A new (Aus.) financial year, what to expect………………

Last month's article was written two days after the BREXIT vote, there were two take-outs from that article;

1. "Our initial assessment of the Brexit vote, whilst it has taken the world by surprise, is that the impact will be predominately local and the global economic implications limited"
2. "In order to prevent yourself from getting caught up (by irrational and erratic investor behaviour), choose an investment strategy which is consistent with your financial objectives and risk comfort level; and one which can withstand the inevitable crises which regularly impact markets"

Markets were caught completely off-guard by the decision of UK voters on 23 June to leave the European Union (EU); the immediate market reaction was a sell-off of equities around the world and strong buying in the bond markets, in the final days of June and into July we have seen a reversal of this initial risk-off move to see gains across the board.

The first half of 2016 has seen a litany of worries for investors including but not exclusively fear of economic slowdown in the U.S. and Europe; concern over U.S. Federal Reserve (Fed) rate decisions; concern over China's corporate debt; a collapse in commodity prices; BREXIT; an escalation of tensions in the South China Sea; Australia's election; terrorist attacks in France and Germany; a coup in Turkey, and so the list goes on – all this and yet the sky hasn't fallen!

There has been substantial volatility in share markets with significant falls followed by rebounds. It is important to understand that investment markets are ultimately driven by economic performance which tends to move slowly over time, on the other hand market sentiment and its risk-appetite can swing wildly; trying to pick these swings is fraught with danger not to mention ***stress***.

As mentioned in previous articles, in our opinion, Diversification is critical in achieving the desired long-term risk adjusted return; this is no more evident than in recent times where return have been low over the past twelve months but averaged 8-9% over the past three years, in a low inflation environment. It is also important, that when your portfolio is fundamentally sound, to stick with it and not get caught up in market sentiment and mood swings.

With regard to economic performance there has been no sign of the much feared global recession, with global business survey's indicating ongoing global growth of around 3%. We expect the U.S. and European economies to remain on their modest growth paths. Strength persists in U.S. consumption and housing which account for more than 70% of the economy, and in the Eurozone we are seeing the recovery of domestic demand. China continues to grow at around 6.5%; however debt to GDP ratio continues to rise. In Australia strong household balance sheets and low interest rates will continue to support spending. Finally, central banks have signalled easier monetary policy for longer following the Brexit decision which is a further catalyst for economic growth and favourable for growth assets.

As with any investment decision one should seek advice from your professional adviser before investing!