2016 Highlights – what now for 2017?

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Not surprisingly 2016 had its fair share of volatility, share markets started badly in January due to concerns over the outlook for economic growth and fears of deflation. Then followed the Brexit vote, the US election, the Italian referendum, and a variety of Central bank meetings all providing scares to the markets driving values down, followed by reversals once the markets had time to digest the information.

After a rally in bonds in the first half of the year, returns were subdued in anticipation of reflationary fiscal stimulus in the US; real estate (non-residential) investment trusts returns were good in the first half of the year but were constrained as bond yields rose in the latter half; unlisted property and infrastructure were positive as investors chased yield; Australian residential real estate returns were solid, particularly in Sydney and Melbourne, but showed signs of slowing toward the end of the year; and, cash rates and bank deposits remained low as the RBA cut interest rates.

Portfolio returns were largely subdued, depending on asset allocation (conservative to growth), but generally better that cash and term deposits; all the above provided support for the benefits of a diversified portfolio.

So 'What now for 2017?', the positive is that most growth assets should trend higher on the back of continuing global growth estimated at around 3%, supported by 2% plus growth in advanced economies and China expected to continue to grow at above 6%, however emerging economies may continue to drag on the back of a strong $US dollar (particularly those with $US denominated loans). Fiscal stimulus, predominately in the US, should see commodity prices rise resulting in rising inflation and bond prices trending up; earnings growth in the US (and Australia), after a couple of years of falls, are expected to grow which should support share market valuations.

Things to look out for in 2017, it is no surprise that Trump is first on the list! Massive reflationary spending, infrastructure, and US corporate tax cuts; verses tariffs, border taxes, and diplomatic issues – we will have to see if the positive momentum generated from the election can continue once political pragmatism kicks in.

Also, reflationary stimulus is likely to push interest rates higher negatively impacting long dated Government bonds; however with stronger corporate balance sheets, diversifying into shorter dated credit assets may help portfolio's. Emerging markets may have a tough year on the back of a strong $US dollar but recovery growth opportunities exist. There is an expectation of earnings growth supporting rising equity valuations, so earnings forecasts will be keenly watched. Following Brexit there are important Euro elections this year in the Netherlands, Italy, and Germany, as well as negotiations regarding the conditions of the British EEC exit. Australian earnings recovery is expected to benefit from a more positive global outlook and China holding up, however inflation is a concern for the RBA particularly with a persistently strong $Aus.

Picking the direction of specific asset classes is difficult at any time, no more so than this upcoming year, as we have seen in 2016 unforeseen financial or geopolitical events can throw markets into a spin, and whilst we have seen them continually bounce back it can make for an uncomfortable ride. As I have said previously, we believe the first priority is to rationally evaluate your chosen investment strategy, consider it in light of the primary economic and market indicators, then stick to it and don't get caught up with the crowd during the short-term volatility.

Clients are encouraged to call me if you have any questions or concerns.

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