Investment Report – December 2015

As this is the last report for 2015 I want to take the opportunity to thank you all for your continued support over this year. I look forward to working with you in 2016.

I hope that you and your family have a great Christmas and a successful 2016.

Headline news

The OECD predicts that a slowdown in trade, particularly with China, will lead to lower global economic growth this year. Global GDP is now expected to grow by 2.9%, down from the 3% forecast in September, but will rise to 3.3% in 2016. The OECD said trade had dropped to levels perilously close to those "associated with a global recession".

USA

The US economy grew at a healthier clip in the third quarter than initially thought, but strong inventory accumulation by businesses could temper expectations of an acceleration in growth in the final three months of the year. The nation's gross domestic product grew at a 2.1% annual pace, not the 1.5% rate reported in October.

The Federal Reserve said in November that the US economy was performing well, that Fed rate -setters might consider raising rates at their December meeting and the "downside risks" to the economy from global economic and financial developments had diminished since September. The Fed added that spare capacity in the jobs market had fallen "significantly" since earlier in the year. In light of this, the Fed's December 15-16 meeting would be a "live possibility" for an increase in rates.

Nonfarm payroll employment increased by 271,000 in October, rebounding strongly from more tepid growth over the prior two months. Net upward revisions to August and September totalled +12,000 overall and +56k in the private sector. Gains in payrolls were broad-based across sectors. Unemployment is now at a 7 ½ year low of 5%.

Inflation numbers from the United States could be the final domino in the Federal Reserve's track to raise interest rates in December. In November, a robust report on US employment hardened expectations for the Fed's first rate increase in nearly a decade and, if prices are shown to be rising steadily, those views will likely solidify. US consumer prices increased in October after two straight months of declines as the cost of healthcare and other services rose.

China

The International Monetary Fund (IMF) has announced that China's currency, the yuan, will join the fund's basket of reserve currencies. Currently just the US dollar, the euro, the yen and the pound are in the group. The IMF said the yuan ``met all existing criteria'' and should become part of the basket in October 2016.

Consumer prices in China rose by a lower than expected 1.3% year-on-year in October, despite a series of interest rate cuts by the central bank aimed at boosting demand. The People's Bank of China cut its one-year lending rate to 4.25%, the sixth such cut in less than a year and eighth since 2012.

Europe

The European Central Bank head Mario Draghi is underlining the bank's willingness to add more monetary stimulus if needed at its December meeting to push inflation higher.

The economic recovery within the European Union and the Eurozone should continue at "a modest pace" next year, the EU has forecast. The economy of the 28-nation EU is set to grow by 1.9% this year, 2.0% in 2016 and by 2.1% the year after. The EU said growth was being helped by factors such as low oil prices and a weaker euro exchange rate.

Japan

Japan's economy has now fallen into recession again, after it shrank 0.8% on an annualised basis in the third quarter. The preliminary data means the world's third-largest economy has contracted for a second consecutive quarter, marking a technical recession.

In late November, the Bank of Japan left its monetary stimulus unchanged indicating that this recession is not enough to alter the view that the inflationary trend is improving.

Australia

In early December, Australia’s central bank kept its cash rate target unchanged at a record low of 2.0%, as expected, citing firmer prospects for domestic economic growth. Without any sudden shock in China, new commodity price falls or another major delay in the long-awaited US interest rate hike, the central bank will likely keep official interest rates unchanged at 2% well into next year.

New Zealand

The domestic activity backdrop over the past month has been one of a further broad improvement. In particular, retail and electronic card transactions have been robust, likely supported by a combination of strong tourism growth and historic high net migration inflows, together with the positive wealth effect from further house price growth.

The general improvement in domestic spending has also been reflected in a further improvement in both business and consumer sentiment over the past month.

New Zealand employment unexpectedly fell for the first time in three years in the third quarter of 2015, driven by a decline in part-time workers, and the participation rate declined further from a record high.

Summary

In recent years, inflation has remained stubbornly low despite unprecedented amounts of monetary stimulus provided by central banks across the globe. This is even the case in the United States and New Zealand, whose economies have been growing and generating jobs at a pace that would historically have caused a pickup in inflation.

Considerable debate has focused on the issue of whether inflation is being held back by long-term structural forces or if it is merely due to post-GFC cyclical factors that are gradually dissipating. The challenging question for many people is how to invest in this low growth, low inflation and low interest rate environment.

Generating a consistent and regular income without taking a higher degree of risk is difficult in the current environment.

Income returns on fixed interest and other lower risk income assets have been driven to intergenerational lows as central banks globally have flooded markets with liquidity via quantitative easing and other monetary policy programmes, while share markets have risen for nearly seven years.

Thus, investors should be satisfied with modest ongoing investment returns in this environment. Moreover, investors should think about their benchmark positions and investment diversification strategies and ensure they are comfortable with their current positioning.