Insight

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Economic & Market Commentary

– Month Ending June 2015

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The global economy slows

The global economy probably slowed in the first quarter of this year but is likely to have done better in the June quarter and could pick up some more momentum over the second half of the year and through 2016.

This improving outlook to a considerable extent reflects the cumulative effect of large monetary stimulus applied in recent times throughout the developed world and still being applied in Japan and much of Europe.

Very low interest rates are the norm for most of the developed world, while 'quantitative easing' remains in place in Europe and Japan.

Even China this year has been increasing its stimulus efforts, with interest rates being cut and banks being encouraged to lift lending growth.

As the International Monetary Fund makes clear though (April report), the global economy is still being affected by 'deep forces'.

These include 'legacies of both the financial and the Euro area crises'.

These legacies are a weak banking system (particularly in Europe) and high levels of debt (both public and private sector debt in most of the major advanced economies). These legacies have been weighing on spending, particularly by households but also by governments and, in consequence, by businesses as well.

This lack of spending growth has made recovery difficult.

Perhaps the most significant current example of 'a legacy of the Euro area crisis' that continues to unfold is the developing economic crisis in Greece.

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While it is not yet clear whether Greece will eventually withdraw from the Euro and return to its own currency, it is evident that loans made to Greece could soon need to be 'restructured' before the country can begin to emerge from the deep recession that has plagued it for 8 years and that has seen its economy contract by 24% in real terms and unemployment rise to 25%.

In the meantime, with Greece teetering on the brink of deciding to leave the Euro, international share markets have been volatile.

The **Australian economy** appears to have picked up some momentum this year, as shown by its growth of 0.9% for the March quarter alone.

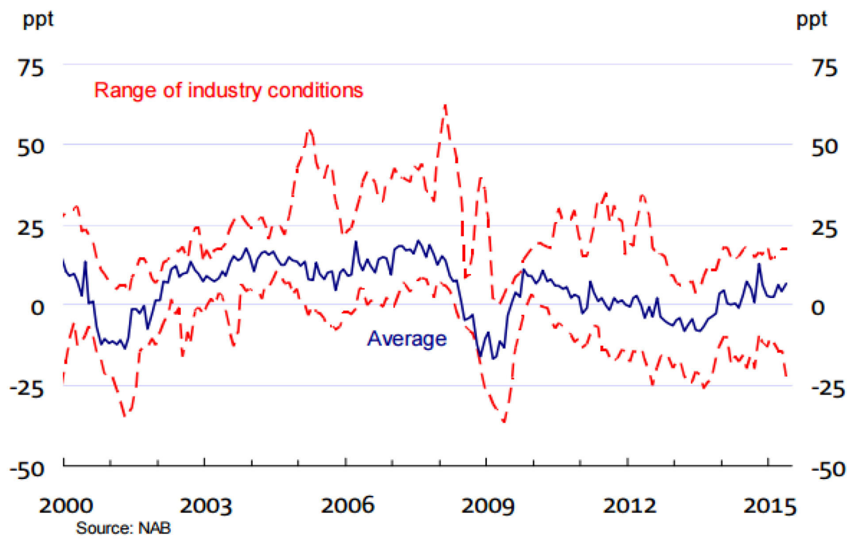
As the NAB Business Survey for May noted too, 'the recent Federal Budget and interest rate cut (to 2.0% on 6 May) appear to have had a positive impact on business confidence'.

Nevertheless, the Reserve Bank could be required to implement further interest rate cuts over coming months if unemployment rises further and if a slowdown in China persists, although recent moves to re-energise the Chinese economy could prove effective in returning China to stronger growth in time.

Range of conditions remains wide, weak mining vs strong services

Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



Source: NAB

Major share markets this year have seen divergence in performance, although most markets slipped back in June due to growing uncertainties about the potential effects of Greece defaulting on some of its loans and possibly leaving the Euro.

From 1 January to 30 June, the broad US index (S&P500) was up only 0.2%, while the UK market fell by 1%.

Germany and Japan were up by 12% and 16% respectively, while China was in bull mode, up 32% and the Australian market was up only 1%.

Most share markets still appear to be fairly priced, at least compared with other sectors, such as bonds.

Major global government bond markets have seen yields (interest rates) rise in recent months, reflecting strengthening economic prospects globally.

Overall though, bond sectors continue to appear to be relatively expensive.

Fiducian's diversified funds are currently around benchmark for domestic shares and listed property but remain overweight for international shares.

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