

What we all want to know is will the market be up for the rest of the year?

2016 global share markets have started on a very weak footing, continuing the falls we have seen since the high of May 2015. As mentioned in my previous article this panic in global share markets started with Chinese shares falling heavily in the early days of January, a plunging oil price, and a tightening monetary policy in the US. Global markets eased further in February, continuing the major slump in January, but then enjoyed a strong bounce after bottoming mid-month.

One of the concerns has been whether the US would fall into a recession however the fundamentals suggest that this is not likely. The US population's net wealth is high and debt service ratio low; consumer credit is rising increasing consumption; spending is still strong e.g. vehicle sales >17m; confidence is at very high levels; and corporate balance sheets healthier. On the negative side services activity is softening, inventory levels are high and a drag on growth, business spending is softer, and the strong USD is hurting trade. Whilst the US Fed commenced tightening monetary policy for the first time in nine years and suggested there could be four more rate rises this year, the general consensus is that four is unlikely. We still expect GDP growth of 2% driven by improved consumption – that represents around 70% of US GDP and it continues to grow; Retail sales were up 3.4% in January because Americans have more money in their pockets thanks to cheaper petrol and rising wages (up 2.5% recently); and, the US unemployment rate is now down to 4.9%. None of these numbers are usually associated with a weaker economy.

Given the propensity for news outlets to paint a dour picture, we can reasonably expect more headlines with upcoming geopolitical events including the US presidential election, a vote on Brexit (Britain's potential exit from the EU), the rise of populism in Europe, tensions in the South China Sea, tensions between Saudi Arabia and Iran, and an election in Australia – just to name a few. The bulk of these issues should turn out okay for investors, but it's worth keeping a close eye on them.

There is no doubt that market psychology is negative, however the above issues are not systemic as we saw in 2008; coming from a low base and with all of the expansionary settings at present consumers should be the driving force behind both the global and Australian economies.

It is reasonable to assume that nominal growth will remain low with continued volatility, which is crucial to factor in when making investment decisions. In this scenario it is important to try to reduce risk in your portfolio's, looking at investments and strategies which can grow earnings in this low growth environment.

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

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