



Economic and Market Update

Grant Thornton Affinity conference

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2019 Themes :

Global growth is past its peak-
risks from every direction

Domestic economy is resilient,
but also has challenges

3 Ps – Property prices, Populism
and Population growth



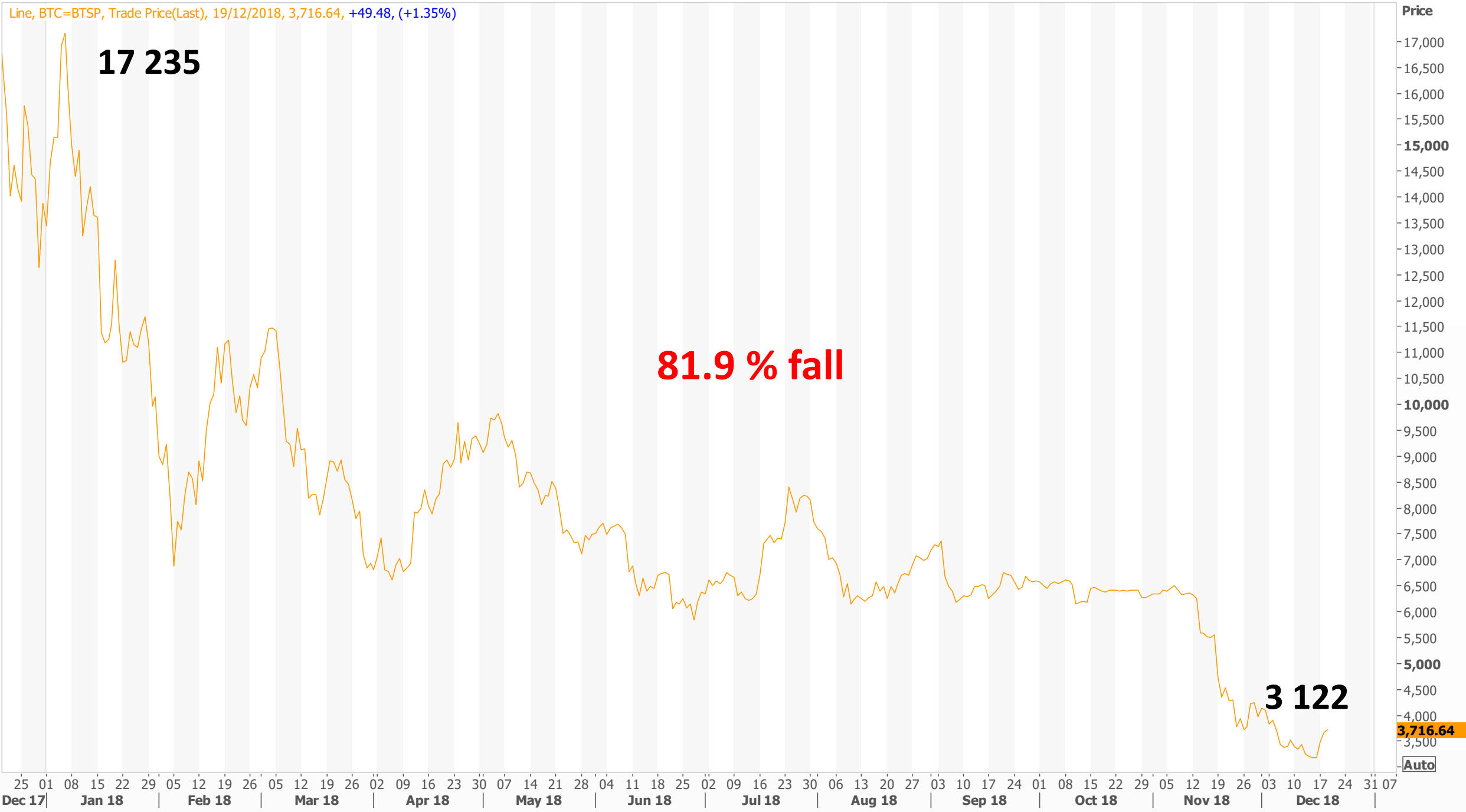
Daily BTC=BTSP
Line, BTC=BTSP, Trade Price(Last), 19/12/2018, 3,716.64, +49.48, (+1.35%)

17 235

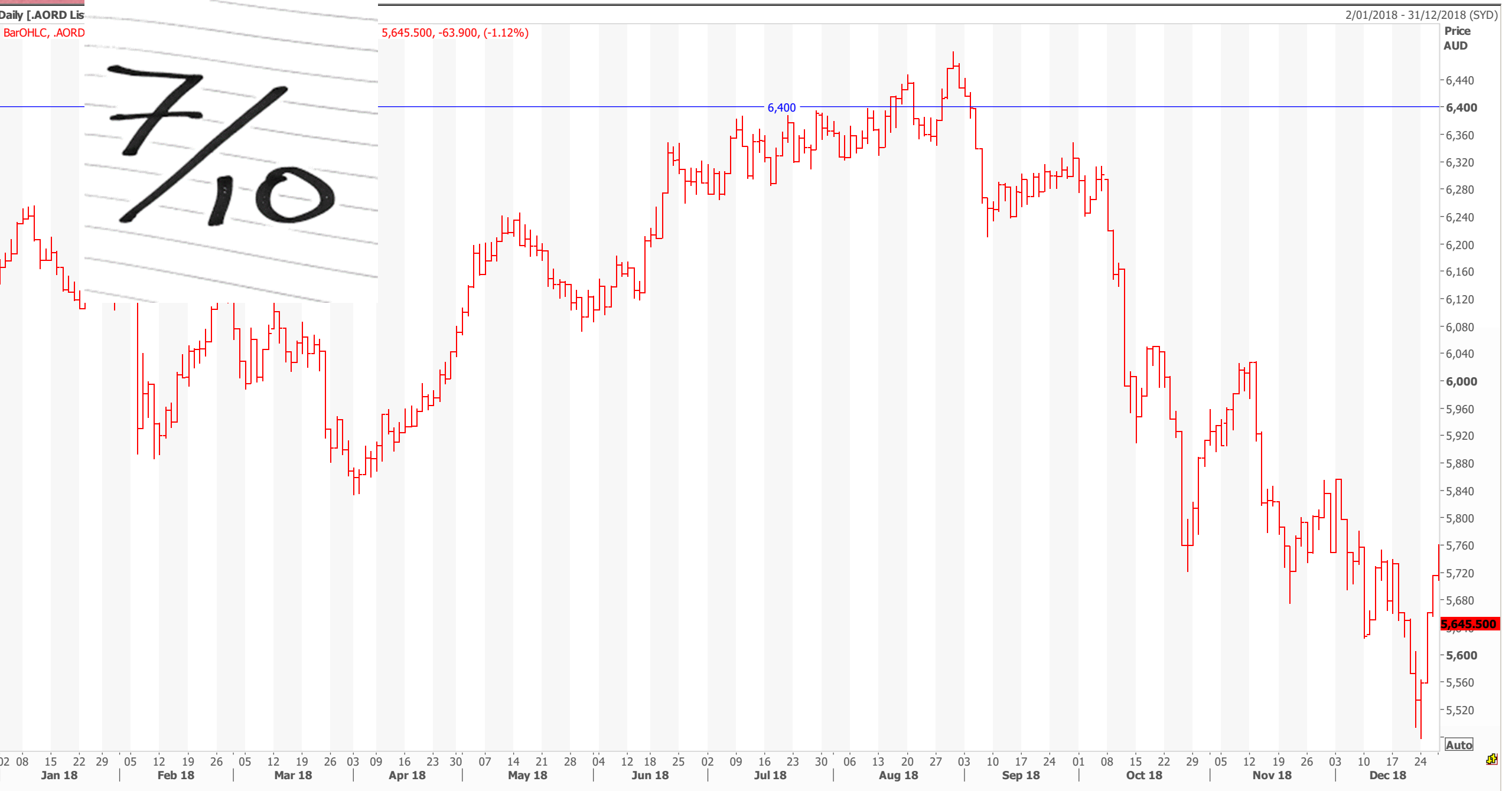
81.9 % fall

3 122

3,716.64



Auto



“When my information changes, I alter my conclusions. What do you do, sir?” John Keynes

2018 - the further we went, the more opaque the future appeared...

Daily .AXJOA

29/05/1992 - 1/07/2020 (SYD)

Line, .AXJOA, Trade Price(Last), 7/02/2019, 63,350.860N/A, N/A



Global outlook

	Short term view	Medium term	Long term
Positives	Momentum from '18	Improving 'living standards'; Rising Asian middle class	
Negatives	Trade; rising interest rates; QT; EU/ Brexit; debt...	Populism over rational policy; War (military, cyber, trade)	
<i>Known unknowns</i>	<i>How far will stocks fall in this bear market?</i>	<i>How long will it take until the next upswing commences? Who will win the 2020 US Pres. election?</i>	


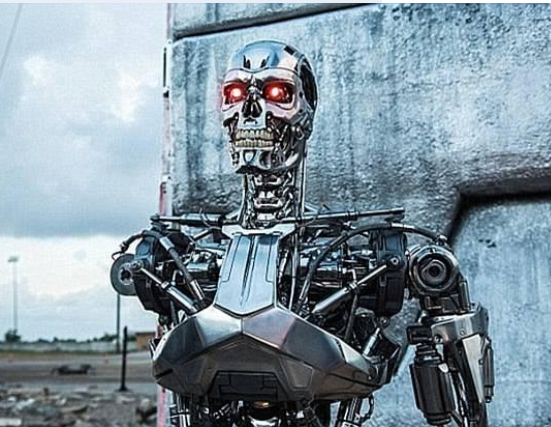
Domestic economy

	Short term view	Medium term	Long term
Positives	Budget surplus; Jobs growth	Ideal geographic location; Factors of production	
Negatives	Chinese growth/ demand; Credit	Can we avoid policy gridlocks? Can we integrate and include?	
<i>Known unknowns</i>	<i>Housing market?</i>	<i>Next recession timing? China??</i>	

“Economists put decimal points in their forecasts to prove they have a sense of humour”

William Simms
1849

Global outlook

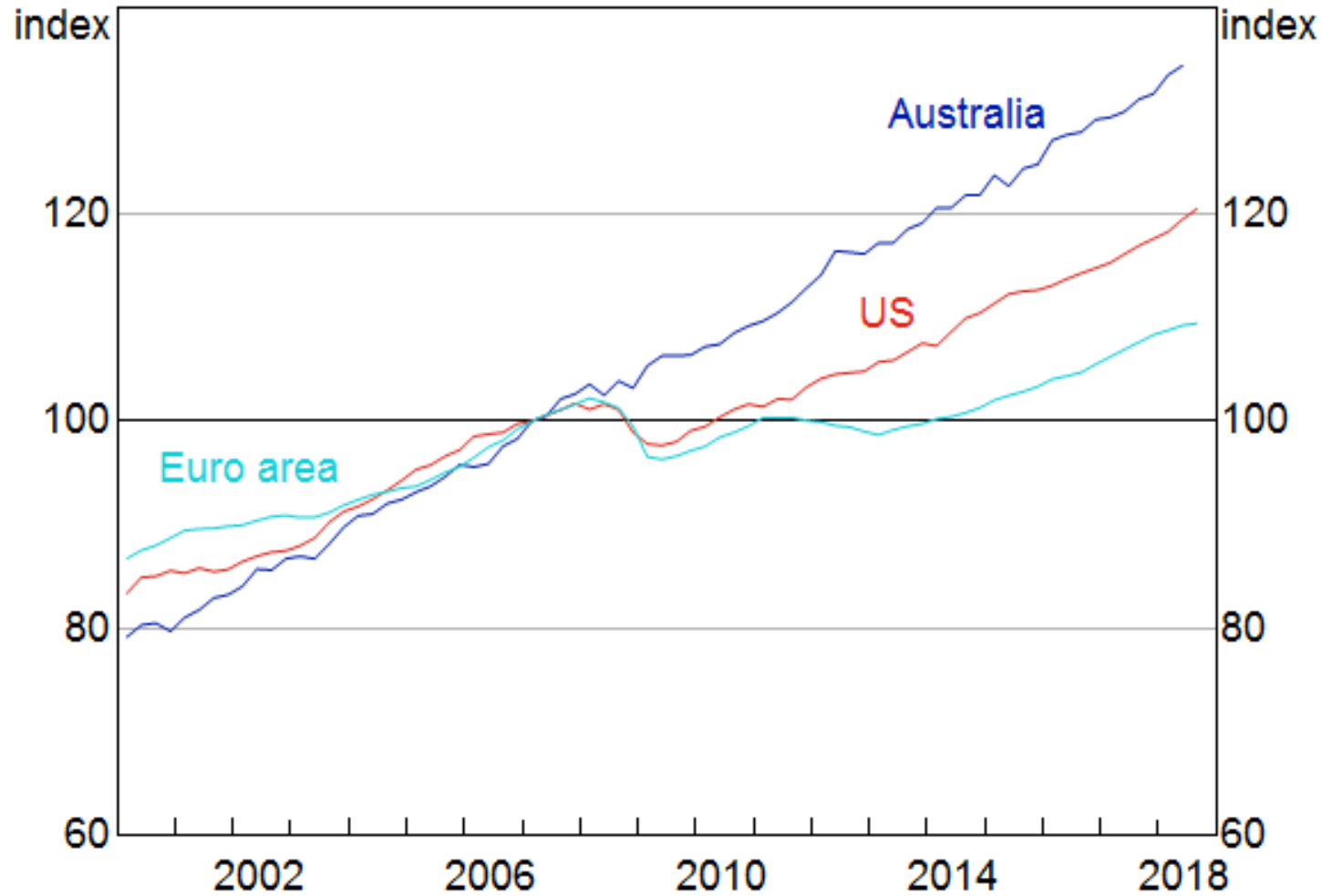
	Short term view	Medium term	Long term
Positives	Momentum from '18	Improving 'living standards'; Rising Asian middle class	Innovation; Biotechnology
Negatives			Climate; Innovation (AI v jobs)
<i>Known unknowns</i>			
Domestic eco			
			
Positives	Budget surplus; Jobs growth	Ideal geographic location; Factors of production	Innovation; Resilience
Negatives	Chinese growth/ demand; Credit	Can we avoid policy gridlocks? Can we integrate and include?	Climate; Innovation (AI...)
<i>Known unknowns</i>	<i>Housing market?</i>	<i>Next recession timing? China??</i>	<i>All of the above...</i>

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Global growth has peaked

Real GDP

March quarter 2007 = 100



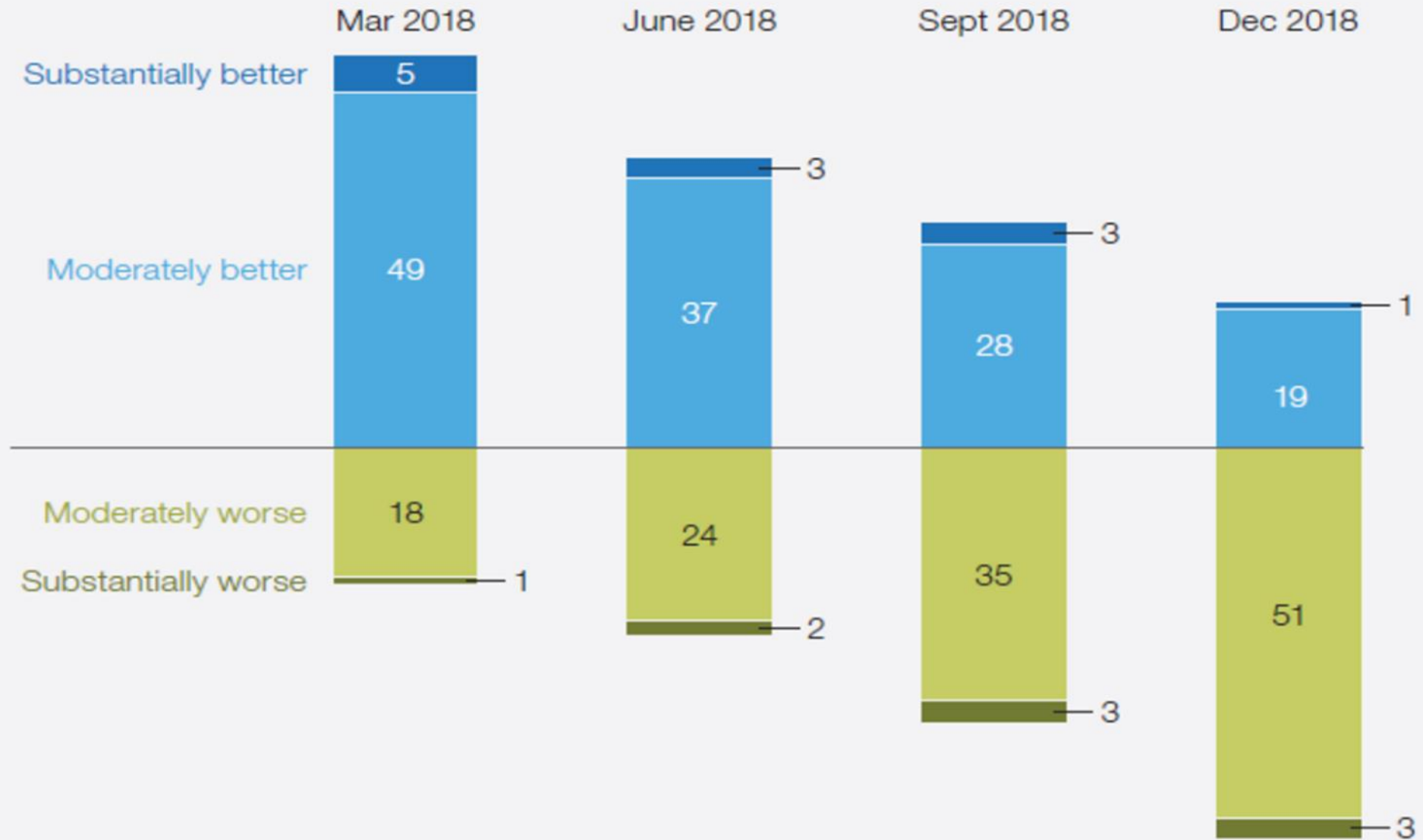
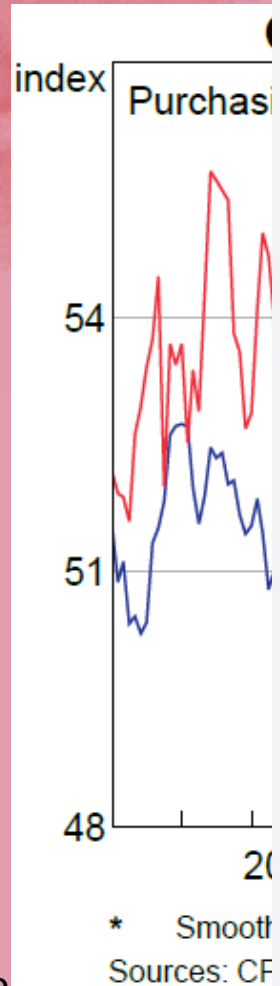
Sources: ABS; RBA; Refinitiv

FUN FACT

Donald Trump is currently trading at a **30 %** chance of winning the 2020 Presidential election. But he is also a **37 %** chance of being impeached in his first term!

Source: Betfair

Current global economic conditions,
 compared with 6 months ago, % of respondents¹

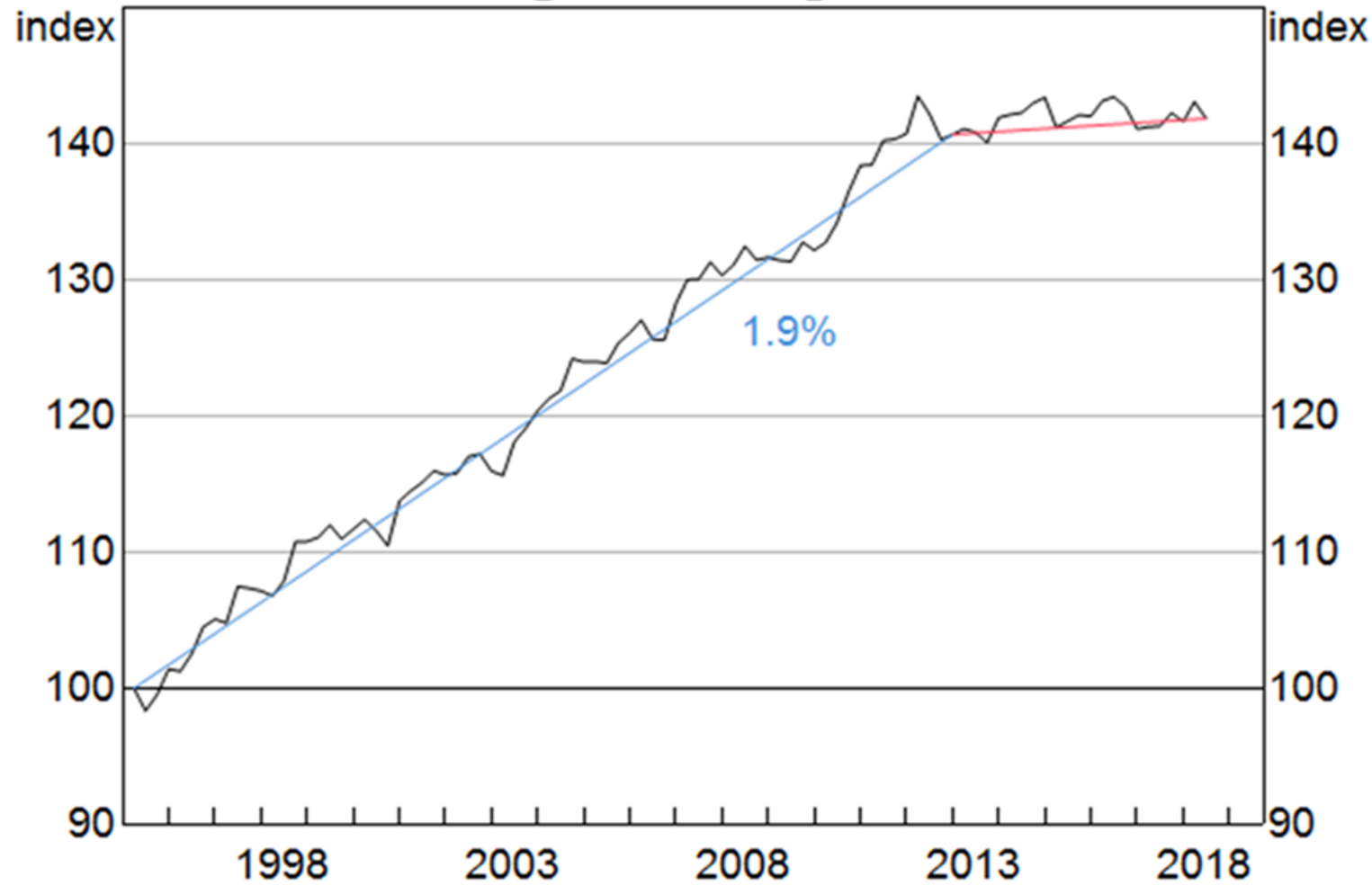


¹ Respondents who answered “the same” are not shown. In Mar 2018, n = 1,230; in June 2018, n = 1,648; in Sept 2018, n = 1,158; and in Dec 2018, n = 1,037.

“The philosophy
 of protectionism
 is a philosophy of
 war” **Ludwig
 von Mises 1949**

The Australian economy: resilient, but more downside than upside risks ...

Real Average Earnings Per Hour*



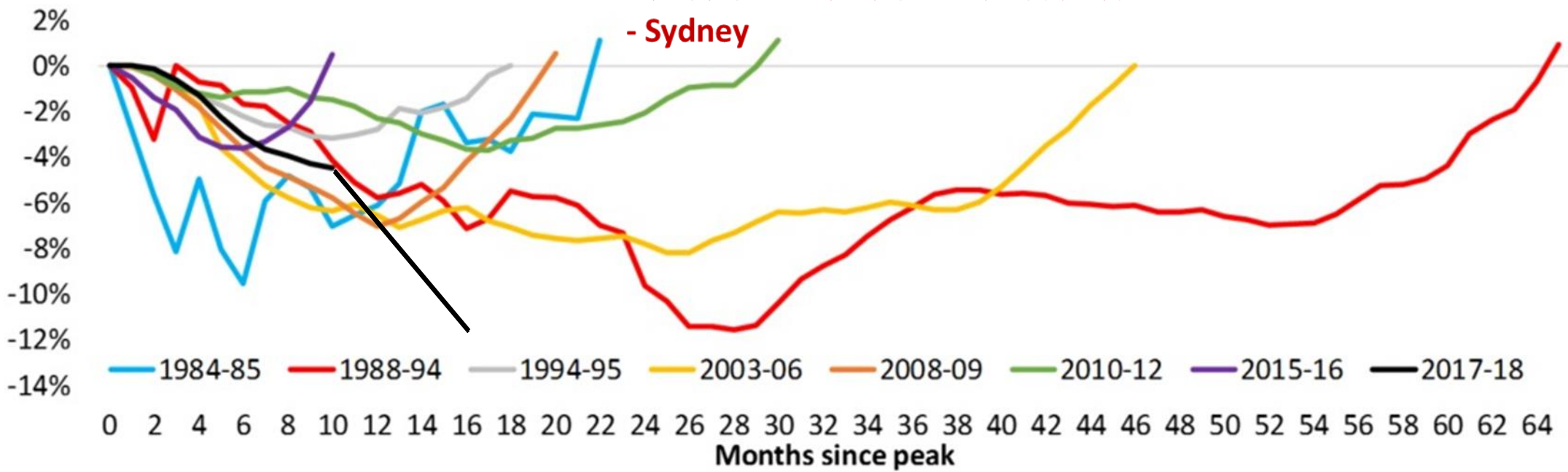
* Deflated by the Household Final Consumption Expenditure Implicit Price Deflator; straight lines denote linear trend; label shows average annual growth

Sources: ABS; RBA

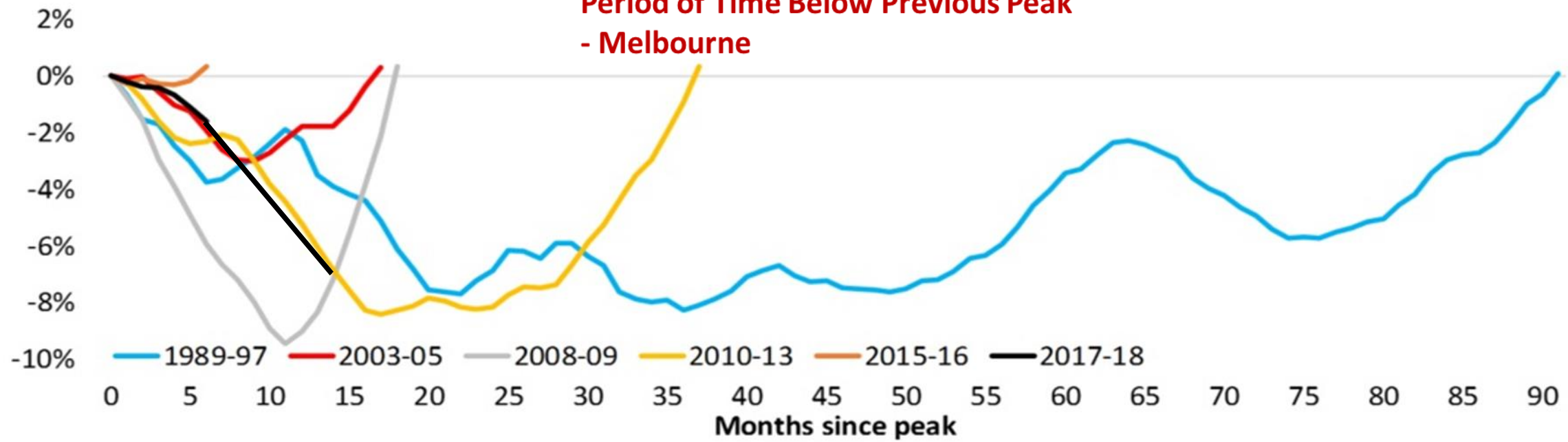




Period of Time Below Previous Peak - Sydney

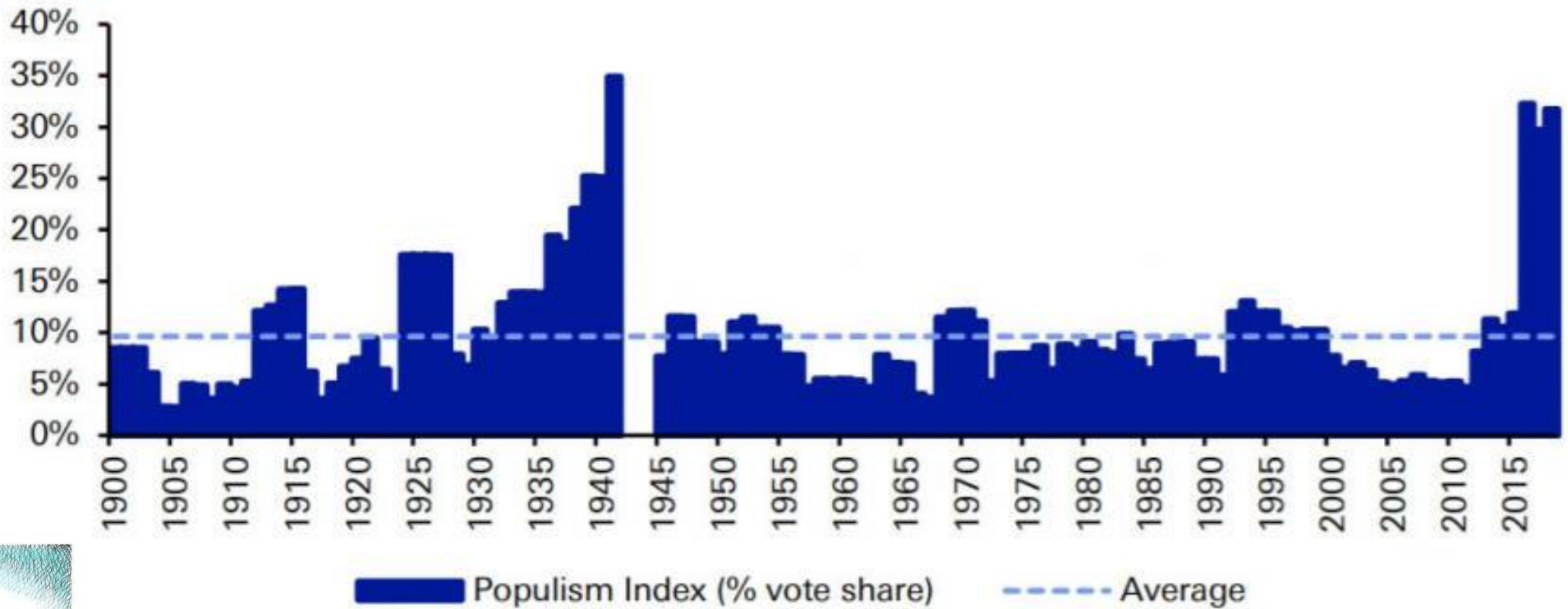


Period of Time Below Previous Peak - Melbourne



Politics and populism

Populism index (% of vote across key countries, population weighted)



Deutsche Bank, Author's Calculations



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POLITICAL CARTOONS.COM

- 1/07/2016
- 1/09/2013
- 1/08/2010
- 1/11/2007
- 1/10/2004

Source: Thomson Reuters Datastream

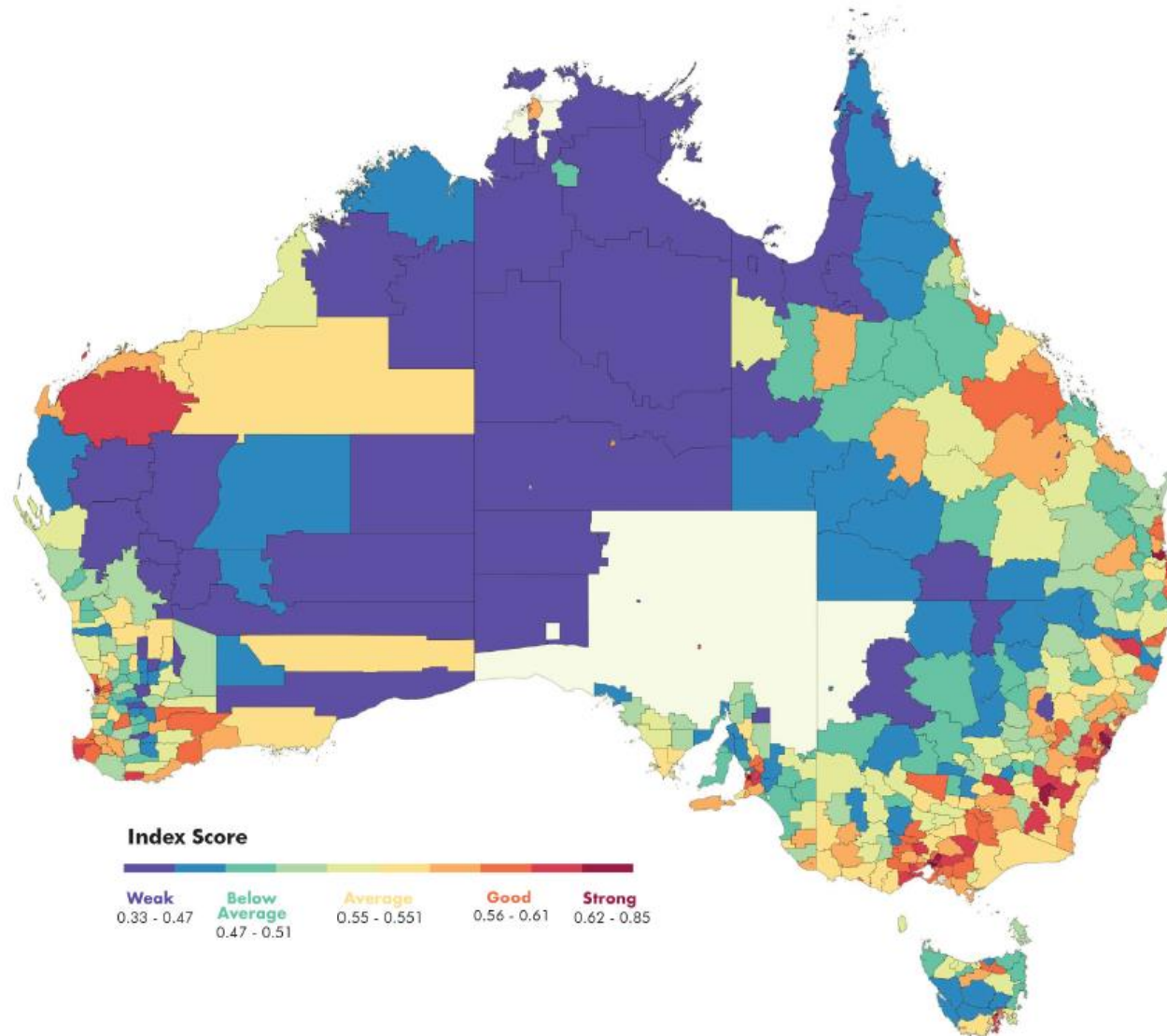


Figure 1: Overall Human Capital Index Performance by LGA*

FUN FACT

The population of Australia is 25 million.

The population of greater Tokyo is 38 million.

Source: worldpopulationreview.com

2018 Social Progress Index results



The Aussie Dollar and equity market predictions

	From	Starting	To	Ending	% Gain/ Fall	Duration
Bear market	2312	September 1987	1205	January 1991	47.9 %	3 yrs, 4 months
Bull market	1205	January 1991	3506	February 2002	+ 191 %	11 yrs, 1 month
Bear market	3506	February 2002	2693	March 2003	23.2 %	1 year, 1 month
Bull market	2693	March 2003	6852	November 2007	+154 %	4 yrs, 8 months
Bear market	6852	November 2007	3121	March 2009	54.4 %	1 year, 5 months
Bull market	3121	March 2009	5025	April 2010	+61 %	1 year, 1 month
Bear market	5025	April 2010	3766	August 2011	25.0 %	1 year, 4 months
Bull market	3766	August 2011	6374 (so far)	August 2018?	+69 %	7 years (so far)

A1256587-1216588 (11/18)



Predictions for 2019

- Global growth to slow to 3.5 % (or even slower)
- US rates to peak in 2019, ahead of 2020 slowdown or re
- China to loosen policy further, but growth still likely to fall
- EU/ UK to decelerate further, thanks to Brexit, US trade, It
- Japan to outperform in equities, but bear markets to exte



- Australian GDP growth around 3%, but downside risks
- Aussie dollar to trend down to US 65 cents (which will help)
- RBA on hold all year (also a help)- they can ease, but hope they don't need to!
- Housing price falls (peak to trough) largest on record, but regional divergence and FHO buying opportunity
- Unemployment rate to remain around 5%: job mobility challenges?

“The stock market is a device for transferring money from the impatient to the patient”

Warren Buffett

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disclaimer

/dis'kleimə/

noun

a statement that denies something, especially responsibility.

"the novel carries a disclaimer about the characters bearing no relation to living persons"

synonyms: denial, refusal, rejection

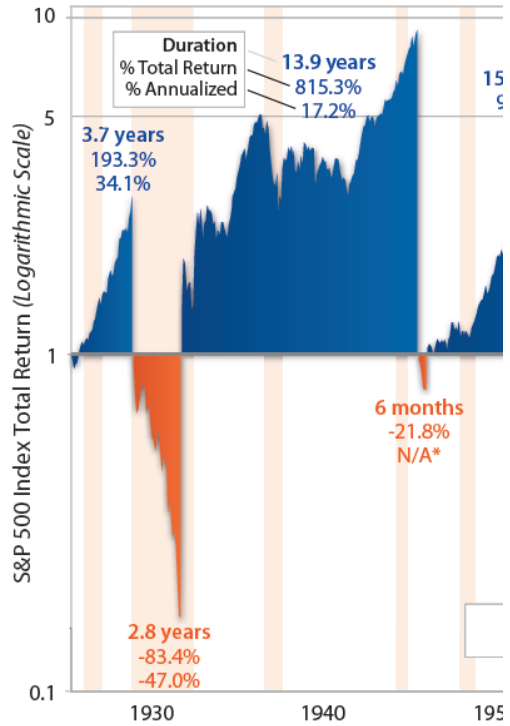
"the disclaimer of responsibility set out in the memorandum"



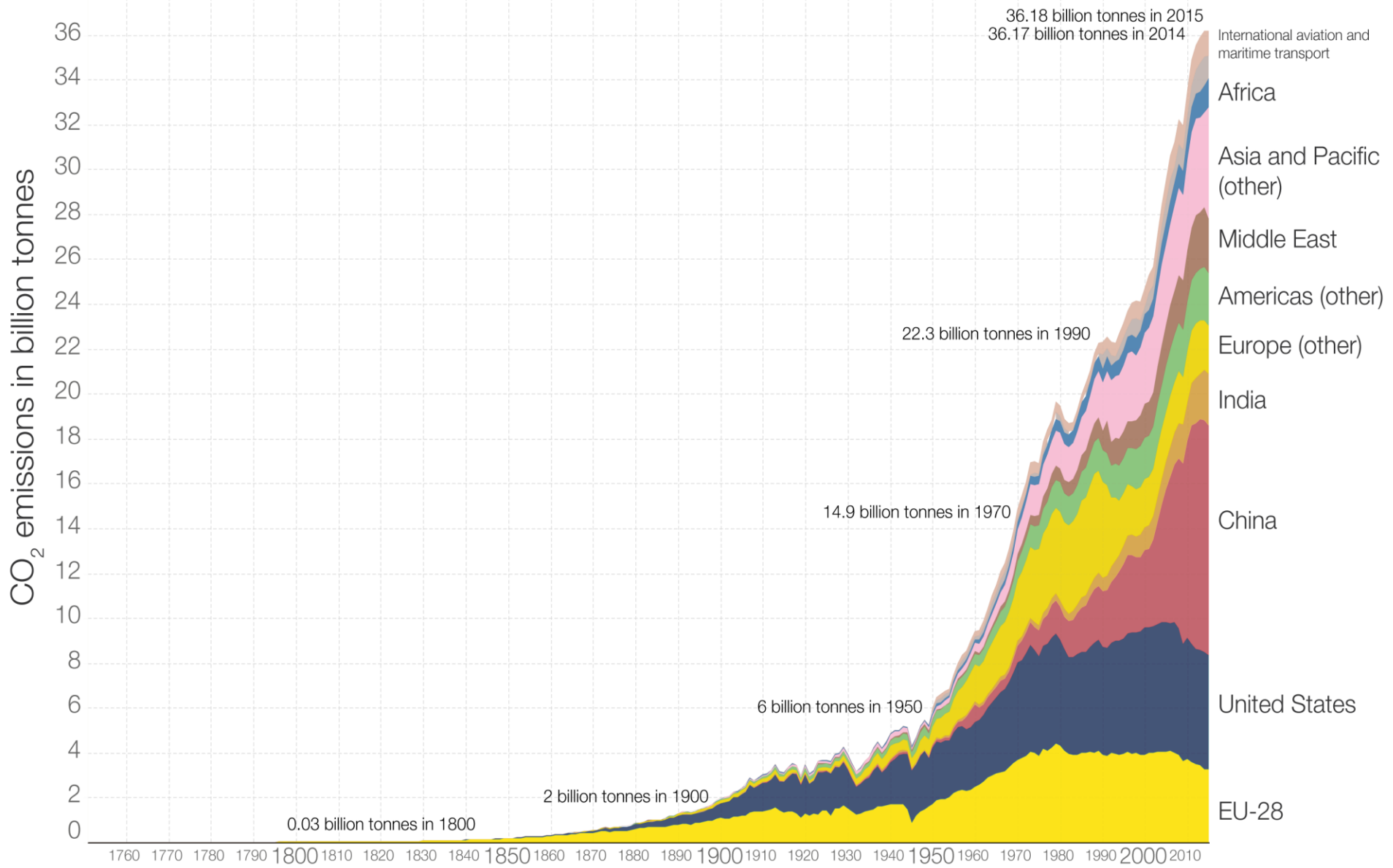
Annual carbon dioxide emissions in billion tonnes (Gt).

This chart shows historical performance of the S&P 500 Index throughout the U.S. Bull and Bear Markets from 1926 through September 2018. Although past performance is no guarantee of future results, we believe looking at the history of the market's expansions and recessions helps to gain a fresh perspective on the benefits of investing for the long-term.

- The average **Bull Market** period lasted 9.1 years with an average cumulative total return of 480%.
- The average **Bear Market** period lasted 1.4 years with an average cumulative loss of -41%.



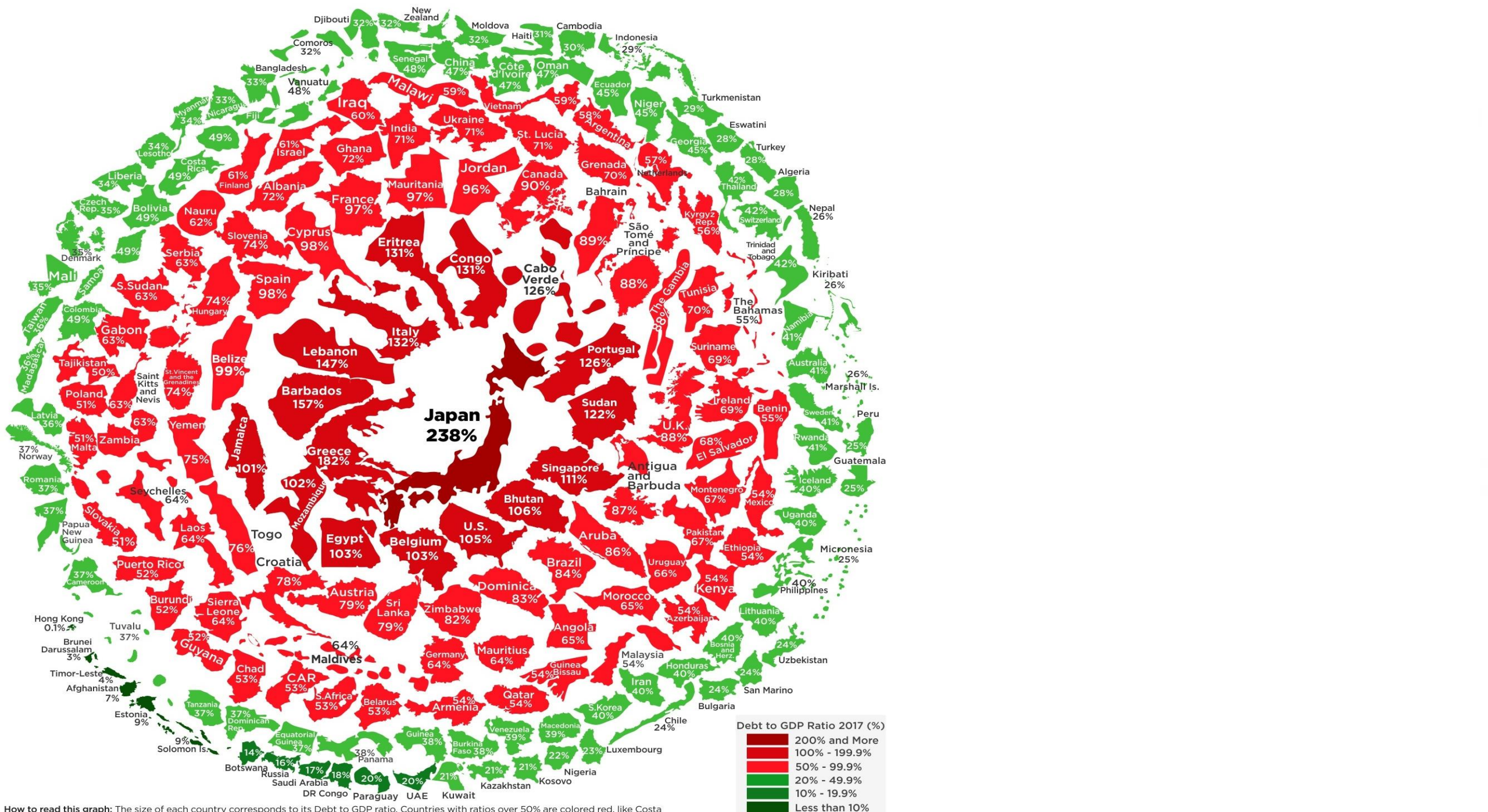
Source: First Trust Advisors L.P., Morningstar. Returns from 1926 - 9/28/18. These results are based on monthly returns—returns using different periods to invest directly in an index. Index returns do not reflect any fees, expenses, or events which may not be repeated in the future. Past performance is no guarantee. The information presented is not intended to constitute an investment recommendation of ERISA and the Internal Revenue Code. First Trust has no knowledge of their clients. First Trust believes the financial advisor is a fiduciary, is capable



Data source: Carbon Dioxide Information Analysis Center (CDIAC); aggregation by world region by Our World In Data. The interactive data visualization is available at OurWorldinData.org. There you find the raw data and more visualizations on this topic.

Not FDIC Insured • Not Bank Guaranteed • May Lose Value

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How to read this graph: The size of each country corresponds to its Debt to GDP ratio. Countries with ratios over 50% are colored red, like Costa Rica. Countries under 50% are colored green, like Colombia. Icons of countries with the higher Debt to GDP ratio are appearing bigger. Debt to GDP ratio is the ratio between a country's government debt and its gross domestic product (GDP).

