Economic & Market Commentary

– Month Ending May 2016

Monthly

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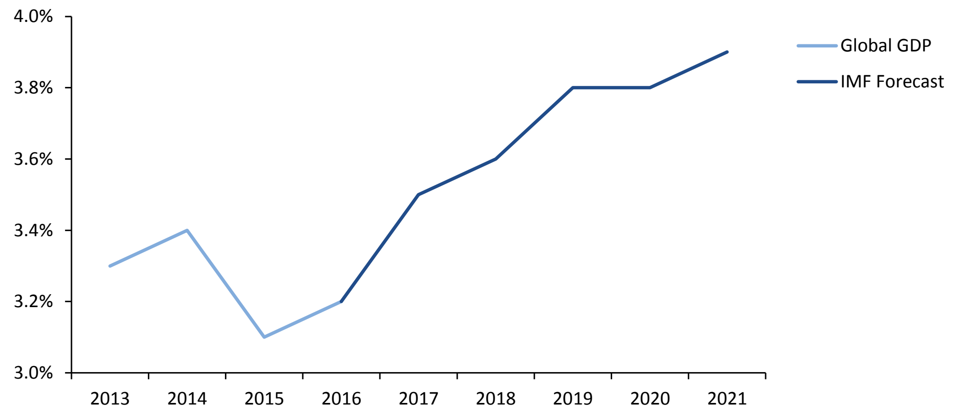
The global economy is forecast to grow by 3.2% this year in real terms (adjusted for inflation), according to the International Monetary Fund (IMF).

This is a little less than the IMF was forecasting as recently as January this year but is around the same rate of growth as last year (3.1%).

Global GDP – Actual v Forecast (April 2016)



Source: IMF

The IMF in its latest Economic Outlook report (April), puts this weaker outlook down to a 'cloudier picture of economic fundamentals', including 'some loss of growth momentum in the advanced economies'.

On the other hand, Christine Lagarde, Managing Director of the IMF, notes that 'the good news is that the recovery continues, we have growth and we are not in a crisis', although 'the recovery remains too slow, too fragile and risks to its durability are increasing' (5 April)

Furthermore, Lagarde also notes that growth is being held down in different countries for different reasons, with the US affected by 'the strong dollar', the Euro area by 'low investment, high unemployment and weak balance sheets' (meaning high corporate debt in particular); while in Japan 'both growth and inflation are weaker than expected'.

Lagarde also points out that for developing economies, 'the story is broadly similar', with the exception of India, which 'remains a bright spot, with strong growth and rising real incomes'.

Another positive development is that in recent weeks 'economic sentiment has improved, driven by further easing from the European Central Bank, an apparent shift to a slower pace of rate increases by the US Fed, a relative firming of oil prices, and lower capital outflows from China'.

To assist growth in the developed world, the IMF continues to recommend the same regimen that it has been pushing for some time: 'structural reforms, continued monetary policy accommodation and fiscal support'.

Such 'aggressive policy actions...could also help boost financial market confidence and imply a recovery in equity prices'.

The **Australian economy** continues to be affected by an ongoing decline in its terms of trade (down by 12% in 2015), due to declining commodity prices.

As a result, national income measures, which reflect 'the real purchasing power of income generated by domestic production' (Australian Bureau of Statistics), have been contracting over the past two years, pointing to weakness in the economy.

Following the Reserve Bank's interest rate cut on 4 May, however, the $A has also declined, improving Australia's international competitiveness.

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Major share markets mostly started the year on a downtrend, partly in response to fears that the US ‘Fed’ could raise interest rates too soon and too quickly, although most markets subsequently recovered most of this ground.

From 1 January to 25 May, market movements included rises of 2% for the US (S&P500) and Australia, a flat market for the UK and declines of 5% for Germany, 12% for Japan and 21% for China.

Valuations though have improved and most share markets currently appear to be fairly priced, especially compared with other sectors such as bonds.

Major global government bond markets have been volatile since the start of the year.

Yields (interest rates) at first dropped sharply on perceptions that the ‘Fed’ could be about to tighten policy too much but subsequently rose as investors gained confidence about the economic outlook.

Overall, most bond markets continue to look expensive.

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

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