



THE MACRO INVESTMENT OUTLOOK – HAS AUSTRALIA RUN OUT OF LUCK?

DR SHANE OLIVER,
HEAD OF INVESTMENT STRATEGY AND CHIEF ECONOMIST

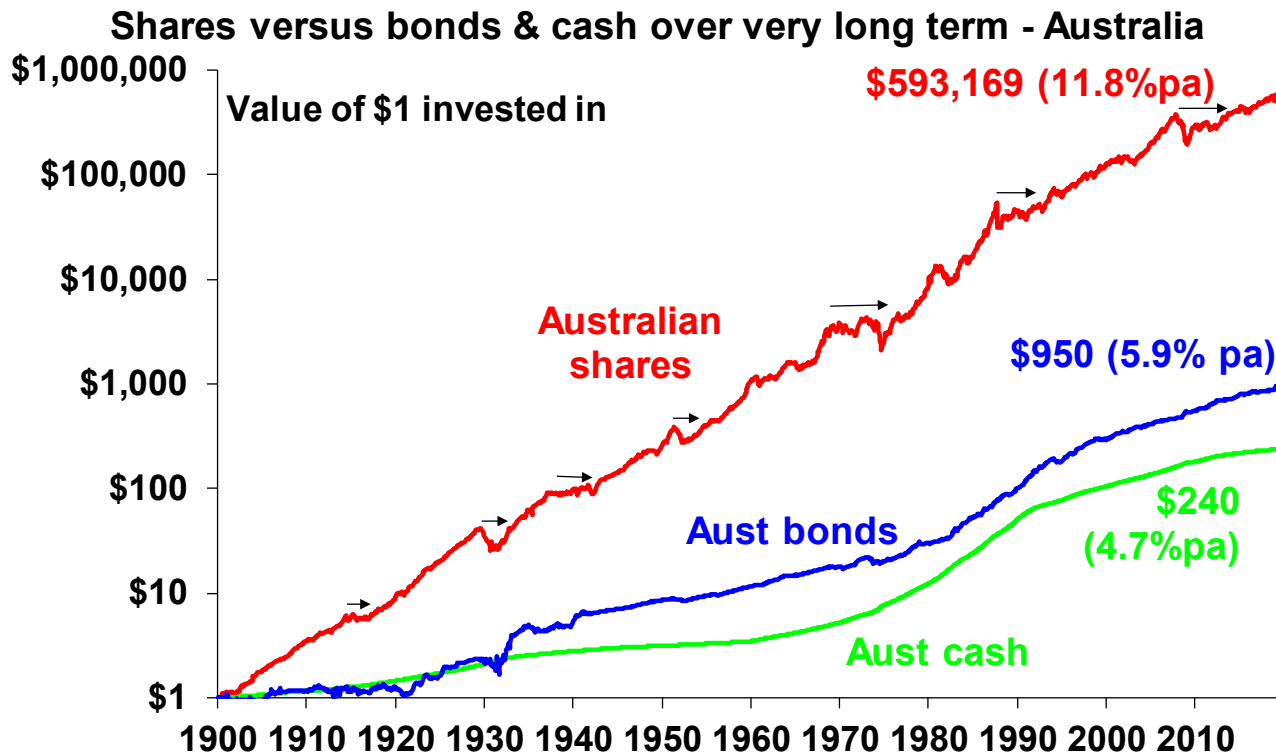
OCTOBER 2019



NINE RULES FOR INVESTORS TO KEEP IN MIND

- > Make the most the power of compound interest
- > Don't get thrown off by the cycle
- > Invest for the long term
- > Diversify
- > Turn down the noise
- > Buy low and sell high – selling after a 20% fall just locks in a loss
- > Beware the crowd at extremes – shares bottom at the point of maximum bearishness
- > Focus on investments you understand and that provide decent, sustainable cash flows
- > Seek advice

THE POWER OF COMPOUND INTEREST



Source: Global Financial Data, AMP Capital

TURN DOWN THE NOISE

This is big news...

Honolulu Star-Bulletin 1st EXTRA
HONOLULU, TERRITORY OF HAWAII, U. S. A., SUNDAY, DECEMBER 7, 1941
* PRICE FIVE CENTS

HAWAII BOMBED BY JAPANESE PLANES

SIX KNOWN DEAD, 21 INJURED, AT EMERGENCY HOSPITAL
Attack Made On Island's Defense Areas

Hundreds See City Bombed

Names of Dead and Injured

Schools Closed

Editorial: HAWAII AIDES THE CRISIS

...this is not

Markets

ASX loses \$20.5b in horror session

Equities

William McMahon

Australian shares fell to their second worst session this year, as global concerns over economic growth and the potential of a US recession weighed on local investor sentiment, wiping \$20.5 billion from the ASX boards.

The S&P/ASX 200 Index fell 69 points, or 1.1 per cent, to 6183.5 while the broader All Ordinaries slid 72.2 points, or 1.2 per cent, to 6208.7.

Fears of a recession sent the yield on the US 10-year Treasury bond below the 3-month yield, causing global shares to plummet.

"Realistically, the European data has generally been poor for most of the year anyway, so this is itself fuel news. The US data has been middling, but both confirm what everyone already knew - the global economy is slowing down after a 10-year quantitative-easing-induced bull run," said OANDA senior market analyst Jeffrey Halley.

The major cyclical stocks led the retreat on the local sharemarket. ANZ closed 2.3 per cent lower at \$25.92, Westpac slid 1.5 per cent to \$26.12, Commonwealth Bank fell 0.9 per cent to \$70.78 and NAB declined 0.9 per cent to \$24.87.

BHP Group closed 1.3 per cent lower to \$93.13. Rio Tinto slid 1.1 per cent to \$93.13. South32 went down 2.8 per cent to \$3.76 and Fortescue Metals Group slipped 1.2 per cent to \$6.51.

Energy stocks were also weaker. Woodside Petroleum fell 2.8 per cent to \$34.79. Origin Energy slid 4.5 per cent to \$7.22. Santos declined 3.8 per cent to \$6.07. F&I Search dropped 3.1 per cent

Overview

Markets roundup Monday

S&P/ASX 200 Index (points)



Chart of the day

US crude oil production change (toY)



Sector performance (%)



Best and worst stocks (%)



Stock watch

St Barbara Mining
Credit Suisse upgraded its rating on St Barbara Mining from 'underperform' to 'neutral' in the wake of an investor sell-off that saw its value cut by a third. The gold miner announced last week that its leading-edge underground ore-pumping technology concept had been cannot following a disappointing feasibility study. "The combination of asset concentration and net present value premiums to valuations inevitably leaves clear air for steep share price changes when expectations change," said analyst Michael Sifirski. "Gwalla's maturity is bubbling technology limitations... no doubt increasing management's resolve to acquire a new operation."

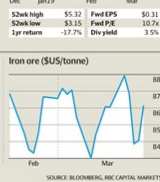
Norwegian krone/\$US (\$)



St Barbara Mining share price, daily (\$)

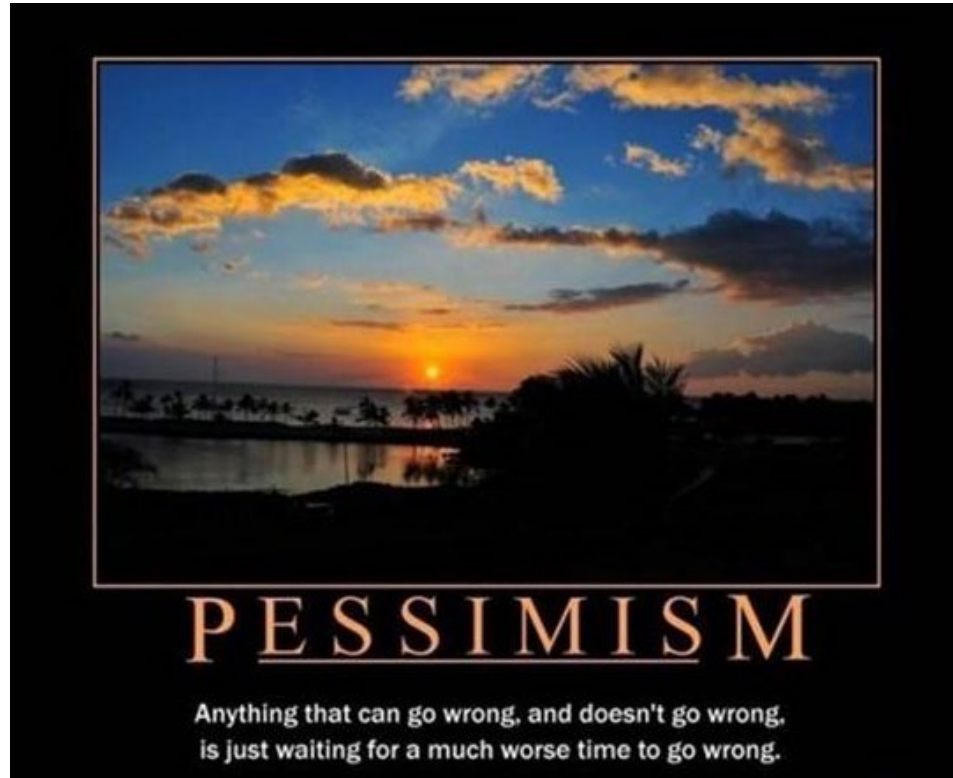


Iron ore (\$/tonne)



What moved the market

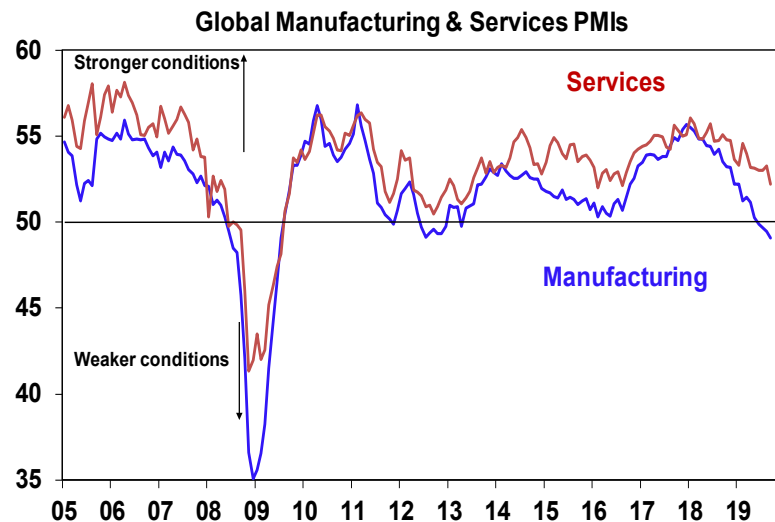
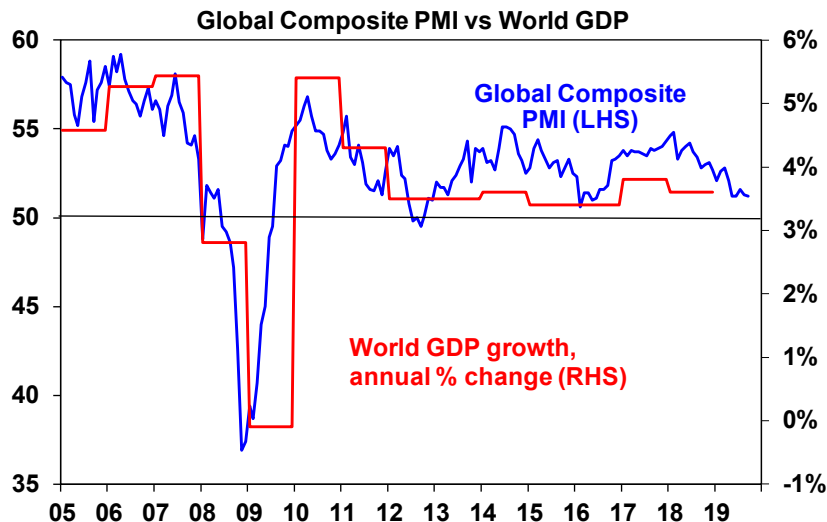
MAINTAIN A SENSE OF OPTIMISM



ECONOMIC AND INVESTMENT OUTLOOK

- > Global growth slowing but still okay – 2018: 3.6%, 2019: 3.2%
- > Rising risk of global recession from US trade wars - but it should be avoided
- > 2019 GDP growth: China 6%, US 2%, Eurozone 0.7%, Japan 0.6%, Australia 1.9%
- > Inflation is below target in most countries – hence central bank easing.
- > RBA to cut the cash rate to 0.25%, probably quantitative easing next year
- > \$A to weaken further
- > Continuing low returns from bank deposits and bonds
- > Shares vulnerable to a short term pull back – but should provide okay returns over 6-12 months
- > Key risks: trade war, President Trump, Iran tensions, global growth, China, Aust property market

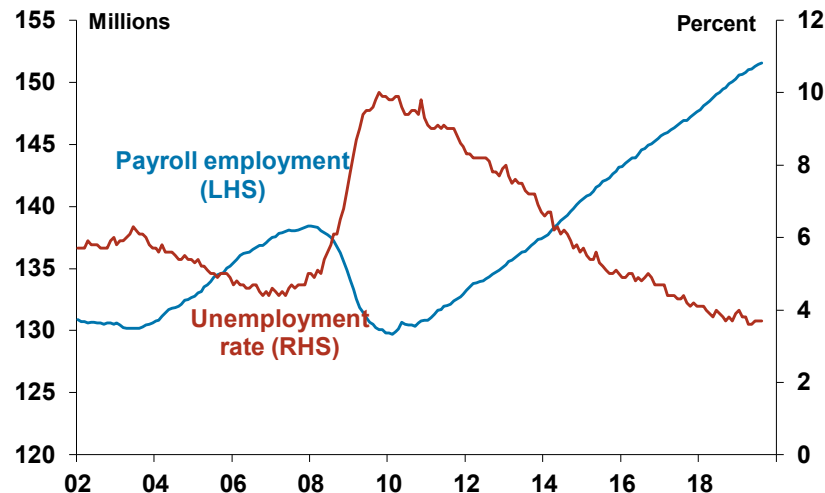
GLOBAL BUSINESS CONDITIONS HAVE SLIPPED – BUT IT STILL LOOKS LIKE A RE-RUN OF 2011-12 & 2015-16



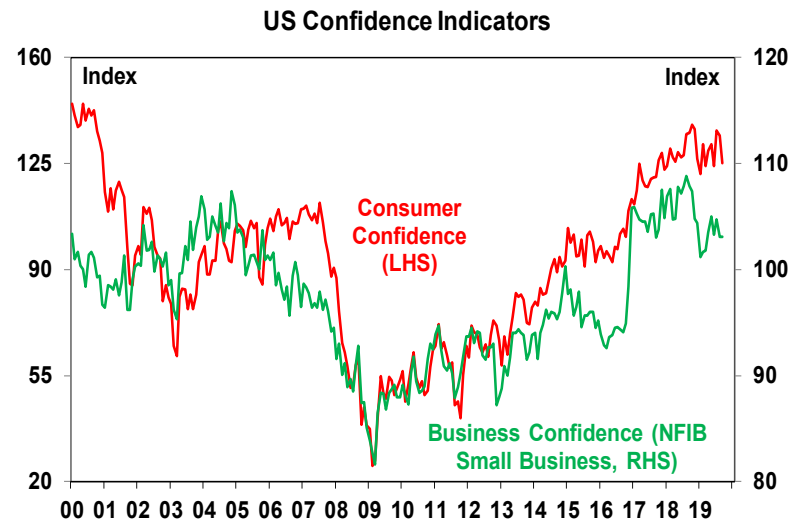
THE US ECONOMY IS STILL SOLID

BUT BUSINESS CONFIDENCE HAS SLIPPED ON THE TRADE THREAT

US employment way above 2008, jobless well down, around full employment

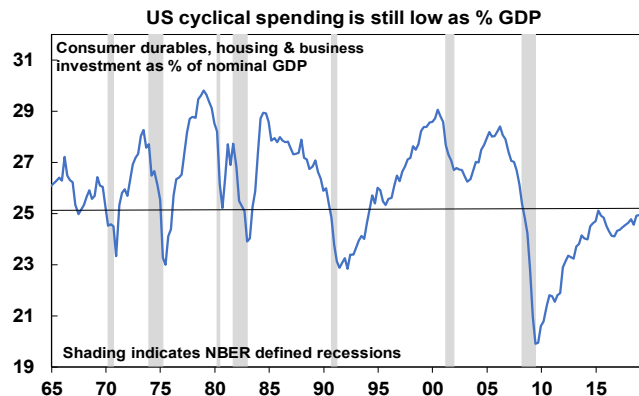
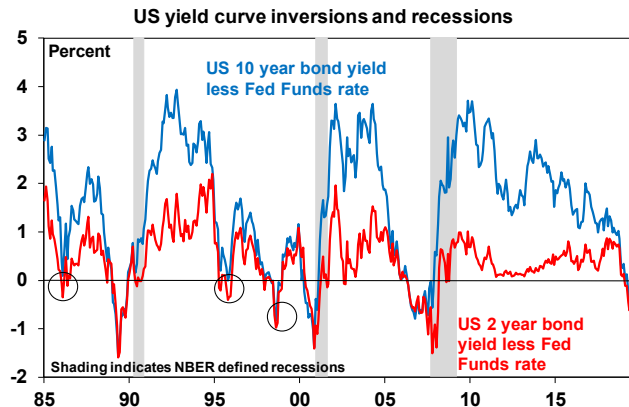


Consumer and business confidence has softened but is still relatively high



US RECESSION INDICATORS ARE MOSTLY OKAY – MAYBE A 2020-21 RISK – WATCH TRADE

	Recession Yes/No
Investment as share GDP	No
Private debt growth	No
US leading indicator	No
Inflation > target	No
Yield curve	Yes
Fed Funds rate v Nom. growth	No



MOST SEARCHED

PLASTIC SURGERY PROCEDURES

BY STATE

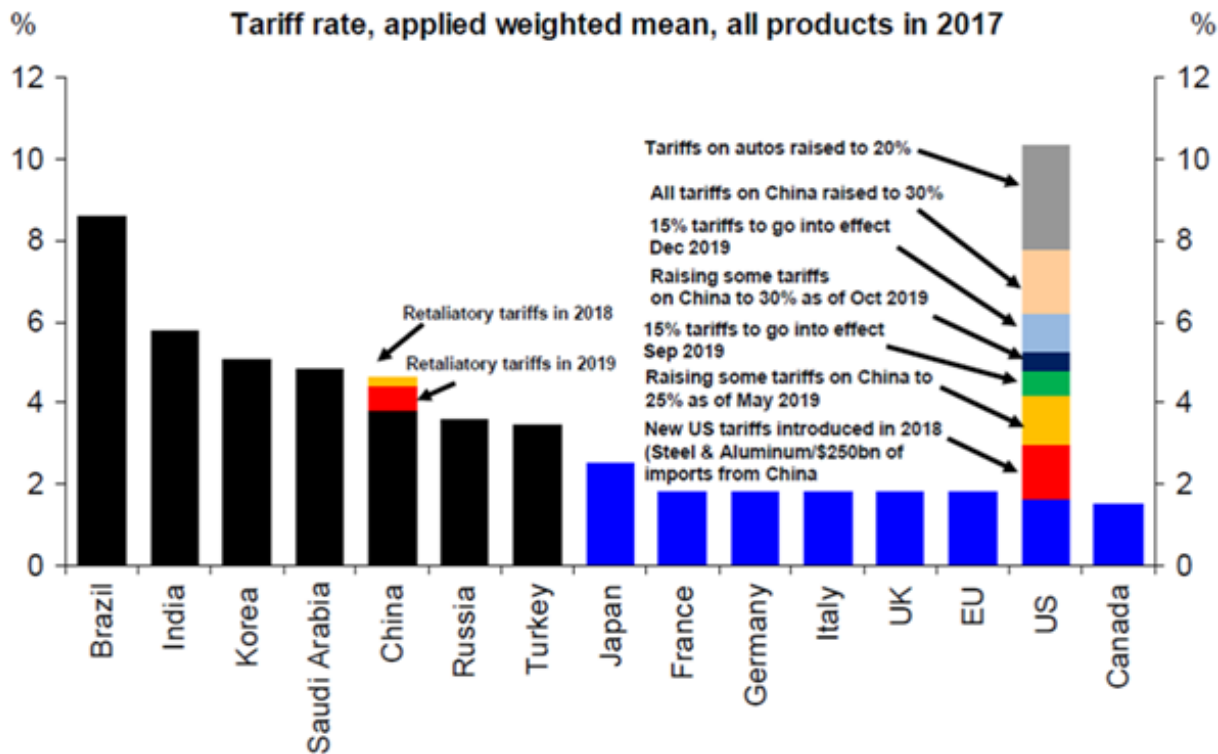
Posted on
18-Jun-2018

*As compared to national search volume in Google



Plastic Surgery Portal
CERTIFIED SURGEONS. PROVEN RESULTS.

THE US TRADE WAR HAS CONTINUED TO RAMP UP



THE COST OF THE “TRADE WAR”

WHO SUPPLIES PARTS TO THE BOEING DREAMLINER



THE BIG RISK TO TRUMP FROM THE TRADE WAR

PRESIDENTS DON'T GET
RE-ELECTED WHEN
THERE ARE RECESSIONS
BEFORE THE ELECTION

IS IT ALWAYS "THE ECONOMY, STUPID"?		
<i>No Recession in 2 Years Before Election</i>		
RECESSION?	President (Year)	REELECTION?
NO	Obama (2012)	YES
NO	Bush43 (2004)	YES
NO	Clinton (1996)	YES
NO	Reagan (1984)	YES
NO	Nixon (1972)	YES
NO	LBJ (1964)	YES
NO	IKE (1956)	YES
NO	Truman (1948)	YES
NO	FDR (1944)	YES
NO	FDR (1940)	YES
NO	FDR (1936)	YES
NO	Wilson (1916)	YES
<i>Recession in 2 Years Before Election</i>		
RECESSION?	President (Year)	REELECTION?
YES	Bush41 (1992)	NO
YES	Carter (1980)	NO
YES	Ford (1976)	NO
YES	Hoover (1932)	NO
YES	Coolidge (1924)	YES
YES	Taft (1912)	NO

Sources: Recessions ([Wikipedia](#)); Observation (Adrian Gray)

Mehlman Castagnetti
Recession & Turnover

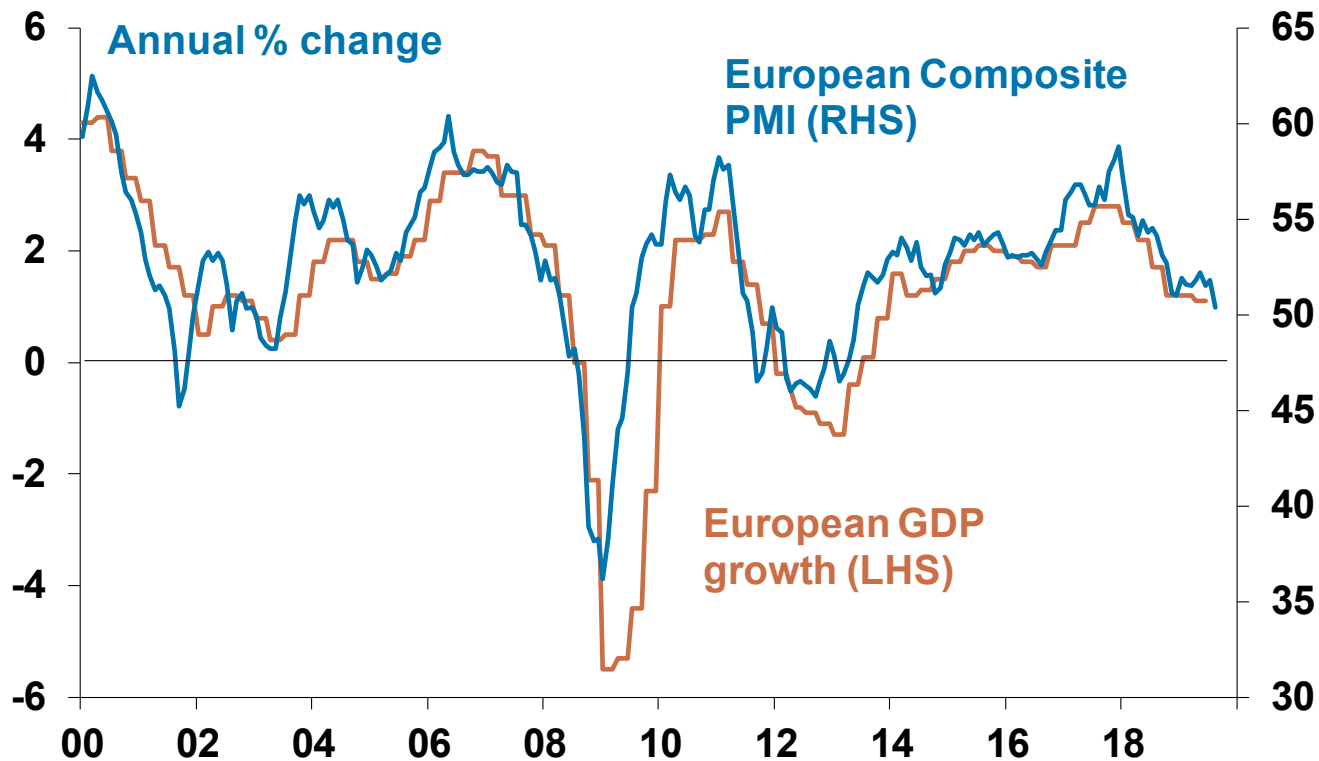
Source: Mehlman Castagnetti Rosen & Thomas; [Read full article](#)

BREAKING NEWS

Mexico has decided to pay for the wall...



EUROZONE BUSINESS CONFIDENCE HAS FALLEN



Source: Bloomberg, AMP Capital

**EUROZONE
BREAK UP
RISK IS
LOW,
BREXIT IS
A
SIDESHOW**

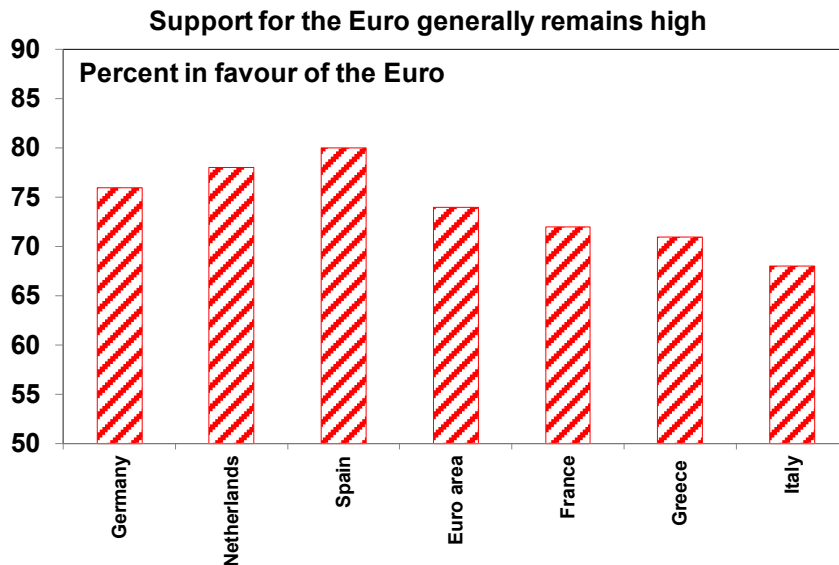


EUROZONE BREAK UP RISK IS LOW, BREXIT IS A SIDESHOW

Key issues and what to watch

- > Support for the Euro remains solid
- > Italy is most at risk given its political instability, but even there a clear majority prefer to stay in the Euro
- > Brexit is not a threat to the survivability of the Euro as the UK is not in the Eurozone. But a no deal Brexit could still knock 0.5% off Eurozone growth
- > 46% of UK exports go the EU but only 6% of EU exports go the UK

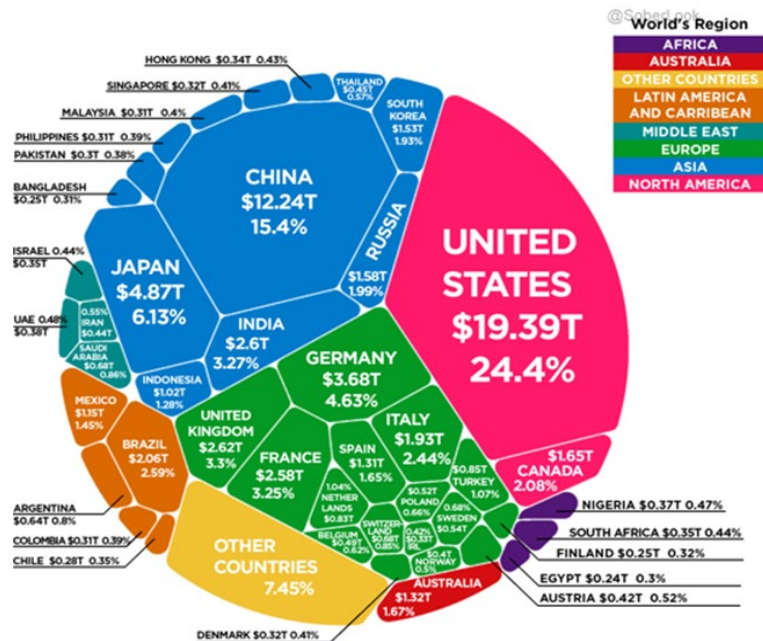
Support for Euro remains strong (albeit less so in Italy)



GLOBAL ECONOMIES IN PERSPECTIVE

Gross Domestic Product (GDP) by Country 2017

by [World Bank](#)
 via [The Daily Chart](#)
 23-Oct-2018



Article and Sources:

<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

howmuch.net

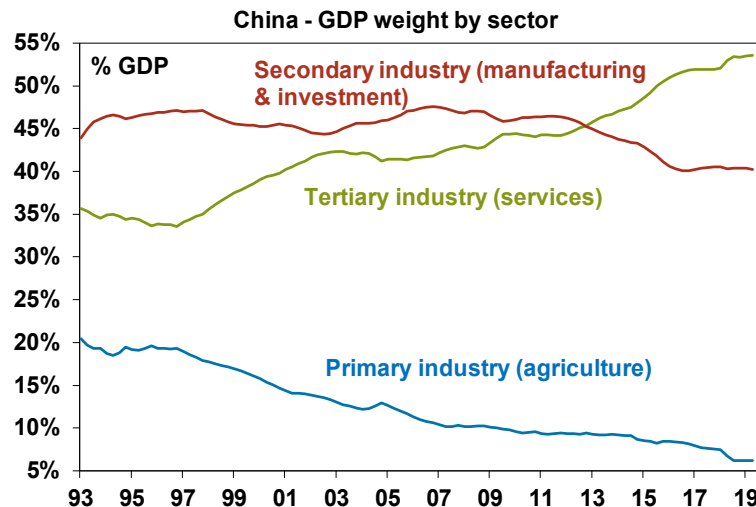
CHINESE GROWTH HAS SLOWED

EXPECT MORE POLICY STIMULUS TO IMPROVE GROWTH

Chinese growth has slowed but not collapsed and it may be stabilising

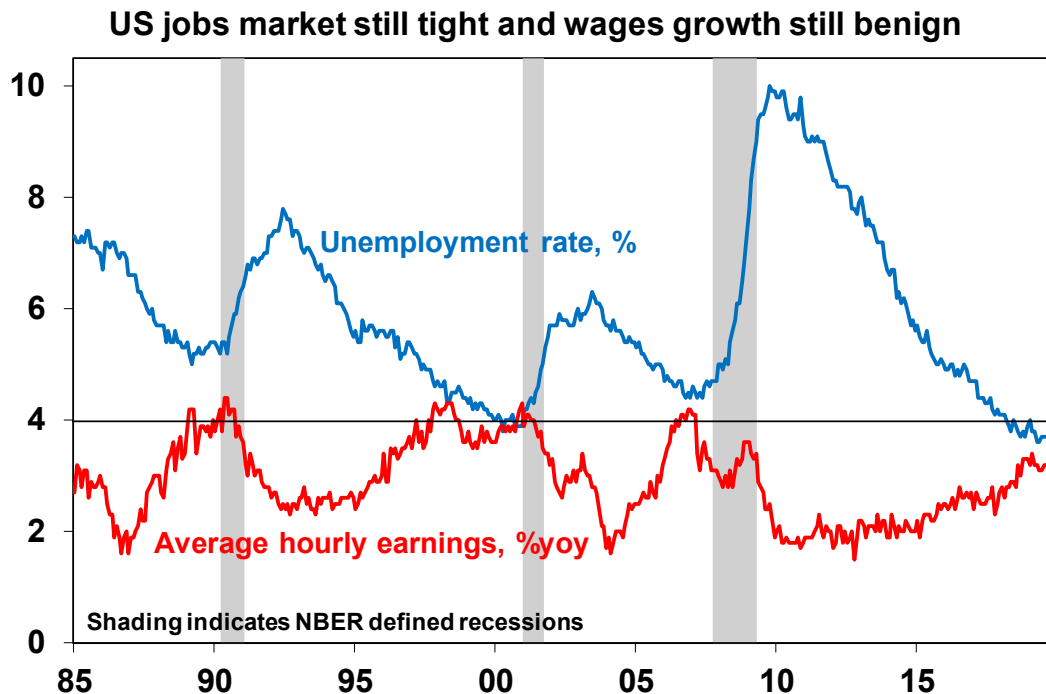


China is in transition from manufacturing & investment to services & consumption

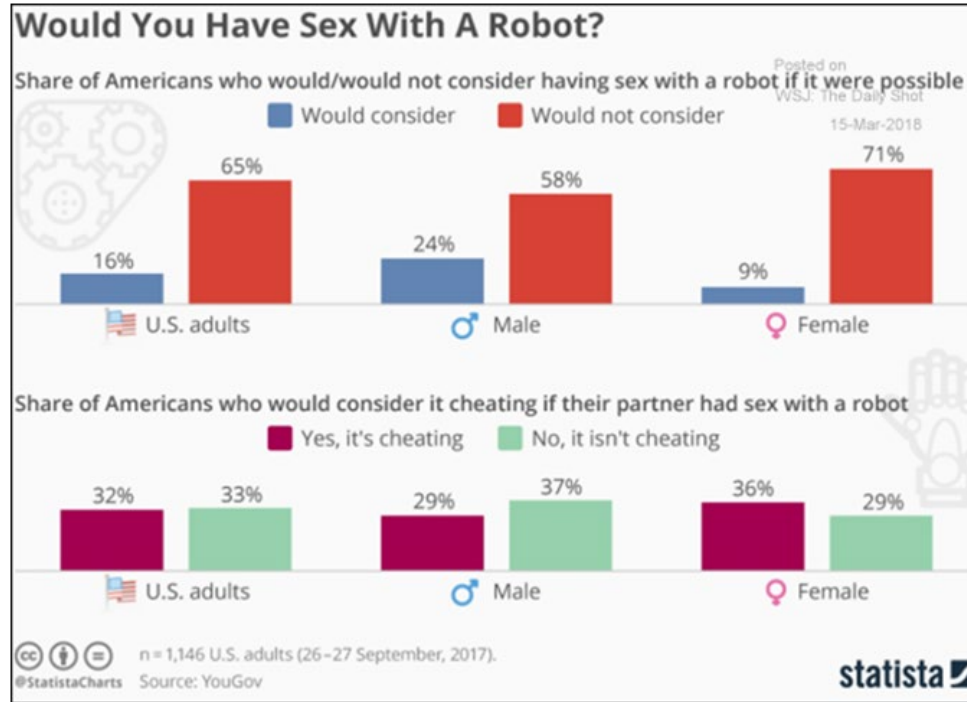


WAGES GROWTH IS STILL SLOW IN THE US

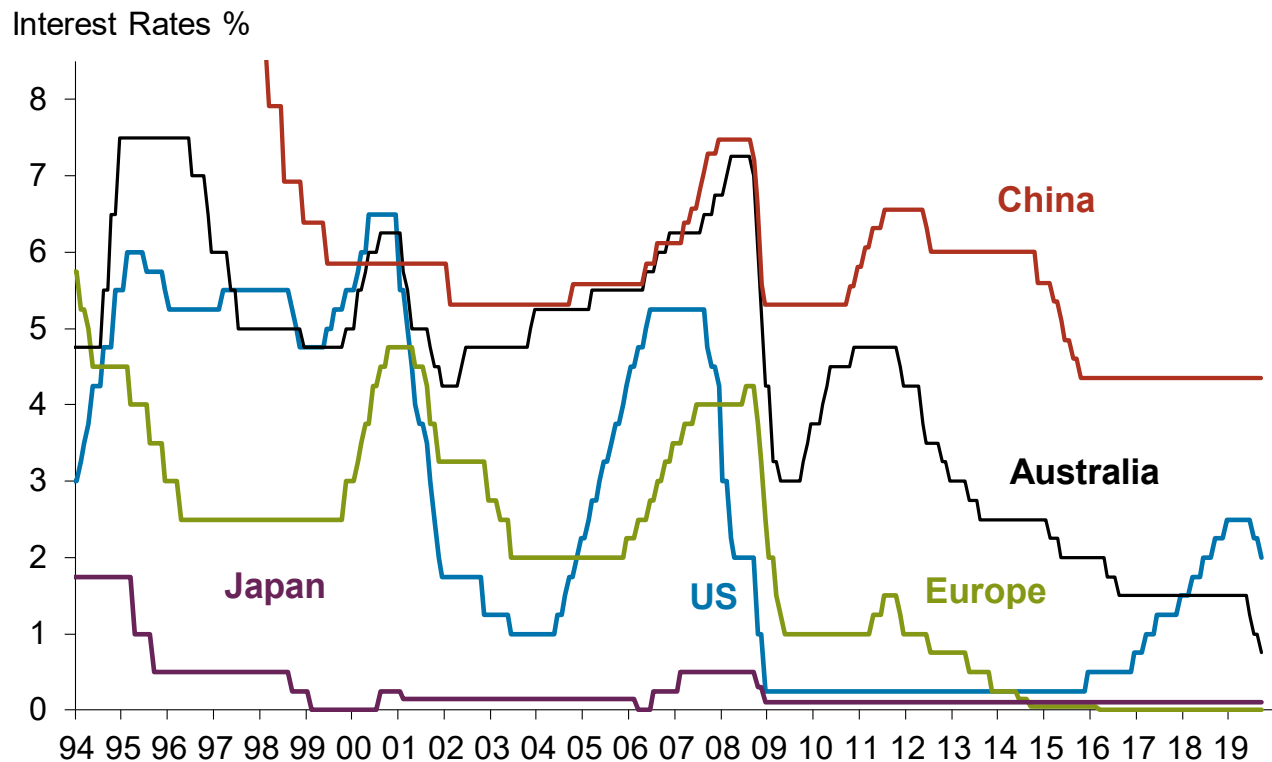
FED TO CUT MORE



THE THREAT TO JOBS FROM AI AND ROBOTS MAY BE EXAGGERATED!



INTEREST RATES TO REMAIN LOW



IS THE LATEST ECONOMIST MAGAZINE COVER THE KISS OF DEATH FOR AUSTRALIA?



Source: ABS, AMP Capital

BEWARE THE CROWD

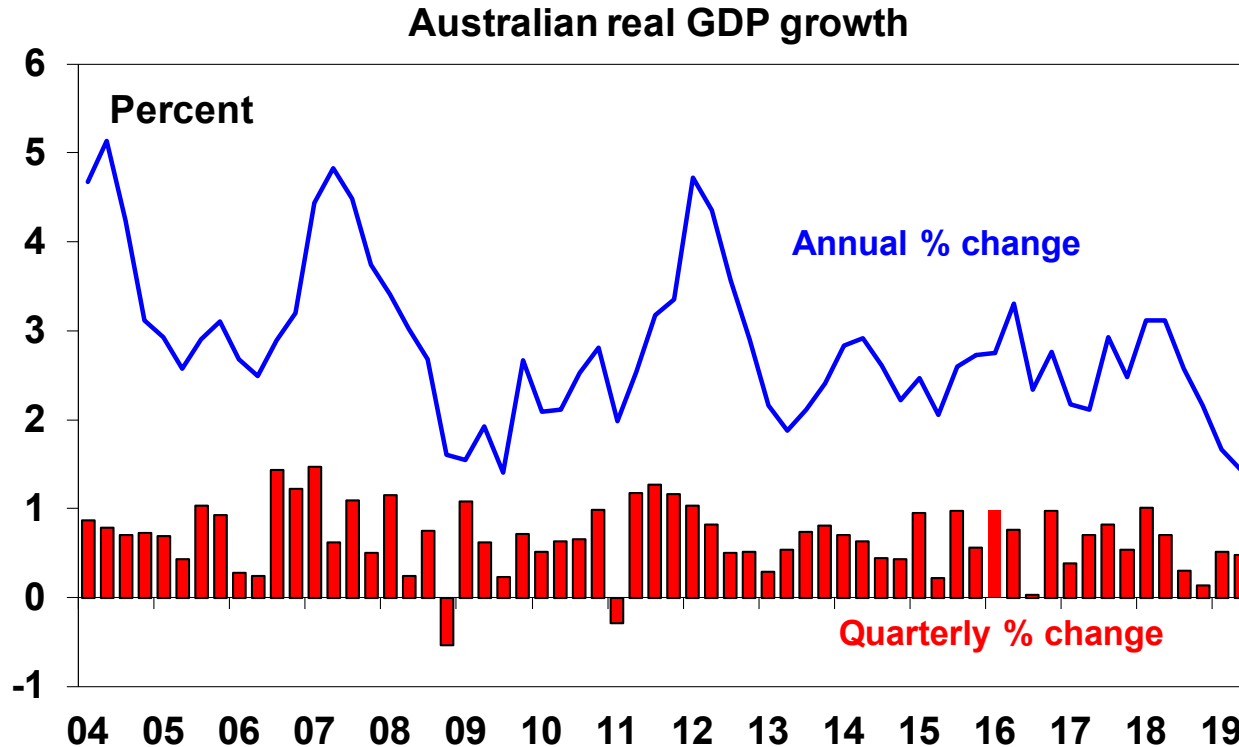
THE MAGAZINE COVER INDEX



2009. BRAZILIAN SHARES
AROUND ALL TIME HIGH (67,000)

2013. BRAZILIAN SHARES AROUND 50,000.
NOW AROUND 85,000

AUSTRALIAN ECONOMIC GROWTH AT ITS SLOWEST SINCE THE GFC



28 YRS SINCE THE LAST AUSTRALIAN RECESSION

IS THE NEXT ONE UPON US?

Page 2 of about 26,800,000 results (0.31 seconds)

The Looming Aussie Recession | Australian Economy Report 2019

signups.dailyreckoning.com.au/australian/recession

Three critical factor are converging that could see the **Australian** economy fall. RBA declared that there were 'pockets' of financial stress in the economy. Independent Research. Markets Commentary. Top Stock Ideas for 2019. Best Investment Ideas.

[Free Reports](#) · [Financial Services Guide](#)

BFM Recession to hit Australia next year: Professor Steve Keen - BFM

www.businessfirstmagazine.com.au/recession-to-hit-australia-next-year.../17035/

Recession to hit **Australia** next year: Professor Steve Keen. ... Thursday 28 March 2019 ... **Australia** will be in for a crunch next year with house prices falling between 40 and 70 per cent and unemployment rising, according to Professor Steve ...

Longview Economics: Australian "recession likely" in 2019-20 ...

<https://www.macrobusiness.com.au/2019/.../longview-economics-australian-recession-...>

Feb 14, 2019 - Longview Economics: **Australian** "recession likely" in 2019-20 ... Excess in the **Australian** housing market has been widely discussed by ...

Another stat says that Australia might be headed for a recession ...

<https://www.fool.com.au/2019/.../another-stat-says-that-australia-might-be-headed-for-...>

Mar 13, 2019 - According to the **Australian** Bureau of Statistics (ABS), household lending dropped by 2.4% in January 2019. Credit growth is a key statistic that ...

Is a market crash and global recession coming in 2019? | Motley Fool ...

<https://www.fool.com.au/2019/.../is-a-market-crash-and-global-recession-coming-in-2...>

Jan 2, 2019 - It's possible that a market crash and global **recession** is coming in 2019. ... Motley Fool **Australia** » Share Market News » Is a market crash and ...

Will there be a global recession in 2019? - Financial Review

ADVERTISEMENT

AD DAILY RECKONING AUSTRALIA

RECESSION RATING TODAY



• PREPARE. ACT. SURVIVE. •

Aus Recession Survival Guide

VISIT SITE

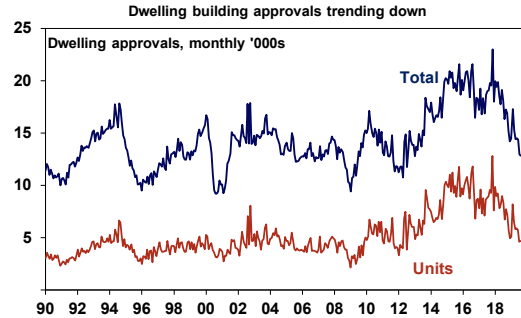
DR Australia

Subscribe for \$1 a week

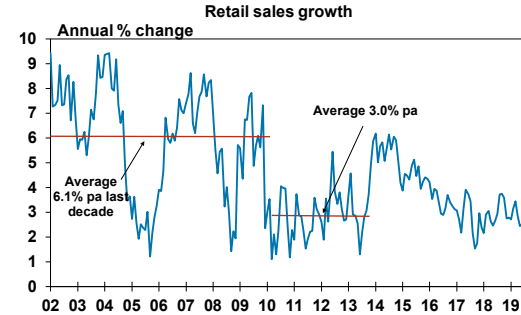
CONSTRAINED GROWTH IN AUST AS HOUSING SLOWS

RBA TO EASE FURTHER

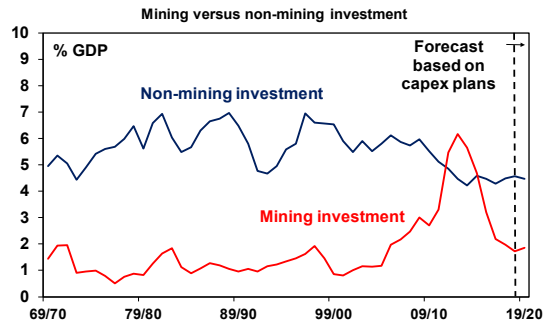
Housing is slowing...



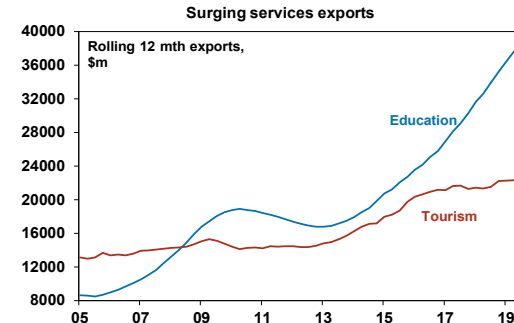
...and retail sales growth and volumes are sluggish



But mining investment is close to the bottom, non-mining capex is lifting...

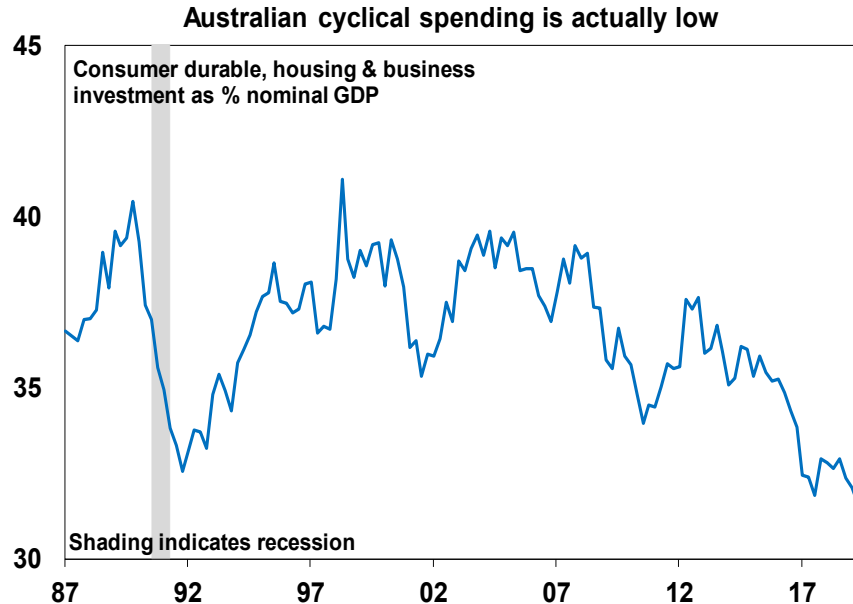


...and services exports are strong



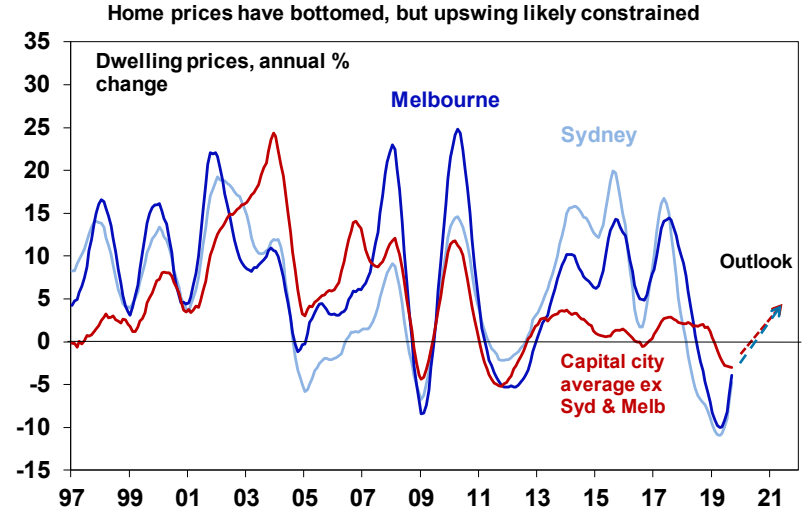
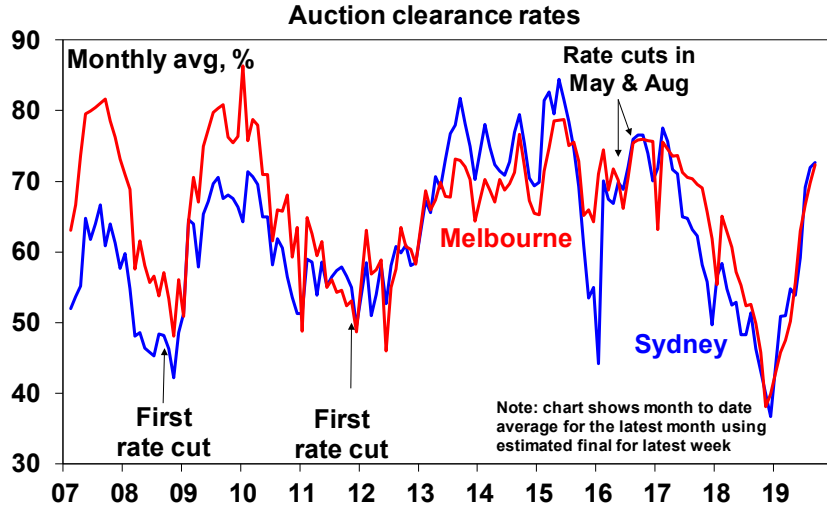
NINE REASONS WHY RECESSION IS UNLIKELY IN AUSTRALIA

- > Boost to spending from rate cuts and tax cuts
- > The threat from falling property prices has receded
- > Infrastructure spending is booming
- > The low \$A is helping growth
- > The drag from falling mining investment is over
- > The current account is in surplus
- > There is scope for extra fiscal stimulus
- > Population growth remains strong
- > Cyclical spending never boomed



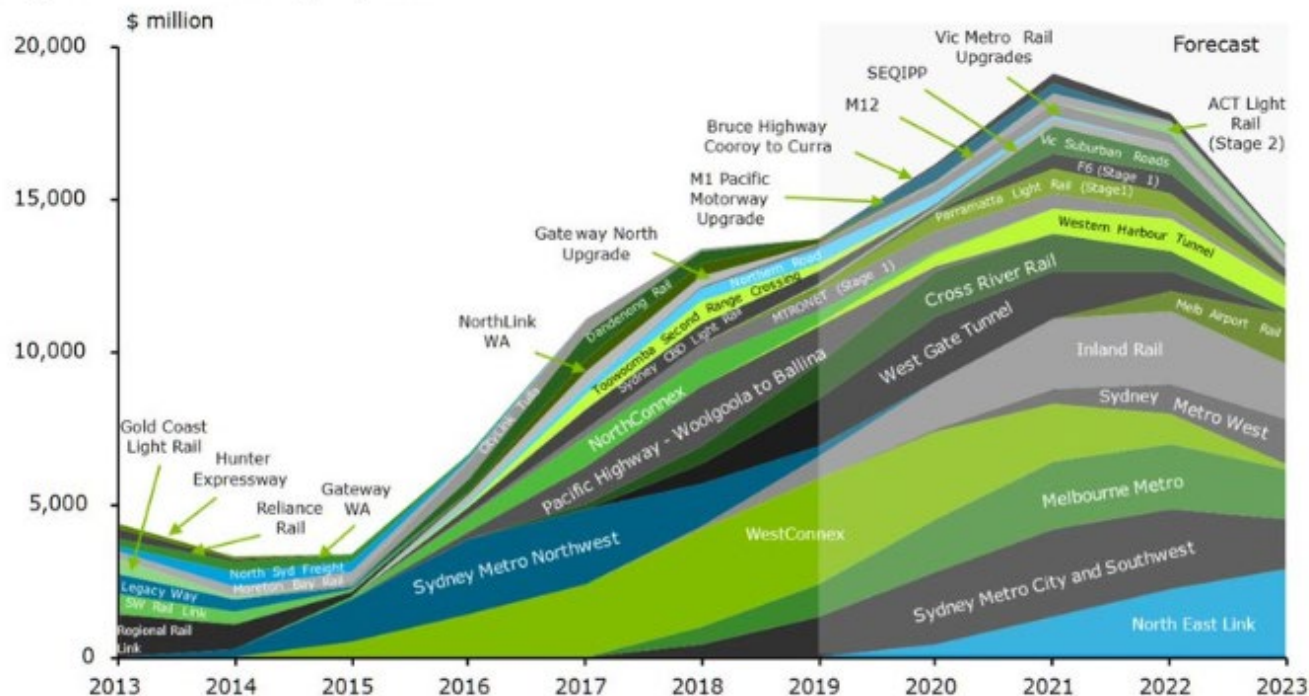
SYDNEY AND MELBOURNE HOME PRICES BOUNCE

BUT PRICES TO REMAIN CONSTRAINED

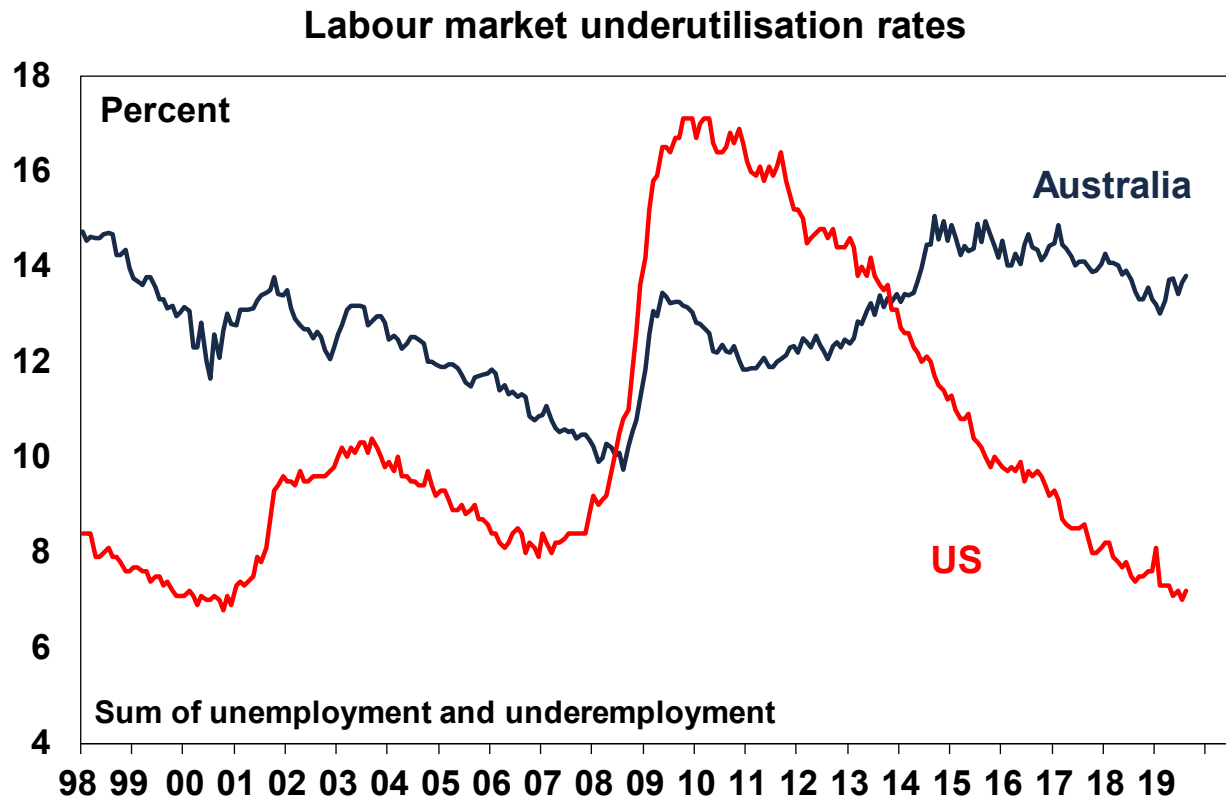


INFRASTRUCTURE SPENDING IS BOOMING

Major road and rail projects¹



WHY WAGES GROWTH IS SO LOW IN AUSTRALIA (AT 2.3%)

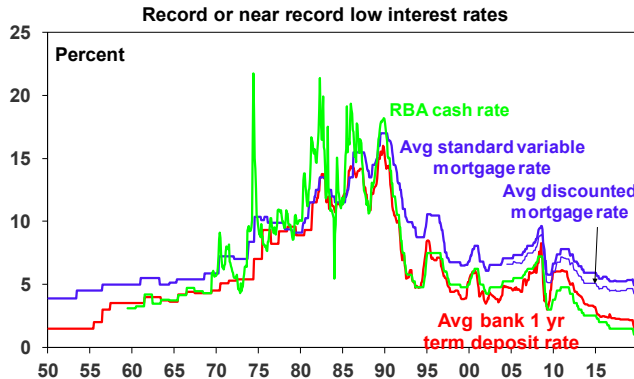
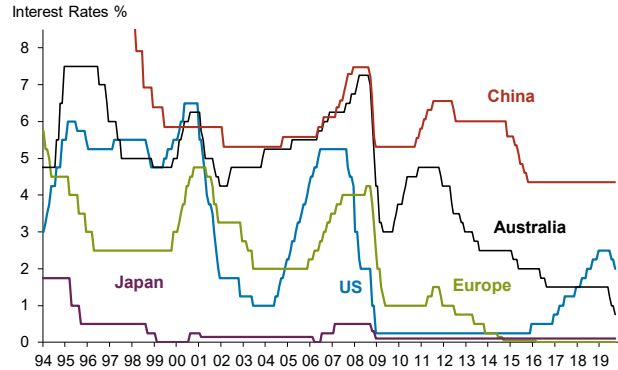


Source: Bloomberg, AMP Capital





RBA TO CUT THE CASH RATE TO 0.25%



Other policy options:

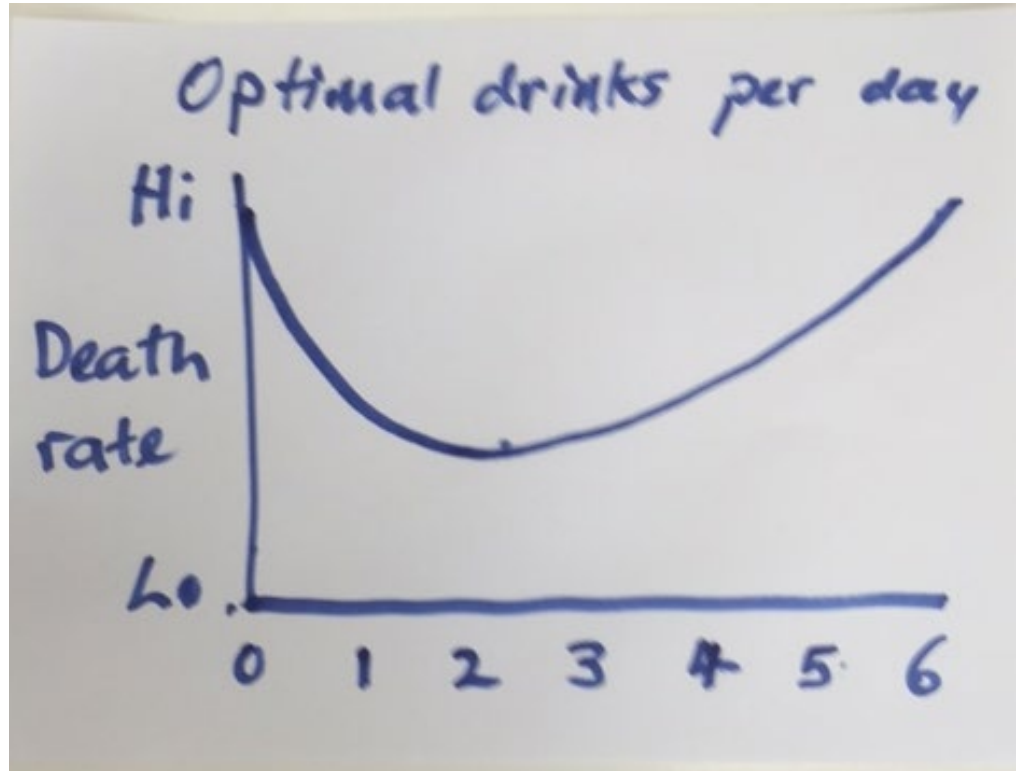
- Forward guidance
- Negative rates
- Cheap credit
- QE – buy gov bonds
- QE – buy private assets
- Intervene to lower the \$A

- Fiscal stimulus – more assured impact & can be fairer

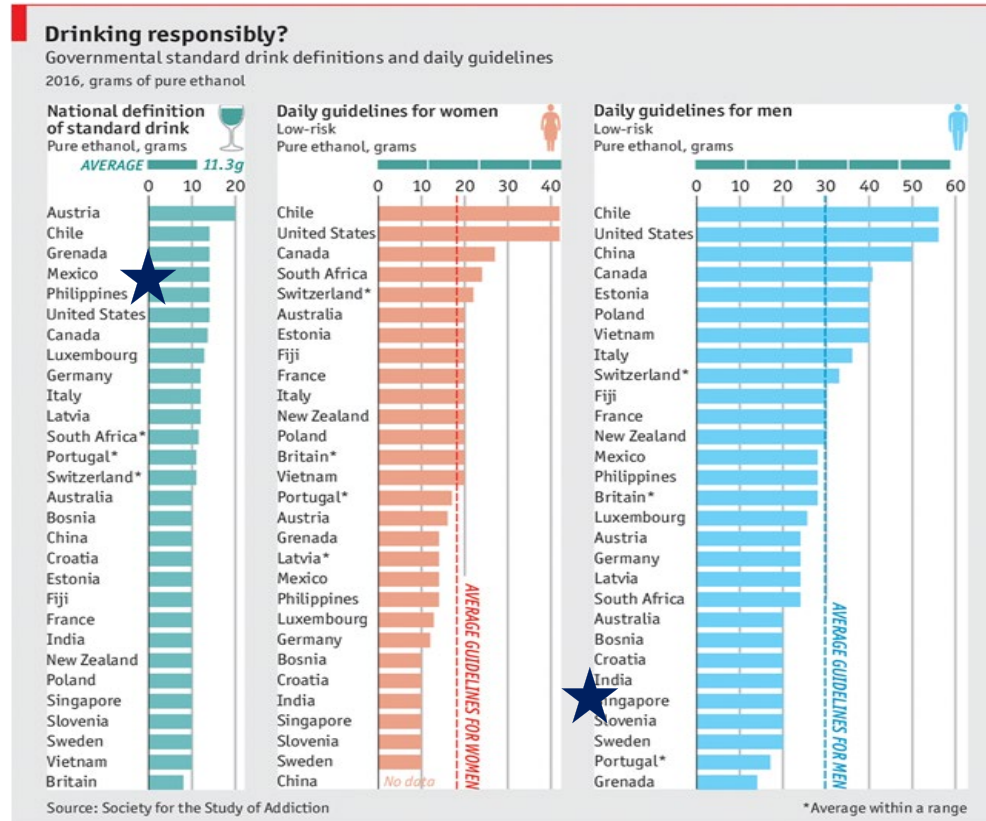
- Helicopter money

$$(G=T+B+M)$$

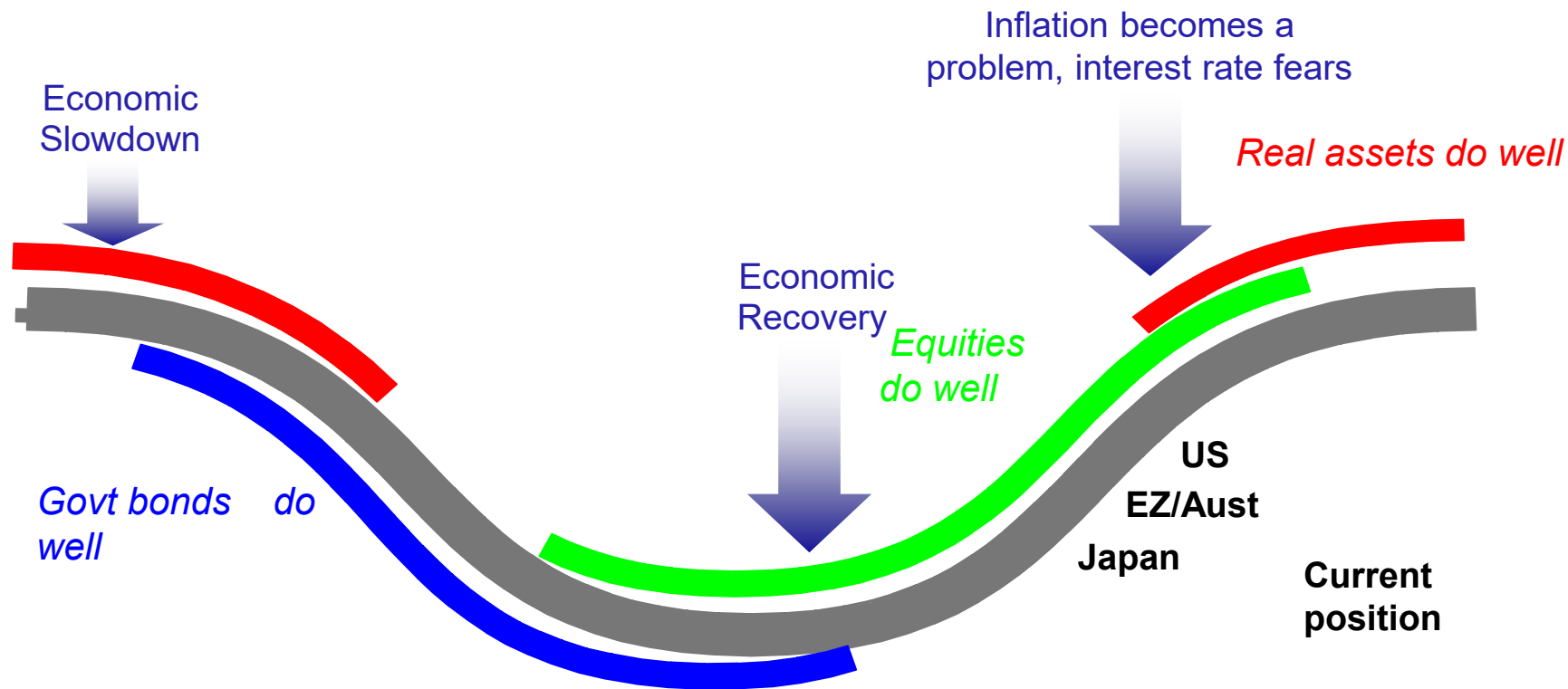
OPTIMAL DRINKS PER DAY – DR JOHN



DRINKING GUIDELINES – THIS EXPLAINS THE US!

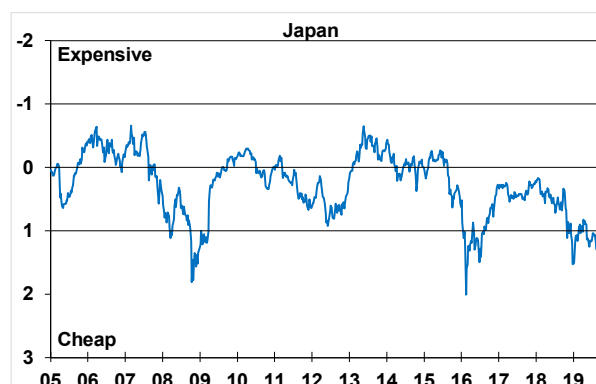
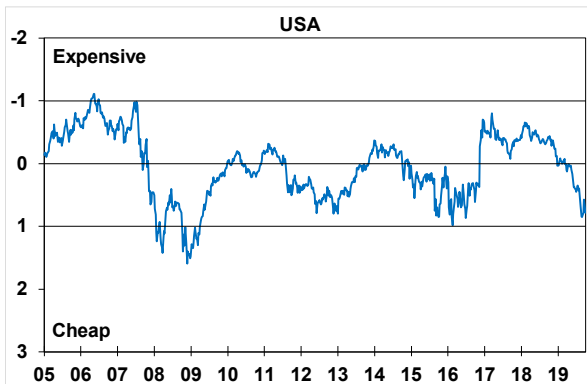
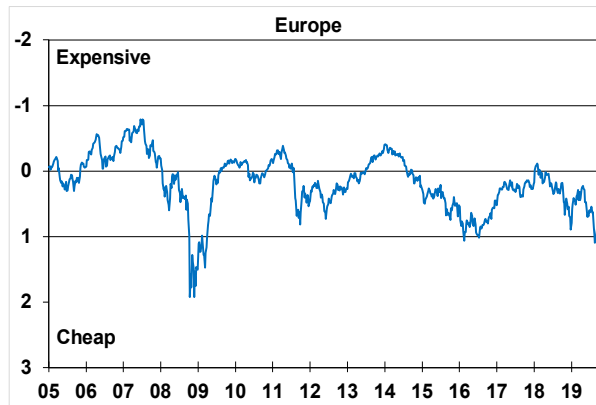
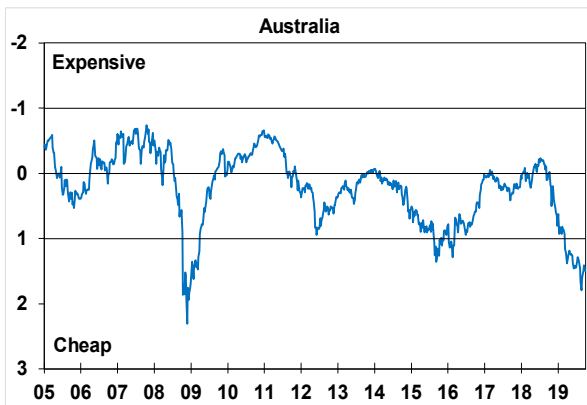


THE GLOBAL INVESTMENT CYCLE – ANOTHER CYCLE EXTENSION

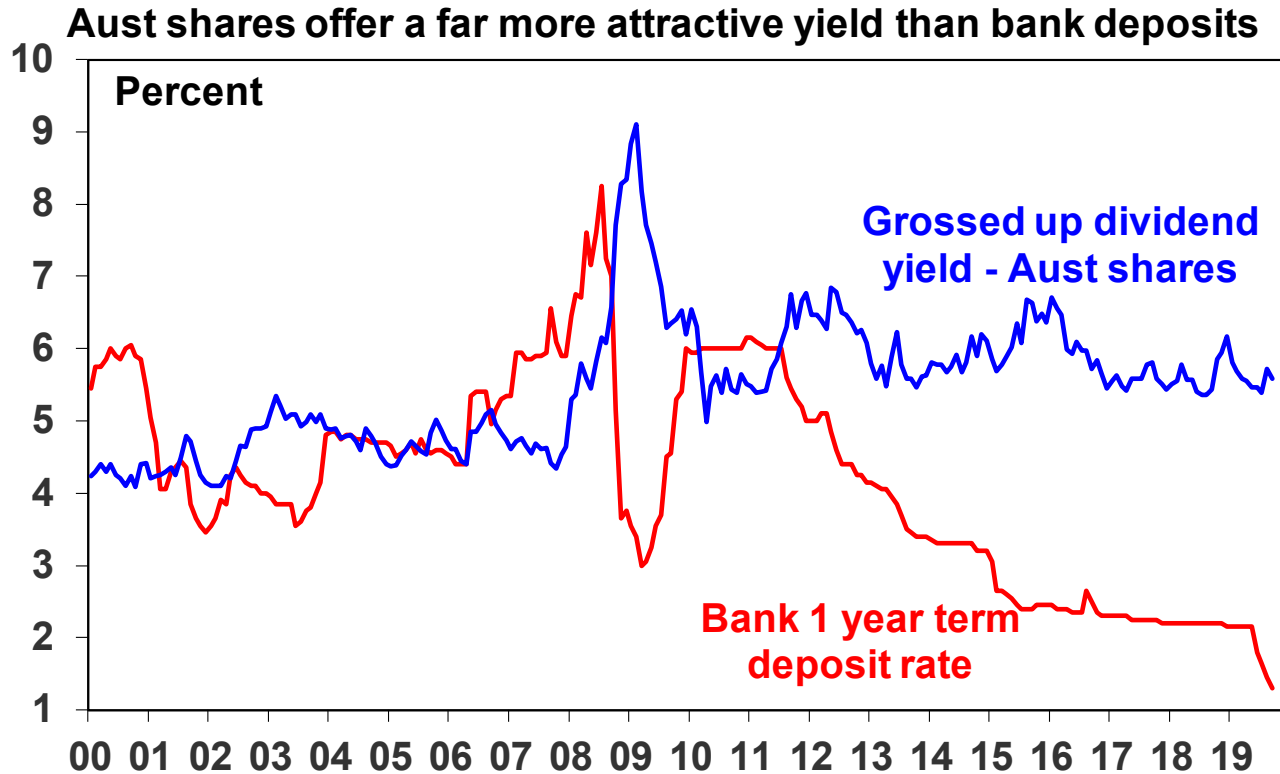


SHARE MARKET VALUATION INDICATORS

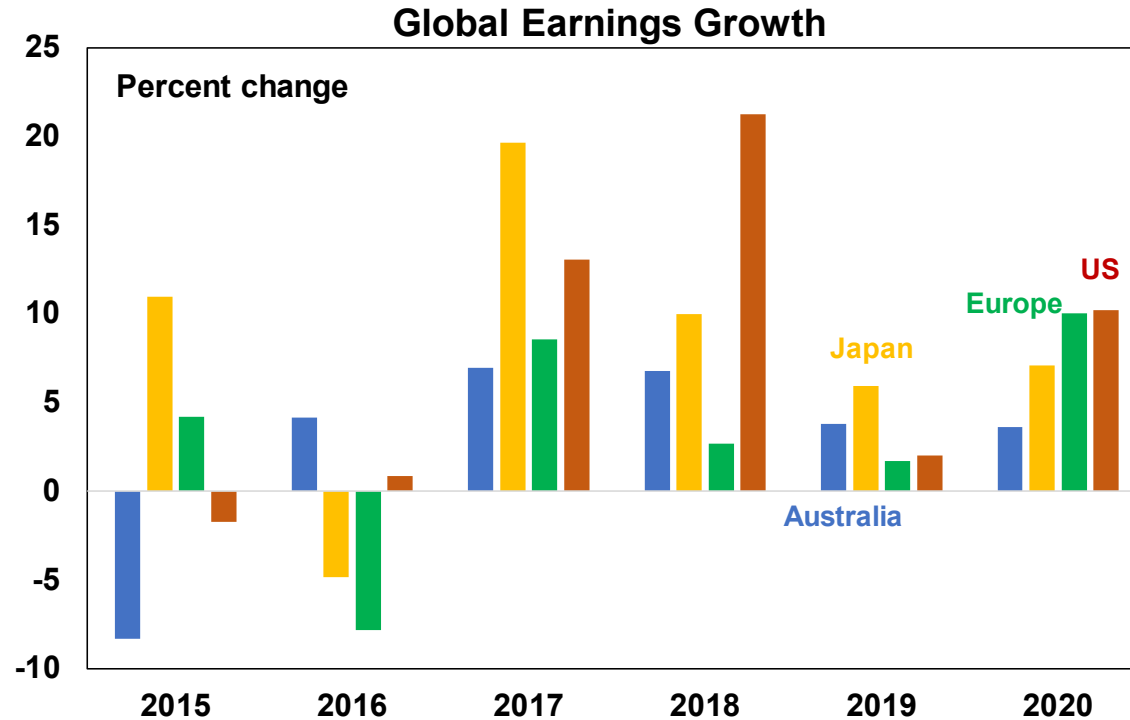
SHARES CHEAP AS BOND YIELDS HAVE FALLEN



UNCERTAINTY IS HIGH BUT LOW INTEREST RATES PROVIDE SUPPORT FOR SHARES PROVIDING THERE IS NO RECESSION

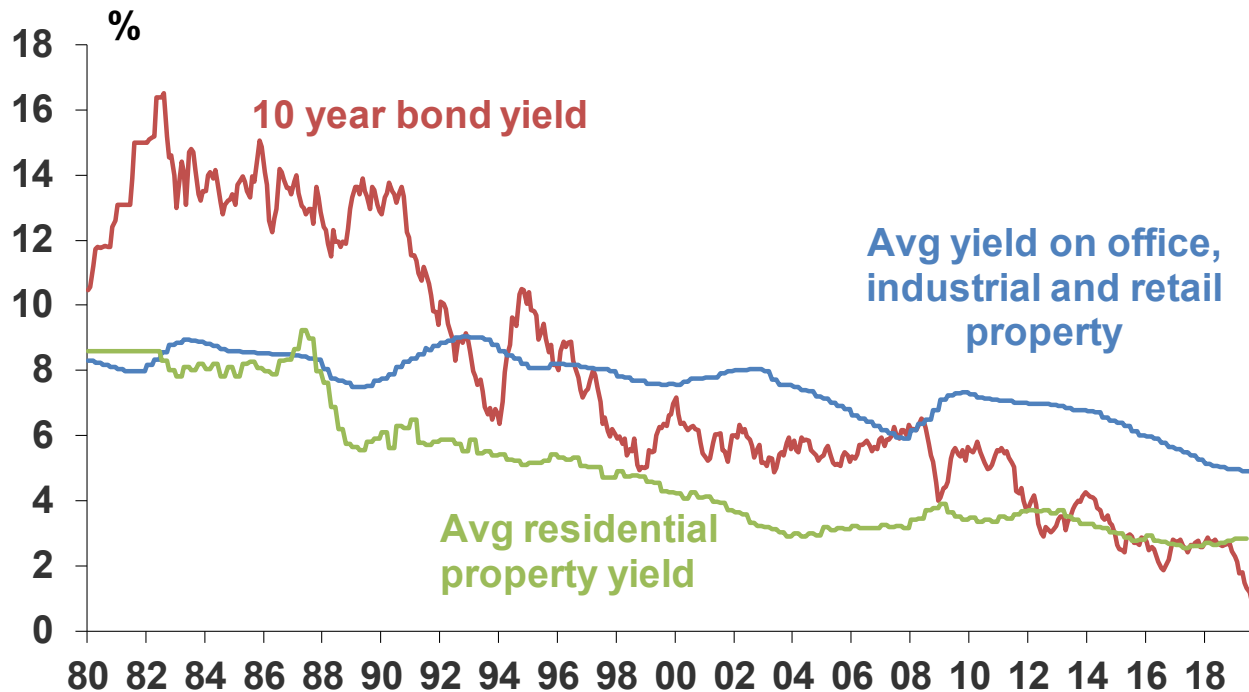


GLOBAL LISTED COMPANY PROFITS TO RISE MODESTLY IN 2019

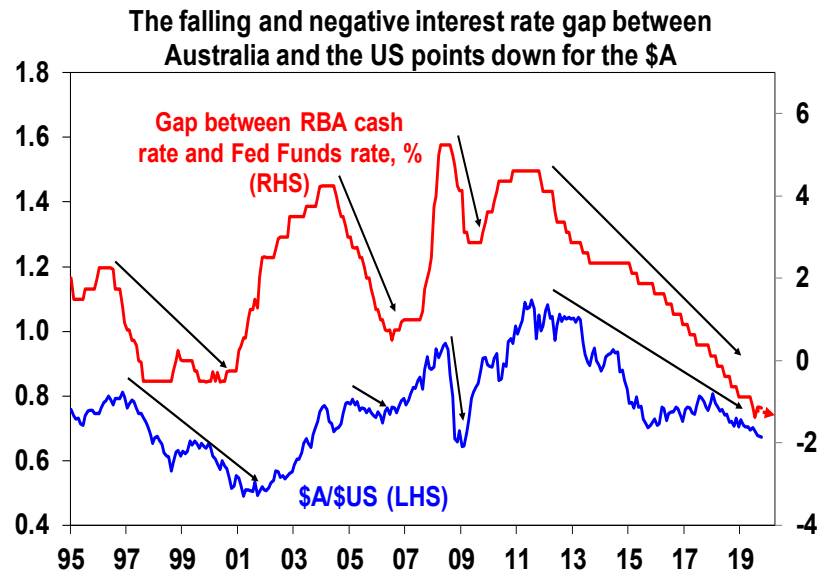
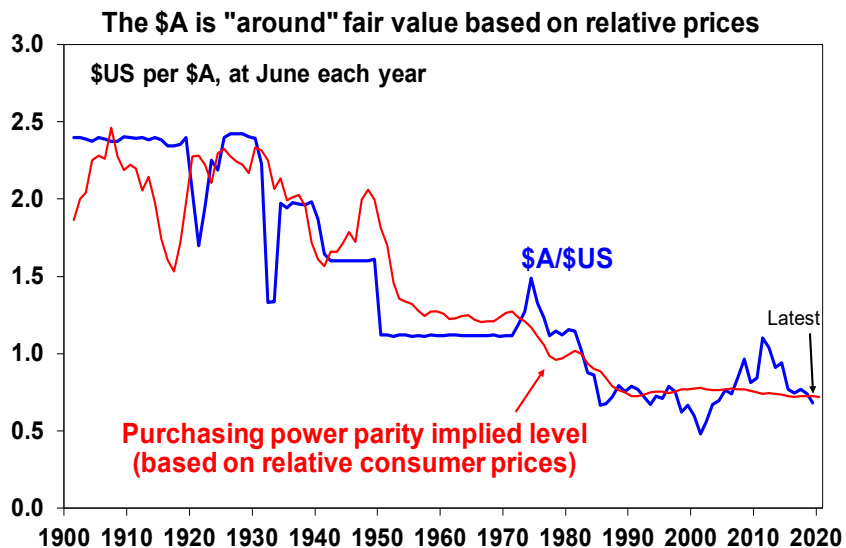


THE LATEST DECLINE IN BOND YIELDS IS POSITIVE FOR UNLISTED ASSETS, BUT RETURNS ARE LIKELY TO SLOW

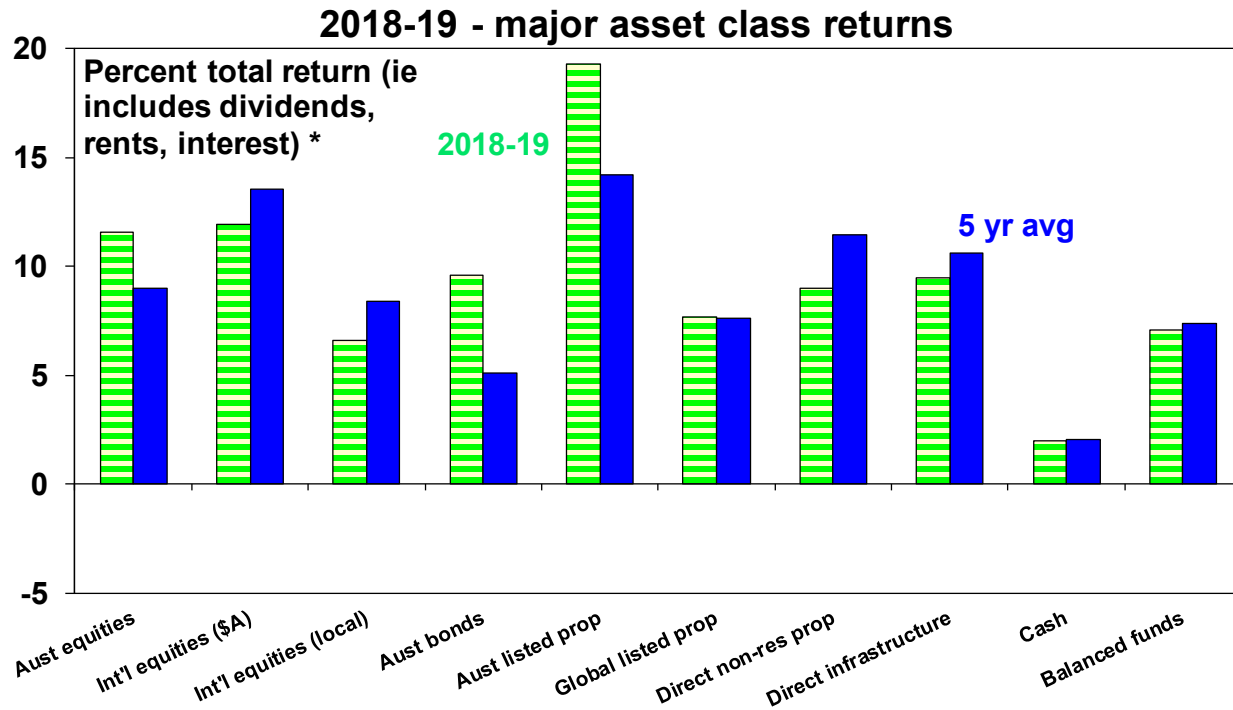
Australian property yields versus the bond yield



THE DOWNTREND IN THE \$A IS LIKELY TO CONTINUE AS THE RBA CUTS RATES



THE LAST FIVE YEARS HAVE SEEN LOTS OF WORRIES BUT TURNED OUT WELL



* pre fees and taxes, except Balanced Funds which are post fees and taxes.

TURN DOWN THE NOISE



ECONOMIC AND INVESTMENT OUTLOOK

- > Global growth slowing but still okay – 2018: 3.6%, 2019: 3.2%
- > Rising risk of global recession from US trade wars - but it should be avoided
- > 2019 GDP growth: China 6%, US 2%, Eurozone 0.7%, Japan 0.6%, Australia 1.9%
- > Inflation is below target in most countries – hence central bank easing.
- > RBA to cut the cash rate to 0.25%, probably quantitative easing next year
- > \$A to weaken further
- > Continuing low returns from bank deposits and bonds
- > Shares vulnerable to a short term pull back – but should provide okay returns over 6-12 months
- > Key risks: trade war, President Trump, Iran tensions, global growth, China, Aust property market

IMPORTANT NOTE

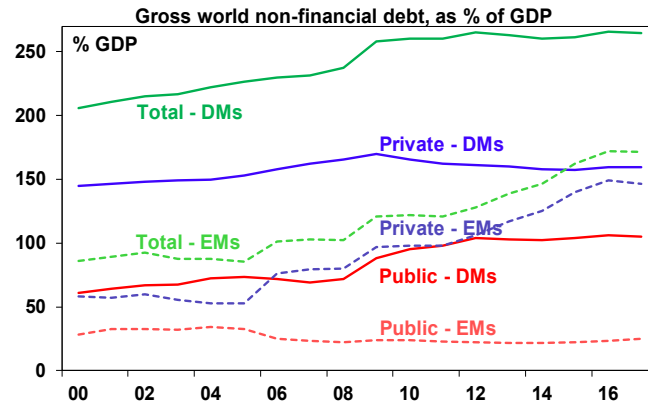
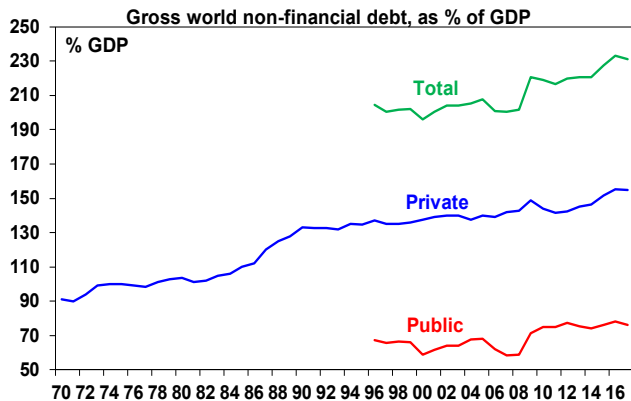
While every care has been taken in the preparation of this document, AMP Capital Investors Limited (ABN 59 001 777 591, AFSL 232497) and AMP Capital Funds Management Limited (ABN 15 159 557 721, AFSL 426455) makes no representations or warranties as to the accuracy or completeness of any statement in it including, without limitation, any forecasts.

Past performance is not a reliable indicator of future performance.

This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs.

This document is solely for the use of the party to whom it is provided.

WHAT ABOUT RECORD GLOBAL DEBT IN EXCESS OF \$US200TRN?

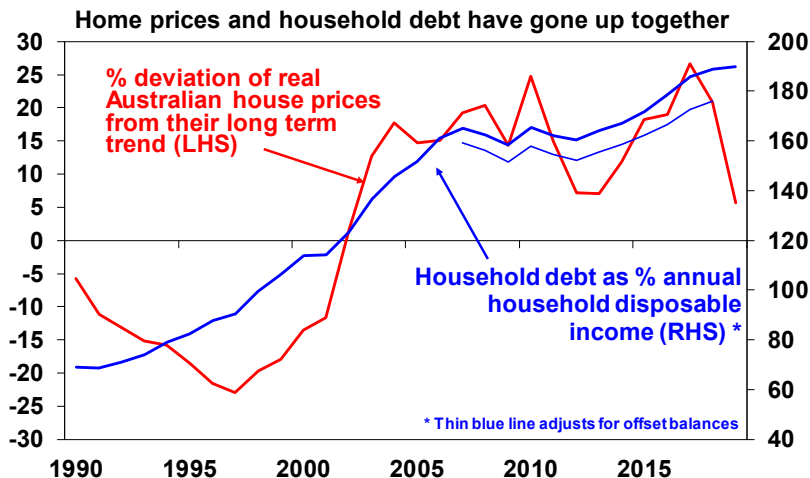
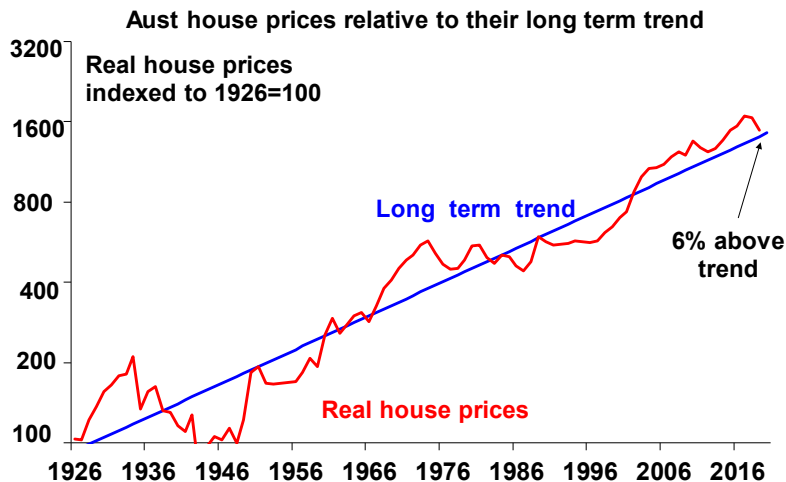


Debt ratios over time

Year	Income \$	Saving=chg in debt, \$	Debt=assets \$	Debt/income, %	Debt/Assets, %
Year 0			100	100	100
Year 1	100	20	120	120	100
Year 2	105	21	141	134.3	100
Year 3	110.3	22.1	163.1	147.9	100
Year 4	115.8	23.2	186.2	160.8	100
Year 5	121.6	24.3	210.5	173.2	100

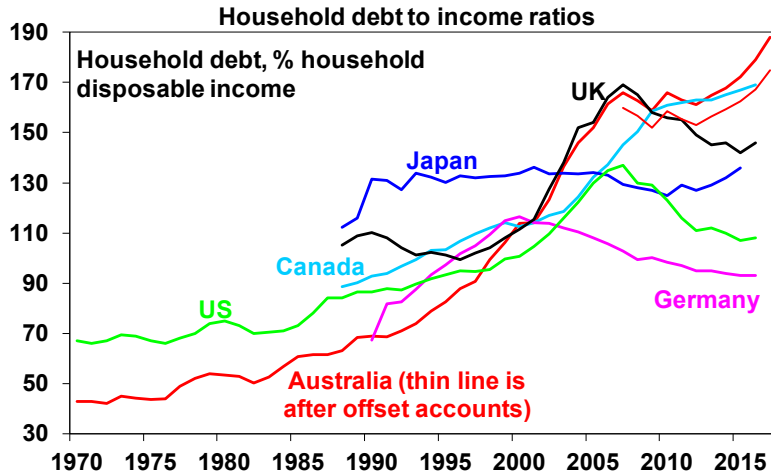
Source: AMP Capital

THE SURGE IN HOME PRICES RELATIVE TO TREND AND INCOME HAS GONE HAND IN HAND WITH A SURGE IN HOUSEHOLD DEBT

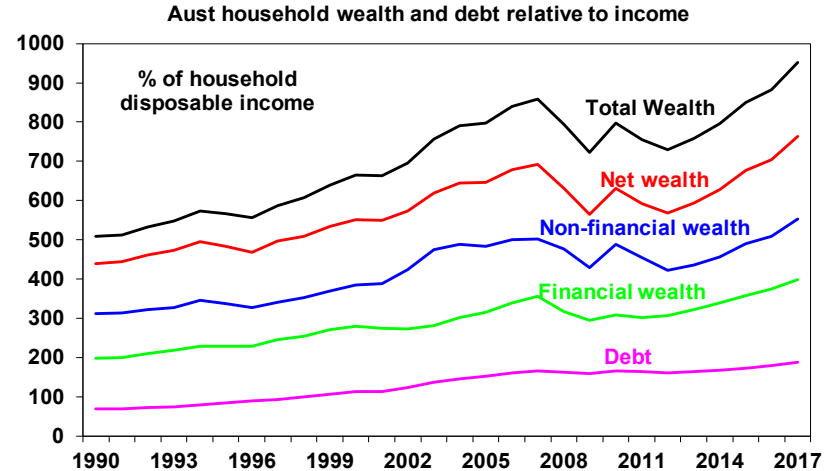


WHAT ABOUT AUSTRALIAN HOUSEHOLD DEBT?

Household debt is high by global standards...



...but its been matched by a rise in wealth.



WHAT ABOUT MORTGAGE STRESS?

Numerous home price crash calls since 2004

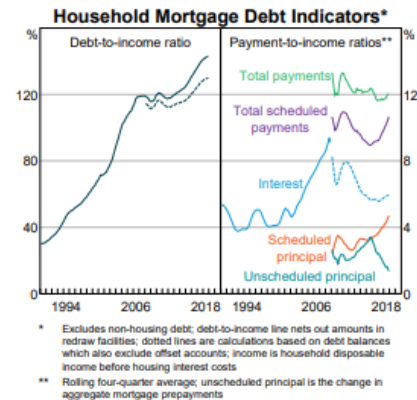
- The Economist: “America’s ugly sister” (2004)
- 60 Minutes (2008)
- The Philadelphia Trumpet (2010)
- US hedge fund managers (2010)
- Bronte Capital (2016)
- Four Corners (2017)
- 60 Minutes (2018)

Numerous stories of financial stress

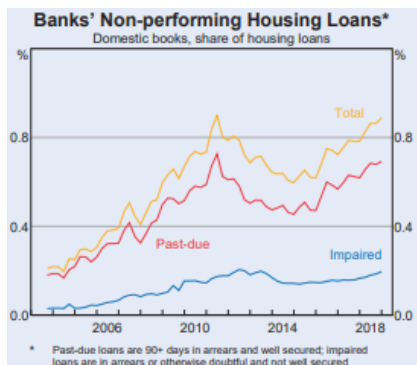
- eg Fujitsu Mortgage Stress Survey a decade ago

...financial stress actually looks to be down...

Housing debt is up but payment levels are flat/down...



...and non-performing loans are low



IRAN RISKS - OIL PRICES ARE A LONG WAY FROM A CHOKE POINT

