Economic & Market Commentary

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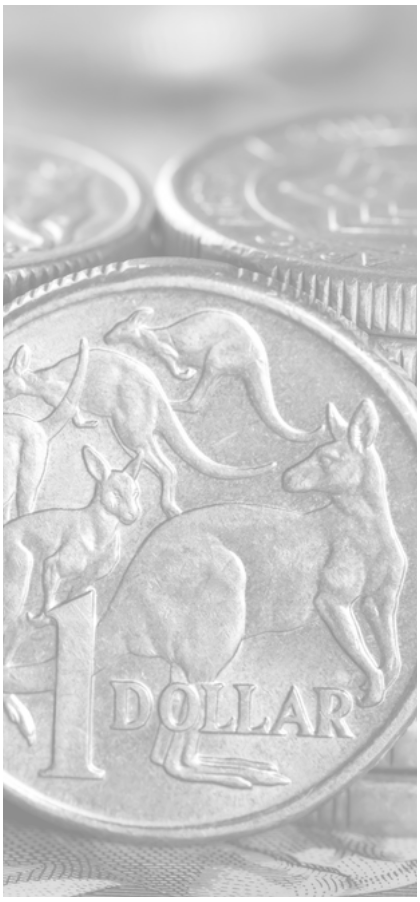
Conrad Burge
Investment Manager

For more information contact:
Your Financial Planner



The global economy is forecast to slowly improve this year and into 2018.

According to the International Monetary Fund (IMF) in its April World Economic Outlook report, global growth is expected to be 3.5% in 2017 and 3.6% in 2018, up from only 3.1% in 2016.

This moderate acceleration is expected to be larger for the developing world than for the advanced economies.

While the developing world as a whole is forecast to lift from 4.1% in 2016 to 4.5% this year and to 4.8% next year, the developed world is forecast to grow by only 2.0% this year and 2.0% in 2018, up from 1.7% in 2016.

The developed world continues to experience persistently low rates of growth, reflecting underlying structural problems, most notably a low propensity to invest and historically low rates of productivity growth.

As Janet Yellen, Chair of the US central bank (the ‘Fed’) recently explained, ‘labor productivity – that is, the output of goods and services per hour of work – has increased by only about 0.5% a year, on average, over the past six years. That contrasts with the previous 30 years when productivity grew a bit more than 2% a year.

‘This matters enormously because Americans’ standard of living depends on productivity growth’ (18 January 2017)’.

She added that ‘this implies that the economy’s usual rate of output growth … will be significantly slower than the post-World War II average’.

This applies also to most of the rest of the developed world, as productivity growth has, if anything, been even weaker across most of Europe and in Japan in recent years.

While Yellen also claimed that ‘economists do not fully understand the causes of the productivity slowdown’, others have pointed the finger at such phenomena as the rise of welfare spending by governments to unsustainably high levels, as well as over-regulation of business, punitive levels of taxation and even a decline in fertility rates over recent decades and a consequent ageing of populations.

The Australian economy rebounded in the December quarter, growing by 1.1% for the quarter, after actually contracting by 0.5% in the previous quarter.

In broad terms, the country’s international competitiveness has been eroded in recent years by a union-dominated labour market in key sectors, high corporate tax rates and over-regulation that has pushed up costs (including for electricity).

As the NAB Business Survey for March notes, ‘the longer term outlook is not compelling, particularly as major growth drivers (LNG exports, commodity prices and housing construction) begin to fade’.

Major share markets mostly moved little in net terms over the first 10 months of 2016 but then rebounded strongly following the US Presidential election.

Market movements so far this year (up to 30 April) included rises of 7% for the broad US market (S&P500), 12% for the technology-laden Nasdaq index, 8% for Germany, 1% for the UK and 2% for China, while Japan barely moved and Australia rose by around 5%.

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 have slipped back in recent months.

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.