Monthly

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Economic & Market Commentary

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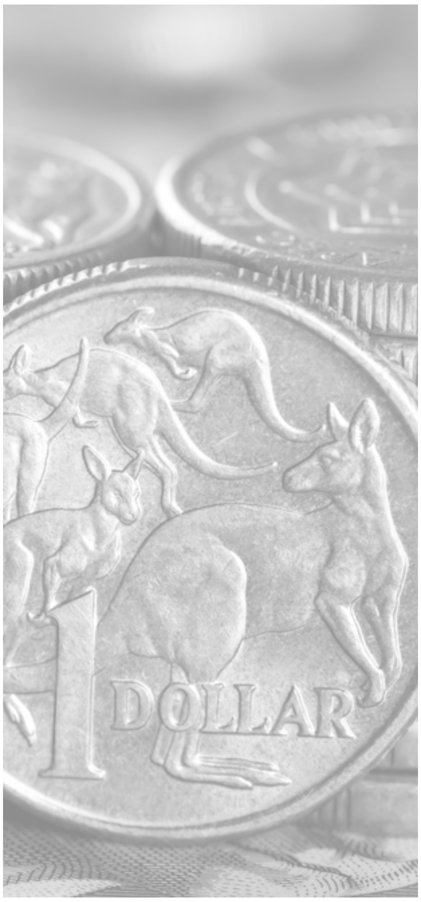

The global economy is forecast by the International Monetary Fund (IMF) to grow a little more strongly this year (3.4%) than in 2016 (3.1%) (IMF report, January 2017). However, it is the developing world (around 40% of world GDP) that continues to be the driving force behind global growth.

The developing world as a whole is forecast to grow by a solid 4.5% this year (up from 4.1% in 2016), while most of the major advanced economies continue to lag in growth terms and, taken together, are forecast to grow by only 1.9% this year, although up from 1.6% in 2016.

Amongst the advanced economies, the US is forecast to grow by 2.3% in 2017, the euro zone by 1.6% and Japan by only 0.8%. This persistently low rate of growth across the developed world reflects underlying problems in most advanced economies, notably a low propensity to invest and historically low rates of productivity growth.

Annual productivity growth in the US is currently below 1%, the lowest it has been in the post-war period, while it is, if anything, even lower across much of Europe and in Japan.

Boosting investment and productivity growth is not going to be easily achieved and could require considerable incentives, including tax cuts (especially for companies), greater de-regulation (particularly of labour markets, including through reductions in union power), reduced government expenditure and, in some cases, lower currencies.

A number of economies have been moving down this path but more needs to be done. As Maurice Obstfeld, Chief Economist of the IMF, put it on 4 October, ‘the policy response so far has been unbalanced in relying excessively on central banks’.

Nevertheless, central bank efforts to keep interest rates historically low have been helpful, as have so-called ‘quantitative easing’ (‘QE’) programs and in general terms monetary policy is going to have to remain broadly expansionary in most jurisdictions.

The Australian economy experienced a contraction for the first time in 5 years during the September quarter.

Private investment declined for the seventh quarter in a row but prices for major commodity export items rose, pushing up the terms of trade.

In broad terms, the country’s international competitiveness has been eroded in recent years by a move back towards an inefficient, union-dominated labour market in some sectors, relatively high corporate tax rates and over-regulation that has pushed up costs (notably for electricity), while a stubbornly high currency may require further reductions in official interest rates.

Major share markets have been on a broadly upwards trend since the UK voted on 23 June to leave the European Union, with a decline in October followed by a surge in November after the US Presidential election.

Market movements so far this year (up to 24 February) included rises of 6% for the US (S&P500), 3% for Germany and 5% for China, while the UK, Japan and Australia each rose by around 1%.

Most share markets still appear fairly valued compared with sectors such as bonds and cash.

Major global government bond markets saw yields (interest rates) trend downwards from late 2015 (soon after the US central bank began to raise interest rates) until July, taking yields close to historic lows.

Bond yields moved sharply higher after the US election but then moved sideways.

Overall, most bond markets still appear expensive.

Fiducian’s diversified funds are currently somewhat above benchmark for domestic and international shares and around benchmark for listed property.

Exposure to fixed interest sectors is underweight, while cash weightings remain above benchmark.

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