GRANT SAMUEL
FUNDS MANAGEMENT

26 July 2018

MEDIA RELEASE

Global market outlook uncertain as volatility tipped to return
Stock selection will be the key to outperformance in 2018

The global economic outlook is looking increasingly uncertain, with volatility set to re-appear, but opportunities exist for shrewd investors who understand the global backdrop and risks, and who do their research, says investment experts with Grant Samuel Funds Management.

Volatility is on its way and all the signs are indicating it will be with us sooner rather than later, says Simon Ho, chief investment officer of Triple3 Partners.

“There are multiple threats casting clouds over the global economy,” he says.

“We have trade wars which, if they play out, will wreak havoc on global economic growth, along with rising interest rates as stimulus unwinds in the US, Europe and Japan.

“Meanwhile, falling unemployment is exponentially increasing the inflation risk in the US.

“Throw in the oil market disruption as Iran threatens to block the Hormuz strait, to a mix of already expensive assets thanks to 10 years of unabated asset prices rises, and it is clear the threat to global economic prosperity is real.

“However, withdrawing from equity markets is not the answer, as over the long run they tend to do well. Instead, with volatility looming, investors should position their portfolios to protect against a market downturn. For instance, using options over the VIX can help mitigate portfolio losses when equity markets fall,” Mr Ho says.

Stephen Miller, adviser with Grant Samuel Funds Management, also points to the increased threat of inflation in the US, with key indicators pointing to a marked acceleration in inflation.

“The Underlying Inflation Gauge (UIG) – a market measure which adds financial market information into the CPI to provide a more accurate picture – suggests that there is more inflation to come in the US, and there is a very real prospect of inflation noticeably exceeding the Federal Reserve’s ‘soft target’ of two percent.

“The Fed has recently indicated it is somewhat relaxed about this eventuality, but the extent of that relaxation may still mean four policy rate hikes of 25 basis points (bps) each in 2018.

“Nevertheless, the US budget deficit is projected to be close to 5 per cent of GDP in FY2019. With the US at full employment, demand could well spill over to imports and higher inflation,” he says.

This has implications for equity and bond markets, and Mr Miller says arguably, the outlook for both equity and bond beta is challenging.

“At the margin bond investors need to contemplate portfolios that are more flexible and access diverse sources of risk and not be tied to durations of particular indices. Obtaining beta exposure through say, an ETF, may not be sufficient going forward.

“Similarly, equity investors at the margin need to contemplate portfolios that can benefit from stock-picking acumen or the ability to offset long exposures with short exposures and so reduce exposure to equity beta.

“That markets may discount the eventuality of poorly performed bond and equity beta argues for moving sooner rather than later,” Mr Miller says.

Nick Griffin, chief investment officer with Munro Partners, agrees that the uncertain global economic environment will impact growth in the market, but there are still a number of sectors that show promise.

“We have identified several areas of interest, where we expect to see market growth,” he says.

“The top five are digital enterprise, internet disruption, digital payments, e-commence and emerging consumer and our holding in these sectors ranges from 6-12 per cent.”

Taking the example of digital disruption, Mr Griffin says it is accelerating at a fast rate.

“The rise of digital advertising, mobile advertising, social media and video streaming has fragmented the traditional media landscape. It has provided structural growth opportunities for the likes of online platforms, premium content providers and product placement beneficiaries at the expense of traditional advertising businesses.

“To provide some context, within a US advertising market of around $210 billion, we have seen digital advertising grow to $80 billion – an almost 40 per cent share. This share has been growing at 15 per cent per year since 2013.

“Consumers are changing the way they process information and are changing the way they access information and this trend will continue.

“With digital continuing to take share from traditional advertising, network effects are such that the advertising spending flows to the dominant digital platforms, such as Facebook and Google. And with digital channels making up only 22 per cent of global ad budgets, there is still room to grow.”

He says the winners from this movement will be the likes of Google, Facebook, Netflix, Alibaba and Amazon, among others.

Locally, Tribeca Investment Partners portfolio manager, Sean Fenton, says the Australian market will inevitably be impacted by global developments.

“We have become more cautious on the global risk environment,” he says.

“Domestically, there is stronger evidence that the housing cycle has peaked and this is likely to be reinforced by APRA’s efforts to rein in aggressive mortgage lending. This is being magnified by a renewed focus on responsible standards coming out of the Royal Commission and we are already seeing weakness in house prices.

“Further downside risk to the economy may emerge if the current tightening in mortgage lending standards pushes house prices lower and generates negative equity effects. State governments are effectively recycling stamp duty revenue into road and rail infrastructure which will provide some offset to weaker household consumption and the stronger terms of trade is also providing a cushion to national income.

"In terms of portfolio positioning, we have moved further underweight quality growth sectors as valuations push out to extreme levels.

"Domestically, we are positioned towards metals and new energy materials over bulk commodities within the resources sector and we are positioned more defensively in gaming and select industrials. We have increased the underweight to building materials, property developers and retail as the housing cycle rolls over.

"Globally, we are comfortable with the US growth profile and maintain overweight positions to US cyclicals and the cyclical recovery in Europe," Mr Fenton says.

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Grant Samuel Funds Management (GSFM) *was established in July 2007 as a subsidiary of the Grant Samuel Group. In November 2016 CI Financial Corp (CI) purchased an 80 per cent stake in the business. CI is a diversified wealth management firm with fee-earning assets of CAD$182.7 billion (as of 30 June 2018). GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors.*

Since 2007, GSFM has formed alliances with following investment managers to distribute investment products to Australian and New Zealand clients:

- *New York based Epoch Investment Partners, Inc.*
- *Tribeca Investment Partners, a successful Australian boutique manager*
- *Payden & Rygel, a Los Angeles based independent investment management firm*
- *Triple Three Partners Pty Ltd (Triple3) a boutique research and investment management firm*
- *Munro Partners, an independent global equity manager*
- *London-based Man Group plc*

GSFM currently represents $5.7 billion funds under management (as at 30 June 2018). For more information about GSFM please visit the website: www.gsfm.com.au