter term before another leg higher into the latter part of 2019. Here in Australia, we have come within 100 points of an all-time market high (set in 2007). Technically, whenever previous highs are re-tested, we expect to see resistance and hence, we would anticipate some level of consolidation and/or retracement.

However, with a potential resolution of the US v China trade war likely later in the year, together with further interest rate reductions, we expect the ASX to make new (all-time) highs in the latter part of 2019.

ASSET ALLOCATIONS

We are looking to position client portfolios as follows:

- **Australian Equities (Neutral):** We expect that the Australian market may consolidate around current levels in the short term, with a potential move higher late in the calendar year.
- **Global Equities (Underweight):** The US market is looking stretched/late cycle. Asian and European markets appear to have more headroom.
- **Property (Underweight):** Listed Property has clearly benefited from the flight to yield (and reductions to interest rates), but these macro tailwinds have now abated.
- **Fixed Interest (Slightly Overweight):** Given the level of interest rates, it is preferable to hold a little more in fixed interest instruments relative to cash.
- **Cash (Slightly Overweight):** As a result of our positions in other asset classes, our net cash position is slightly overweight.

Regards

Andrew & Stephen
9 July 2019