

> Macro Investment Outlook

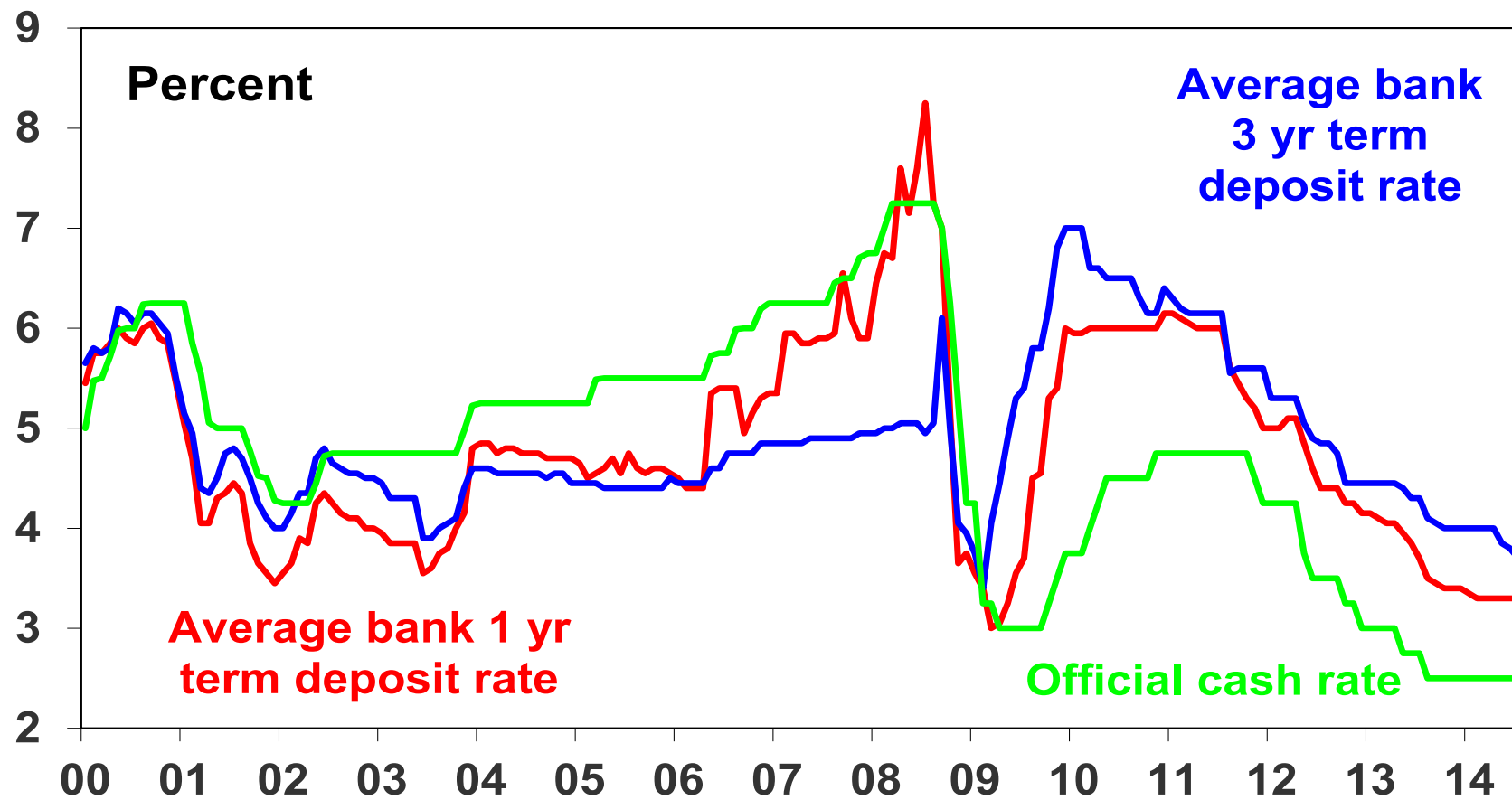


// Dr Shane Oliver

// Head of Investment Strategy and Chief Economist

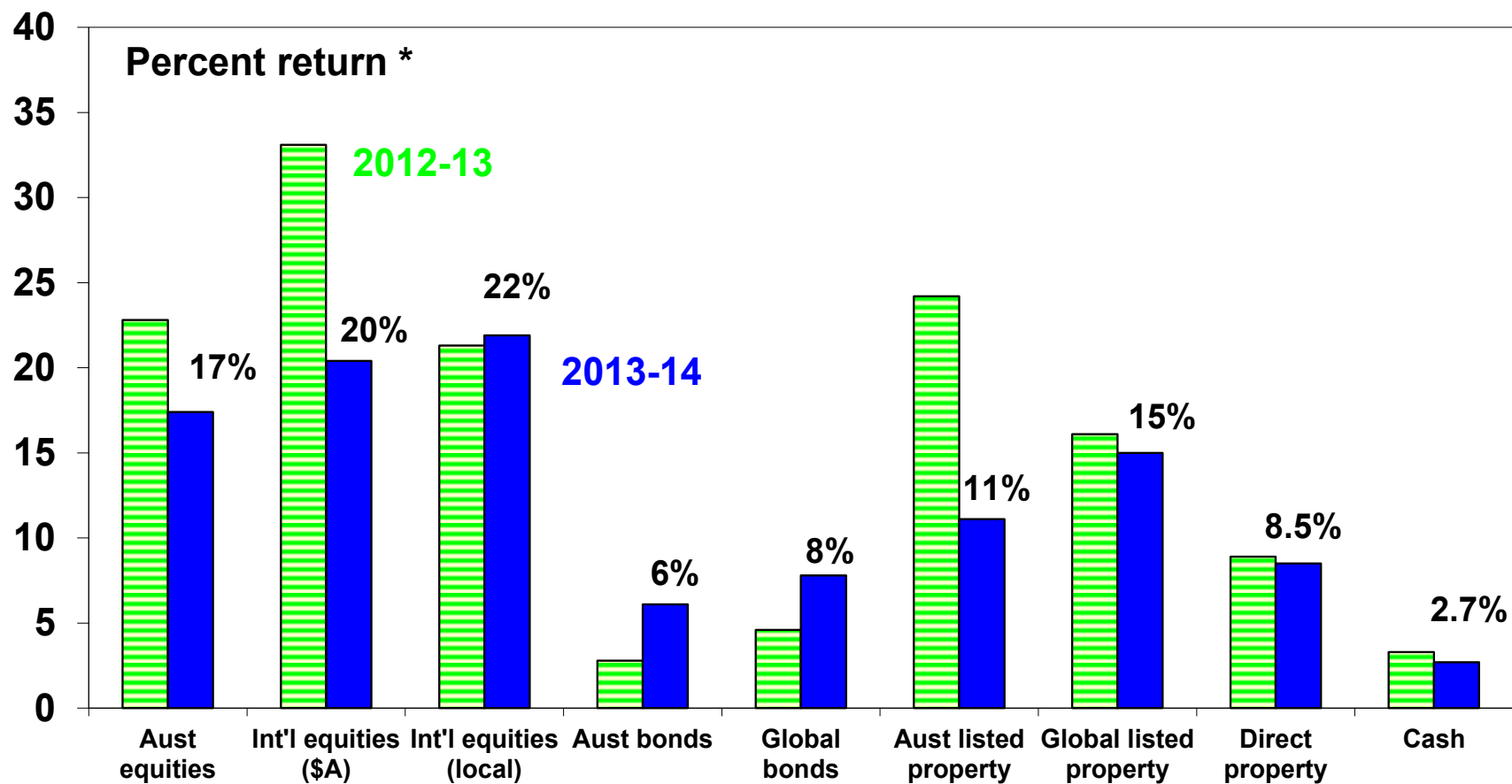
October 2014

The challenge for investors – how to find better yield and returns as bank deposit rates stay low



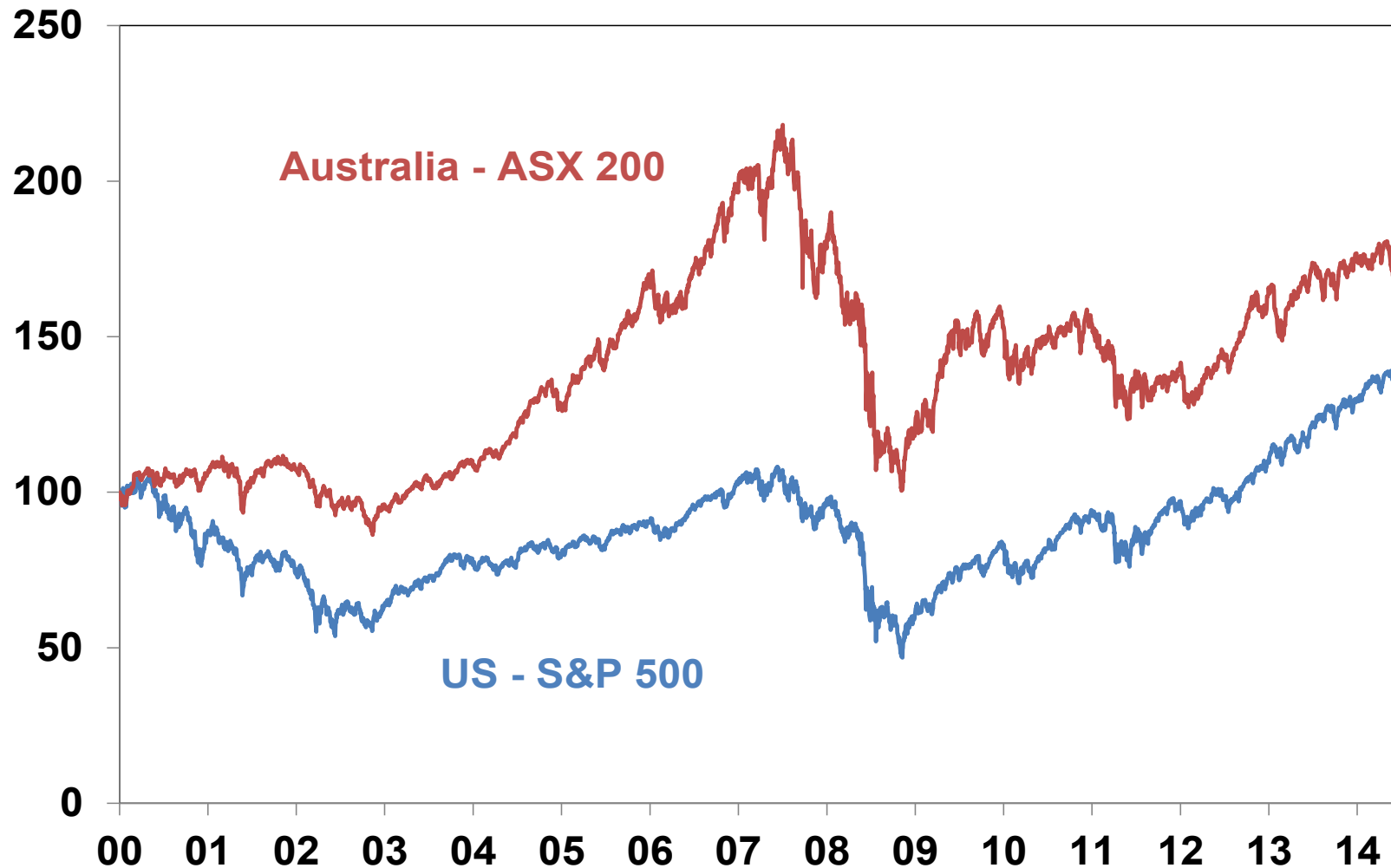
Source: RBA, Bloomberg, AMP Capital

2013-14 saw solid returns, particularly from growth assets



* pre fees and taxes.

Recent rough patch, but trend in shares remains up



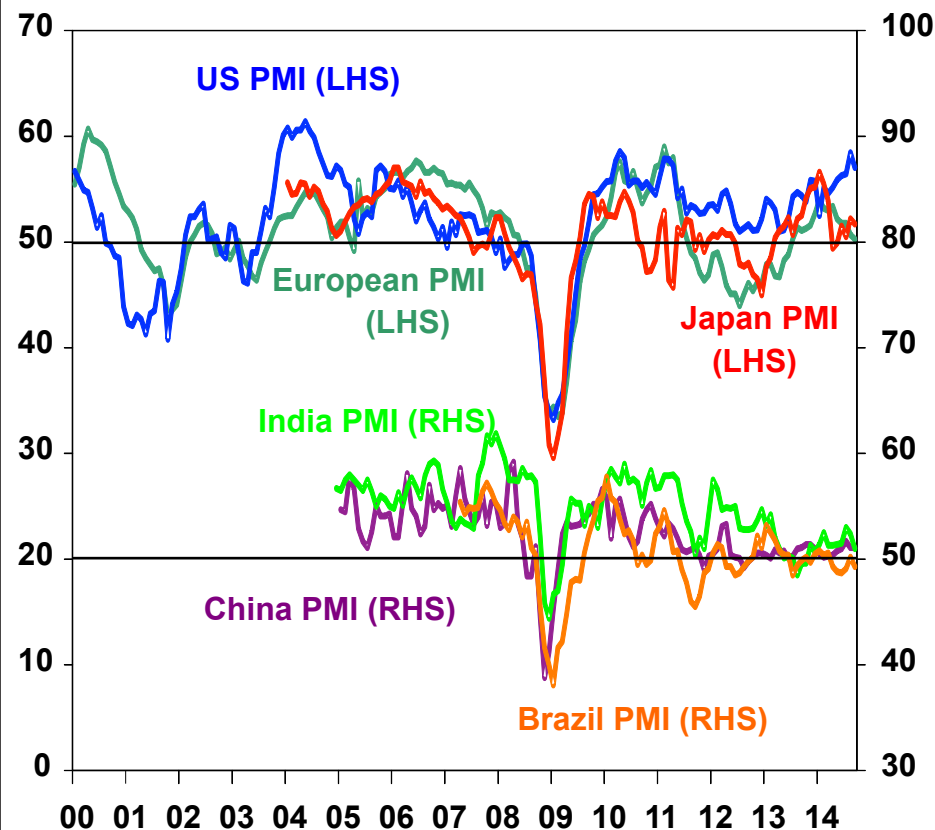
Source: Datastream, AMP Capital Investors

Economic and investment outlook

- > Gradually improving global growth – 2013: 3.0%, 2014: 3.5%
- > Australian growth to pick up on a more sustainable basis over the year ahead
- > Global interest rates to remain low. Australian interest rates on hold into next year
- > The \$A is headed towards \$US0.80 over the next few years
- > Bonds and term deposits offer low returns
- > Cyclical bull market in shares is likely to continue, but expect more volatility
- > Key risks: China; Ukraine; Iraq; Ebola; earlier than expected Fed rate hike

Global business conditions indicators point to okay global growth, but no boom

Manufacturing PMI's

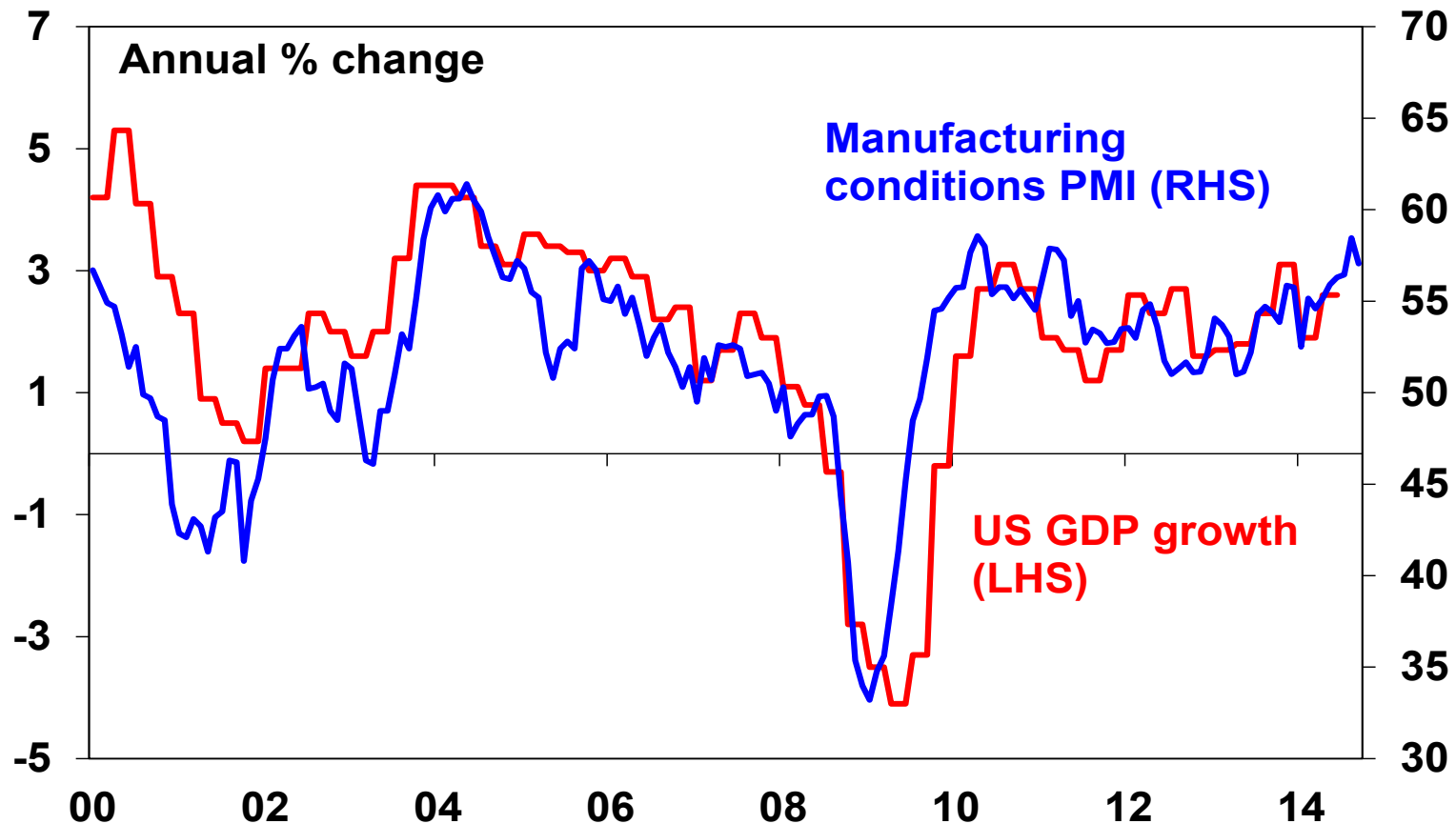


Global Manufacturing PMI average



Source: Bloomberg, AMP Capital

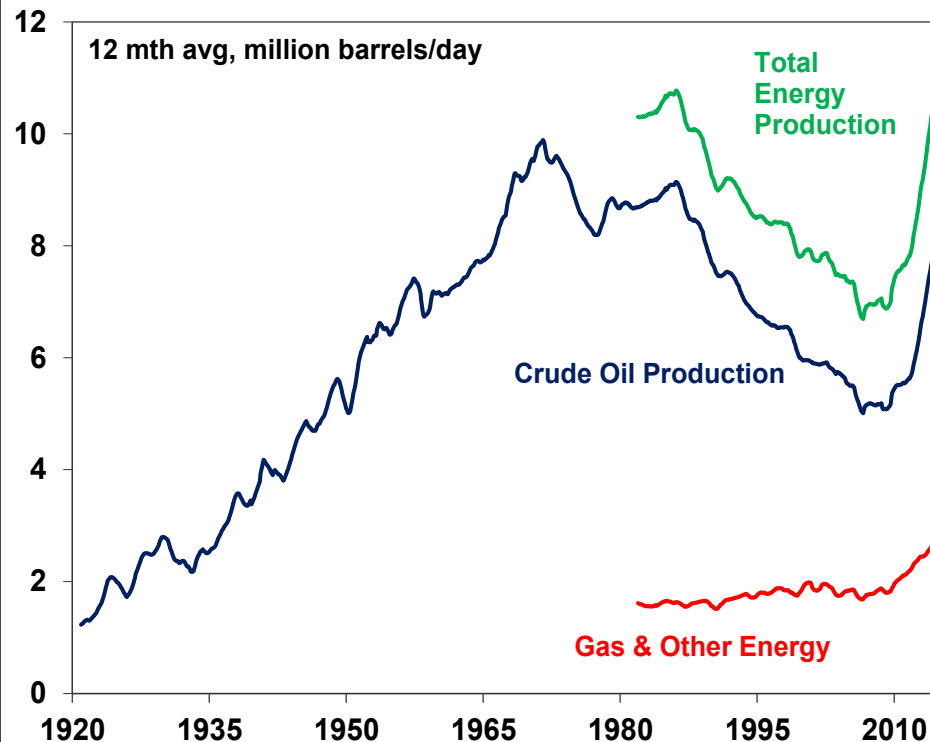
After the March quarter soft patch US economic growth has picked up



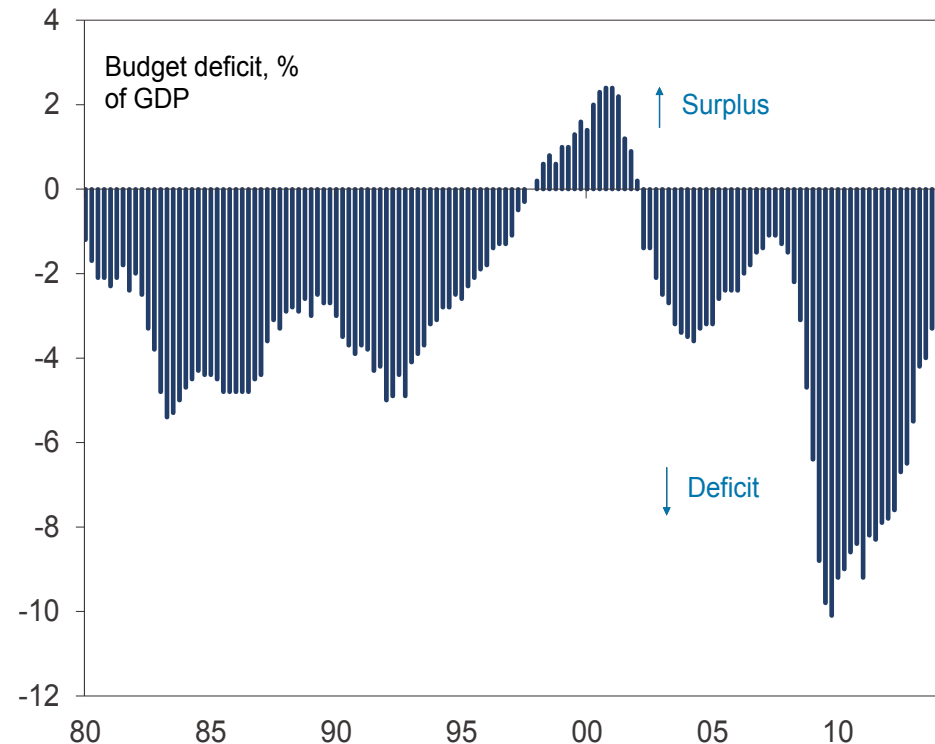
Source: Thomson Reuters, AMP Capital

The US is reinventing itself: energy, manufacturing & tech boom – and a shrinking budget deficit

Surging US Energy Production



Sharp decline in US Federal budget deficit

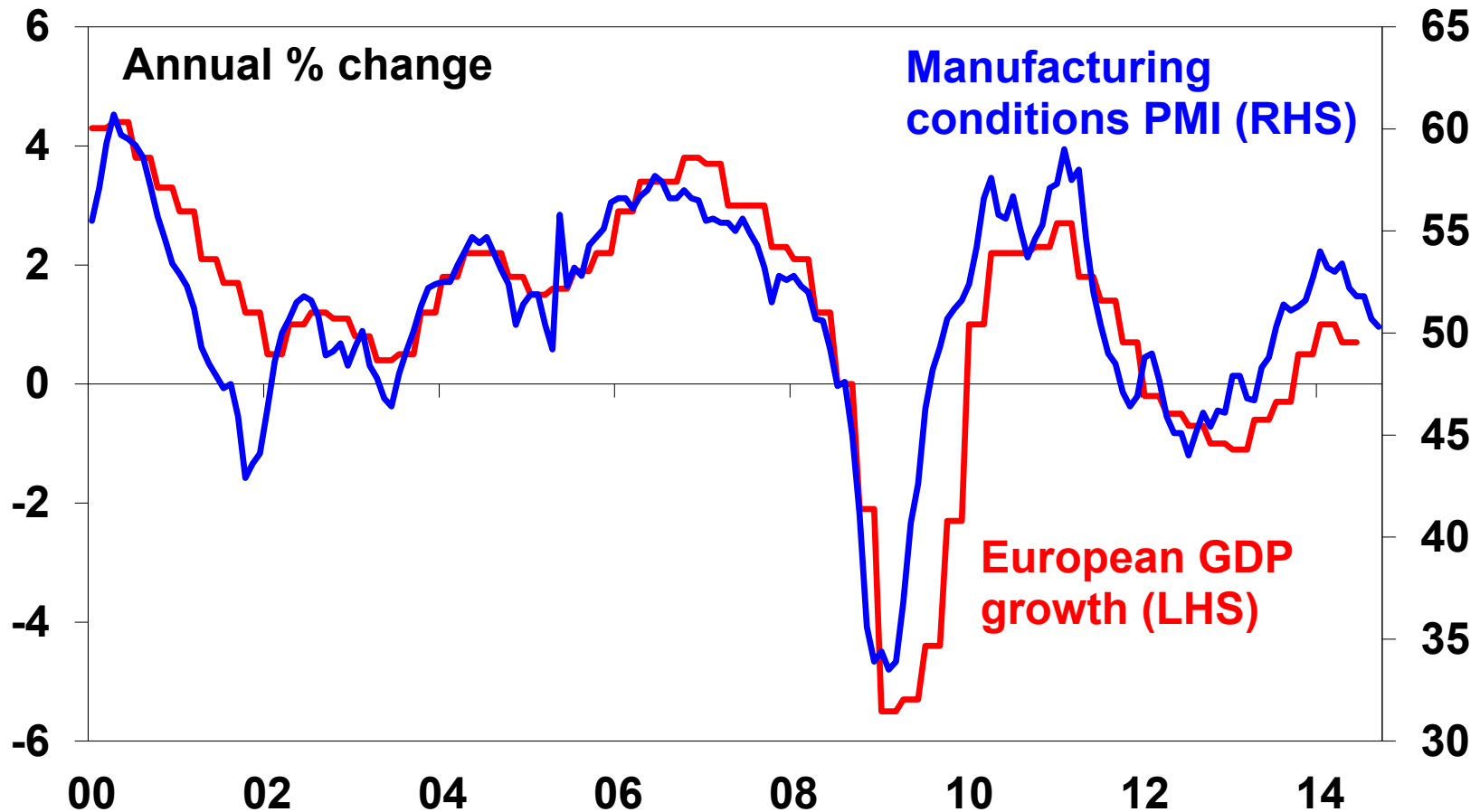


Source: Bloomberg, US EIA, AMP Capital

Companies announcing manufacturing expansion in the US

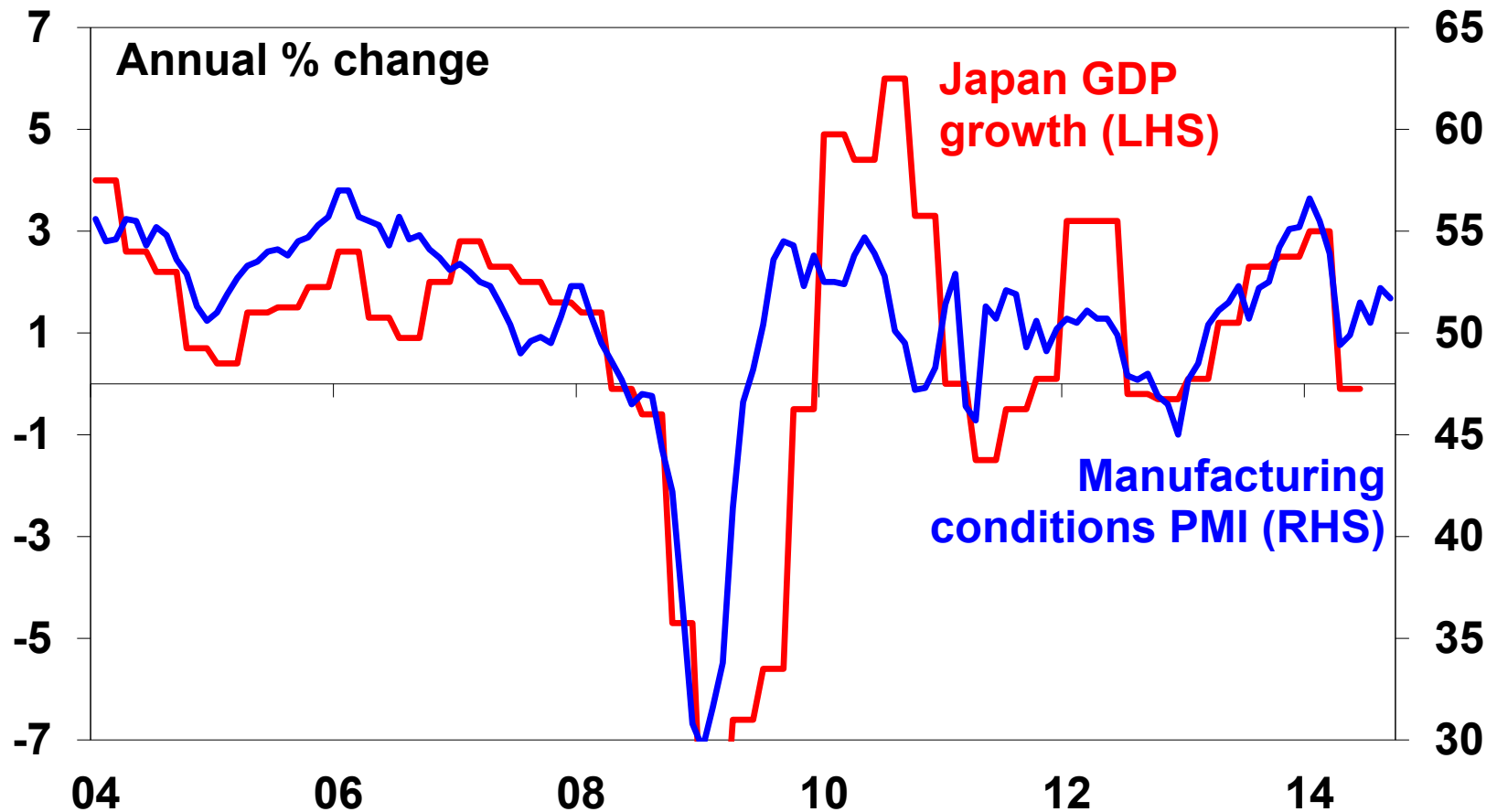


The Eurozone recovery has faltered – more ECB easing underway



Source: Bloomberg, AMP Capital

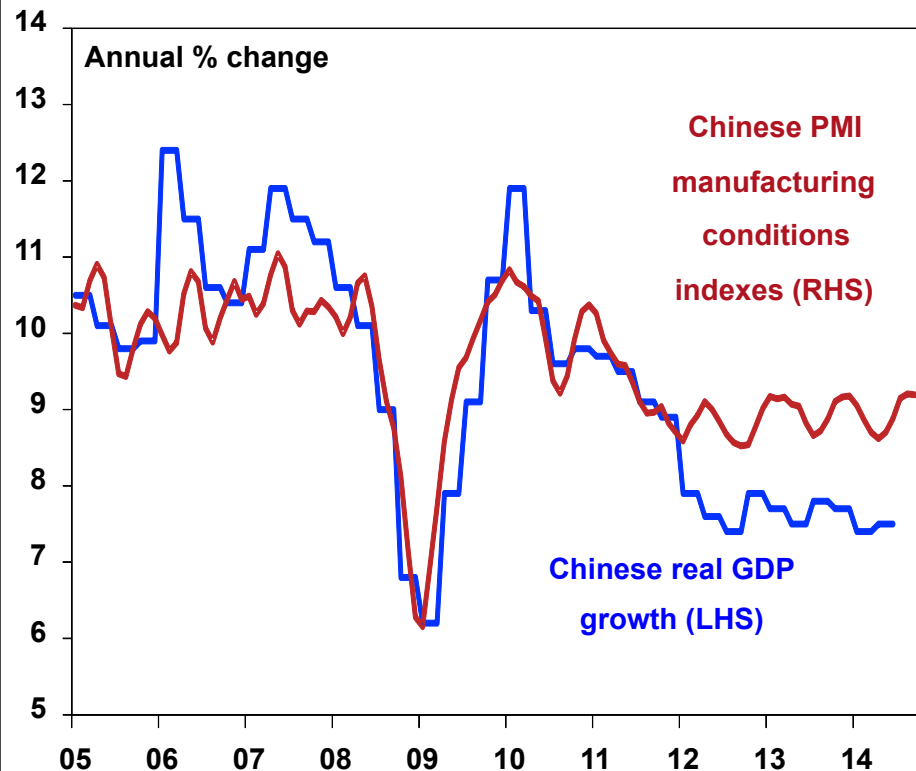
The Japanese recovery is likely to continue, despite the sales tax hike



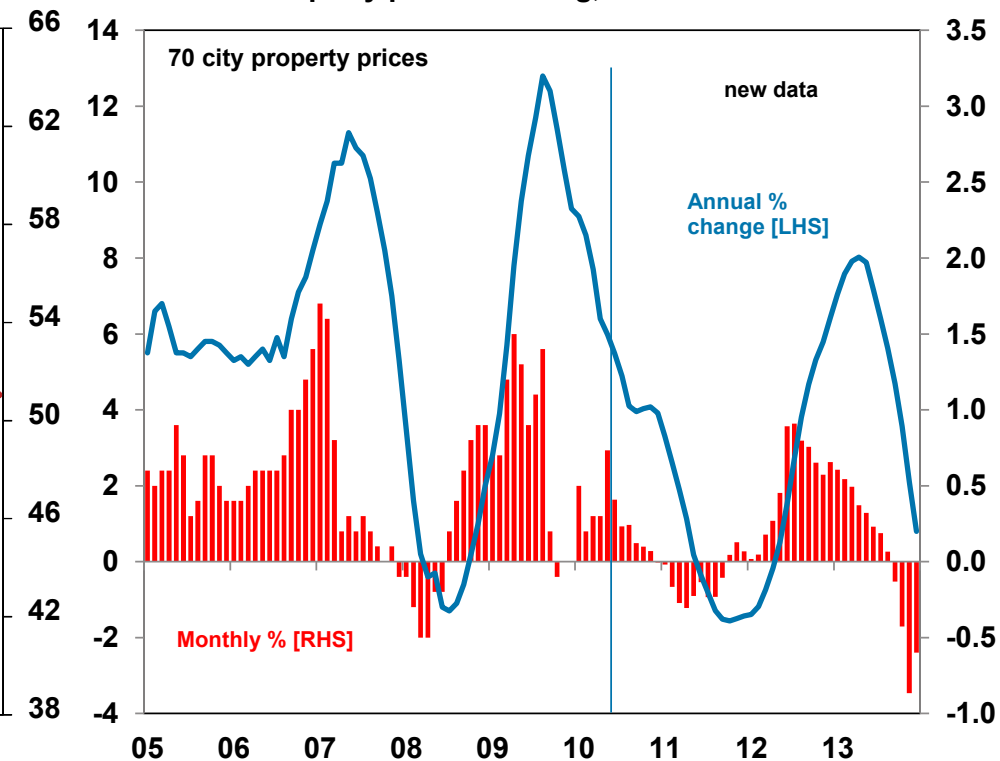
Source: Bloomberg, AMP Capital

Chinese data is running “hot and cold”, but consistent with growth “around 7.5%”. The main risk is the property downturn

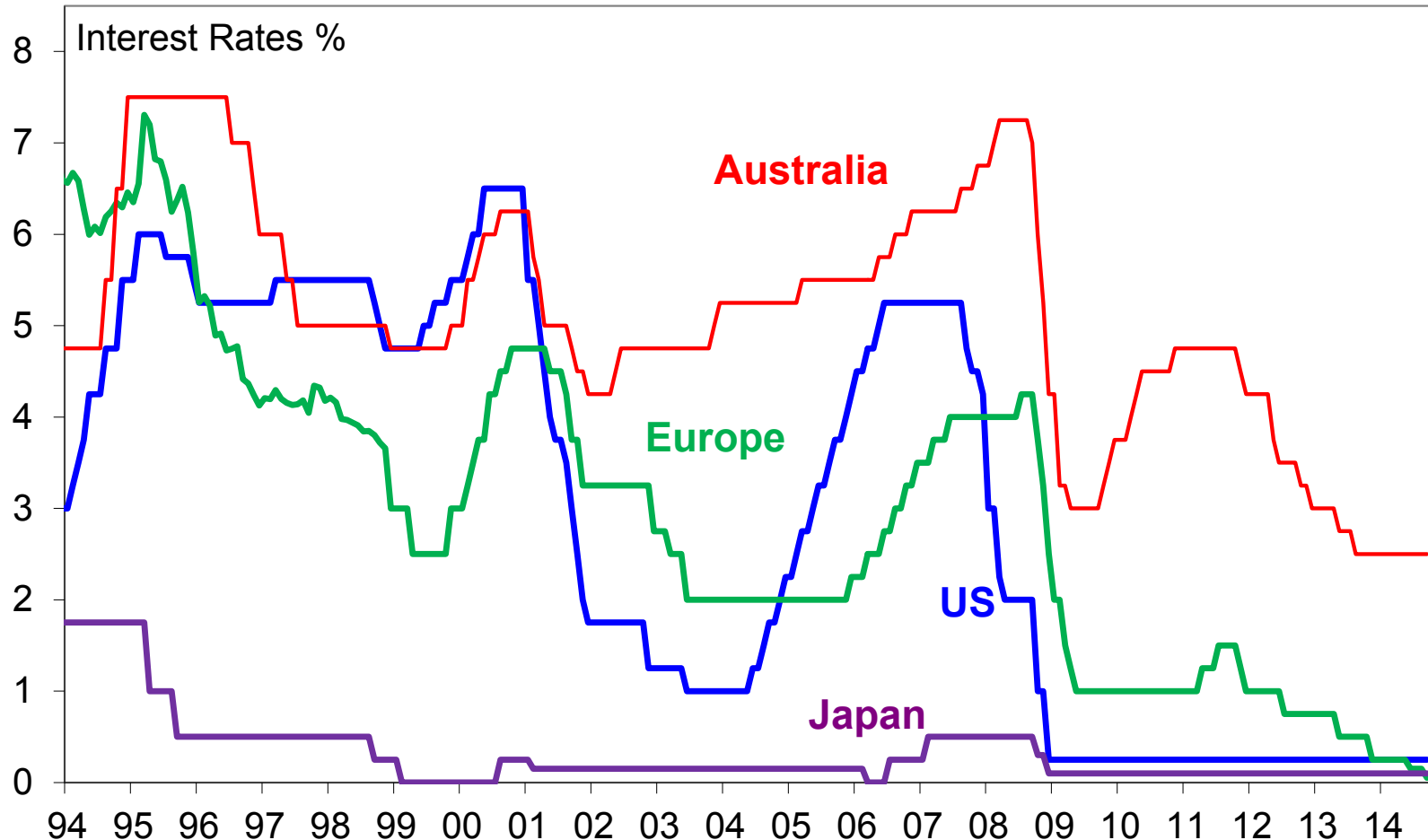
Chinese growth is actually quite stable



Property prices slowing, like 2008 and 2011



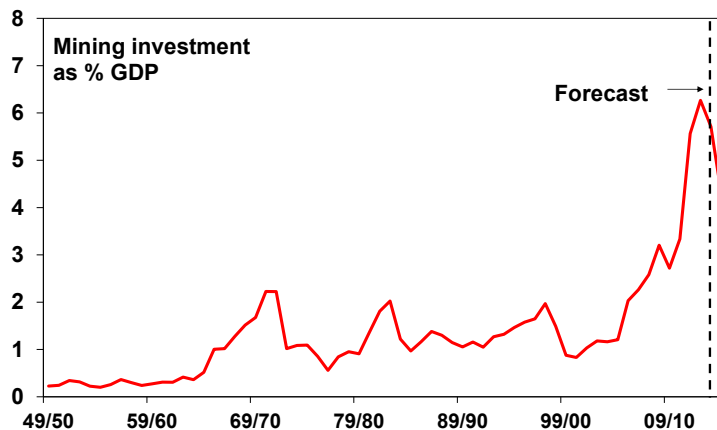
Interest rates likely to remain low for a long time. But debate about the first Fed hike will pick up as 2015 approaches



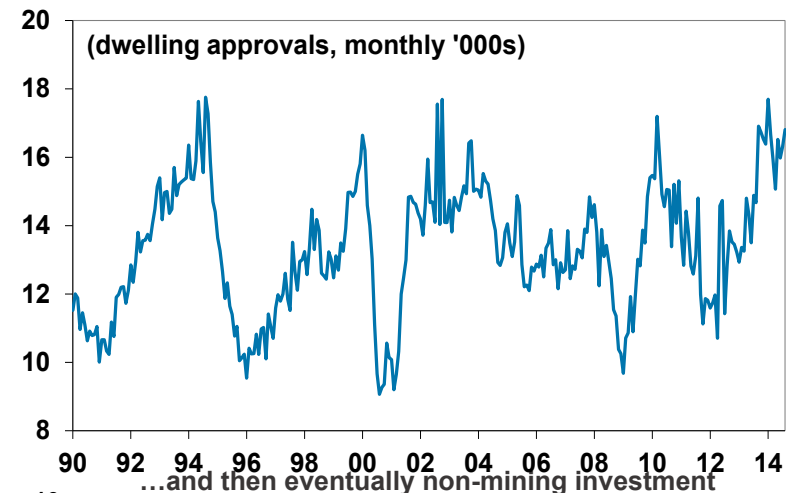
Source: Thomson Reuters, AMP Capital

The Australian economy – mining investment slowing but there have been signs of life elsewhere in the economy

Mining investment looks to have peaked



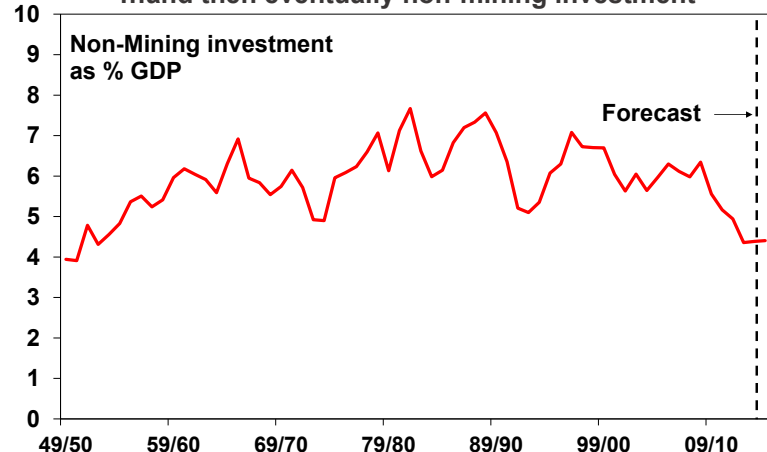
But dwelling construction is looking up...



...which should help boost retail sales...

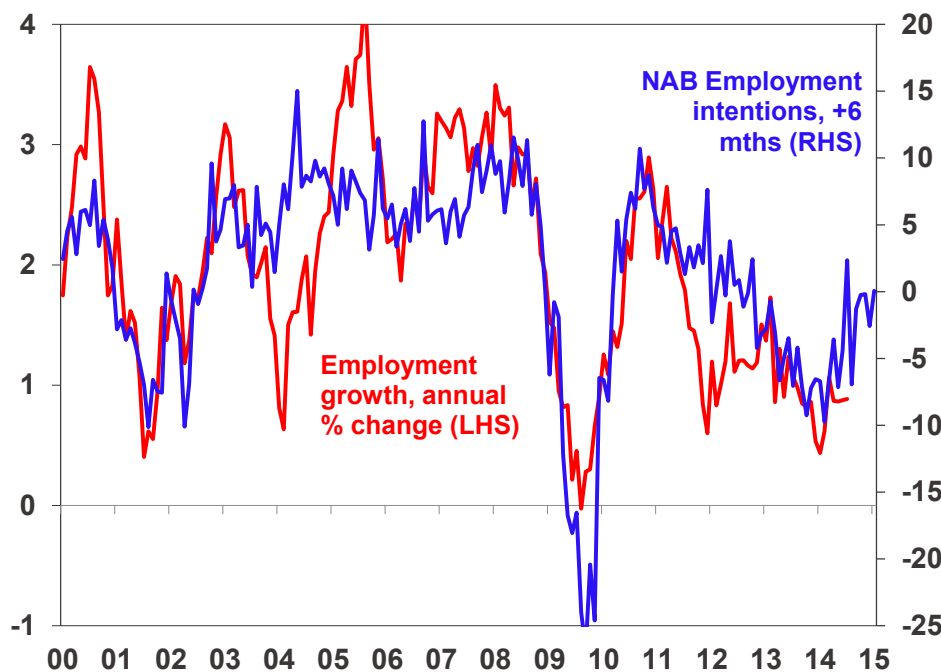


...and then eventually non-mining investment

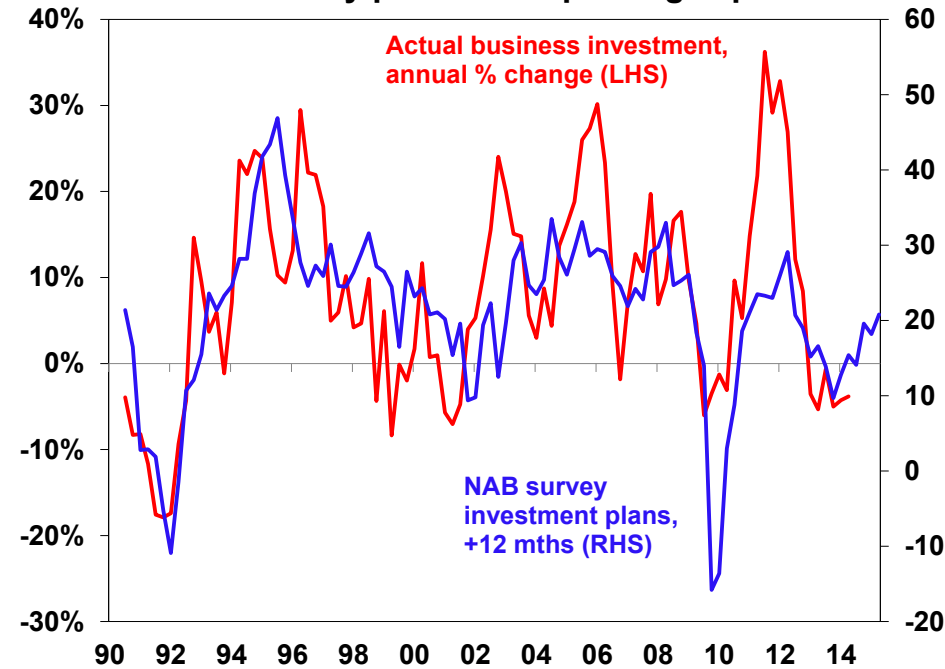


Business surveys point to stronger jobs and investment growth ahead

NAB survey points to improving employment growth

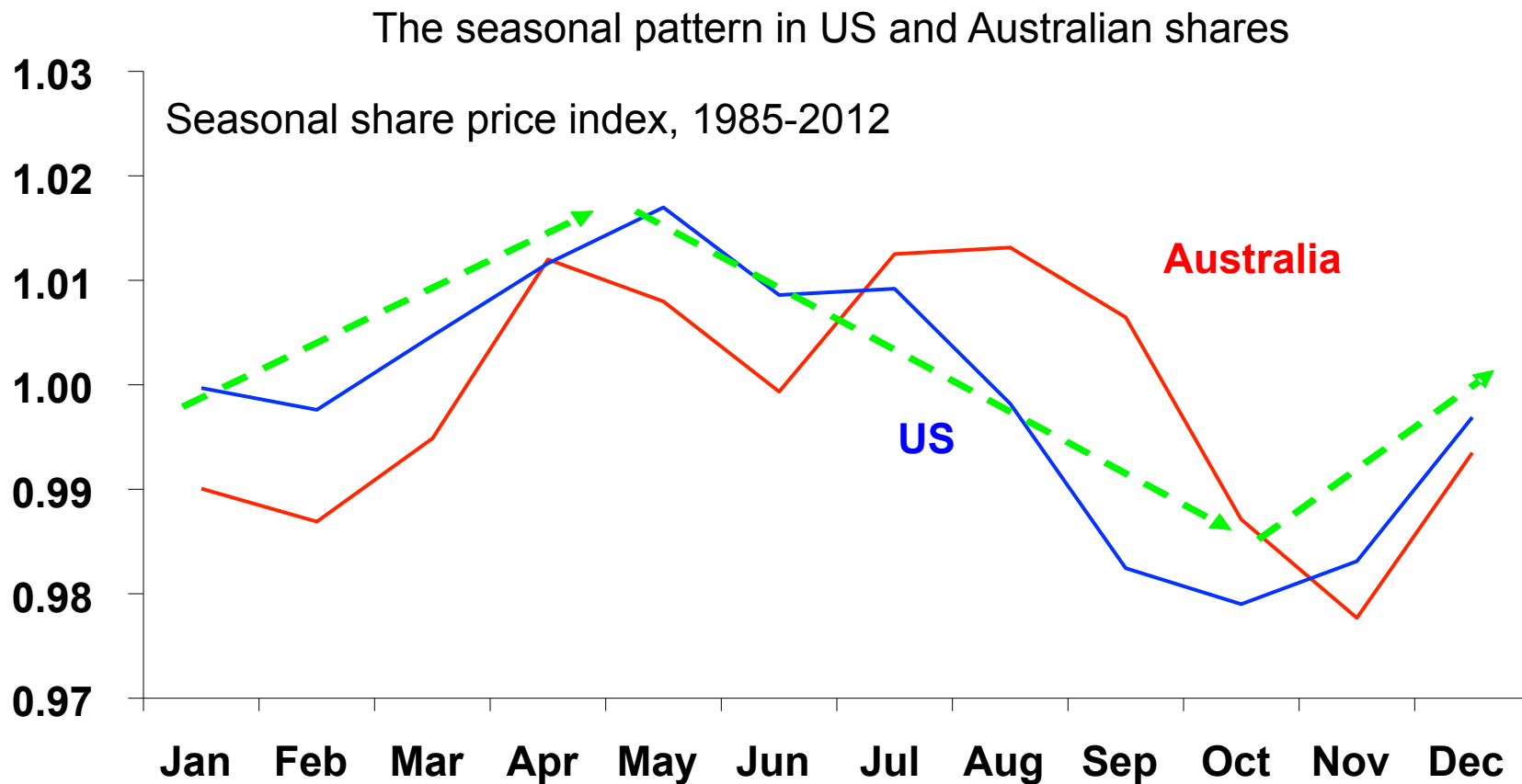


NAB survey points to improving capex



Source: ABS, NAB, AMP Capital

Nearing the end of seasonal weakness for shares



Source: Bloomberg, AMP Capital

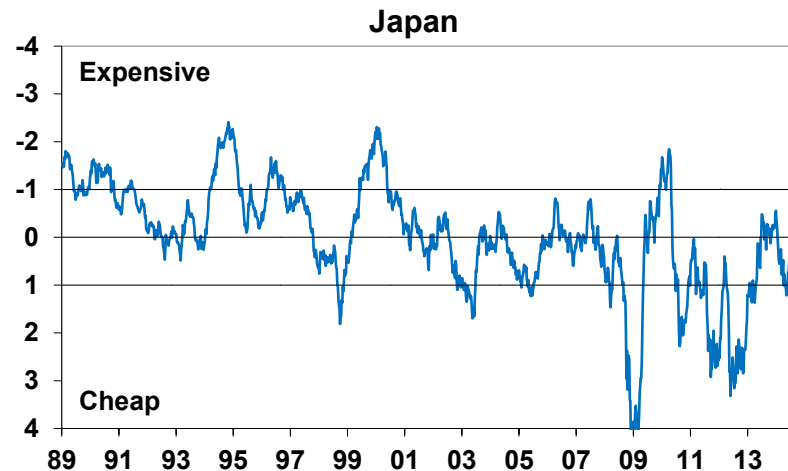
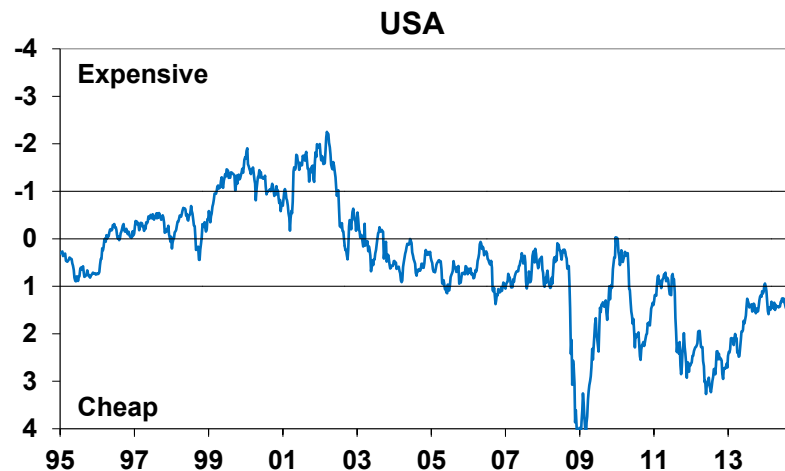
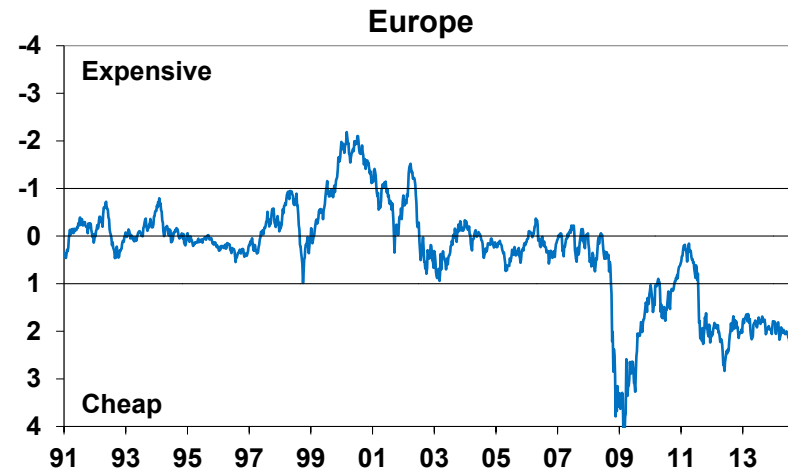
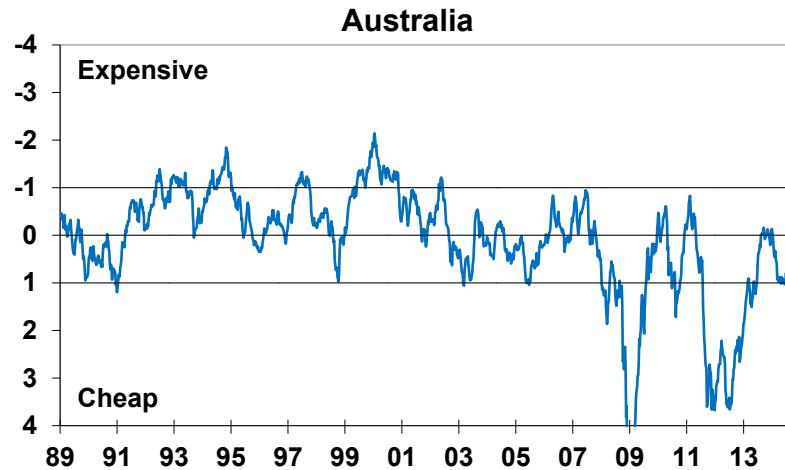
“Bull markets are born on pessimism, grow on scepticism, mature on optimism and die of euphoria”.

John Templeton



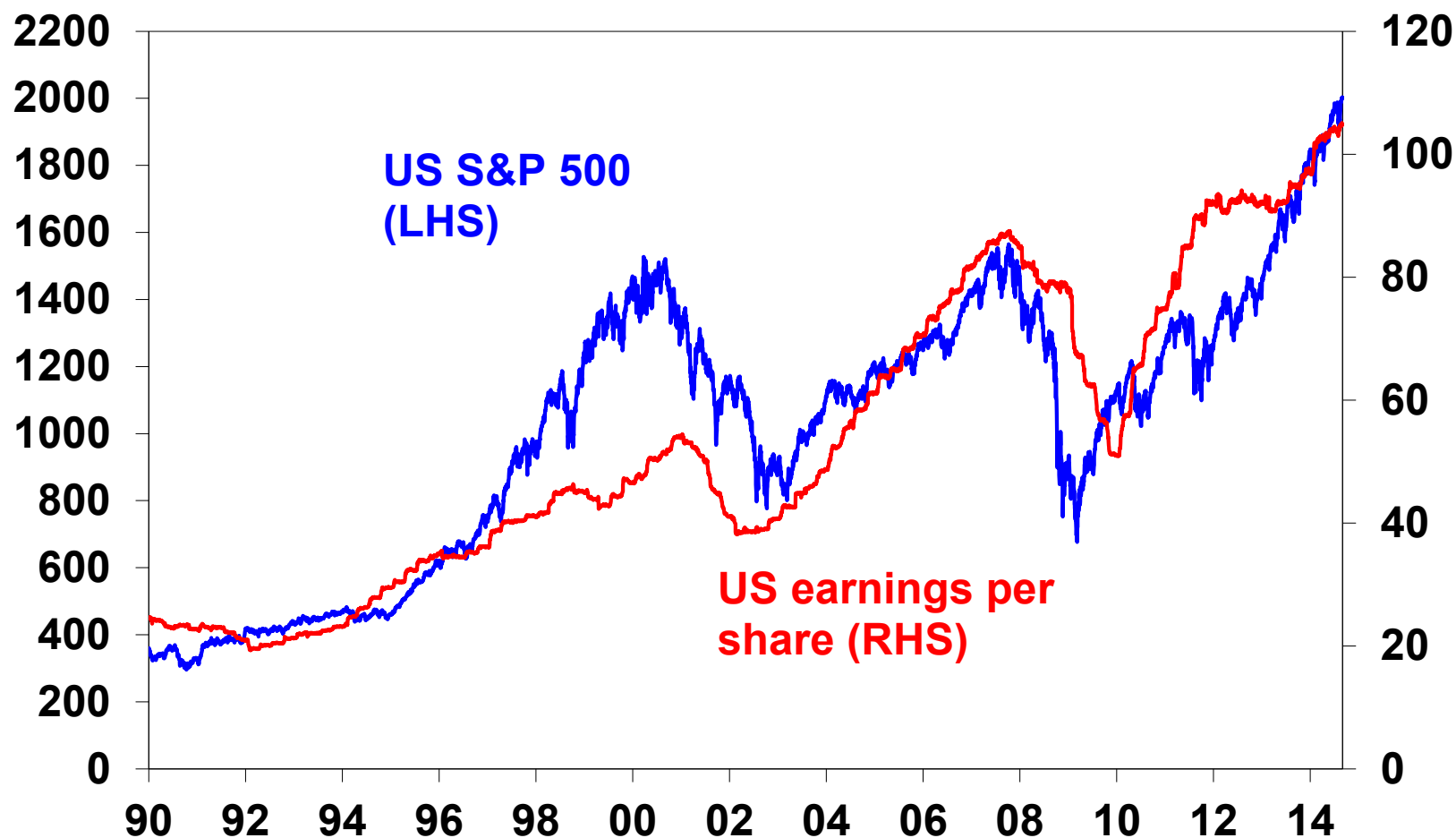
Share markets are generally cheap

Share market valuation indicators



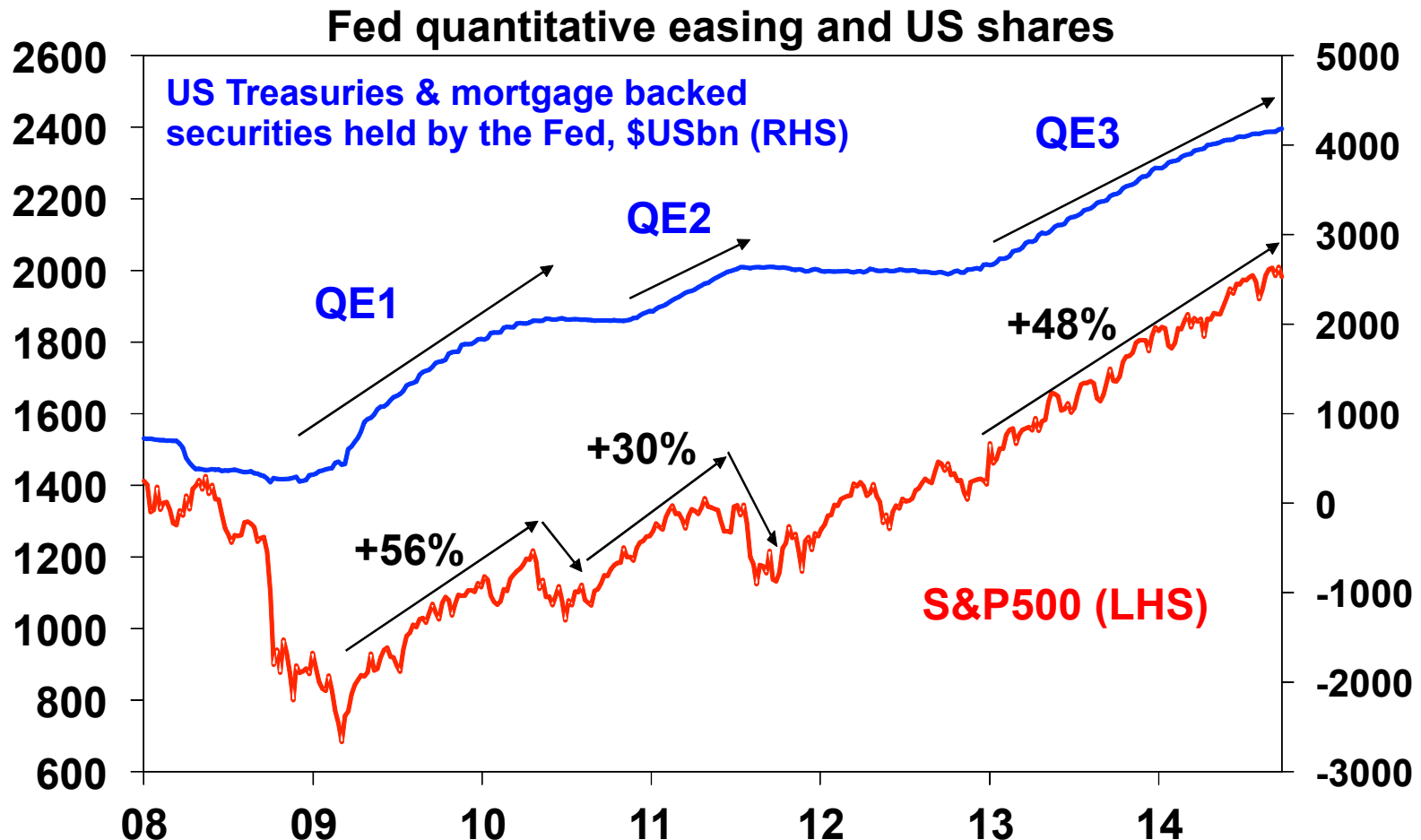
Source: Thomson Reuters, AMP Capital

US shares are at record highs, but underpinned by record profits – much more than just quantitative easing



Source: Bloomberg, AMP Capital

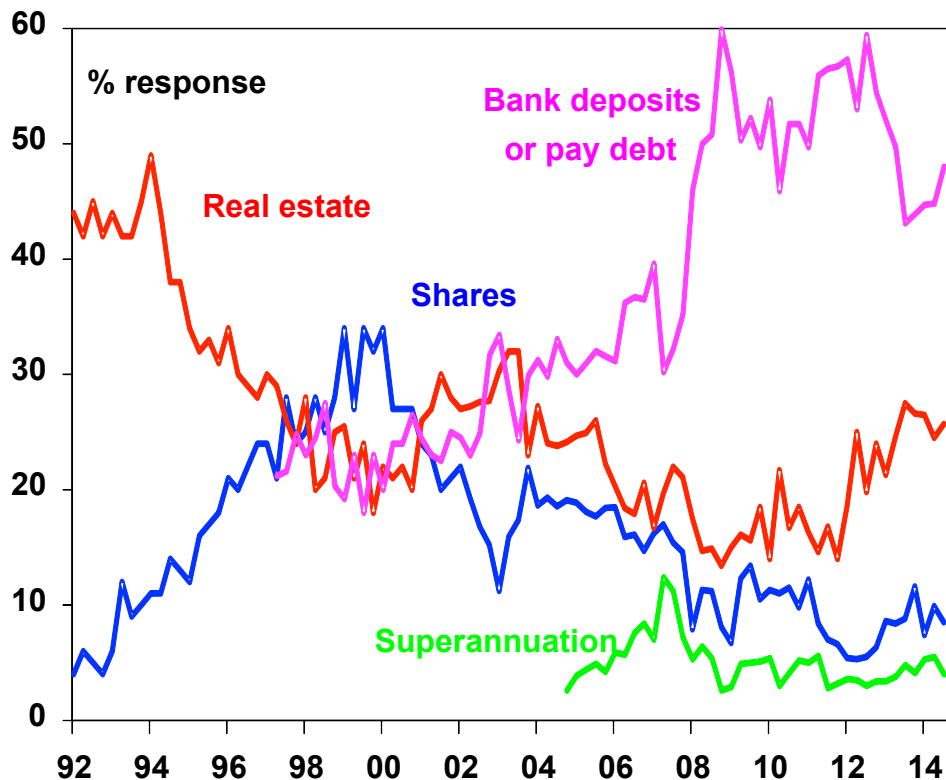
QE3 soon to end – but the US/global economy is more robust that it was in 2010 and 2011



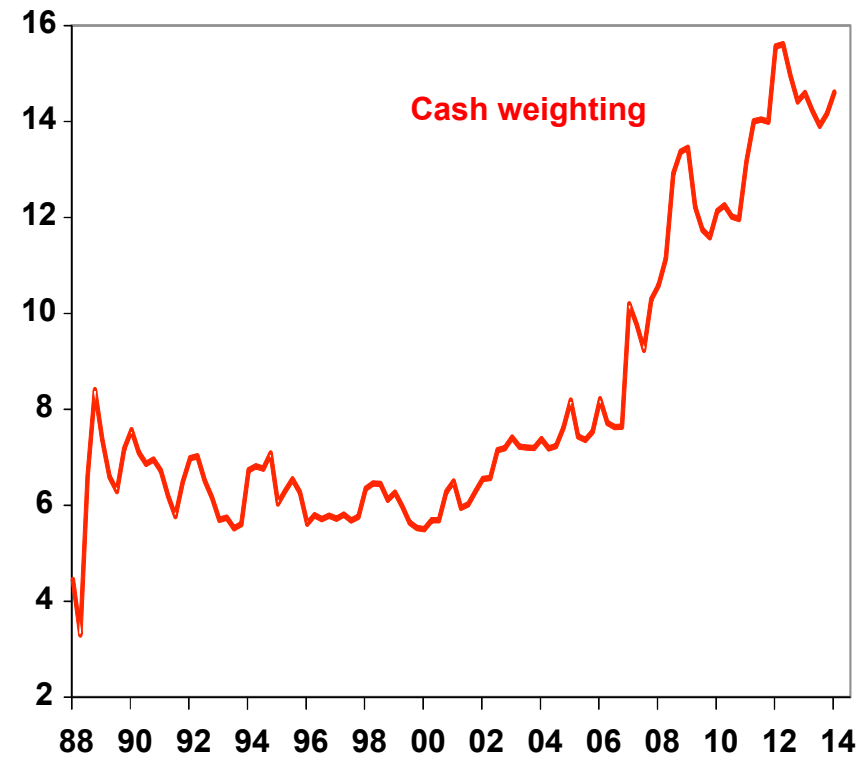
Source: Bloomberg, AMP Capital

There is still plenty of scepticism regarding shares and plenty of cash on the sidelines

Wisest place for savings

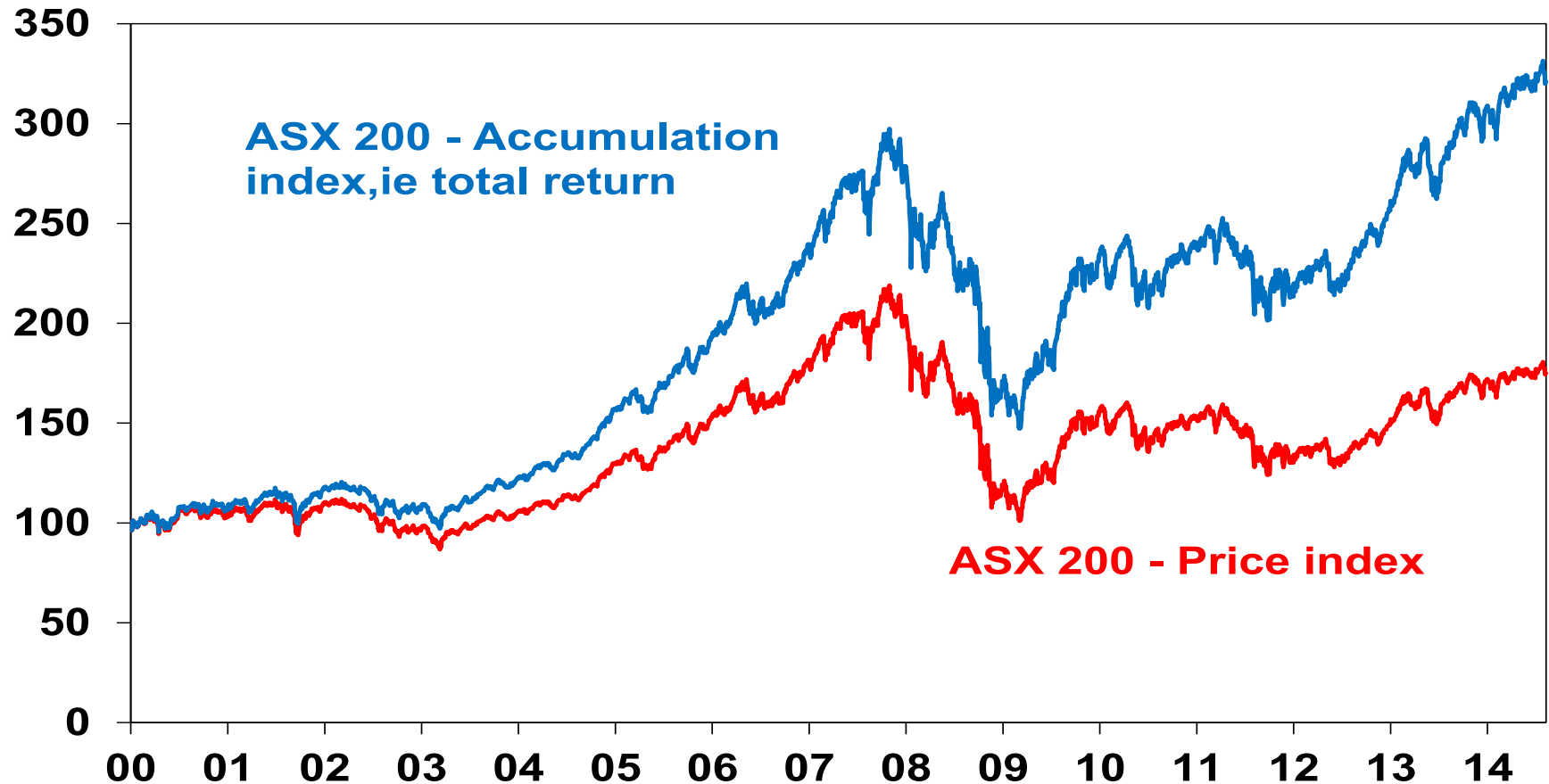


Superannuation system cash weighting



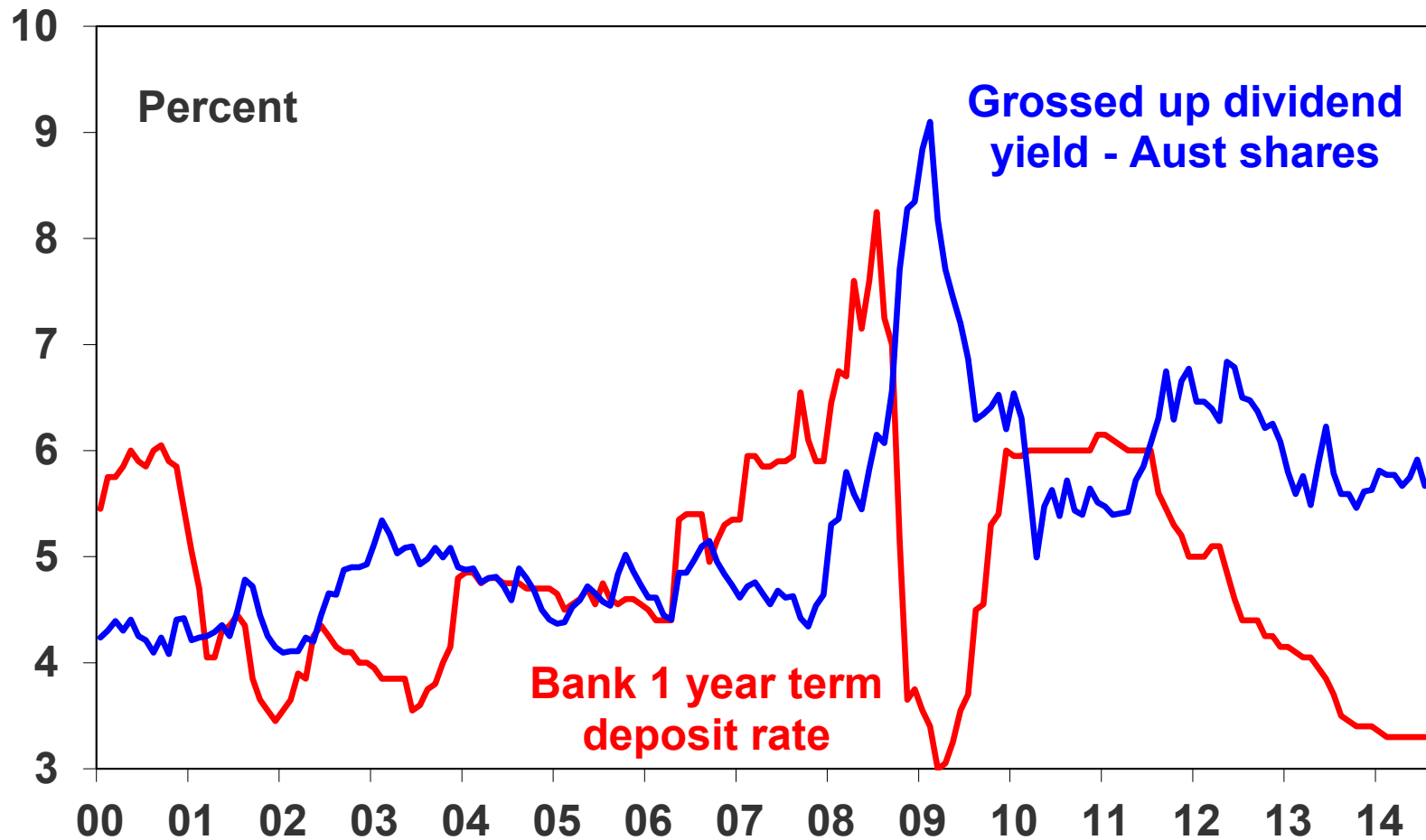
Source: ABS, Westpac/Melbourne Institute, AMP Capital

Australian shares at all time high if dividends are allowed for



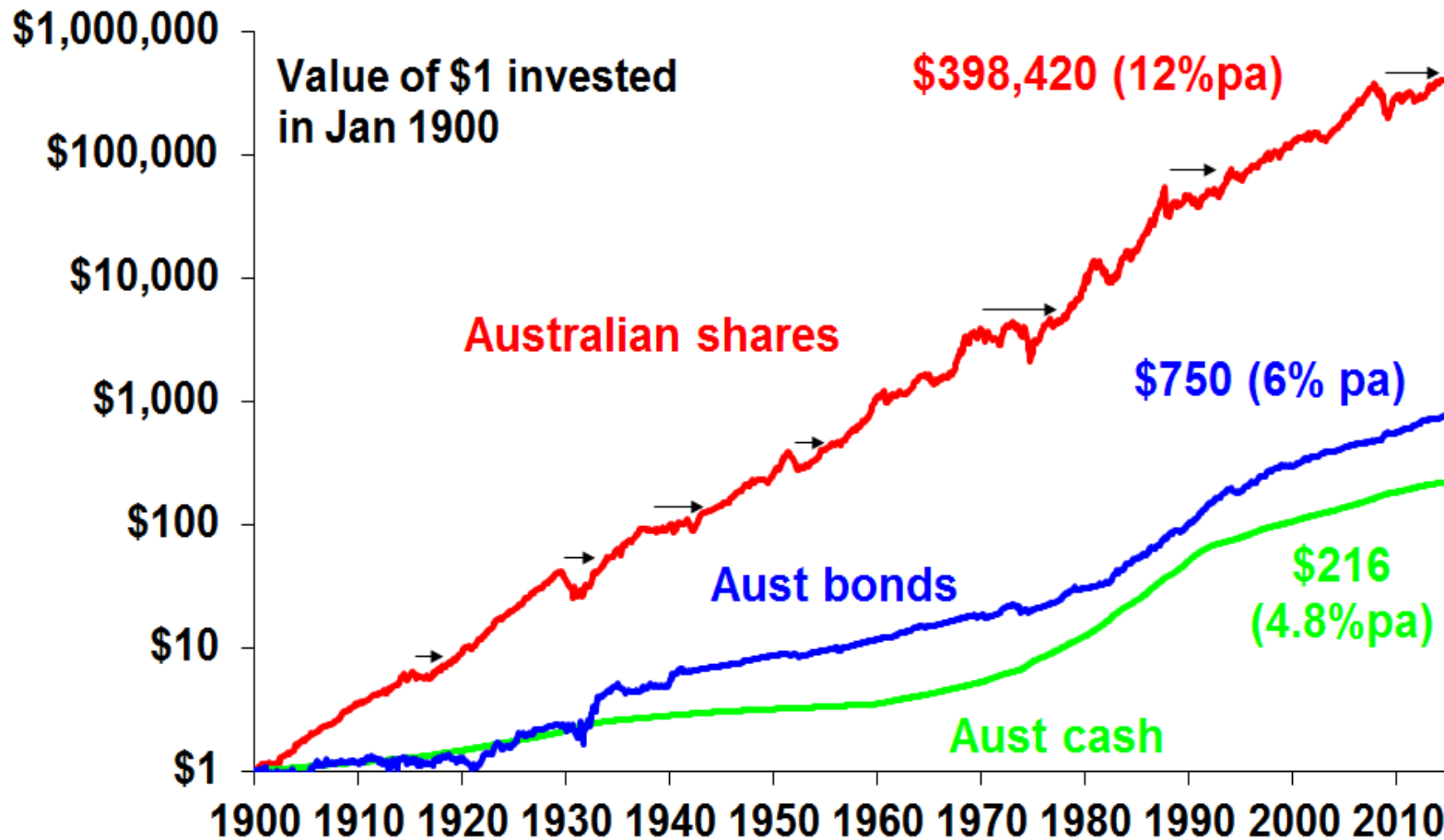
Source: Bloomberg, AMP Capital

Australian shares remain very attractive relative to bank deposits



Source: RBA, Bloomberg, AMP Capital

Shares beat cash and bonds over the long term – Australia



The power of compound interest

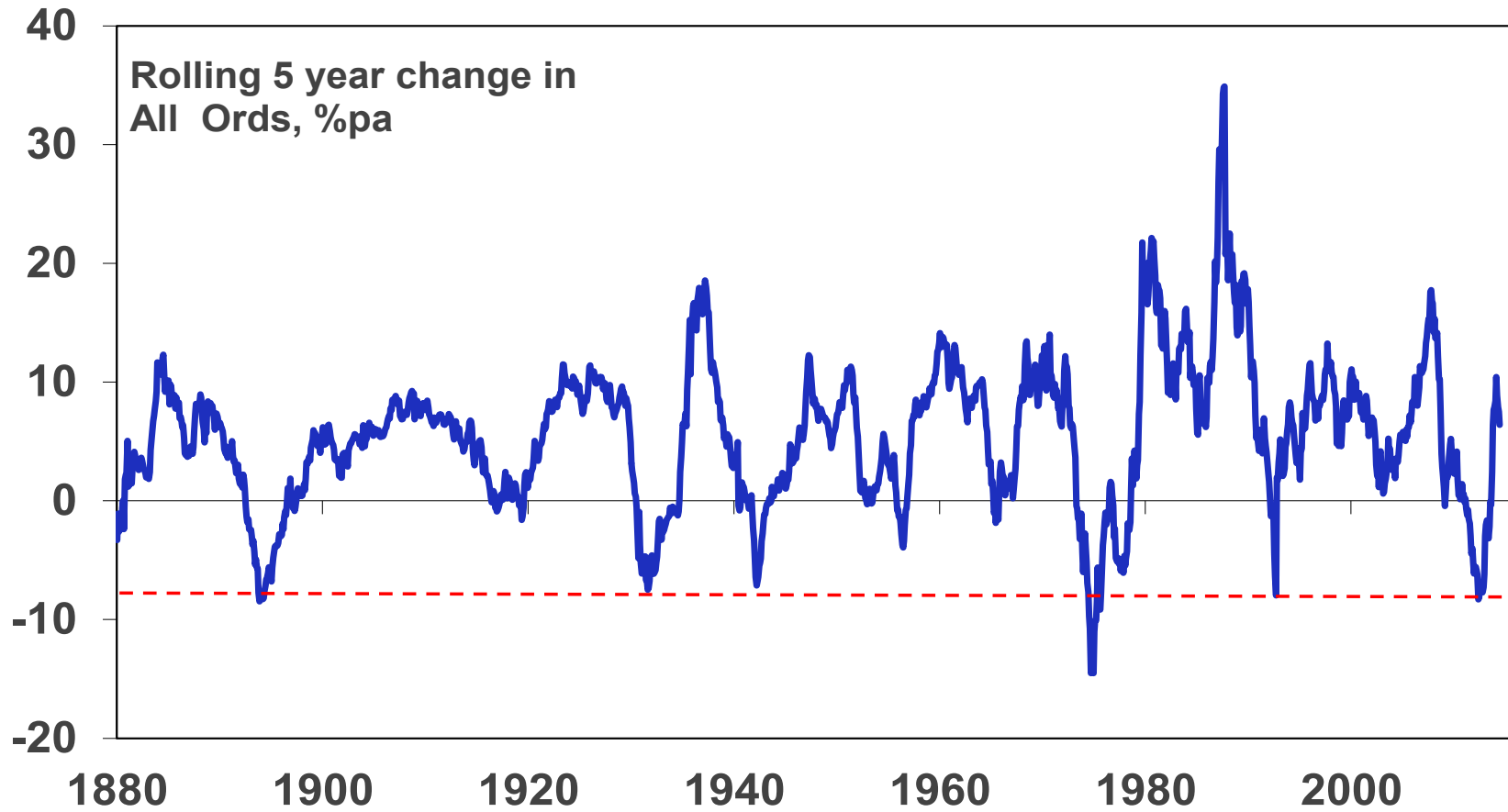
Bought for 10 cents in 1938 and sold for \$3.2m in 2014...a compound return of 25.5% pa!



Source: AMP Capital Investors

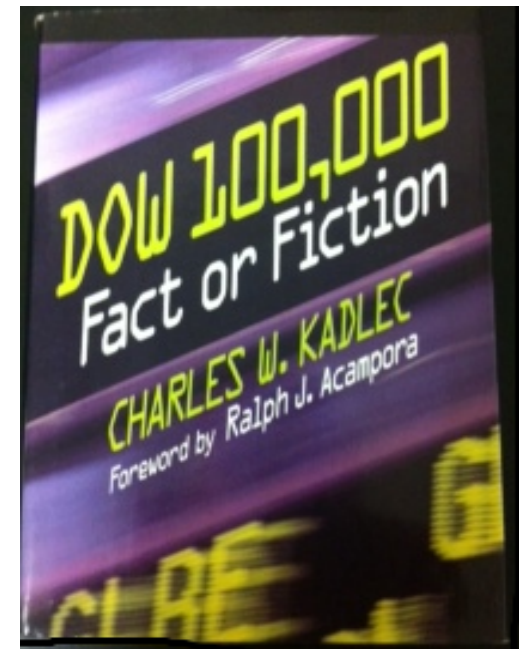
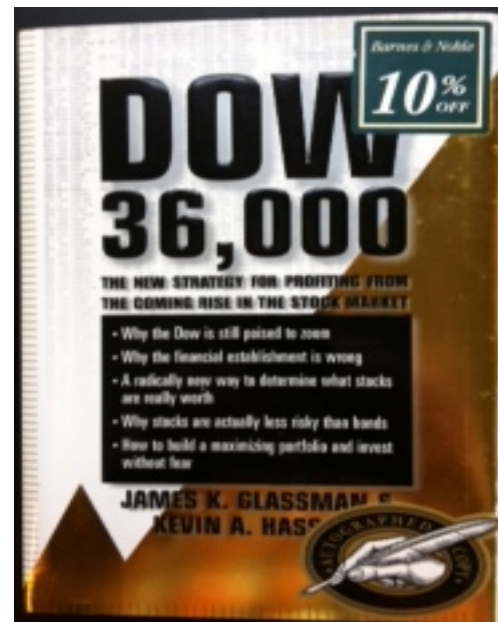
Don't forget the cycle

Mean reversion in Australian shares

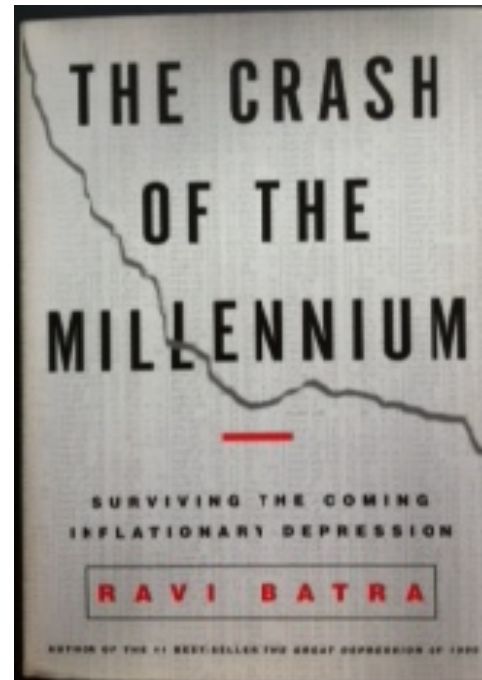
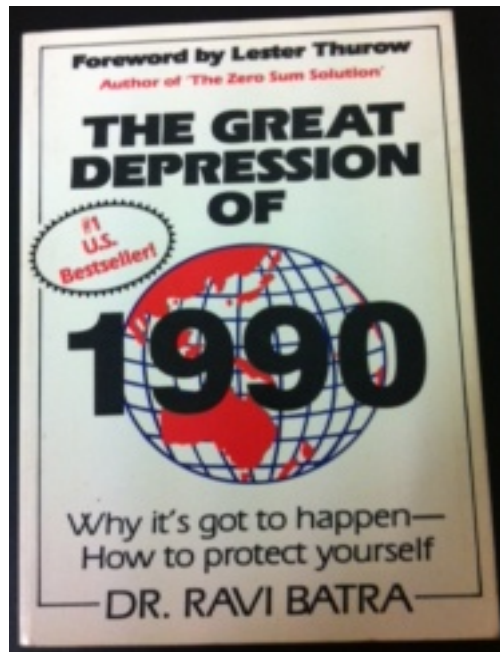


Source: ASX, Bloomberg, AMP Capital

Beware prognosticators of boom....



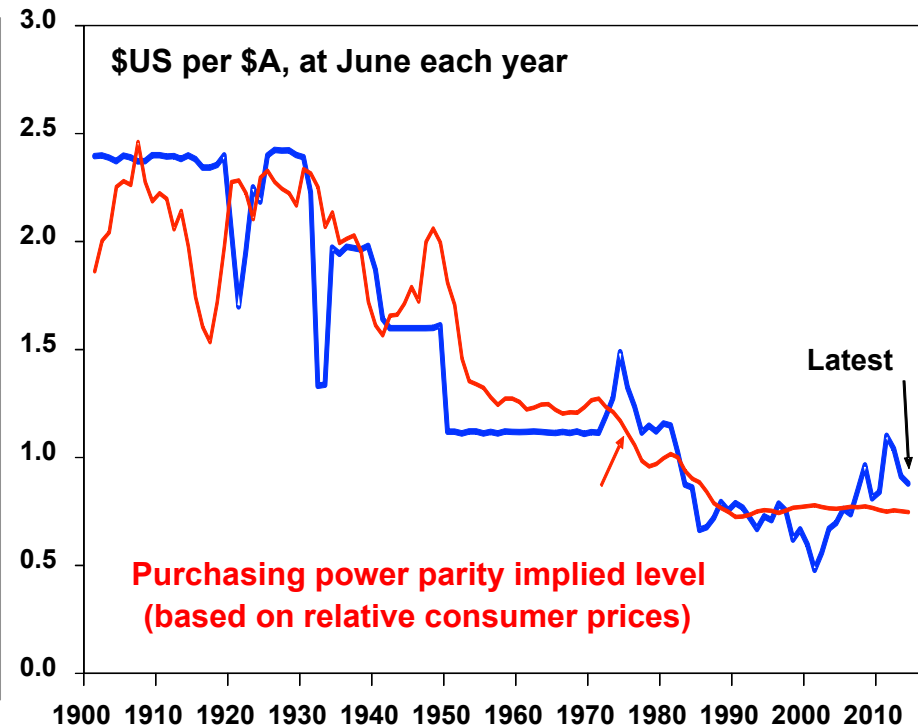
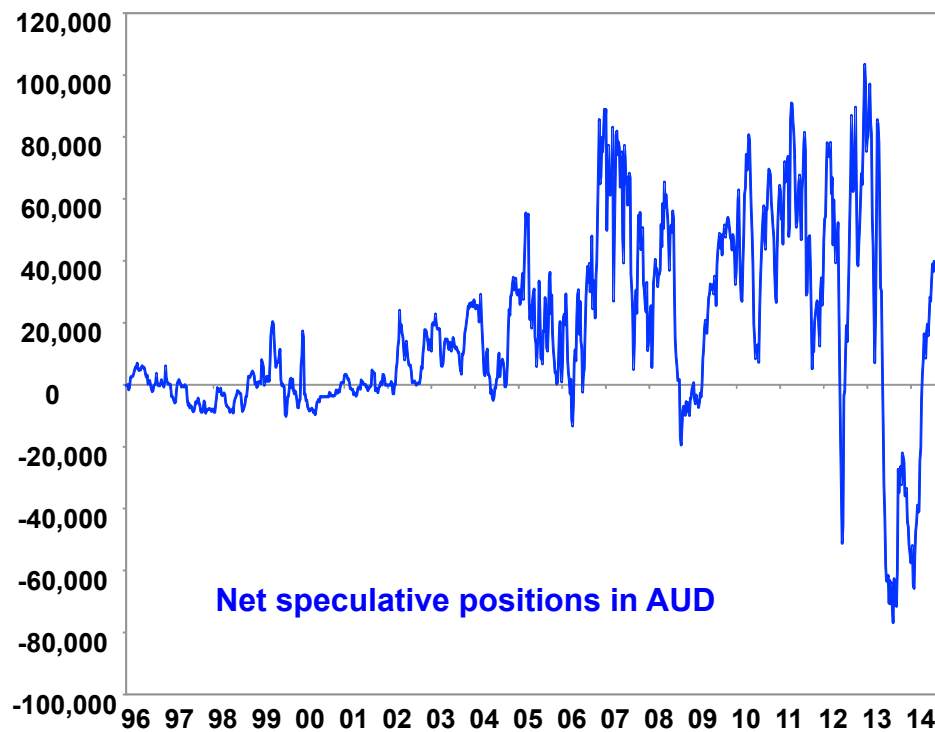
...and doom



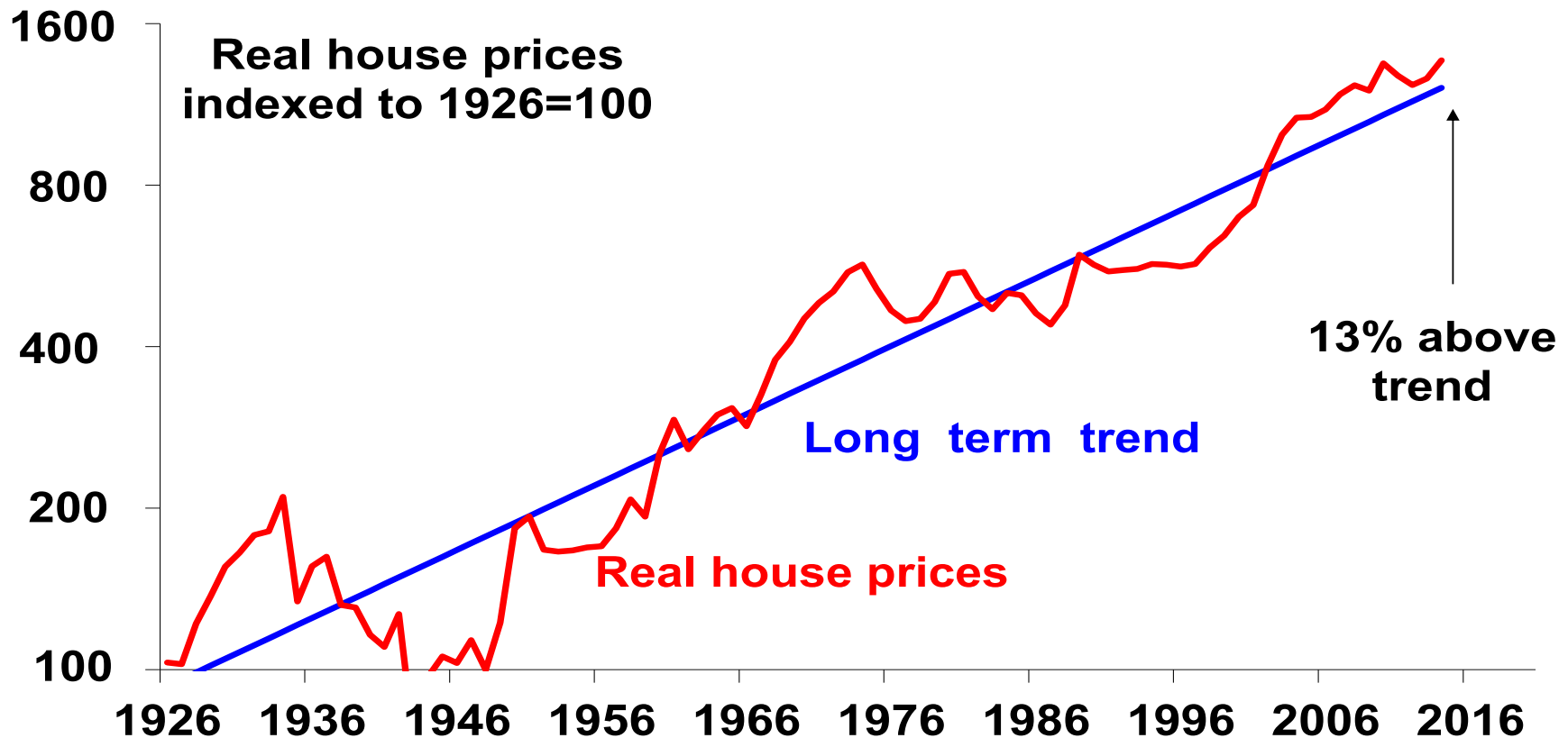
The \$A has further to fall

Extreme short positions in the \$A have been closed

The \$A remains high compared to levels suggested by relative prices

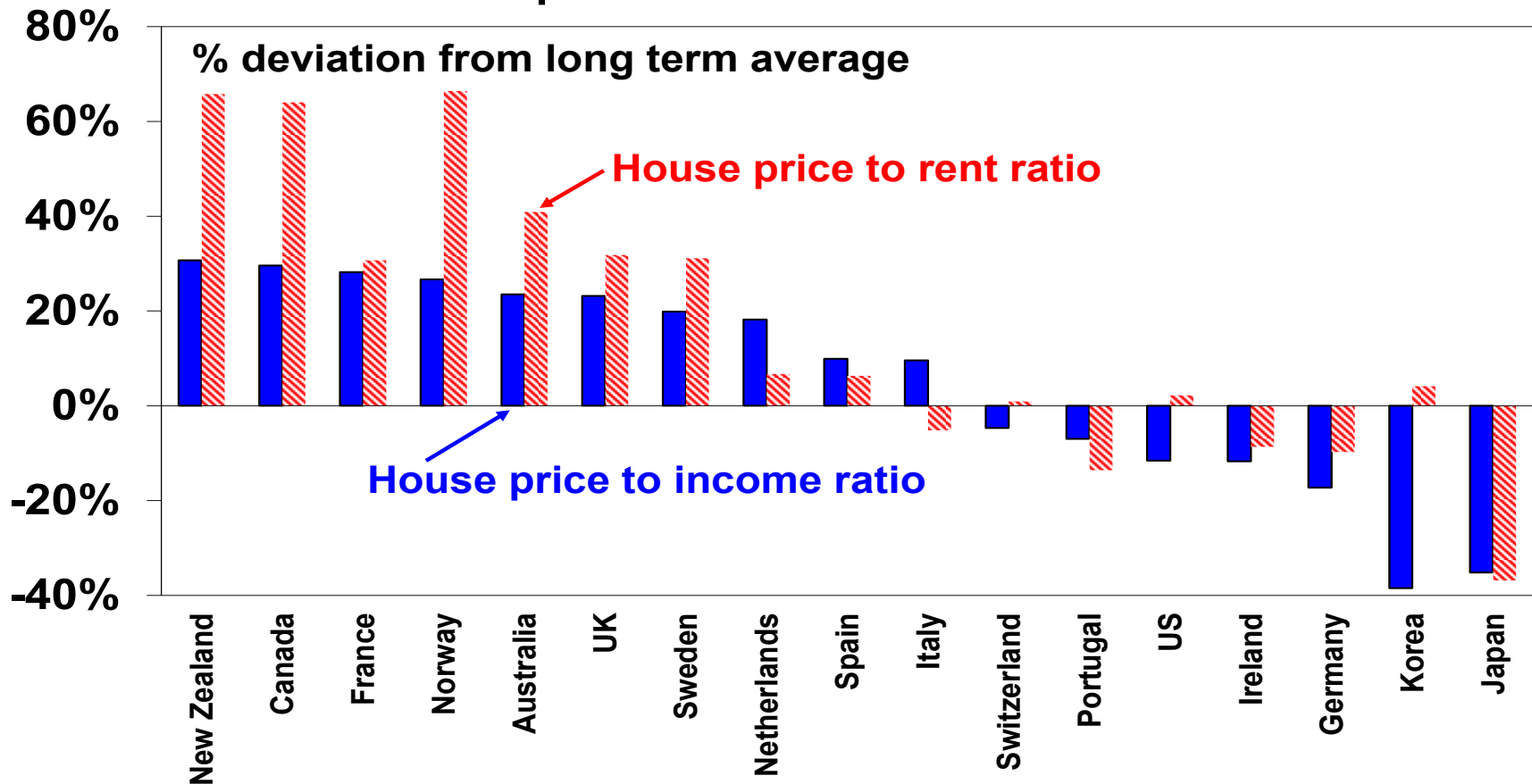


Aust real house prices are pushing back well above their long term trend. Expect a slowing in yr ahead






Australian housing is very expensive. Expect slower house price growth in the year ahead

House price to income and rent ratios



Traffic light signals from DAA process

Signal	Equities	Listed property	Fixed income	Commodities
Valuation				
Cycle				
Liquidity				
Sentiment				
Technical				
Result	Overweight	Neutral	Underweight	Overweight

Legend

 Favourable

 On watch

 Negative

Source: AMP Capital. As at September 2014

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What should investors consider in the current environment?

- > There is always a cycle
- > The power of compound interest
- > Invest for the long term – consider goal based investing if you can't
- > Diversify
- > Turn down the noise
- > Focus on investments providing decent and sustainable cash flows
- > Buy low and sell high
- > Avoid the crowd
- > Seek advice

Important note

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Projected medium term returns, %pa, pre fees and taxes

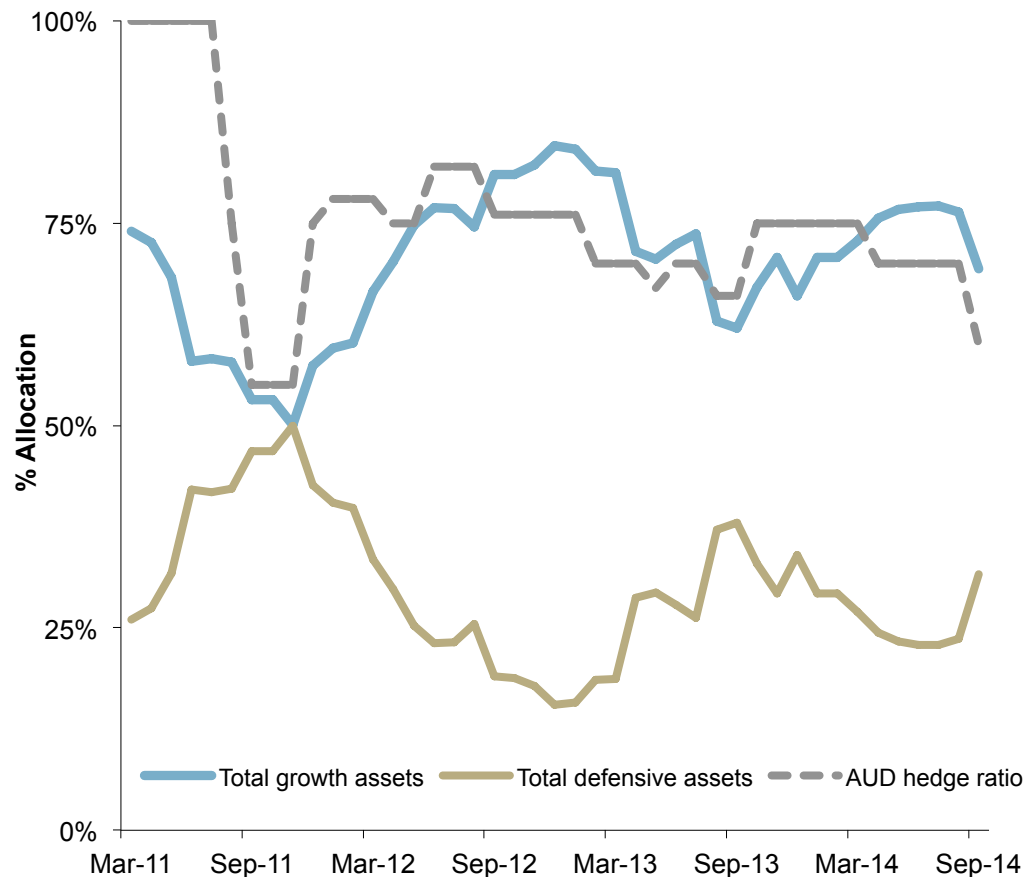
	Current Yield #	+ Hedge Points	+ Growth	= Return
US Equities	1.9	1.5	4.5	7.9
Asia ex Japan Equities	2.6	0.4	7.0	9.9
Emerging Equities	2.7	-1.6	6.5	7.6
World Equities, local currencies	2.4	1.9	4.2	8.5
Australian Equities	4.4/5.8*	0.0	4.7	9.1/10.5
Unlisted Commercial Property	6.0	0.0	2.0	8.0
Australian REITS	4.6	0.0	2.5	7.1
Global REITS	3.6	1.4	2.0	7.1
Unlisted Infrastructure	6.0	0.0	3.1	9.1
Global Listed Infrastructure	3.6	1.6	3.1	8.3
Australian Gov't Bonds	3.1	0.0	0.0	3.1
Australian Corporate Debt	4.1	0.0	0.0	4.1
Australian Cash	3.5	0.0	0.0	3.5
Diversified Growth Mix*				7.6

Current dividend yield for shares, distribution/net rental yields for property and 5 year bond yield for bonds. * With franking credits added in.

Source: AMP Capital

Changes in asset allocation since inception

Change in growth/defensive mix and hedge ratio

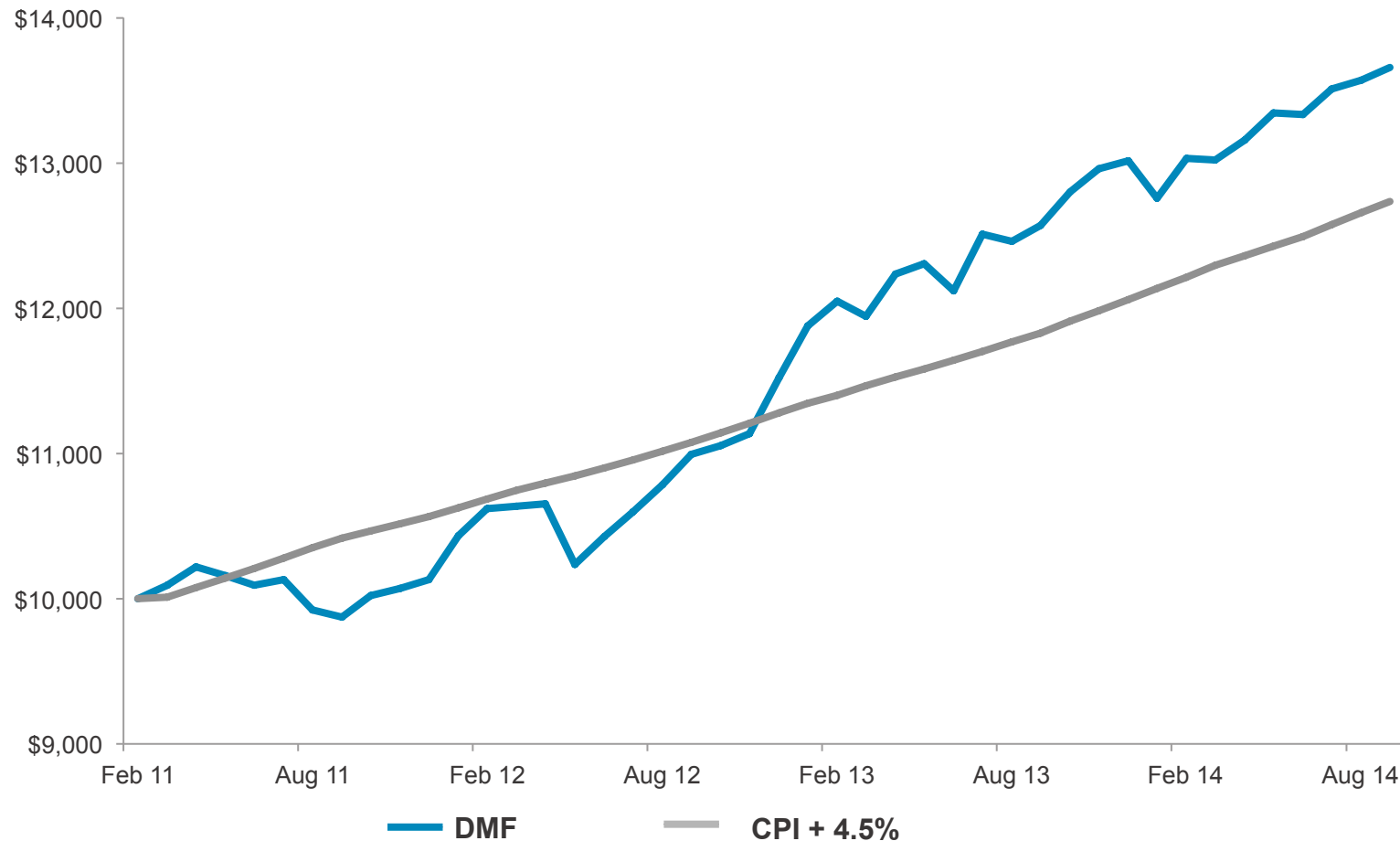


Allocations	Current AA (%)	Range (%)
Growth	69.0	0 – 90
Australian Shares	13.5	0 – 50
International Shares (Developed Markets)	26.5	0 – 50
International Shares (Emerging Markets)	15.0	
Global REITs	4.0	0 – 25
Commodities	10.0	0 – 25
Global High Yield Credit	0.0	0 – 25
Defensive	31.0	10 – 100
Australian Sovereign Bonds	9.0	0 – 25
Global Sovereign Bonds	0.0	0 – 25
Global Investment Grade Credit	5.0	0 – 25
Global Inflation Linked Bonds	0.0	0 – 25
Cash	17.0	0 – 50
Hedge Ratio	60.0	0 – 100

Source: AMP Capital, asset allocation as at October 2014.

Dynamic Markets Fund

Performance against CPI target – cumulative return since inception



As at September 2014. Returns are before fees and tax. Inception date is March 2011.

Source: AMP Capital, RBA. Past performance is not a reliable indicator of future performance.

Fed monetary tightening is not always bad for shares – US shares before and after first Fed rate hikes, %

Hike	-6 mths	-3mths	+3mths	+6mths	+12mths	+24mths*
Oct 80	19.9	4.8	1.6	4.2	-4.4	2.4
Mar 84	-4.1	-3.5	-3.8	4.3	13.5	22.5
Nov 86	0.8	-1.5	14.0	16.4	-7.6	4.8
Mar 88	-19.6	4.8	5.6	5.0	13.9	14.6
Feb 94	7.5	2.9	-6.4	-4.9	-2.3	14.9
Mar 97	10.2	2.2	16.9	25.1	45.5	30.3
Jun 99	11.7	6.7	-6.6	7.0	6.0	-5.6
June 04	2.6	1.3	-2.3	6.2	4.4	5.5
Average	3.6	2.2	2.4	7.9	8.6	11.2

* % pa

Source: Thomson Reuters, AMP Capital