Conrad Burge, Investment Manager, Fiducian Investment Management Services Limited



# ECONOMIC OUTLOOK

## GLOBAL ECONOMY

***The global economy has slowed in recent months, with the IMF forecasting weaker growth this year for both the developed and the developing world. The slowdown appears particularly severe in the Eurozone, as well as in Eastern Europe and Latin America.***

The global economy has continued to slow marginally over recent months, prompting the International Monetary Fund (IMF) to further reduce its growth forecasts in its latest report (July 2019). The IMF is now forecasting global growth of 3.2% for this year and 3.5% for 2020, down from 3.8% in 2017 and 3.6% in 2018. The marked decrease this year reflects a weak forecast for Europe (only 1.3% for 2019), ongoing weakness in Japan (growth of 0.9%) and a slowdown in the developing world, with forecast growth of only 0.6% in Latin America, 1.0% in Eastern Europe and 1.0% in the Middle East. Even East Asia has slowed, although from a very high rate of growth (6.4% to 6.2%).

***Although global growth remains close to the long-term trend rate, further stimulus measures now appear necessary in key developed economies, where growth is especially weak. Inflation too is well below target in many of these economies and, in consequence, the IMF is advocating the use of more expansionary monetary policy in the current environment of 'subdued global final demand'.***

While global growth forecasts remain in line with the long-term trend rate (around 3.3% per annum), it is likely that further stimulus measures will be needed over coming months. In particular, with growth in the advanced economies as a whole projected to be only 1.9% this year and an even more feeble 1.7% in 2020, there would appear to be good reason for central banks to do more to lift economic activity, while governments could also use fiscal policy (especially infrastructure spending) to boost growth. As the IMF notes, 'data broadly paint a picture of subdued global final demand, notably in fixed investment'. The IMF also agrees that 'with subdued final demand and muted inflation, accommodative monetary policy is appropriate in advanced economies'. In particular, the IMF is concerned about 'mounting disinflationary pressures', meaning that inflation continues to be stubbornly low in most jurisdictions. Inflation that is too low 'increases debt service difficulties, constrains monetary policy space to counter downturns and makes adverse shocks more persistent than normal'.

***The IMF continues to argue that 'risks to the forecasts are mainly to the downside', implying that more stimulus is needed in the short-term.***

In such an environment, the IMF continues to advise that 'risks to the forecast are mainly to the downside'. While this outlook is undeniably somewhat negative, it does not mean that stronger growth, particularly in the developed world is unachievable. It simply implies that more expansionary policies need to be implemented and probably need to be implemented sooner rather than later.

***Monetary policy is the major policy sphere where measures could be quickly implemented, although the major central banks appear to have been slow this year to use their powers forcefully. As Ben Bernanke, a previous head of the 'Fed', has previously pointed out, central banks have enormous power to lift activity.***

The policy area where changes can be made most rapidly is in the realm of monetary policy. At present, it appears that key central banks remain reticent about using the full complement of their powers to boost activity. However, as the Chairman of the US central bank (the 'Fed') from 2006 to 2014, Ben Bernanke, has previously remarked, 'a determined government can always generate higher spending and hence positive inflation' and 'sufficient injections of money will always reverse a deflation' (21 November 2002). Beyond even this, it is also worth noting that exchange rate policy can have a marked effect on the level of inflation for any given economy. In the current environment, however, where excessively low inflation is a problem across a range of countries, a move by any single country simply exacerbates the problem for others.

***Bernanke has also pointed out previously that, ideally, monetary and fiscal policies should be co-ordinated. The opportunity to use the fiscal levers seems especially good at present, given historically low interest rates. Governments have the capacity to borrow large amounts of money very cheaply for the upgrading of old infrastructure. In particular, Germany appears to fit this category, as its austerity program has stifled growth.***

What would also be helpful now is also something that Bernanke pointed out in 2002, namely that 'the effectiveness of anti-deflation policy could be significantly enhanced by cooperation between the monetary and fiscal authorities'. With interest rates globally now at historically low levels, it could be prudent for many governments to borrow long-term to fund much-needed infrastructure projects (a form of fiscal policy). This is particularly the case for major economies such as Germany, which have been running mercantilist 'beggar-thy-neighbour' policies for some years. In Germany's case, the country is running the largest current account surplus in the world in absolute terms (an estimated $US280 billion this year, or over 7% of GDP, according to the IMF, a much larger surplus than either Japan or China), while at the same time running a budget or fiscal surplus. In other words, Germany has plenty of scope to expand

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domestic demand through a focused program of infrastructure spending that is much needed domestically and which would also boost activity in neighbouring economies, in particular through boosting exports to Germany.

***While Germany needs to boost its fiscal spending on productivity-enhancing infrastructure, the US needs accommodative monetary policy (lower rates) and a lower $US***

If such fiscal policy initiatives were to be combined with more courageous monetary policy moves then it is likely that stronger growth could be achieved. However, in the case of the US, last year saw the 'Fed' embark on a hefty tightening program, raising interest rates and introducing 'quantitative tightening'. The Fed's early ending of its tightening program and the lowering of its key interest rate on 1 August indicates that it had previously erred. It now appears that rates need to be lowered further this year

***The global economy has been slowing recently and now needs further doses of monetary stimulus, as well as fiscal measures to lift investment, raise productivity and boost economic activity.***

**In summary,** the global economy has slowed somewhat in recent months and requires more effort on the part of key central banks and the governments of the major economies to engender higher levels of economic activity. In particular, the European Central Bank (ECB) and the 'Fed' could move to implement more expansionary policies than at present, while fiscal policy, notably infrastructure spending, could also play an important role in generating a lift in investment and economic growth.

## REGIONAL ECONOMIES

***The US economy lost some momentum in the June quarter, expanding at an annualised rate of 2.1%, down from 3.1% in the previous quarter. Weak investment detracted from growth, with investment in plant and equipment declining, as was the case for investment in housing, while corporate profits also declined. More recent data also points to a potentially weakening economy, with the manufacturing sector looking particularly weak. Wages growth though has been solid and well above the rate of inflation. A so-called 'trade war' with China has escalated in recent months, although it appears to have had little net effect on the trade balance. Trade negotiations are continuing and there have been hints that a trade agreement could be close.***

The US economy lost some momentum in the June quarter, (growing by 2.1% at an annualised rate), after experiencing stronger growth in the March quarter (up by 3.1%). Growth in the June quarter was mainly on the back of strong growth in household spending (up 4.3%), with spending on durable goods, such as cars, particularly strong (up 12.9%). On the other hand, investment in plant and equipment actually declined (down 0.6%) and detracted from growth, as did exports, which declined slightly even in nominal terms (all data annualised). Declining investment in housing (down by 1.5%) also detracted from growth, as did declining inventory investment. Corporate profits also declined for the second quarter in a row (down 2.2% for the year, national accounts basis). More recent data also points to some weakening in the economy. In August, 130,000 new jobs were created but this was below expectations of around 160,000, while the ISM Manufacturing Purchasing Managers' Index (PMI) contracted for the first time in over three years in August, reflecting a weakening manufacturing sector. Wages growth though (average hourly wages were up 3.2% over the year to August) continues to exceed the rate of inflation (up 1.7% over the same period). President Trump recently escalated a so-called 'trade war' with China by imposing tariffs on an additional $125 billion worth of imported goods (taking the total value of imported Chinese goods now subject to tariffs to over $350 billion). However, these products amount to only around 12% of total imports, while the trade in goods imbalance with China has improved this year, with the $33 billion deficit in July being well below the record high of $43 billion in October 2018. While further tariffs are pencilled in for later this year, trade negotiations due to be held over coming weeks could potentially lead to a trade agreement, as was reached between the US, Mexico and Canada in 2018.

***Investment in housing declined for the sixth quarter in a row in June, 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 housing slowed for the sixth quarter in a row in June. House price growth slipped to 2.1% for the year to end-June (20-city Case-Shiller index), while housing credit grew by only 3.3% over the same period. However, the 'Fed' recently noted that 'key factors that influence consumer spending, including a low unemployment rate, further gains in real disposable income and elevated measures of households' net worth, were supportive of solid real private consumption expenditure growth' (31 July). The unemployment rate (3.7% in August) remains around its lowest level in 50 years, while household net worth rose 4% over the year to March.

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***The US central bank recently reversed its previous tightening bias and appears to have embarked on an easing phase once again. 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 (meaning that longer-term rates have fallen below the short-term rate), reflecting growing investor caution about the outlook.***

Recent data pointing to the likelihood of slower growth ahead has been highlighted by historically low long bond yields, so that the so-called yield curve has been inverted in recent months, often 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 1.47% on 28 August, well below the short-term Fed Funds rate), the current direction of monetary policy has become questionable. With consumer inflation also remaining stubbornly below the target level, it could be that the 'Fed' may soon have to lower interest rates further and potentially even re-start 'quantitative easing' (the purchase of Treasury bonds and other securities in order to encourage investment). The following recent data shed further light on the current state of the US economy:

- Industry capacity utilisation (77.5% in July) was 2.4% below long-run trend.
- Money supply (M1) growth was increasing by end-July (up 4.8% for the year).
- Bank lending to businesses has been robust (up 6.0% year-on-year by end-June).

***European economies mostly slid closer to recession in the June quarter, with Germany and the UK both contracting and Italy stagnant. The ECB finally acknowledged the depth of the problem by lowering interest rates further in early September and announcing a new program of 'QE' to begin in November. In some countries, political gridlock has been affecting investor and consumer confidence, including the UK, Italy and even France. The Japanese economy has shown recent signs of tepid recovery, although low inflation remains entrenched. In China's case, growth is higher but there has also been some slowing, despite the application of stimulus measures.***

**European economies** mostly slid further towards recession in the June quarter (the whole Eurozone grew by only 0.2%), after five previous quarters of mediocre growth. Germany contracted in the June quarter (by 0.1%) and has barely grown over the last 18 months. Across Europe, consumer and business sentiment remains weak and uncertainty prevails about the general outlook, with political deadlock in some countries contributing to weak investor confidence. Italy, which failed to expand in the June quarter, has just formed a new coalition government. In the UK, which also contracted in the June quarter, Parliament has been 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 Parliament has also frustrated calls by the new Prime Minister, Boris Johnson, for an election to take place. In this environment, the ECB has found it necessary to announce a return to more expansionary monetary policies, lowering interest rates to -0.5% and re-introducing 'QE' from November, while fiscal measures, such as more infrastructure spending by Germany, could also be effective. The **Japanese economy**, the third largest in the world, has shown signs in recent months of tepid recovery, growing by 0.4% in the June quarter, although inflation remains well below the 2% target (only 0.5% over the year to July). In the case of **China**, growth has also slowed, being 6.2% for the June quarter (year-on-year), its lowest rate of growth in 27 years. Despite a raft of pro-growth measures introduced recently, including tax cuts, lower bank reserve requirement ratios and increased infrastructure spending, more expansionary measures may still be needed.

## AUSTRALIAN ECONOMY

***The Australian economy is continuing to endure a weak period, with growth of only 0.5% in the June quarter, after even weaker growth in the previous three quarters. On a per capita basis, growth was negative over the full year (-0.2%). Private investment has been particularly weak (down 5.2% for the year), with a recessed housing sector not helping. In fact, without strong growth in public sector spending, the economy would be even weaker. House prices in the two largest cities, Sydney and Melbourne, dropped significantly over the 2018-19 financial year; although the market***

The **Australian economy** continued its weak performance over the past year with soft growth of 0.5% for the June quarter, bringing growth for the year to 1.4%, the weakest growth rate since the global financial crisis. Furthermore, on a per capita basis, GDP failed to increase during the quarter and actually contracted over the full year. Effectively, the country is continuing to experience a 'per capita recession' (GDP per capita being down 0.2% for the year). In fact, without strong growth in public sector spending (which contributed a full 0.5% of the growth for the quarter), the outcome could have been even weaker. Household spending also contributed to growth (by 0.2%) but, alarmingly, private investment fell for the fifth quarter in a row (down 1.6% for the quarter and 5.2% for the year). An especially weak sector has been housing (down 4.4% for the quarter), which appears to have suffered from a tightening in bank lending (especially for 'investors'), due to the Royal Commission into the banking sector. With borrowers suddenly finding it harder to obtain loans, house prices have fallen dramatically. Over the year to end-August, average dwelling prices were down by around 7% in Sydney, 6% in Melbourne and 6% for the mainland State capital cities index (CoreLogic data). However, rate cuts by the Reserve Bank (RBA) in June and July (taking official rates to

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***seems to have bottomed following RBA rate cuts in June and July. While there has been some alleviation in the severity of lending standards imposed on 'investors', households have further reduced their saving levels and the RBA may need to cut rates further.***

***The RBA has been trying to shift the responsibility for stimulating the economy towards the government and fiscal policy, rather than allowing all the emphasis to be on monetary policy. In particular, the RBA has been spruiking the benefits of infrastructure spending, especially now that interest rates are the lowest on record. As the Governor of the RBA put it, 'spending on infrastructure, if done properly can boost an economy's productivity'. This is one area too where much needs to be done, given the very poor productivity performance of recent years. Productivity has also been held back by over-regulation and escalating domestic costs, including for wages (minimum wages are the highest in the world), electricity prices (also the highest in the world) and tax rates.***

1.0%) may have been enough to put a floor under house prices for the time being, with most capital city prices rising marginally in August. Household spending has continued to be sustained to a degree by a reduction in household saving. However, this is now only 2.3% of disposable income (June quarter). More positively, wages growth has been reasonably solid, with average weekly (full-time) earnings growing by 3.0% over the year to May, above the annual inflation rate of 1.6%.

In this current economic environment, it appears likely that the RBA could have to cut interest rates further to encourage investment and lift economic activity. While the RBA agrees that further monetary stimulus could be required over coming months in Australia, it has also been emphasising the importance of fiscal policy, noting that 'monetary policy is not the country's only option', highlighting that 'spending on infrastructure, if done properly can boost an economy's productivity'. Furthermore, 'there is no shortage of finance to do this, with interest rates the lowest they have ever been' (Philip Lowe, RBA Governor, 9 August 2019). The best outcome would probably be a combination of further monetary stimulus (lower interest rates), coupled with a significant program of government spending on efficiency-improving infrastructure projects, funded by long-term borrowing at low rates. Lowering rates even further would have the added benefit of reducing pressure on the $A, which has already come down significantly in recent times (by 10% against the $US in 2018 and by a further 4% over the first 8 months of 2019). Certainly, the domestic economy needs to see stronger productivity growth, which has been minimal in recent years; with productivity measures actually declining over the year to June, (GDP per hour worked was down 0.2%). Given that domestic businesses face high imposts, including one of the highest corporate tax rates in the world, the highest minimum wage rates and some of the highest electricity prices in the world (with heavy industry being particularly hard hit), the current government needs to urgently start to focus on these issues if it is to lift economic growth.

# STRATEGY FOR FIDUCIAN FUNDS

## STRATEGY OVERVIEW

**Our economic analysis set out above indicates that the world economy currently appears to be slowly decelerating. In particular, growth in most of the advanced economies remains sluggish, with Europe close to recession and requiring a return to more monetary stimulus from the ECB. Whether the 12 September announcement by the ECB of further interest rate cuts and the re-introduction of a program of commercial bank bond purchases ('QE' of 20 billion euros per month from November with no specific end-date) will be enough to kick-start the European economy remains to be seen. However, more monetary stimulus from other jurisdictions, including the US appears likely over coming months. As US President Trump has made clear, differences in official interest rates between countries can have effects on exchange rates and the $US has appreciated against other currencies since the 'Fed' began its program of monetary tightening. As Mario Draghi, the President of the ECB, has also made clear, however, in the ECB's view, 'it is high time for the fiscal policy to take charge. In view of the weakening economic outlook and the continued prominence of downside risks, governments with fiscal space should act in an effective and timely manner' (12 September). This statement was aimed squarely at Germany, which should now be stepping up and boosting domestic economic activity (which would spill over to other economies in Europe and further afield) through a program of targeted infrastructure spending. It appears too that new so-called 'structural' factors, including '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 set out in its last World Economic Outlook report (April 2019), 'slowing expansion of the labour force amid population ageing will drag advanced economy growth lower over the projection horizon'. In countries most affected by this phenomenon, such as Japan (with a workforce already in decline and a total population falling by around 300,000 per year), 'QE' and interest rates close to the 'zero bound' (0%), may need to be kept in place for a very long time to keep growth (and inflation) positive. Furthermore, as the ECB President has previously noted (13 September 2018), 'structural reforms need to be stepped up to boost productivity and growth potential'. Reforms introduced in the US over the last two years, including very large tax cuts, reductions in regulation and incentives for investment (such as full expensing) point the way forward for other economies.**

**As far as bond markets are concerned, they too appear to have been signalling that more expansionary policies need to be introduced in most of the major economies. 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 phenomena have often been taken to reflect a lack of investor confidence and, potentially, the onset of a recession. In the case of the US, where the official short-term rate of 2.0% to 2.25% has been well above the 10-year Treasury bond yield in recent months (1.47% as at 3 September), the need for further 'Fed' rate cuts would appear to be pressing. In Europe, where short-term rates and long-term bond yields are both negative, the case for even more adventurous policies, such as those referenced above (especially de-regulation, incentives for investment and further tax cuts), seems clear.**

**The rebound in economic growth that was led by the US last year was also reflected in strong corporate earnings growth. Globally, earnings rose 13% in 2018, after rising 17% in 2017. This year though, earnings are forecast to grow slowly (only 2% globally and in the US and 1% in Europe) but by a stronger 10% in 2020, including 11% in the US and 10% in Europe (Yardeni Research, based on MSCI data, as at 11 September). In valuation terms, as at 11 September, the MSCI World Shares index was trading at 14.9 times forward (12 months ahead) earnings, around its long-term average ratio of 15. In fundamental valuation terms and assuming ongoing earnings growth, most share markets currently still 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 were trending lower this year until September, when indications of pending monetary stimulus gave a boost to investor confidence. Yield curves had been inverting, even in the US, indicating the need for more central bank action.***

Government bond yields in major markets were on a clear downwards trend until early September, with, for example, the yield on US 10-year Treasury bonds sliding from a peak of 3.23% on 1 October 2018 to a low of 1.47% on 3 September this year. However, the 10-year yield then jumped to 1.90% by 13 September in anticipation of more expansionary monetary policy to come, which could boost economic activity. The US yield curve is currently inverted, reflecting a slowing economy. By end-August, German, French and Japanese 10-year bond yields were at record lows (-0.72%, -0.45% & -0.29% respectively).

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

## Australian Fixed Interest

***Commonwealth Treasury bond yields dropped to record lows this year, reflecting a weakening economy. The 10-year rate fell to 0.85% before rebounding on better international news in relation to trade and stimulus measures.***

Since early 2018, Australian 10-year bond yields have been lower than US yields (parity was reached on 9 February 2018), reflecting slower domestic growth. The RBA cut its official short-term interest rate by 0.25% in each of June and July this year to 1.0%. Longer-term bond yields though continued to decline, with the Commonwealth 10-year bond yield reaching a record low of 0.85% on 29 August. The yield curve was flat, pointing to a stalling economy and a probable need for the RBA 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 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 recovered. The IT sector though, after rising dramatically, now looks expensive.***

Australian equities have enjoyed a bull market so far this year, after declining in 2018. The trend of the domestic market has followed other major markets, which rose strongly following the US presidential election in late 2016 but then fell back last year. The major factor behind last year's market weakness appears to have been monetary policy tightening, with the start of the market decline coinciding with the peak in central bank holdings of all assets in early 2018. This year, the net sale of assets by central banks continued to drain global liquidity until the 'Fed' ceased 'quantitative tightening' in August. This year, up to 13 September, the domestic share market (ASX200 Accumulation index) rose by 22%. The Resources sector has continued to perform well (up 21%), 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 has also performed well (up 21%), after suffering from the effects of negative media focus during last year's Royal Commission into Misconduct in the sector. The real out-performer though has been the small domestic technology sector (up 30%), although this sector now appears to be expensive, with much higher average valuation ratios than other comparable international technology markets. While a weak domestic economy holds risks for the market over the coming year, so far valuations have remained reasonable, despite slower earnings growth. By end-August, the domestic market had an estimated price-to-earnings ratio (PER) of around 16.0 times trailing earnings (Yardeni), above its long-term average of 15, while the average dividend yield remained attractive at 3.9% (ASX). Overall, 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

***Most global equities markets have reacted positively to indications that more economic stimulus was likely from central banks and some governments. While earnings growth has slowed this year, forecasts point to potentially stronger outcomes in 2020, which could bode well for share markets.***

**Global equities markets** have mostly performed very strongly this year. Up to 13 September, US market increases included the Dow Jones Industrials index up 17%, the broad market (S&P500) up 20% and the technology-focused Nasdaq up 23%. Elsewhere, market rises included the UK 10%, Germany 18%, France 20%, Japan 10%, China 22% and India 4%. 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 growth in forecast earnings for 2020. This is so despite evidence of slowing economic activity across most of the major economies. Any further loosening of monetary policy over the coming year could potentially lift markets further.

***By end-August, 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 valuation terms, by 11 September, the PER for the major world markets as a whole (based on the MSCI World index) was 14.9 times estimated forward earnings (excluding stocks without positive earnings), around 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, such as India, where earnings are forecast to grow 24% in 2019 and 20% 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. The sector out-performed the broader market last year but has lagged slightly this year (up 20% to 13 September), taking the sector to reasonably fully valued levels.***

The listed property sector under-performed the broader market in 2016 and in 2017 but then re-bounded in 2018. This year, to 13 September, it rose 20% (against a 22% rise for the broader market). 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 13 September, the sector's average PER was around 18 times forward earnings, with an earnings yield of 5.5% and a dividend yield of around 4.4% (2020 earnings, Macquarie estimate and based on an average pay-out ratio of 80%). While net asset values have been steadily rising, the sector overall currently trades at a premium to nav, although some stocks trade at a discount. Earnings remain 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 13 September, 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.

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# Fiducian Quarterly Investment Strategy Report

Conrad Burge, Investment Manager, Fiducian Investment Management Services Limited

September 2019 to November 2019



## ASSET ALLOCATION FOR FIDUCIAN MANAGED FUNDS

### CAPITAL STABLE, BALANCED AND GROWTH PORTFOLIOS

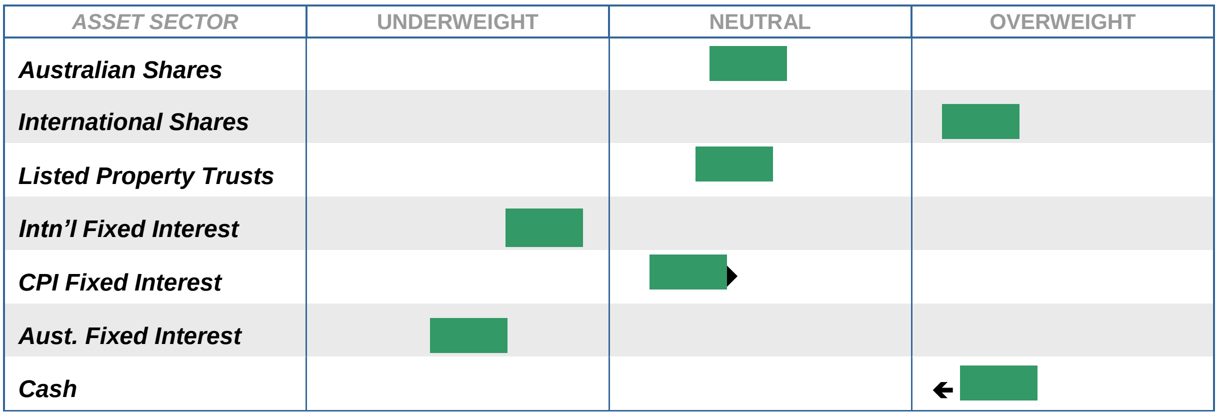
| CAPITAL STABLE PORTFOLIO | Benchmark % | Range % | Mar 19 % | Jun 19 % | Previous 3 month activity |
|---|---|---|---|---|---|
| ***Australian Shares*** | 15 | 8 – 19 | 15 | 15 | → |
| ***International Shares*** | 10 | 6 –14 | 13 | 12 | ↘ |
| ***Property*** | 5 | 3 – 8 | 5 | 5 | → |
| ***International Fixed Interest*** | 16 | 5 – 30 | 10 | 10 | → |
| ***CPI Fixed Interest*** | 7 | 0 – 17 | 5 | 5 | → |
| ***Aust Fixed Interest*** | 32 | 15 – 44 | 22 | 23 | ↗ |
| ***Cash*** | 15 | 5 – 42 | 30 | 30 | → |

| BALANCED PORTFOLIO | Benchmark % | Range % | Mar 19 % | Jun 19 % | Previous 3 month activity |
|---|---|---|---|---|---|
| ***Australian Shares*** | 37 | 29- 45 | 37 | 37 | → |
| ***International Shares*** | 23 | 15 – 32 | 27 | 25 | ↘ |
| ***Property*** | 9 | 5 – 17 | 9 | 9 | → |
| ***International Fixed Interest*** | 7 | 4 – 12 | 5 | 5 | → |
| ***CPI Fixed Interest*** | 3 | 0 – 8 | 3 | 3 | → |
| ***Aust Fixed Interest*** | 16 | 10 – 22 | 11 | 11 | → |
| ***Cash*** | 5 | 3 – 40 | 8 | 10 | ↗ |

| GROWTH PORTFOLIO | Benchmark % | Range % | Mar 19 % | Jun 19 % | Previous 3 month activity |
|---|---|---|---|---|---|
| ***Australian Shares*** | 42 | 34 –50 | 41 | 41 | → |
| ***International Shares*** | 28 | 20 – 36 | 32 | 29 | ↘ |
| ***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 | 5 | 8 | ↗ |

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

### NEXT LIKELY DIRECTION OF ASSET ALLOCATION CHANGE




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

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