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Economic & Market Update

Presented by:

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Chief Investment Officer

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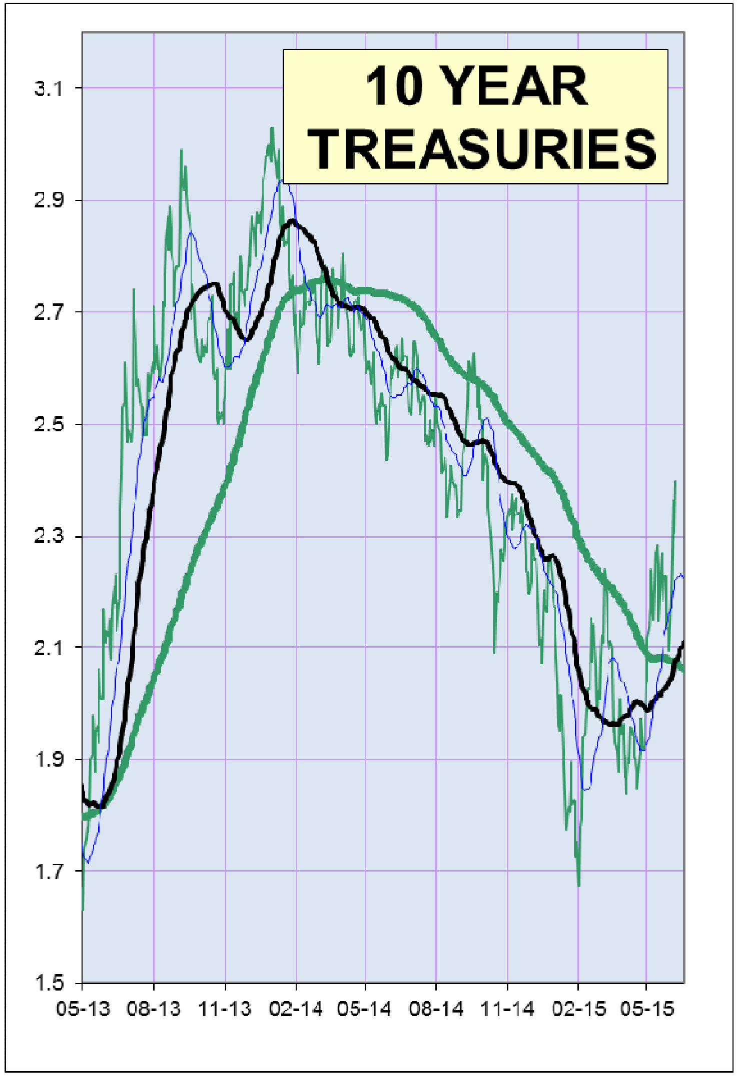
Trends over last year

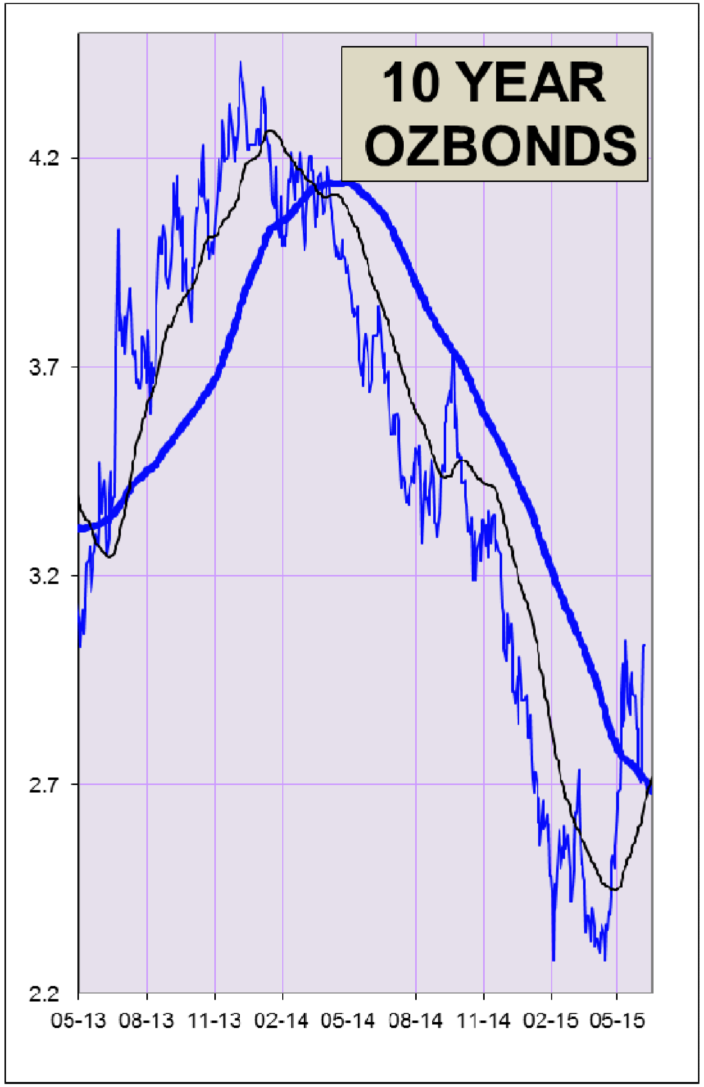
- Plunging global bond yields ➡ Yield play (TLS, banks, prop trusts)
- Collapsing commodity prices ➡ avoid resources
- Falling A$ ➡ buy currency plays (COH, CSL, WFD, IZZ, IVV)

… but all has changed

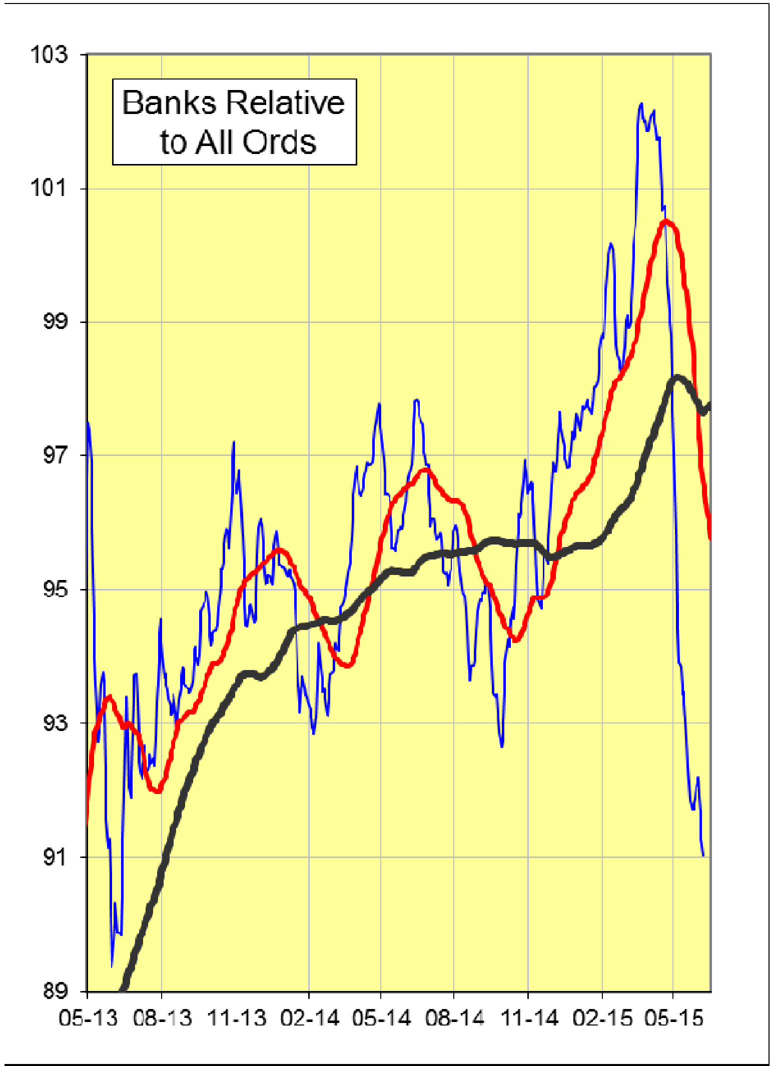
- Global bond yield sell off
- Resources underperformance over?
- A$ not so weak

Bond Sell Off

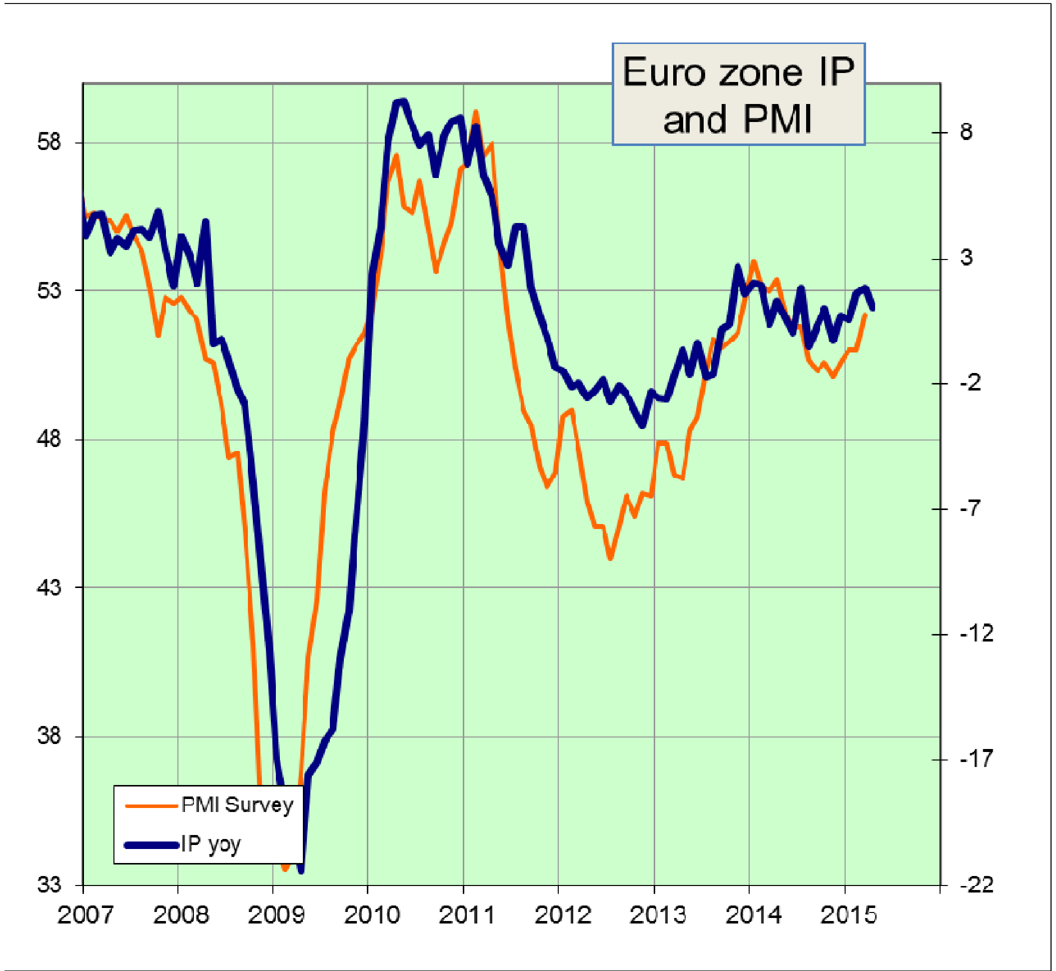




Banks sell-off

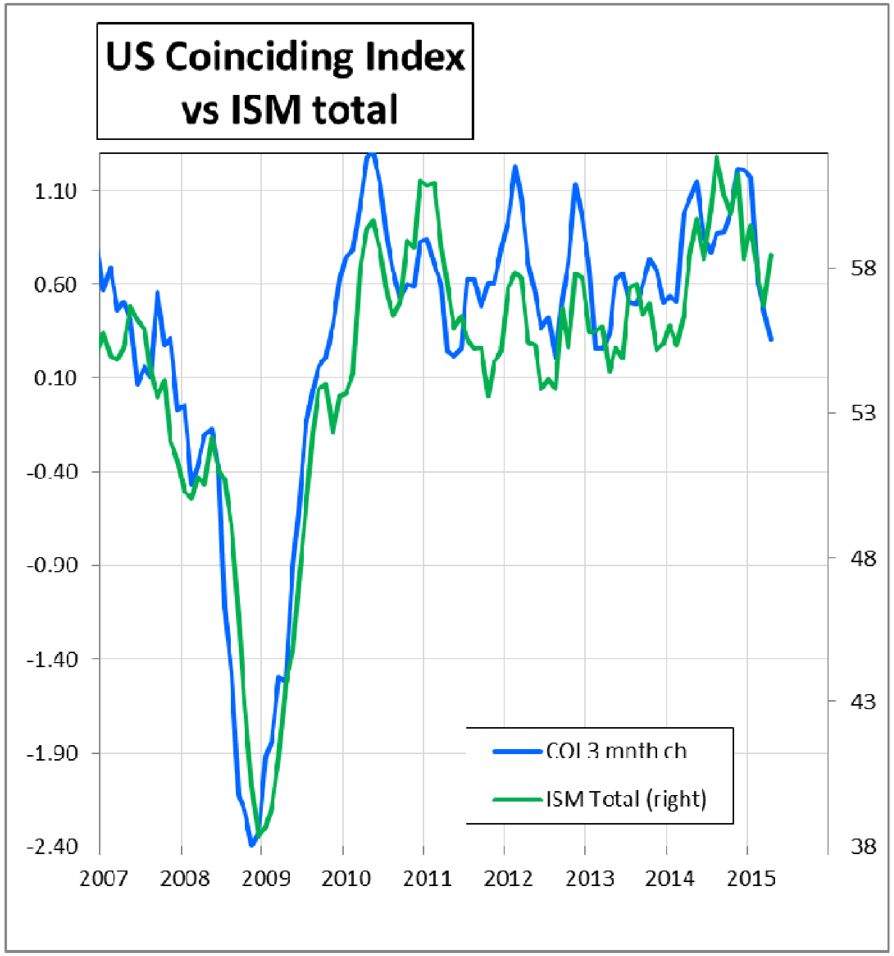


Why the bond sell off?

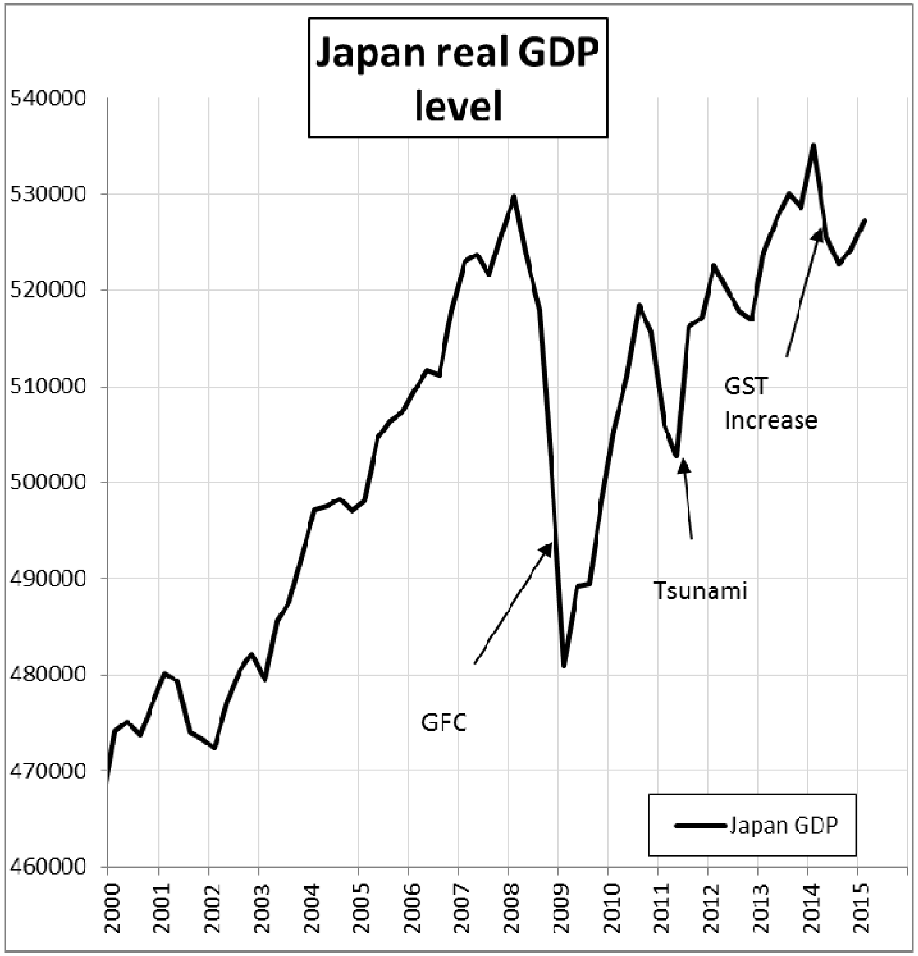


- Europe recovery
- US rate rise
- US rebound post Q1
- Japan rebound
- China stimulus

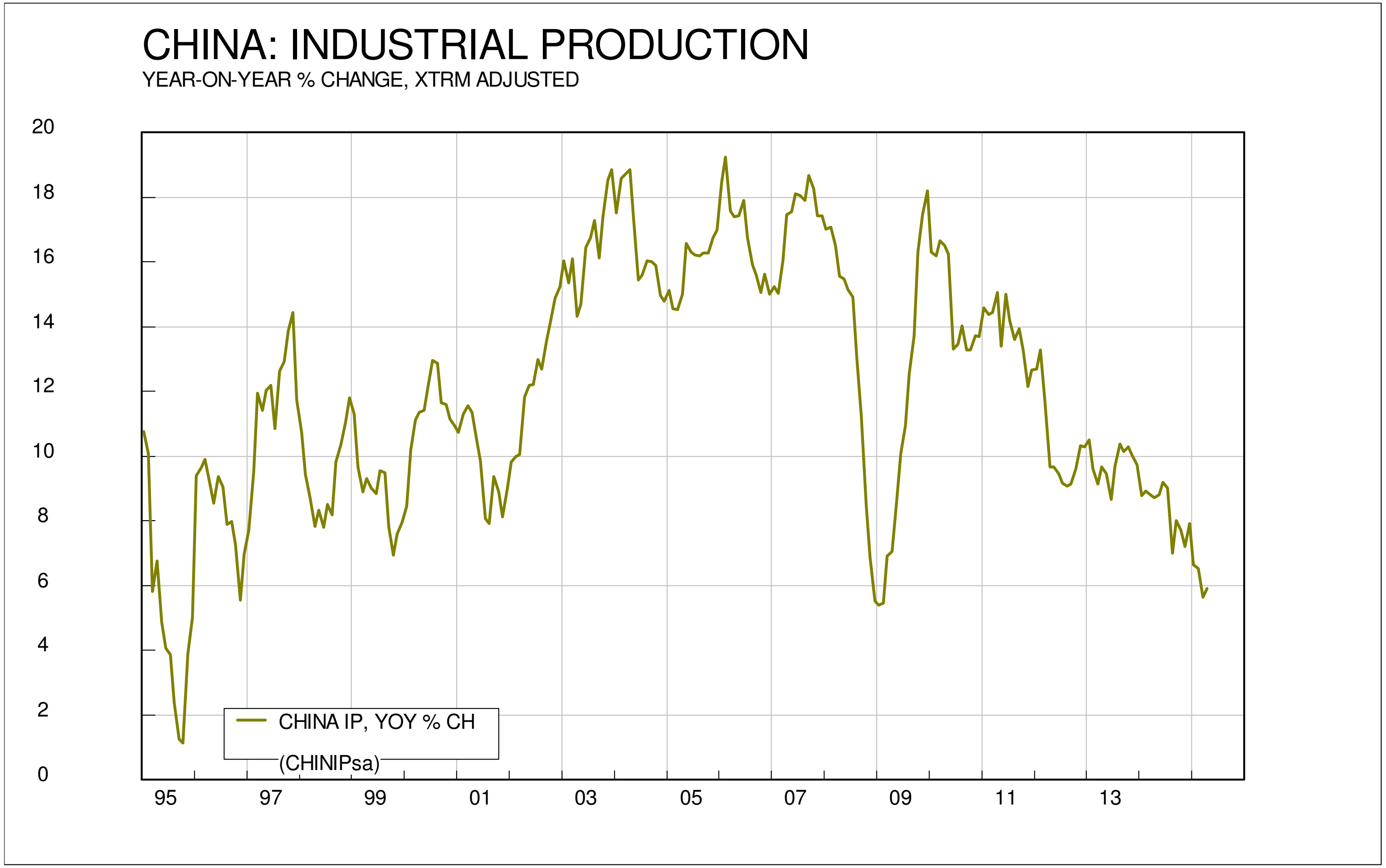
US picking up again



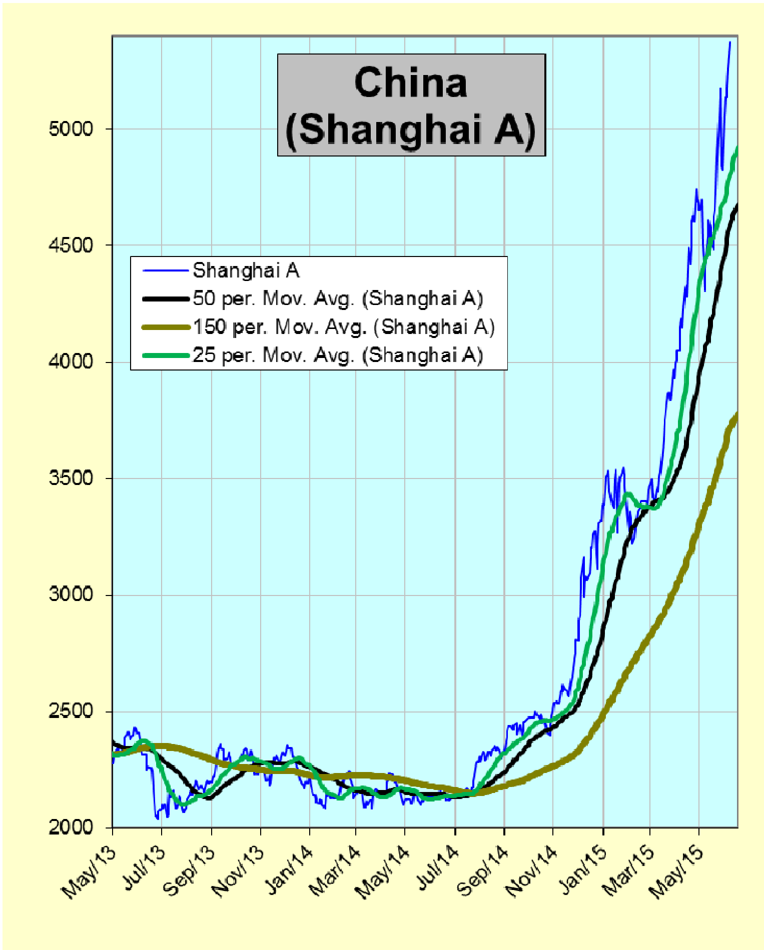
Japan recovery



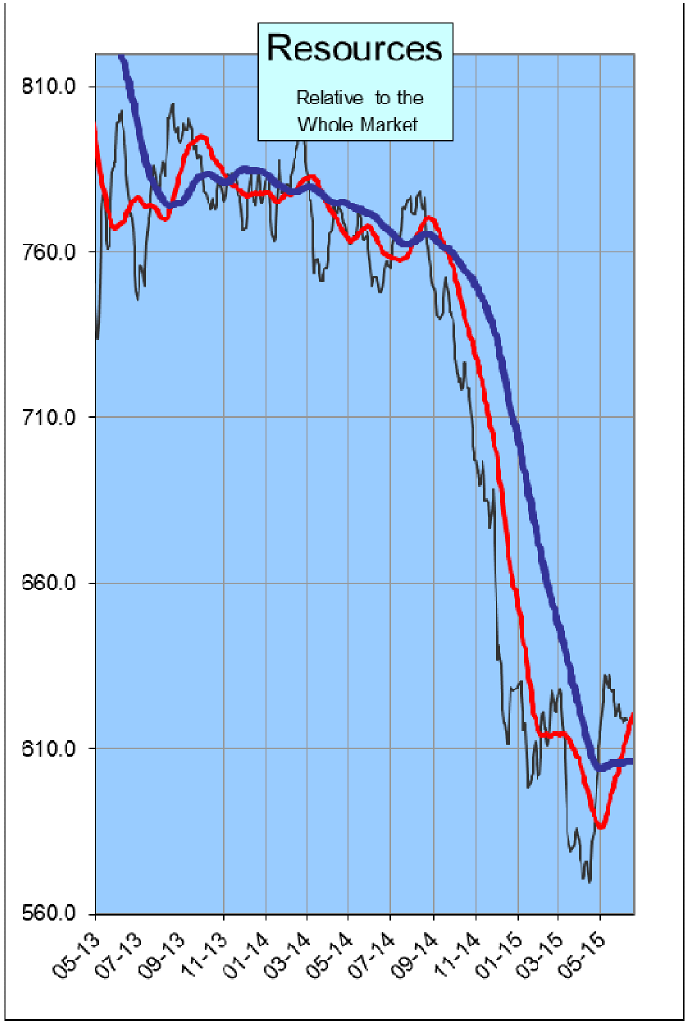
China at cyclical low



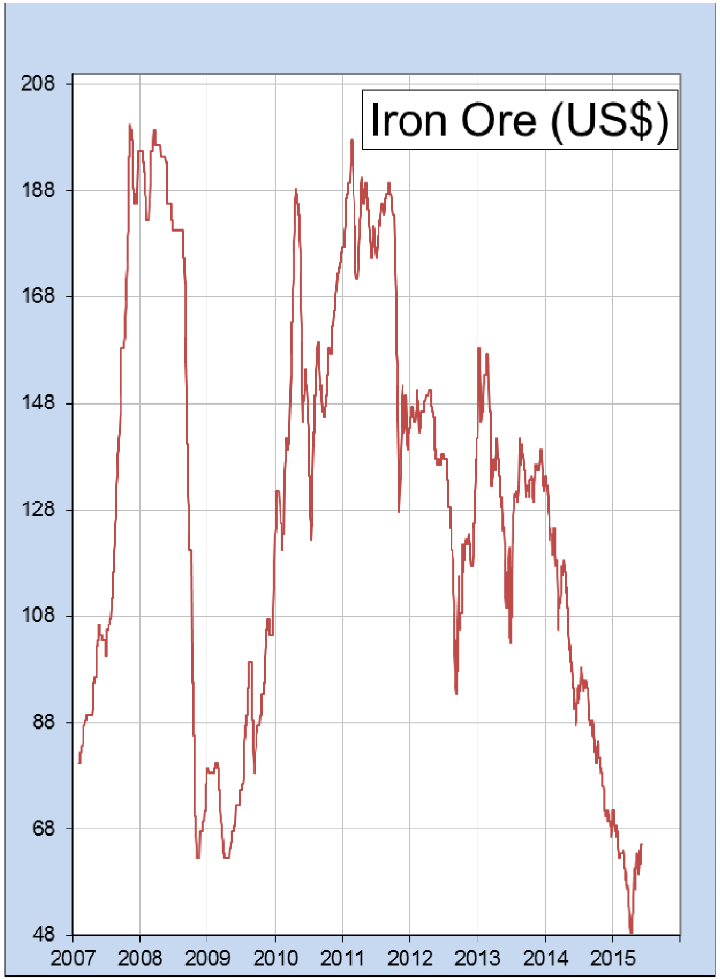
China stock market points to recovery

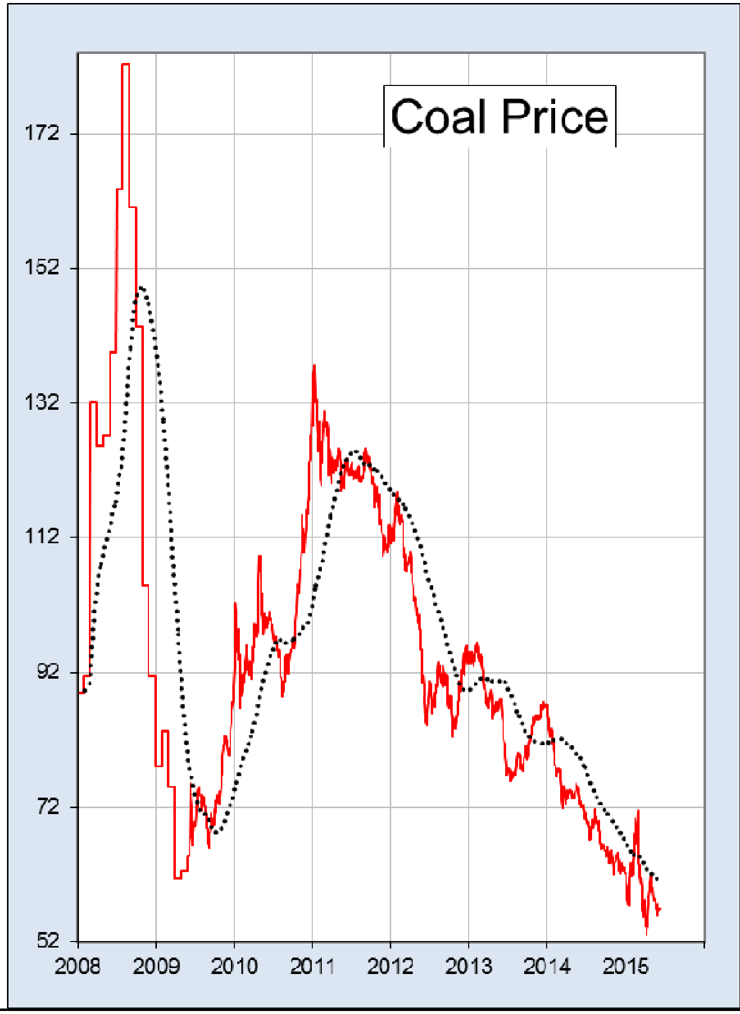


Resources rally

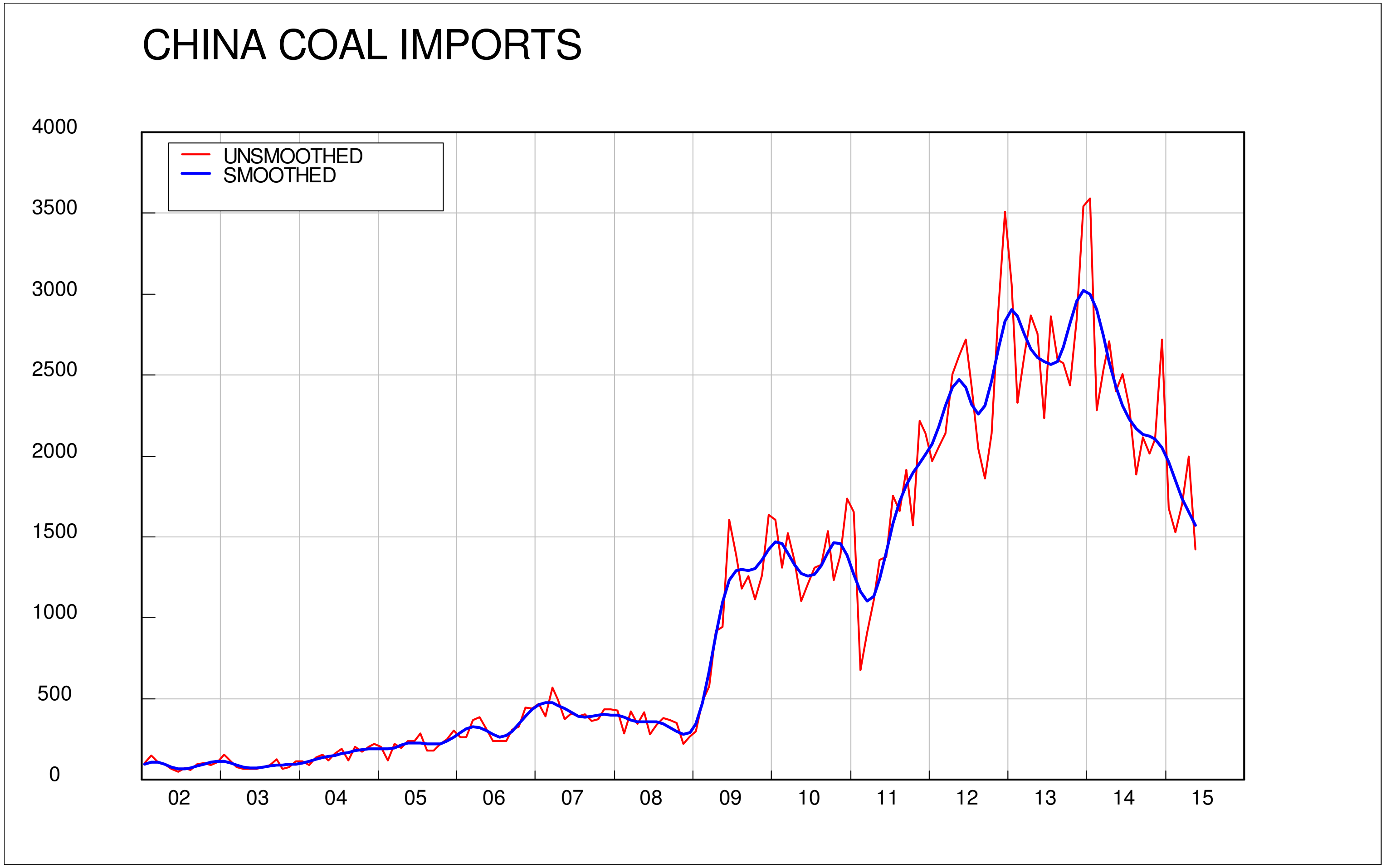


Different stories



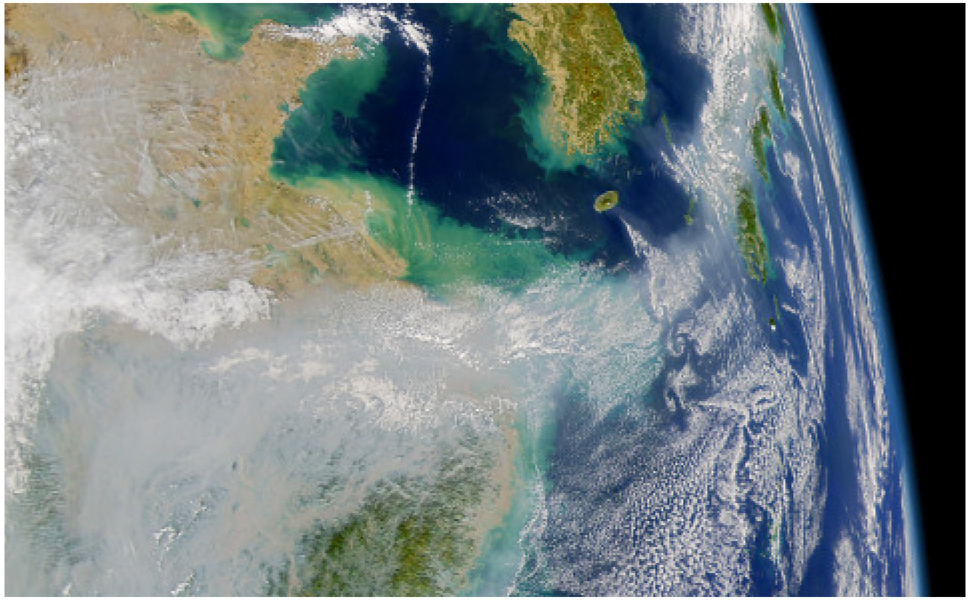


Chinese coal imports plunge

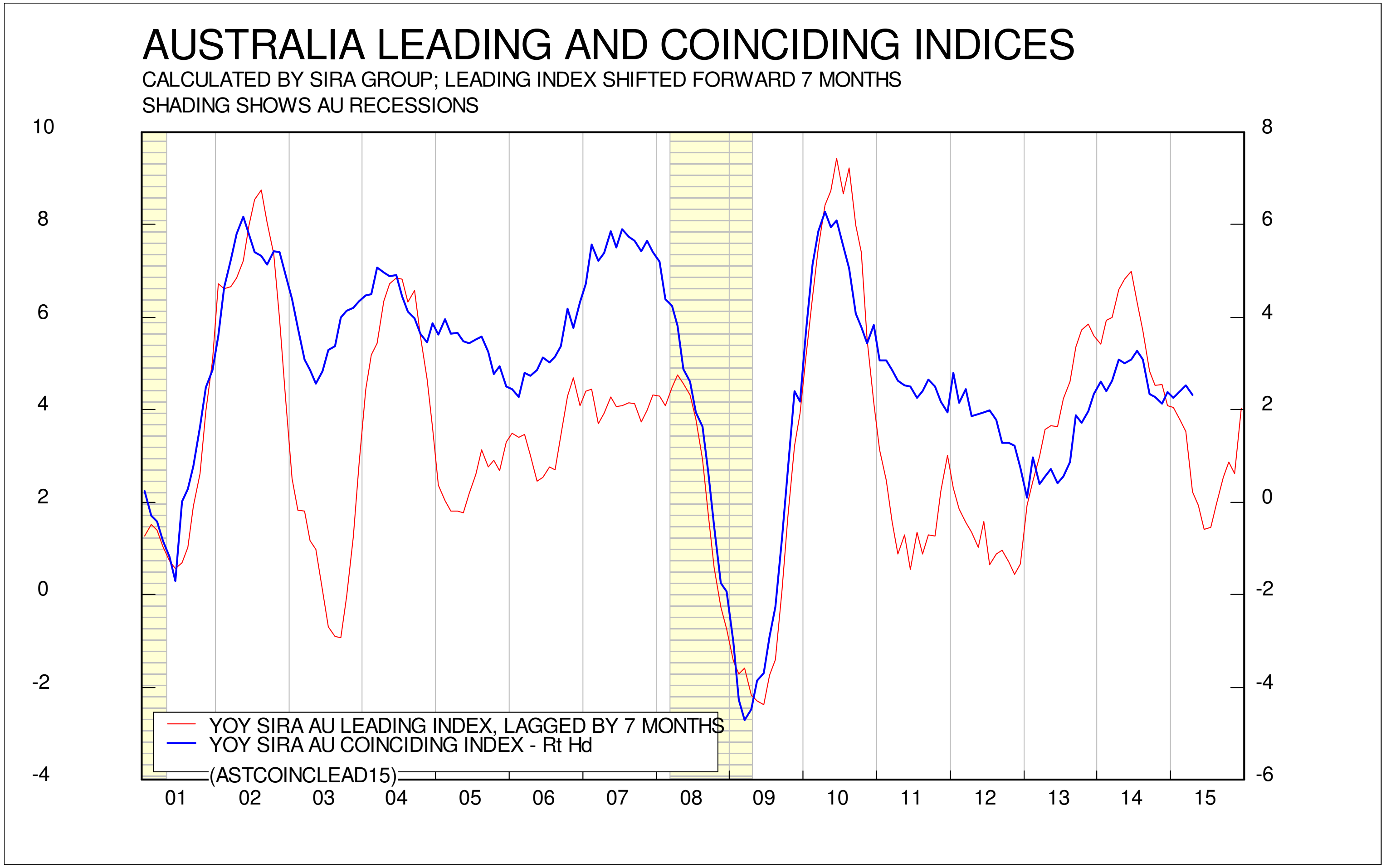


Air pollution

Can be seen from space



AU Recovery in 2016?



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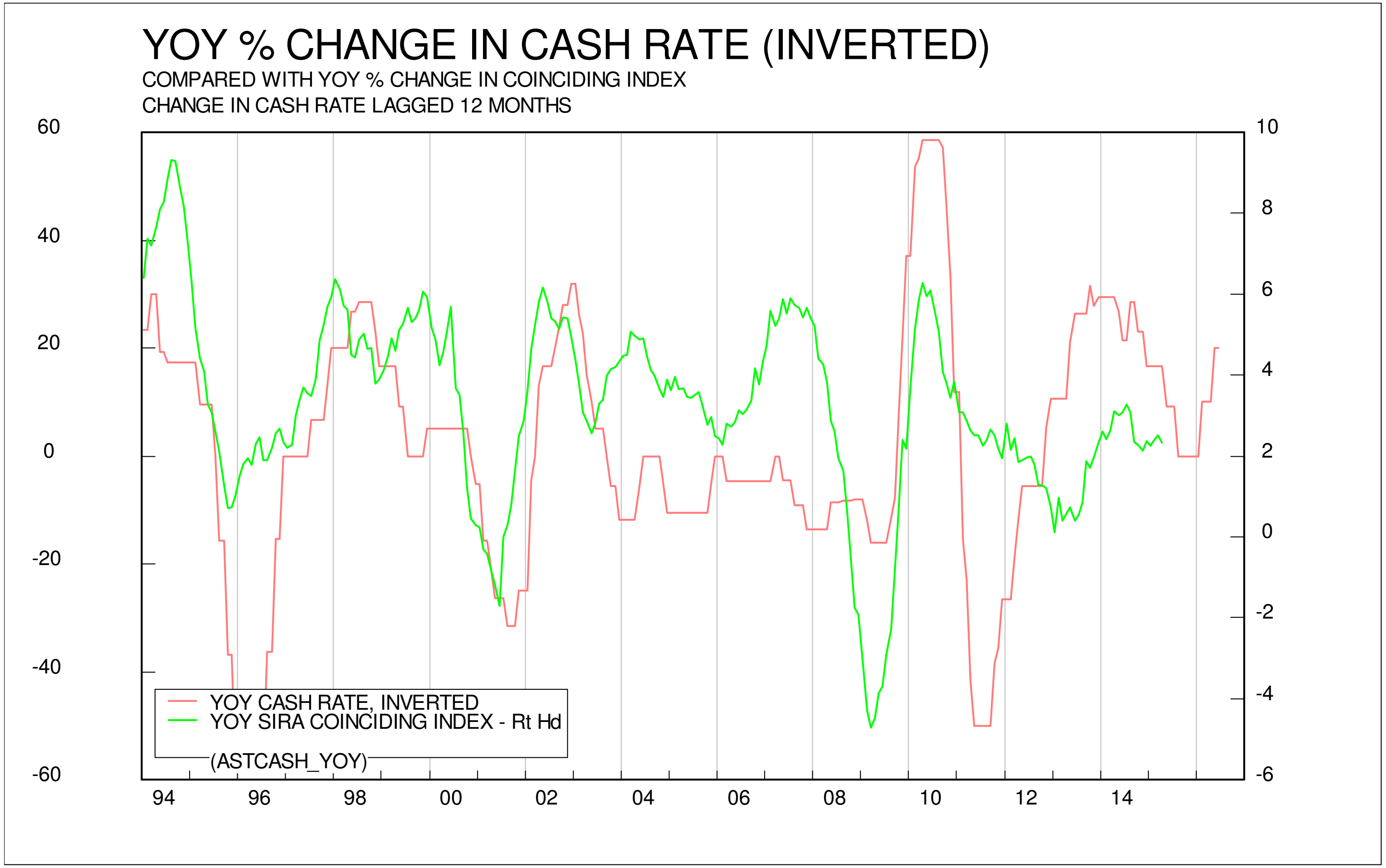
Cash rate supportive, but ….



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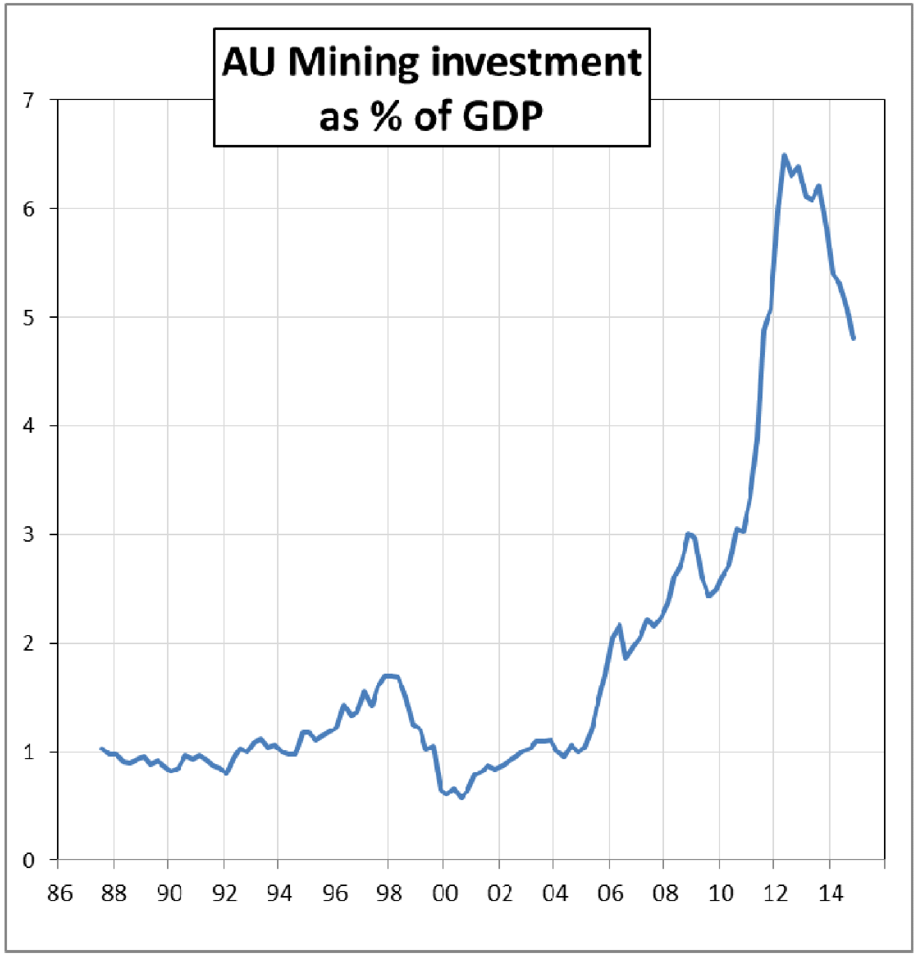
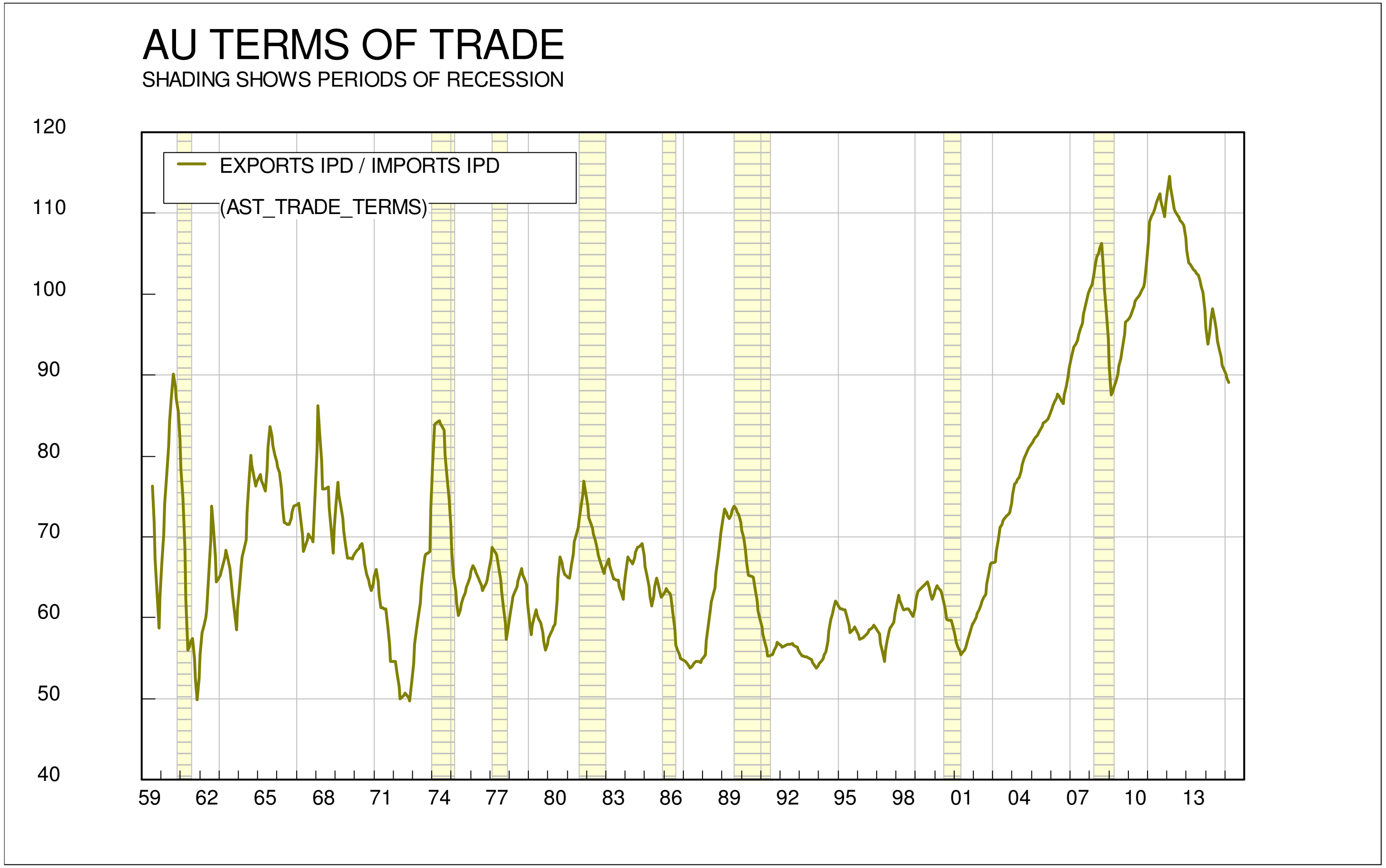
Mining investment to keep on falling



Terms of trade negative



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What is “the market”?

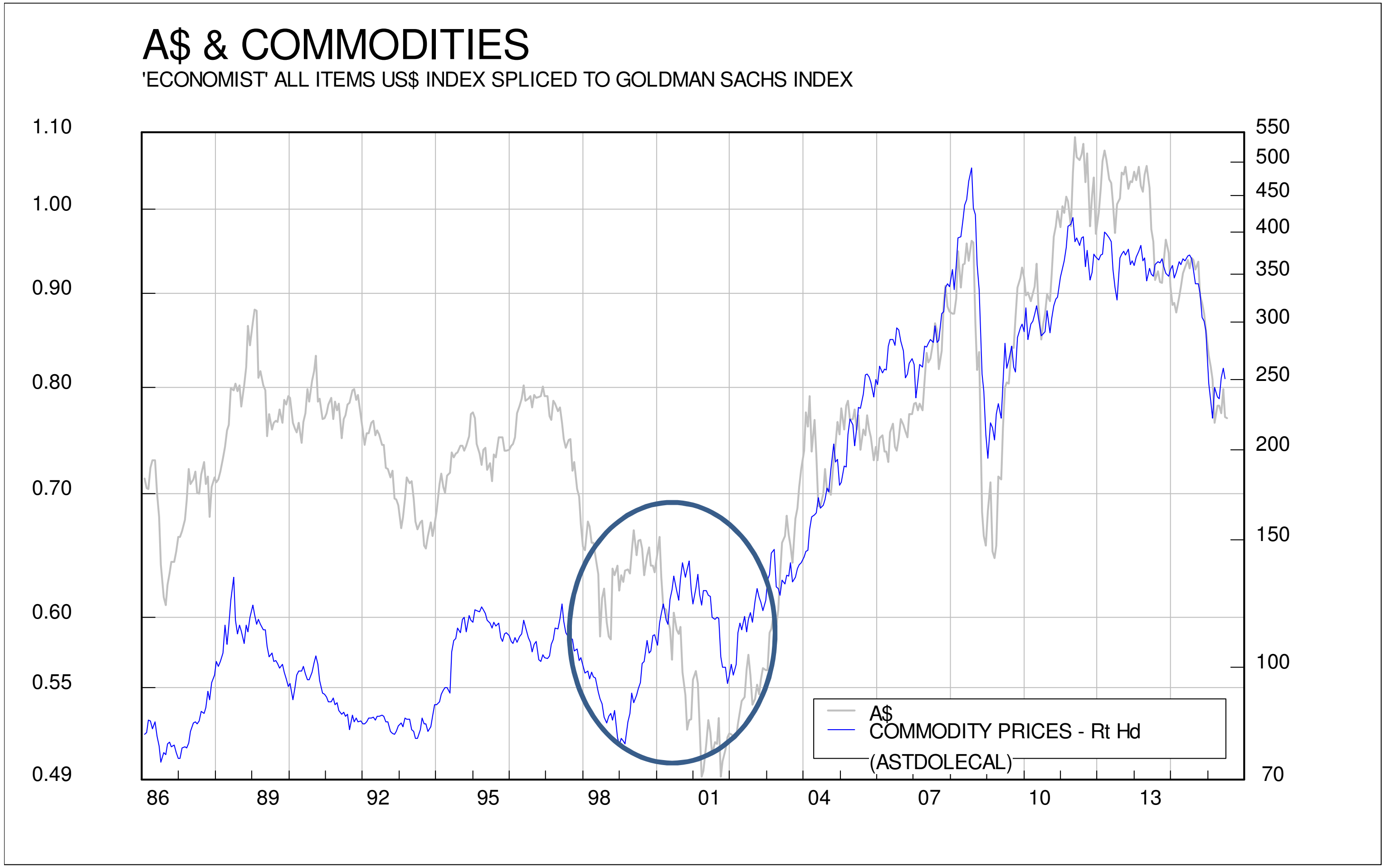
- Banks 25.8%
- Property Trusts 5.3%
- Utilities+ 6.7%

Total = 37.9%

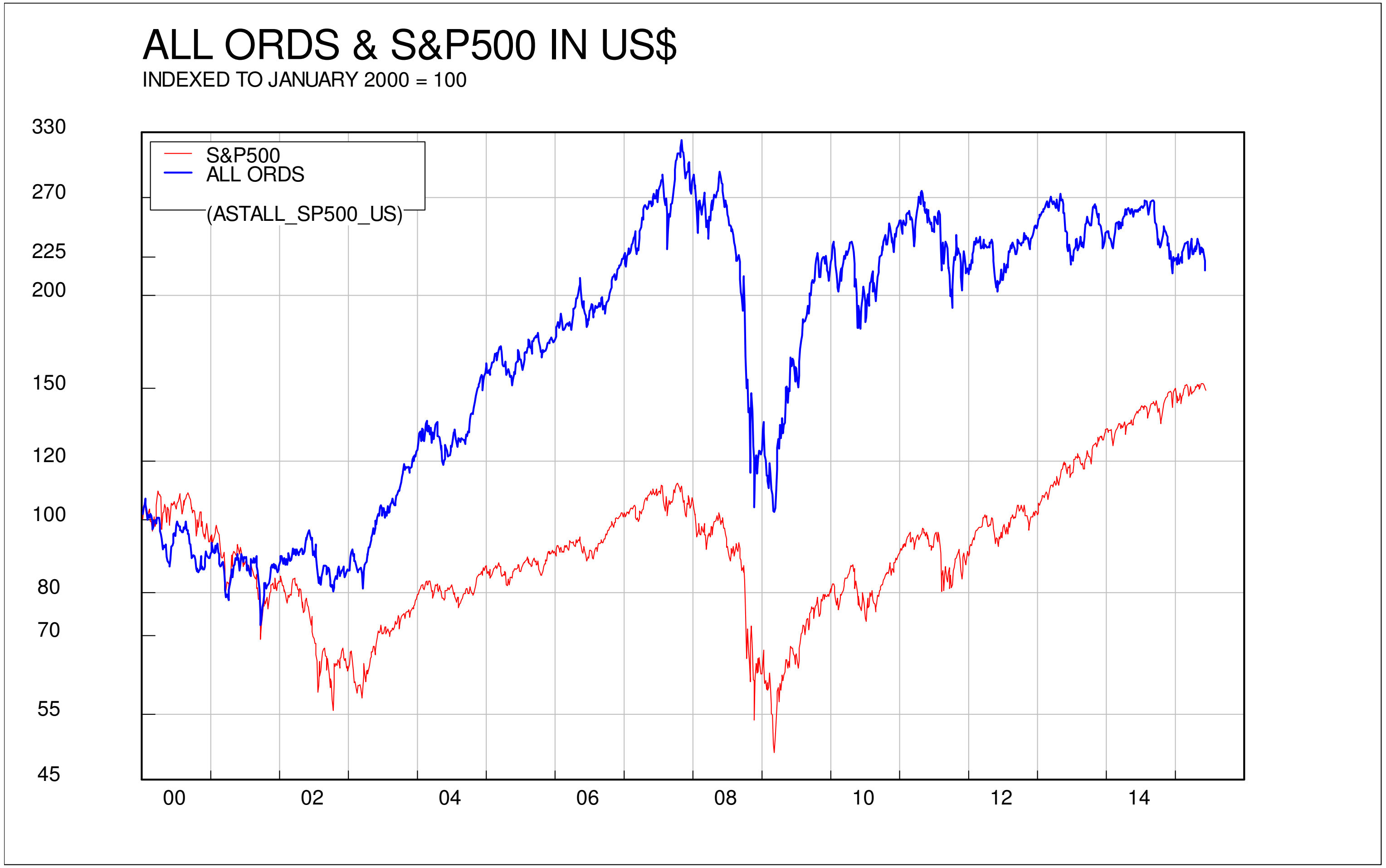
- Resources 10.8%

A$ slide may slow

…but not yet over

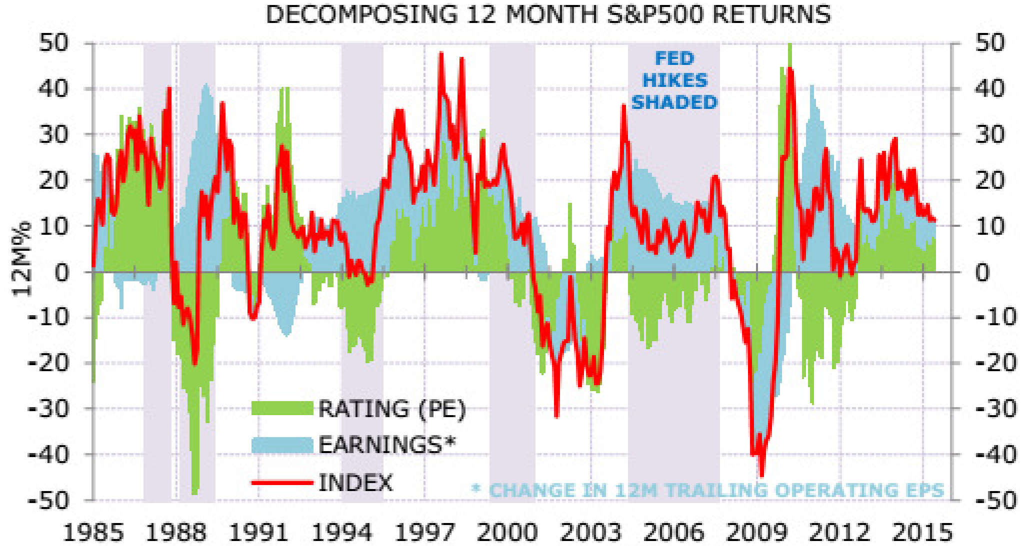


All Ords underperforming



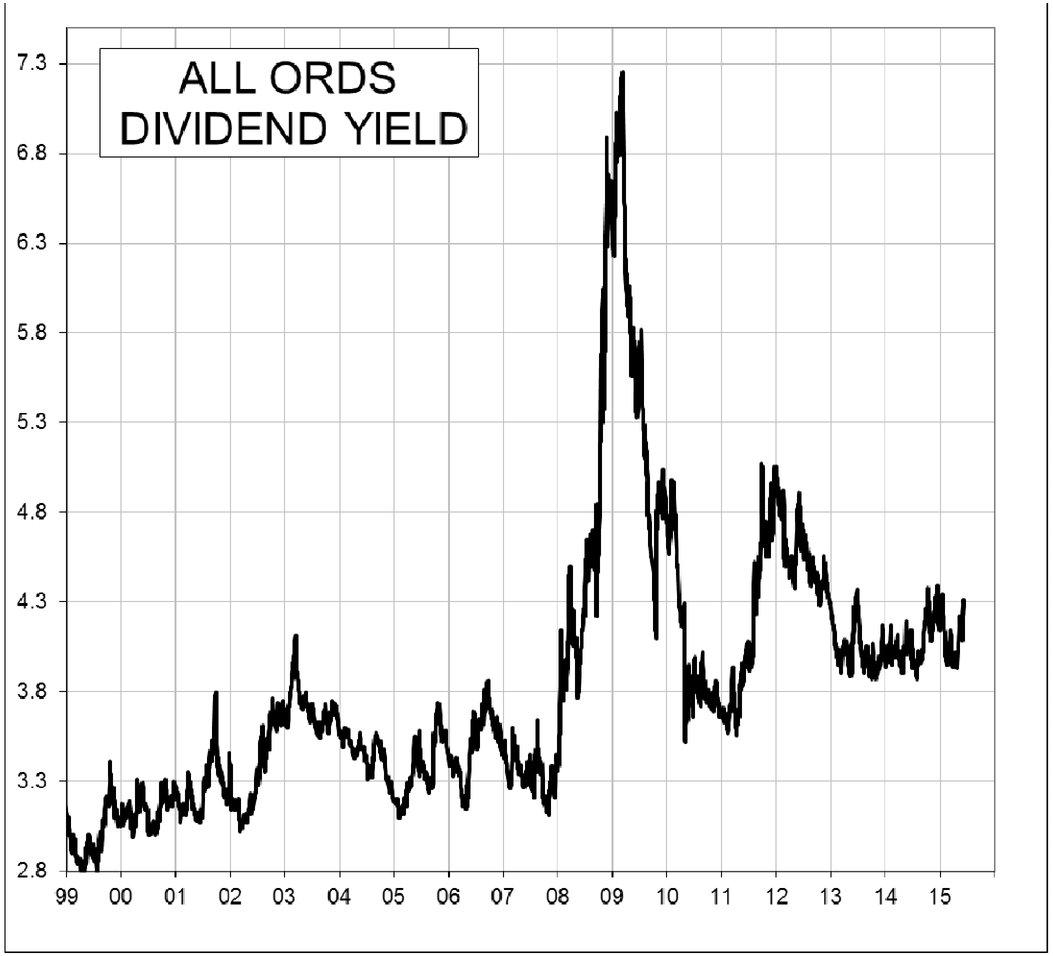
US Market will struggle

PE Typically Falls ~10% In Fed Tightening



Source: IBES/DataStream, NBER; Minack Advisors

Cheap on D/Y


ALL ORDS
DIVIDEND YIELD
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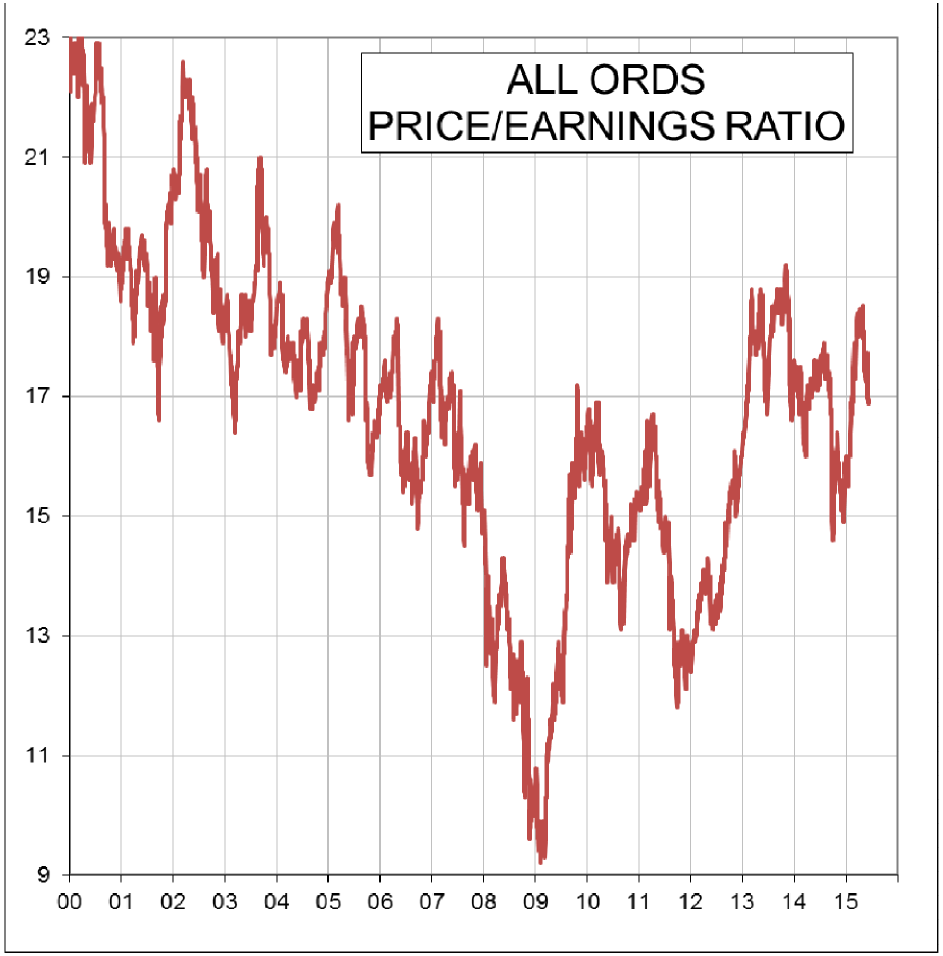
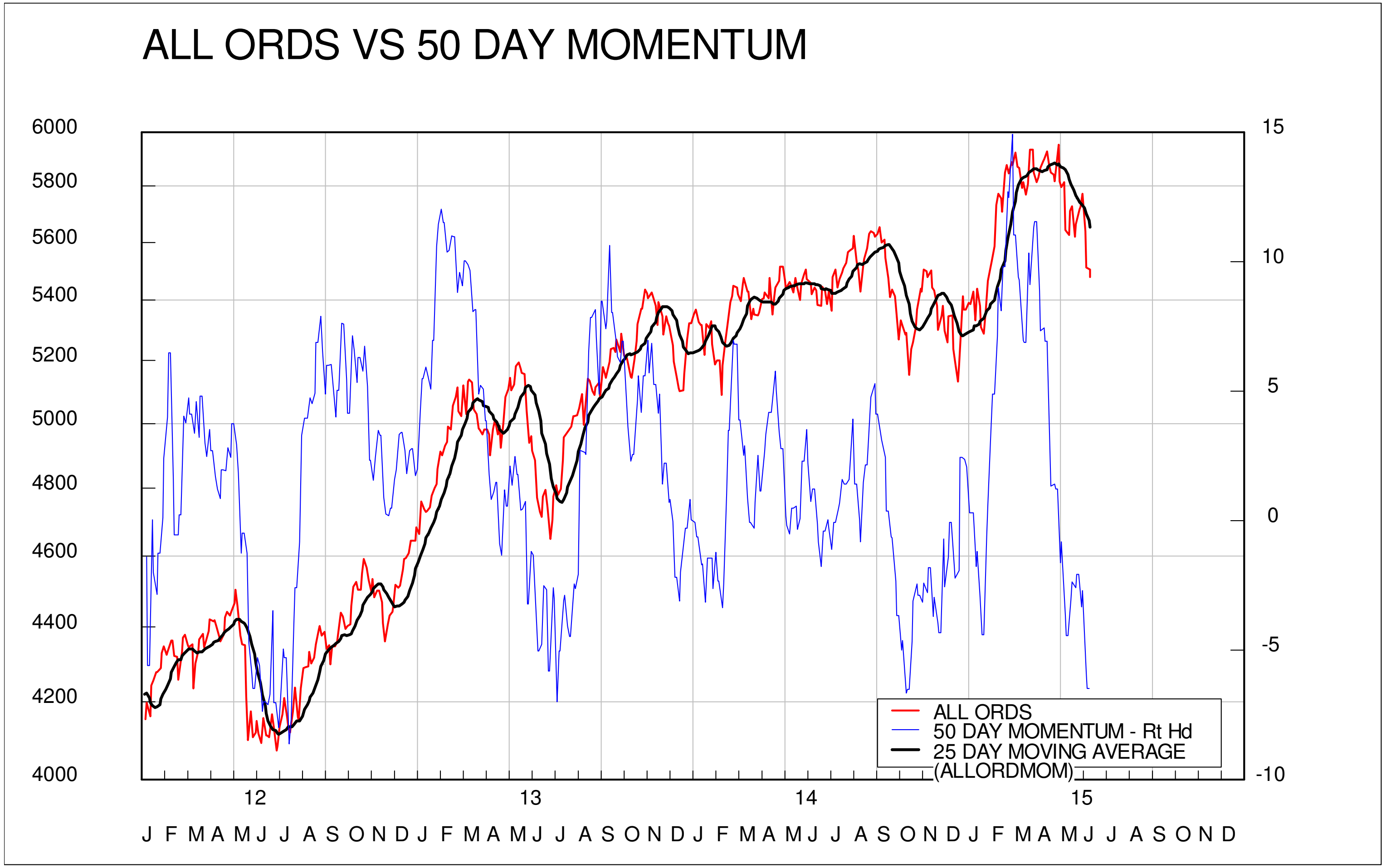
Neutral on PE



Our market oversold



Conclusions

- World growth re-accelerating
- Australia long grinding cycle
- Underweight yield plays for now
- Neutral resources
- Long currency plays/overseas earnings
- Small caps?