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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy has picked up marginally since its slowdown in the second half of 2018. However, the advanced economies could require further stimulus measures over coming months if growth slows further from here. In particular, growth remains mediocre in Europe and in Japan, while even the US has shown signs of potential slowing. While the developing world has been doing better, this has mainly been due to continuing strong growth in key Asian economies, including China and India.

The global economy slowed markedly in the second half of 2018 and momentum appears to have improved only marginally so far this year. According to the International Monetary Fund (IMF) in its latest World Economic Outlook report (April 2019), 'global growth remained strong, at 3.8% in the first half of 2018, but dropped to 3.2% in the second half of the year'. Its forecast for global growth for 2019 is hardly stronger at 3.3%, although it continues to forecast stronger momentum in 2020, with a growth forecast of 3.6%. While these projected growth rates remain in line with the long-term trend rate (around 3.3% per annum), further stimulus measures could be needed over coming months. In particular, growth for the advanced economies remains relatively mediocre (1.8% in 2019 and 1.7% in 2020, down from 2.2% in 2018). The euro area (1.3% this year and 1.5% in 2020) and Japan (1.0% and 0.5%) remain especially weak. Developing economies (forecast growth of 4.4% this year and 4.8% next year) are doing better, especially in Asia, where the whole region is forecast to grow by 6.3% each year, with India growing by over 7% each year and China by around 6%. As the IMF notes though, 'while the overall outlook remains benign, there are many downside risks'.

Monetary policy continues to have a critical role in sustaining positive economic growth. Across the developed world, expansionary monetary policy remains in place. Interest rates continue to be close to the zero bound (0%) in most economies, while central banks continue to hold large quantities of assets (securities of various kinds, including Treasury bonds) as a way of keeping plenty of liquidity in the financial system. However, the 'Fed' in the US was showing signs of becoming overly zealous in tightening policy last year and markets rebelled in response until it was made clear that the 'Fed' would 'pause' in raising interest rates. In Europe, the ECB appears poised to restart 'QE' if necessary and could even bring in negative interest rates, as has already been done in Sweden.

One of these downside risks is that key central banks could be overly contractionary in the exercise of monetary policy. In fact, in the December quarter of 2018, stock markets rebelled at the prospect of further hikes in interest rates by the US central bank (the 'Fed') and fell heavily (the broad US market declined 14% over the quarter) until the 'Fed' signalled at the start of this year that it would 'pause' in raising rates. On 26 February, 'Fed' Chairman, Jerome Powell set out his revised policy in testimony to the US Congress by stating that 'we are monitoring the crosscurrents, the risks, and for now we are going to be patient with our policy and allow things to take time to clarify'. This signalled an end to what had been a period of continual tightening, during which interest rates had been lifted from 1.25% (lower limit of the target range) in December 2017 to 2.25% in December 2018. In response, there was a rebound in global stock markets that continued for the first four months of this year. In May, however, markets again began to slip backwards amid some emerging signs of weaker growth prospects. In response, Powell addressed this issue on 6 June, stating that 'as always, we will act as appropriate to sustain the expansion'. As this followed an even more direct statement by the President of the Federal Reserve Bank of St. Louis, James Bullard, that a cut in interest rates 'may be warranted soon to provide some insurance in case of a sharper-than-expected slowdown', stock markets quickly rebounded once again. The 'Fed' has also made clear that it will cease withdrawing liquidity from the financial system ('quantitative tightening', as opposed to its previous policy of 'quantitative easing' or 'QE') in September. In the case of the European Central Bank (ECB), policy also appears poised to become somewhat more expansionary. ECB President, Mario Draghi, stated on 6 June that the ECB had considered 'the possibility of further rate cuts (0% at present) and the possibility of restarting the asset purchase program ('QE')'.

More has to be done in the advanced economies to boost investment and productivity growth. In recent years Europe has seen little productivity growth, while this has also been the case for Japan. Only in the US have there been recent signs of improving productivity, apparently in response to fiscal reforms, including cuts in corporate tax, business de-regulation and other pro-business incentives. The OECD is

The key to stronger growth in the developed world lies in policies that can boost investment and, potentially as a consequence, productivity. However, productivity growth has been and continues to be elusive, especially in Europe. For example, productivity growth for Germany was negative for the year ended March, as it was for the whole euro region and for Japan for the year ended December (Fed data). The US has been the exception amongst developed economies. US productivity growth was up strongly in the March quarter, apparently in response to fiscal stimulus provided by the historically large corporate tax cuts that came into effect on 1 January 2018, along with business de-regulation and other pro-business policies. Almost alone in the developing world, China has seen consistent improvements in productivity. The Organisation for Economic Co-operation and Development has called on 'central banks

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now calling for 'fiscal stimulus' where appropriate and 'structural reform'.

to remain supportive, but stress that monetary policy alone cannot resolve the downturn in Europe. A new coordinated fiscal stimulus in low-debt European countries, together with renewed structural reforms in all euro area countries would add momentum to a growth rebound, boost productivity and spur wage growth' (6 March 2019).

The global economy has been showing signs of slowing recently and could require further doses of monetary stimulus, as well as fiscal measures to lift investment, hopefully raise productivity and boost economic activity.

In summary, the global economy is currently showing signs of a slowdown, with the OECD pointing to 'increasingly serious headwinds' ahead. Significant reforms are required and monetary stimulus may have to be increased if sustainable growth is to be achieved. While policy reforms in the US appear to have boosted investment and productivity, there is growing evidence that more expansionary monetary policy may also be needed. Europe too may need a dose of the same medicine, while China has already set off down the same road by loosening monetary and fiscal policy.

REGIONAL ECONOMIES

The US economy appeared to gain momentum in the March quarter, expanding at an annualised rate of 3.1%. This was an improvement on the December quarter growth rate of 2.2%, although some of this increase was due to spending on inventory accumulation, which likely fell back in the June quarter. Export growth though has been strong, as has investment on plant and equipment. Recent data though has pointed to a slowdown during the June quarter, with the number of new jobs created in May much lower than expected and manufacturing indicators weakening. Exports though remain elevated, while tariffs imposed on Chinese imports appear to be having little impact on the US economy. In fact, the trade deficit that the US has with China has improved significantly this year.

The US economy gained some momentum in the March quarter, (growing by 3.1% at an annualised rate), after experiencing somewhat slower growth in the December quarter (up by 2.2%). Growth in the March quarter was largely due to a combination of a modest increase in household spending (up 1.3%), solid investment in plant and equipment (up 2.3%), strong export growth (up 4.8%) and defence spending (up 4.0%), while inventory accumulation also contributed to growth (all data annualised). Declining investment in housing (down by 3.5%) detracted from growth. However, while corporate profits had been growing strongly in the December quarter (up 7.4% for the year, national accounts basis), profit growth slowed in the March quarter (up only 3.1% for the year). More recent data also points to some weakening in the economy. In May, the number of new jobs created in the US fell to 75,000, well below expectations of around 185,000, while the ISM Manufacturing Purchasing Managers' Index (PMI) fell to its lowest level in nearly three years, reflecting a slowdown in the manufacturing sector. Wages growth though (average hourly wages were up 3.1% over the year to May) continues to exceed the rate of inflation (up 2% over the year to end-April). Although President Trump introduced tariffs on $50 billion of Chinese steel and aluminium imports from 6 July 2018 and on some other products from 23 August 2018, these products amounted to less than 2% of total imports. In fact, the trade in goods imbalance with China has improved this year, with the deficit falling to $21 billion in March, down from its record high of $43 billion in October 2018. A more significant increase in tariffs (to 25%) on a further $200 billion of Chinese goods (in force from 10 May, following a breakdown in extended trade talks between the two countries) is also likely to have only a marginal net effect on the US economy.

Investment in housing declined for the fifth quarter in a row in March, although house prices continue to rise. Unemployment has reached a 50-year low, while household net worth continues to climb on the back of a healthy stock market.

Investment in the housing sector declined for the fifth quarter in a row in March. House price growth slowed to 2.6% for the year to end-March, while housing credit growth was also weak (up 3.1% over the same period). On the positive side though, the 'Fed' recently noted that 'key factors that influence consumer spending, including a low unemployment rate, ongoing gains in real labor compensation and still elevated measures of households' net worth, were supportive of solid near-term gains in consumer expenditures' (1 May). The unemployment rate (3.6% in May) remains at its lowest level in 50 years, while household net worth rose 4% over the year to March.

The US central bank may soon face a critical decision as to whether it needs to begin once again to reduce interest rates. Of particular concern is the fact that the bond market has been indicating that slower growth could be looming ahead. The so-called yield curve has inverted

Recent data pointing to the likelihood of slower growth ahead has been reflected in declining long bond yields, so that the so-called yield curve has recently inverted, historically a sign of potential impending recession, due to its reflection of investor caution. In such an environment (with the yield on Treasury 10-year bonds falling to 2.08% on 7 June, well below the Fed Funds rate), the wisdom of the 'Fed' continuing with its program of selling down its holdings of securities ('quantitative tightening') has become questionable. By early June, the 'Fed' had

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(meaning that longer-term rates have fallen below the short-term rate), reflecting growing investor caution about the outlook.

reduced its total asset holdings to around $3.8 trillion, down from peak holdings of around $4.5 trillion following its 'QE' program implemented in the wake of the global financial crisis of 2008. The following recent data shed further light on the current state of the US economy:

- Industry capacity utilisation (77.9% in April) was 2.0% below long-run trend.
- Money supply (M1) growth had slowed to 3.3% (year-on-year) by end-April.
- Bank lending to businesses was strong (up 8.4% year-on-year by end-March).

Despite a slight improvement in performance in the March quarter, much of Europe remains sluggish, with growth very weak in key economies, most notably Germany and Italy. It appears inevitable that bolder policy initiatives may have to be introduced by the ECB over coming months. In the case of the UK, political deadlock over 'Brexit' is proving unhelpful, although it is likely that the UK could leave the EU later this year. The Japanese economy has been performing more strongly in recent months but this could prove difficult to sustain. For China, the outlook is more positive, with growth of over 6% likely to continue, given solid fiscal and monetary stimulus being applied.

European economies staged a slight lift in growth in the March quarter (the Eurozone grew by 0.4%), after having mostly slowed to a crawl or even contracted in the second half of 2018 (the Eurozone grew by 0.1% and 0.2% in the September and December quarters respectively). Germany has been a big part of the problem, growing by only 0.4% in the March quarter, after contracting over the second half of 2018. Across Europe, consumer and business sentiment remains weak and uncertainty prevails about the general outlook, with political deadlock in some countries contributing to subdued household spending. The latter includes the UK, where Prime Minister May is in the process of being replaced and where the Parliament appears unwilling to implement the will of the people to leave the European Union ('Brexit') in a manner that would allow the UK to operate independently of the EU, particularly in relation to trade policy. The ECB may need to resort to bolder policy initiatives to boost economic activity, while a loosening of fiscal policy in Germany could also be helpful. The **Japanese economy**, the third largest in the world, has shown signs in recent months of tepid recovery after contracting in the September quarter. It grew by 0.5% in the December quarter and by 0.6% in the March quarter. Low inflation though remains a problem (0.9% for the year to April). In the case of **China**, growth was a solid 6.4% (year-on-year) in the March quarter and is forecast to remain above 6% for the next two years. A raft of pro-growth measures have been introduced in recent months to stabilise the economy, including tax cuts, a reduction in banks' reserve requirement ratios, increased spending on infrastructure and incentives to lift bank lending (up 11% over the year to end-March).

AUSTRALIAN ECONOMY

The Australian economy is enduring a weak period, with growth of only 0.4% in the March quarter, after even weaker growth in the previous two quarters. On a per capita basis, growth was nil in the quarter, after being negative in both the September and December quarters. Private investment has been particularly weak (down 3.6% for the year), with a recessed housing sector not helping. In fact, without strong growth in public sector spending (particularly by the federal government on non-defence items), the economy would be even weaker. House prices in the two largest cities, Sydney and Melbourne, have dropped significantly over the past year and this is undoubtedly proving to be a drag on household spending. While there has been some minor alleviation in the severity of lending standards imposed on 'investors', more may have to be done over coming months.

The Australian economy continued its weak performance over the past year with meagre growth of 0.4% for the March quarter. This followed even weaker growth of 0.2% in the December quarter and 0.3% in the September quarter. Furthermore, on a per capita basis, GDP failed to increase for the third quarter in a row (nil growth in the quarter after two quarters of contraction). Effectively, the country is experiencing a 'per capita recession' (GDP per capita being down 0.3% for the nine-month period). In fact, without strong growth in public sector spending (up 0.8% for the quarter), particularly by the federal government on non-defence items (up 2.4% for the quarter and 13.3% for the year) the outcome could have been even weaker. Household spending rose only 0.3%, while private investment fell for the fourth quarter in a row (down 1.0% for the quarter and 3.6% for the year). The weakest sector has been housing (down 2.5% for the quarter), which appears to have been partly due to the Royal Commission into the banking sector, which has led to a severe tightening in bank lending standards (particularly for 'investors'). With borrowers suddenly finding it harder to obtain loans, house prices have been falling dramatically. Over the year to end-May, average dwelling prices were down by around 11% in Sydney, 10% in Melbourne and 9% for the mainland State capital cities index (CoreLogic data). Given the high weighting to housing (over 50%) in total household wealth in Australia, the so-called 'wealth effect' can be expected to kick in and lead to even slower growth in household spending. So far, household spending has been sustained to a degree by a reduction in household saving. However, this is now only 2.8% of disposable income (March quarter). More positively, wages growth has been reasonably solid, with average weekly earnings growing by 2.3% over the year to March, above the annual inflation rate of 1.3%.

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It is not surprising that the Reserve Bank cut official interest rates at its 4 June meeting, given the current weak state of the domestic economy. However, it is likely that the RBA will have to take further action sooner rather than later, as it may need to become more energetically pro-active to boost activity. As the RBA Deputy Governor, Guy Debelle noted on 6 December, 'there is still scope for further reductions in the policy rate' and 'QE is a policy option should it be required'. One reason for further RBA action is that the economy itself has become increasingly uncompetitive when compared with other economies. Productivity has declined and the country has failed to keep pace with international trends towards lower costs and imposts on business.

In this current economic environment, it is not surprising that the Reserve Bank (RBA) finally relented under the weight of negative evidence and cut official short-term interest rates on 4 June by 0.25% to 1.25%. This move was overdue and the delay in acting by the RBA now means that further rate cuts could be required to lift economic activity significantly. Furthermore, the RBA's role has become more important due to the steadily declining level of international competitiveness of the domestic economy. Productivity growth has been minimal in recent years; with productivity measures actually declining over the nine months to March, (gross value added per hour worked was down 0.8%). High costs, including one of the highest corporate tax rates in the world, one of the highest minimum wage rates and some of the highest electricity prices in the world, have been increasingly weighing on many sectors of the economy, with heavy industry being particularly hard hit. However, had the Labor Party won government at the 18 May election, its stated policies would have added one of the highest capital gains taxes in the world, as well as what would have effectively been new taxes on property (elimination of negative gearing) and on shares (elimination of some franking credit advantages). However, Australia still faces many challenges to lift competitiveness, investment and productivity over the term of the current government. In these circumstances, a lower currency could eventuate, although the $A has already fallen markedly (down 10% against the $US through 2018 and a further 1.3% up to 7 June this year).

STRATEGY FOR FIDUCIAN FUNDS

STRATEGY OVERVIEW

Our economic analysis set out above indicates that while the world economy may have picked up marginally in the March quarter, it remains sluggish, after slowing markedly in the second half of 2018. Furthermore, some signs point to further slowing in the months ahead unless more pro-actively expansionary policies are soon implemented. It may be that structural factors, particularly 'population ageing' in the advanced economies (in reality low population fertility levels amongst the young), could be leading to the need for higher levels of economic stimulus than in the past. As the IMF argues in its latest report (April 2019), 'slowing expansion of the labour force amid population ageing will drag advanced economy growth lower over the projection horizon'. Japan would seem to be a particularly strong example of this, given that its workforce is already in decline and its total population is falling by around 300,000 per year. In this case, it has taken a very high level of 'QE', as well as interest rates close to the 'zero bound' (0%), to keep growth (and inflation) positive. As such, Japan may simply be a more extreme example of an affliction affecting nearly all advanced economies. Certainly, in the current economic environment, monetary policy continues to play a critical role. In the US, the 'Fed' appears to have taken the view that the need for expansionary policy had diminished following a rebound in growth last year in the wake of huge corporate tax cuts introduced by President Trump. However, markets have been making it clear that too much tightening can be unhelpful and the 'Fed' belatedly appears to have accepted this message and has refrained from raising interest rates since December. However, this so-called 'pause' may not be enough and some 'Fed' members have already been making comments to the effect that US interest rate cuts could be on the horizon, while 'quantitative tightening' is to end in September. Similar noises have been emanating from the ECB, where 'QE' could be reinstated if growth does not soon strengthen. As central banks are apt to stress, however, 'an ample degree of monetary accommodation is still necessary but other policy areas must contribute more' (Mario Draghi, ECB President, 13 September 2018). 'Other policy areas' include 'structural reforms that need to be stepped up to boost productivity and growth potential'. In this respect, the reforms introduced in the US over the last two years or so, including historically large tax cuts, large reductions in regulation and incentives for investment (such as full expensing) potentially point the way forward for other economies.

As far as bond markets are concerned, they too appear to have been signalling that monetary policy has become too tight. Yield curves have been flattening and in some cases even inverting (where longer-term bond yields have been falling below the short-term rate). Such a phenomenon has often been taken to reflect a lack of investor confidence and, potentially the onset of a recession. However, the exercise of 'QE', which is the purchase by central banks of bonds and other securities (including, in some instances, equities, notably in Japan) itself involves the targeting of low bond yields as a method of encouraging investment. As such, relatively low bond yields are to be expected, although not the excessively low yields we are currently seeing. The risk is that current low bond rates presage the 'low growth trap' that Christine Lagarde, Managing Director of the IMF, warned about in 2016. However, central banks have led the effort to move away from that negative scenario and it is likely that they could move soon to 'reflate' if necessary, at least in the US and Europe.

The rebound in economic growth that was led by the US last year has been reflected in strong corporate earnings growth. Globally, earnings rose 14% in 2018, after rising 17% in 2017. This year though, earnings are forecast to grow slowly (4% globally and 3% in Europe, 3% in the US and 2% in Japan) but by a stronger 11% in 2020, including 12% in the US and 9% in Europe (Yardeni Research, based on MSCI data, as at 12 June). In valuation terms, as at 30 April, the MSCI World Shares index was trading at 14.6 times forward (12 months ahead) earnings, below its long-term average ratio of 15. In fundamental valuation terms and assuming ongoing earnings growth, most share markets currently appear to be more attractively valued than most bond markets, which appear expensive with yields (interest rates) at historically low levels.

Current tactical asset allocation strategies have been developed as set out below.

International Fixed Interest

Sovereign bond yields had been trending higher last year until October, when indications of slower global growth pushed some investors back into bond markets. Yield curves have been inverting even in the US, indicating the need for more central bank action.

Government bond yields in major markets had been trending up until last September, when it became evident that the global economy was slowing, after which yields began to slip back. For example, the yield on US 10-year Treasury bonds rose from 2.41% at the start of 2018 to a peak of 3.23% by 1 October, after which it began to fall again. By 14 June this year, the yield had dropped to 2.08% and the so-called yield curve had inverted, reflecting a slowing economy. This was also the case for Germany (with a 10-year sovereign bond yield of -0.26% by 14 June and Japan (with a 10-year bond yield of -0.13%).

International bonds appear to be over-valued and we remain under-weight this sector.

Australian Fixed Interest

Commonwealth Treasury bond yields have been falling, in line with a weak economy, with the 10-year rate dropping to under 1.4% by mid-June, signalling potentially slower growth to come and a likely need for more RBA rate cuts.

Since early 2018, Australian 10-year bond yields have been lower than US yields (parity was reached on 9 February 2018). Reflecting a stagnating domestic economy, on 4 June the Reserve Bank (RBA) cut its official short-term interest rate to 1.25%. Longer-term bond yields though continued to decline, with the Commonwealth 10-year bond yield dropping to 1.37% by 14 June. The yield curve remained flat, indicating that the economy was close to stalling and that the RBA could have to cut rates further to lift activity.

Domestic bonds still appear to be over-valued and we remain under-weight this sector.

Inflation-Indexed Fixed Interest (CPI Bonds)

Inflation-linked bonds could out-perform if inflation rises over time.

These bonds tend to be less volatile than conventional issues but can out-perform in times of inflationary pressure, which could be expected to increase along with economic recovery.

Australian Shares

The Australian share market has followed the lead of other major share markets in recent years, including experiencing a fall in 2018 and a strong rebound over the first half of this year. The major driving force behind market direction in recent times appears to have been central bank policy, particularly 'Fed' policy, so that market weakness last year coincided with central bank tightening and market recovery this year has coincided with a policy shift by the 'Fed' towards 'pausing' in its tightening program. The resources sector has continued to do well, reflecting elevated prices for iron ore and coal in particular, while the banking sector has continued to lag and the IT sector is expensive.

The Australian share market rose strongly over the first half of this year, after declining last year. The trend of the domestic market has been in line with most other major markets, which embarked on a bull run following the US presidential election in late 2016 but then began to fall back through most of last year. The major factor behind last year's market weakness appears to have been monetary policy tightening. In fact, the start of the market decline coincided with the peak in central bank holdings of all assets in early 2018. This year, the net sale of assets by central banks is continuing to drain global liquidity and could have to be reversed if the global economy slows further. This year, up to 14 June, the domestic share market (ASX200 Accumulation index) rose by 18%. The Resources sector has continued to perform well (up 23%), benefitting from elevated commodity prices, especially for iron ore and coal, as well as from a declining $A, after being the top performing sector in 2017 and 2018. The banking sector, despite offering investors relatively high average dividend yields, has continued to feel the effects of negative media focus arising from last year's Royal Commission into Misconduct in the sector. On the other hand, the small domestic technology sector (up 24%) has seen average prices rise very strongly, despite now appearing to be expensive, with higher average valuation ratios than in other comparable international technology markets. While a weakening domestic economy holds risks for the market over the coming year, so far earnings have been holding up, as have valuations. By end-April, the domestic market had an estimated price-to-earnings ratio (PER) of around 16.3 times trailing earnings, above its long-term average of 15, while the average dividend yield remained attractive at 4.2% (ASX data). The stock market still appeared fairly valued in historical terms and relative to other investment opportunities.

Exposure to this sector is currently slightly above benchmark.

International Shares

After enjoying a 'bull' run in 2017, most global share markets retreated from early in 2018 and finished the year well down. On the other hand, 2019 started with a recovery in most stock markets. By early March, most markets had risen strongly.

Global equities markets have mostly followed a relatively poor year in 2018, with a strong lift this year. Up to 14 June, US market increases included the Dow Jones Industrials index up 12%, the broad market (S&P500) up 15% and the technology-focused Nasdaq up 18%. Elsewhere, market rises included the UK 9%, Germany 14%, Japan 6%, China 16% and India 9%. With the exception of the US, most of these rises were lower than declines experienced in 2018, so that valuations mostly still appear attractive, especially given strong increases in average earnings over the last two years. This is so despite some evidence of slowing economic activity across most of the major economies. Any loosening of monetary policy over coming months could potentially lift markets further.

By end-May, valuations for most of the major markets remained relatively attractive in historical terms, as well as compared with other investment opportunities, such as bonds or cash.

In terms of valuations, by 31 May, the PER for the major world markets as a whole (based on the MSCI World index) was 13.8 times estimated forward earnings (excluding stocks without positive earnings), well below its longer-term average of 15 times earnings. In general terms, most share markets appeared more attractively priced than other investment opportunities, such as bonds and cash. Some emerging markets also appeared fairly priced, including India, where 2019 earnings are forecast to grow 34% and 18% in 2020 (Yardeni).

Exposure to this sector remains above benchmark (aided by potential further $A weakness).

Listed Property Trusts

The domestic listed property sector is now more conservatively geared and better cashed up (after large capital raisings) than it was prior to the global financial crisis. However, the sector followed a solid performance in 2018 (up 3%), with a very strong start to 2019 (up 20% to 14 June), taking the sector to reasonably fully valued levels.

The listed property sector under-performed the broader market in 2016 and in 2017 but in 2018 it out-performed, rising by 3% against a 3% fall for the overall market (ASX200 Accumulation index). Perceptions of the sector have greatly improved since its heavy falls in 2008 and 2009 during the global financial crisis. The structure of most listed property securities is now much stronger, with lower average gearing and more stable earnings. By 10 June, the sector's average PER was around 17.8 times forward earnings, with an earnings yield of 5.6% and a dividend yield of around 4.5% (2019-20 earnings, Macquarie estimate and based on an average pay-out ratio of 80%). While net asset values (nav) have been steadily rising, the sector overall currently trades at a premium to nav, although some stocks trade at a discount. Earnings are robust but the sector appears reasonably fully valued.

Exposure to this sector is around benchmark.

Australian Dollar

An even lower $A may be necessary to counter declining international competitiveness.

After falling from a high of $US1.10 in July 2011 to a trough of $US0.69 on 17 January 2016, the $A began to rise, peaking at over $US0.80 in September 2017, due mostly to stronger commodity prices. By 14 June it had fallen back again to under $US0.69.

Investors should always opt for well- diversified, professionally managed portfolios.

As always, **we recommend that,** to counter market uncertainties, investors should **hold diversified portfolios.** These should give investors the best opportunities for capital growth with risk minimisation over the medium term. Portfolio asset allocation decisions and short-term market timing are also often best left to fund managers who exercise these decisions on a professional basis with the benefit of all available information.

ASSET ALLOCATION FOR FIDUCIAN MANAGED FUNDS

CAPITAL STABLE, BALANCED AND GROWTH PORTFOLIOS

CAPITAL STABLE PORTFOLIO	Benchmark %	Range %	Dec 18 %	Mar 19 %	Previous 3 month activity
Australian Shares	15	8 – 19	15	15	➔
International Shares	10	6 –14	12	13	↗
Property	5	3 – 8	4	5	↗
International Fixed Interest	16	5 – 30	11	10	↘
CPI Fixed Interest	7	0 – 17	5	5	➔
Aust Fixed Interest	32	15 – 44	22	22	➔
Cash	15	5 – 42	31	30	↘

BALANCED PORTFOLIO	Benchmark %	Range %	Dec 18 %	Mar 19 %	Previous 3 month activity
Australian Shares	37	29- 45	36	37	↗
International Shares	23	15 – 32	27	27	➔
Property	9	5 – 17	8	9	↗
International Fixed Interest	7	4 – 12	6	5	↘
CPI Fixed Interest	3	0 – 8	3	3	➔
Aust Fixed Interest	16	10 – 22	12	11	↘
Cash	5	3 – 40	8	8	➔

GROWTH PORTFOLIO	Benchmark %	Range %	Dec 18 %	Mar 19 %	Previous 3 month activity
Australian Shares	42	34 –50	41	41	➔
International Shares	28	20 – 36	31	32	↗
Property	11	5 –15	11	11	➔
International Fixed Interest	5	0 – 14	3	3	➔
CPI Fixed Interest	2	0 – 7	2	2	➔
Aust Fixed Interest	10	5 – 16	6	6	➔
Cash	2	2 – 32	6	5	↘

Decrease ↘ Increase ↗ Hold Position (Less than 1% up or down) ➔ Significant change (5% or more) ↑/↓

NEXT LIKELY DIRECTION OF ASSET ALLOCATION CHANGE

ASSET SECTOR	UNDERWEIGHT	NEUTRAL	OVERWEIGHT
Australian Shares		■	
International Shares			■
Listed Property Trusts		■	
Intn'l Fixed Interest	■		
CPI Fixed Interest		■ ➔	
Aust. Fixed Interest	■		
Cash			← ■

Next likely direction in 3 to 6 months: ➔ Increase ← Decrease