2018 Global and Local Economic Outlook

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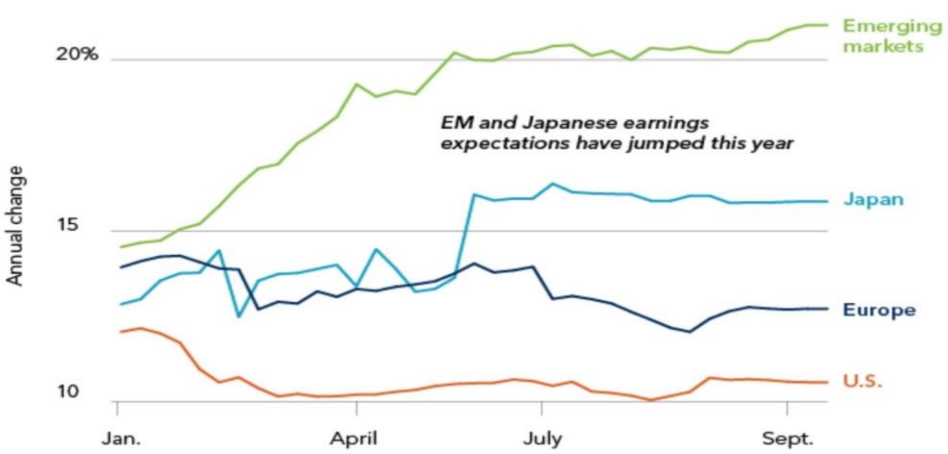
The global economy is on course for its best year since 2010 as GDP in both the U.S. and the Eurozone is now expected to grow more rapidly than had been previously forecast, according to the OECD, with acceleration likely in 2018.

Corporate earnings growth in developed and emerging markets has been strong (above 10%) and continues to strengthen (see Chart 1 below).

We believe that global markets are fairly to generously valued, but the continuation of earnings growth would be sufficient to make the case that markets are not overvalued for the near-term, given the breadth of positive news and ongoing low inflation, particularly in the US.

Analyst forecasts of 2017 corporate earnings growth



Sources: BlackRock Investment Institute, with data from Thomson Reuters, September 2017.
Note: The lines show the path of aggregate analyst expectations of 2017 earnings growth for companies in various regions.

Capital is also flowing into emerging markets on the heels of improving global conditions and a belief that global interest rate rises will be gradual.

What has been lost in much of the market commentary is the positive and transformative impact of renewable energy in creating jobs and lowering energy bills, and how advances in technology and automation will be drivers of economic growth.

China and the EU

Despite slowing growth in China, President Xi Jinping appears intent to do what it takes to keep the economy and banking sector stable. In the European Union, French President Macron's intention to implement structural reform and unite the region, gives hope that the EU might navigate its way through the post-Brexit era without significant disruption.

There are no major political elections this coming year, which is in stark contrast to numerous elections over the past year, which brought an element of uncertainty and fear to global markets.

Local growth

A strong June quarter GDP growth suggests that last year's Q3 (Jan – Mar 2017) weakness was temporary. Our economic outlook remains positive with growth in business investment in non-resource sectors and infrastructure spending. Job growth has been strong, even if wage growth is modest, and interest rates are expected to remain flat, or increase slightly over the next year.

Somewhat unheralded, immigration remains the oil that keeps Australia's economic engine running. Population growth of 1.6% (in the 12 months to March 2017) is almost twice that of the US. Much of this growth (0.96%) came from Net Overseas Migration (NOM), much of it skilled labour which helps drive consumer demand that underpins labour markets (source: Australian Bureau of Statistics).

The domestic property market will likely cool off, but is not an imminent valuation bubble about to burst. This will be a change from previous years, which saw exponential growth. It may also provide some respite for potential buyers.

We will also see domestic political activities mimic the US to some extent; turbulent and possible changes, but nothing that is likely to seriously impact market our economic conditions.

Prospect of a market correction

Central banks have either started, or have announced intentions to raise interest rates. We expect the unwinding of fiscal stimulus to be gradual; markets seem to have priced the expected increase in rates into asset valuations.

However, with global share markets recently reaching record highs, pessimists have been more boisterous about an imminent share market crash. Markets will almost certainly move off recent highs, though the timing, catalyst, and magnitude is unknown.

If a pullback occurs, then fear and emotion will come into play, and a very important question arises for investors: is a pullback a healthy correction or a more significant reversal of market trends into bear market territory? We will make that assessment at the time and review our investment strategy accordingly. The recent run up in markets has been more of a "creep" versus "soar", and based more on fundamentals versus speculation, so we are hopeful that any near-term correction will be of the "normal market cycle" variety.

Globally, there is a risk that central banks raise rates too quickly, which could prematurely slow down global growth. Despite the potential passage of a tax reform bill (pro-business) in the U.S., the specter of the Russian inquiry creates a measure of uncertainty for US political stability. Generally, markets do not like uncertainty, which can be a catalyst for sell-downs.

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About Six Park

Six Park is a leading provider of automated investment guidance (also called "robo-advice") in Australia. Six Park provides investors with simple and streamlined access to cost-effective, globally diversified, professionally managed portfolios tailored to their risk profile.

The team is led by a pre-eminent Investment Advisory Committee comprising Lindsay Tanner (former Federal Finance Minister), Paul Costello (founding Future Fund general manager) and Brian Watson AO (former Chairman of JP Morgan Australia). This team provides a unique human overlay to the company's sophisticated automated investment technologies. For more information, visit www.sixpark.com.au