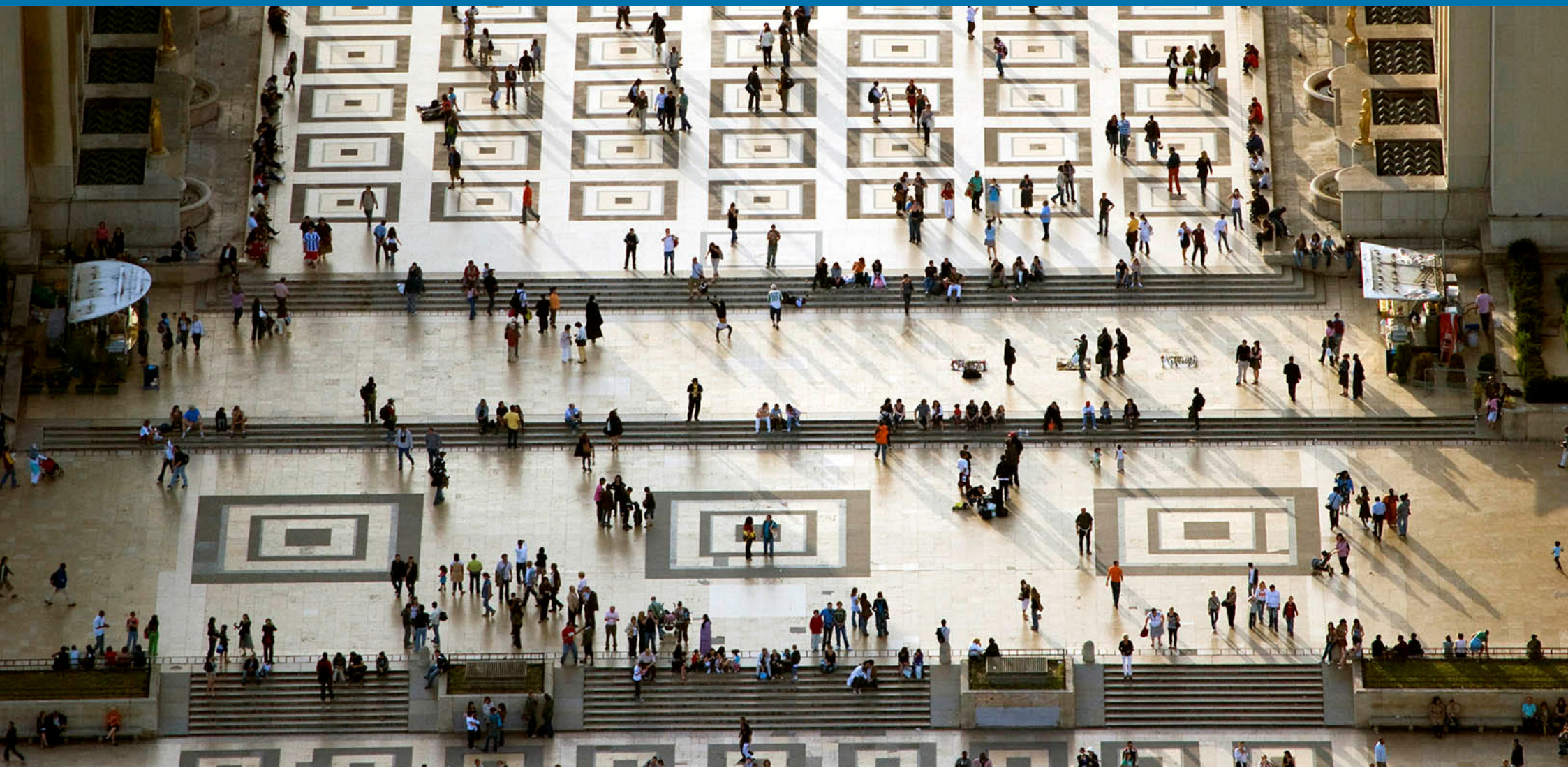


MACRO INVESTMENT OUTLOOK

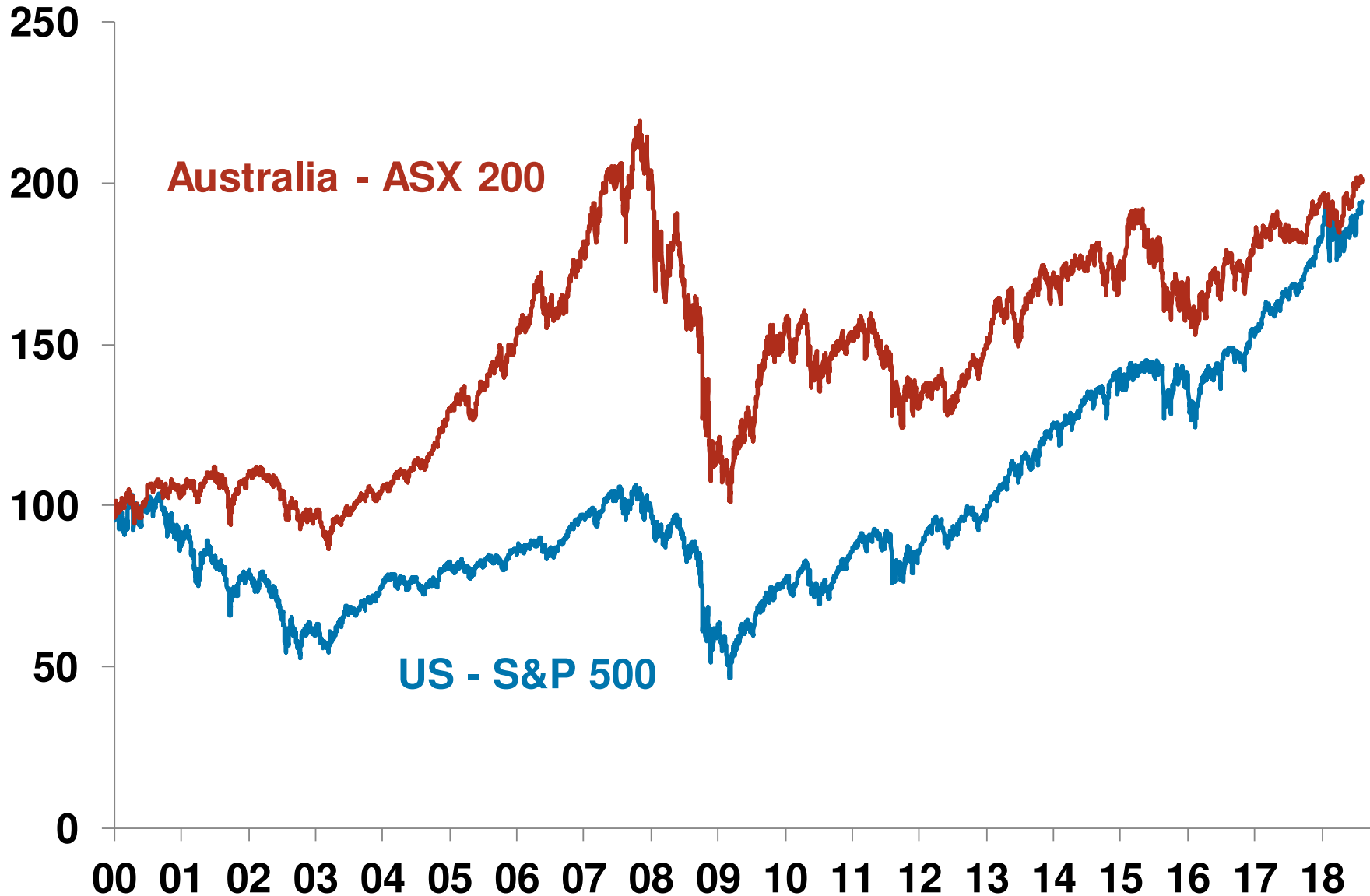


AUGUST 2018

INVESTMENT STRATEGY AND DYNAMIC MARKETS TEAM, MULTI ASSET GROUP



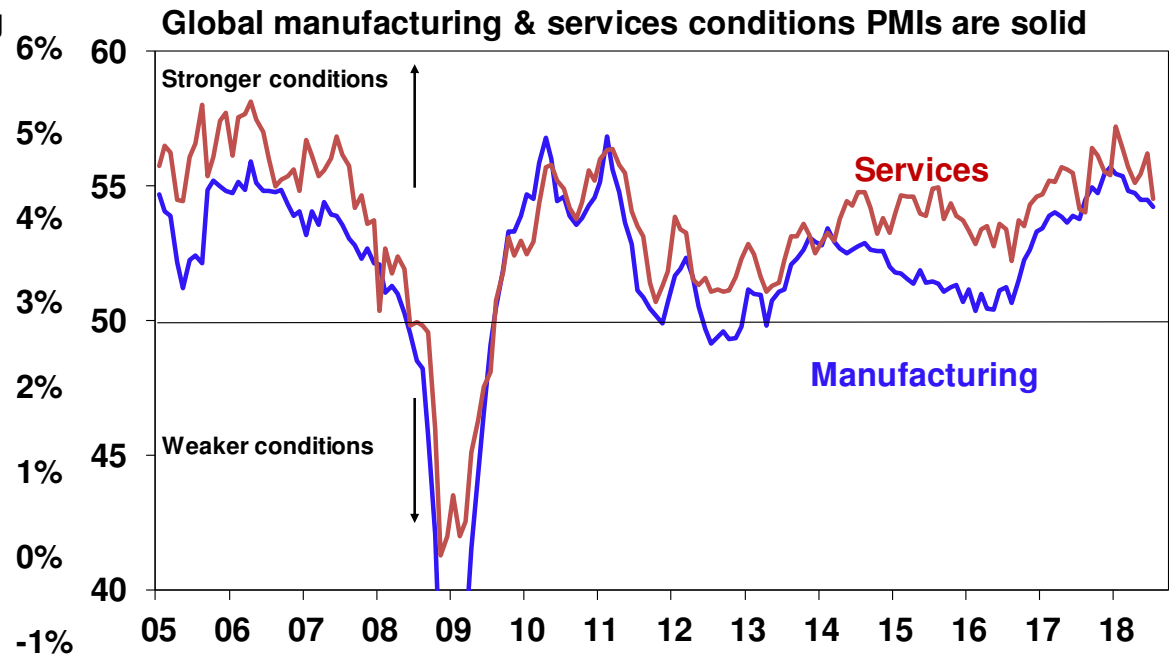
GLOBAL SHARES CONSTRAINED BY TRADE WAR FEARS BUT AUSTRALIAN SHARES RELATIVELY RESILIENT



ECONOMIC AND INVESTMENT OUTLOOK

- > Solid global growth – 2018: 3.9%, 2019: 3.9%
- > 2018 GDP growth: China 6.5%, US 3.0%, Eurozone 2.2%, Japan 1.2%, Australia 2.8%
- > Inflation starting to rise in the US resulting in a somewhat more aggressive Fed
- > But the ECB, BoJ and RBA are all a long way from tightening
- > \$A to weaken
- > Low returns from bank deposits and bonds
- > Shares should provide decent returns reflecting solid global growth & profits but low interest rates. But more constrained and volatile as the investment cycle matures
- > Key risks: inflation/bond yields, President Trump (trade, Mueller, mid-term elections, Twitter), Italy, China, the Australian property market

GLOBAL BUSINESS CONDITIONS HAVE SLIPPED BUT REMAIN SOLID

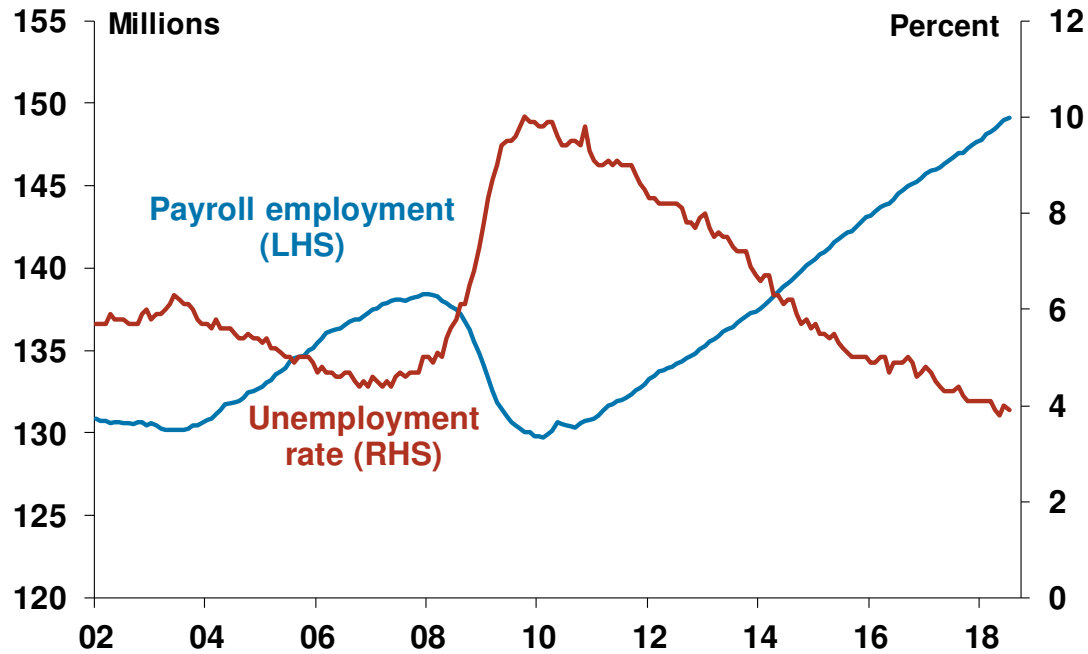


Source: Bloomberg, AMP Capital

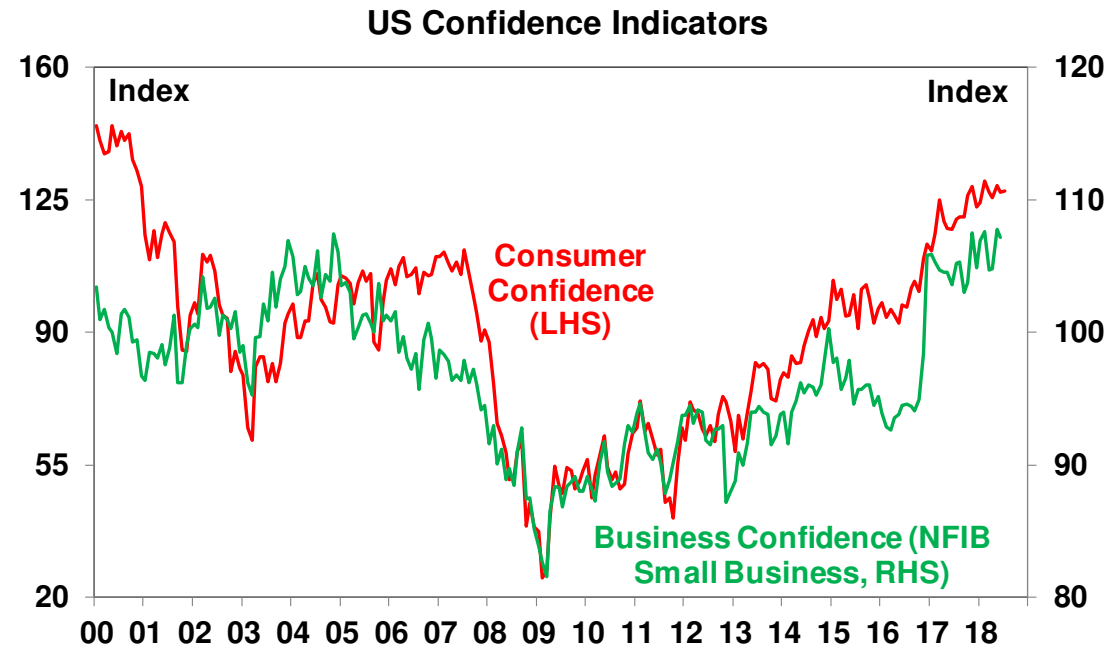
THE US ECONOMY IS VERY STRONG

IN FACT SO GOOD THAT THE FED IS ON TRACK TO HIKE 4 TIMES THIS YEAR

US employment way above 2008, jobless well down, around full employment

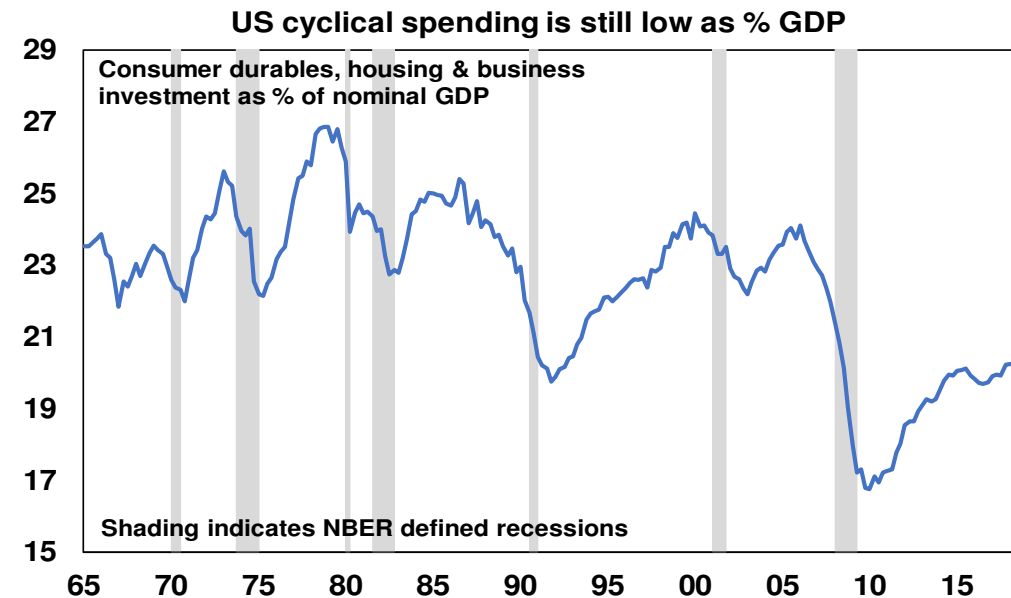
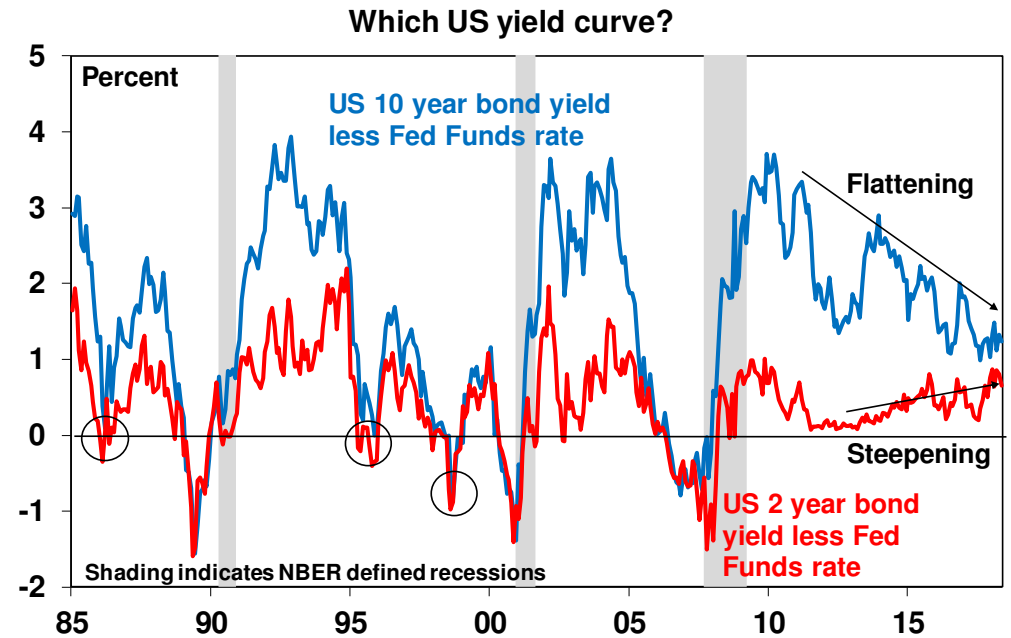


Consumer and business confidence is strong



US RECESSION INDICATORS ARE NOT FLASHING RED – MAYBE A 2020 RISK

	Recession Yes/No
Investment as share GDP	No
Private debt growth	No
US leading indicator	No
Inflation > target	No
Yield curve	No
Fed Funds rate v growth	No



THE PROGRESSION OF US TARIFFS – GETTING MORE RISKY

- > January: solar panels and washing machines
- > March: steel and aluminium (less than 2% of imports)
- > March: \$US50bn of Chinese imports (2% of US imports)
- > April: another \$100bn if China retaliates
- > May 19: trade war “put on hold”
- > June 15: \$US50bn of Chinese imports with \$US34bn started July 6 and August 23
- > June 18: \$US200bn on the way, tariffs on all Chinese imports if it retaliates (\$US550bn)
- > June 22: Threatened 20% tariff on car imports from EU, then “put on hold”

Note

1. Still room for negotiation – mostly proposed
2. But threats are bigger (20% of total US imports and rising) and risks have gone up
3. Still a long way from 1930 though (20% tariffs on all imports)

EUROZONE BUSINESS CONFIDENCE MAY HAVE PEAKED BUT REMAINS ELEVATED



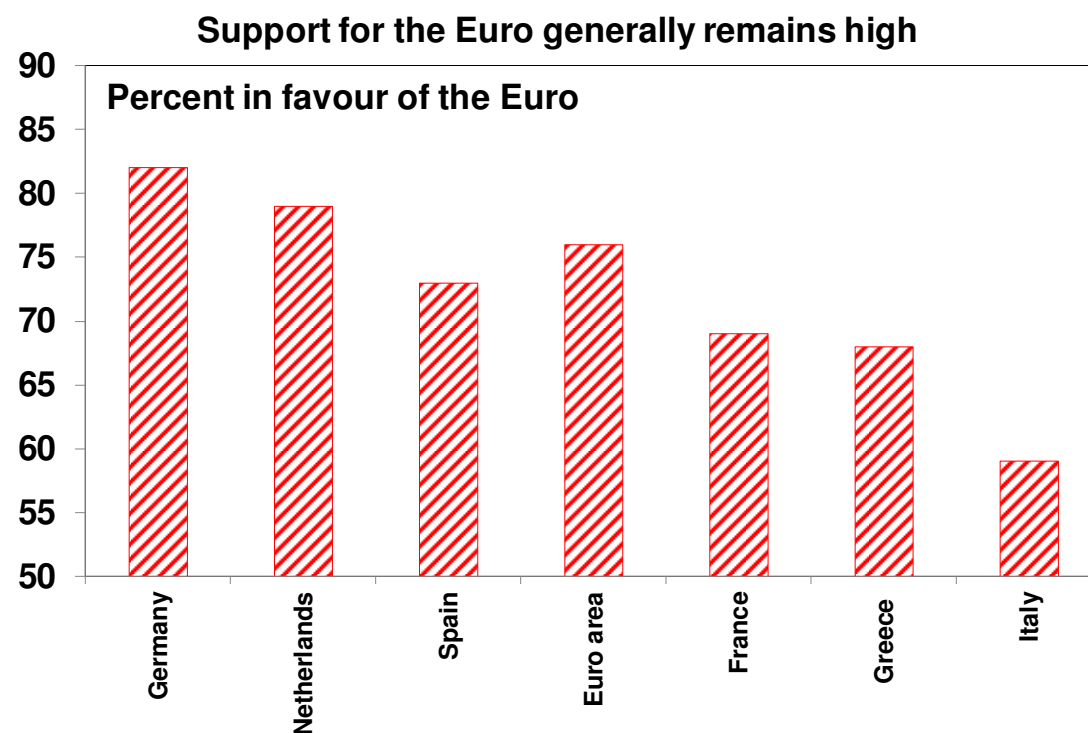
Source: Bloomberg, AMP Capital

EUROZONE BREAK UP RISK IS LOW – BUT WATCH ITALY

Key issues and what to watch

- > The mess in Italy is bad for Italy, but unlikely to threaten the Euro
- > Support for the Euro in Italy has increased lately to around 57% (and up to 72% in one poll), and is solid across the Eurozone generally
- > The key issue is the upcoming Italian budget which is likely to result in conflict with the European Commission

Support for Euro remains strong (albeit less so in Italy)



CHINESE GROWTH IS LIKELY TO SLOW A BIT THIS YEAR

EXPECT A RENEWED FOCUS ON ECONOMIC REFORM BUT NO GROWTH COLLAPSE

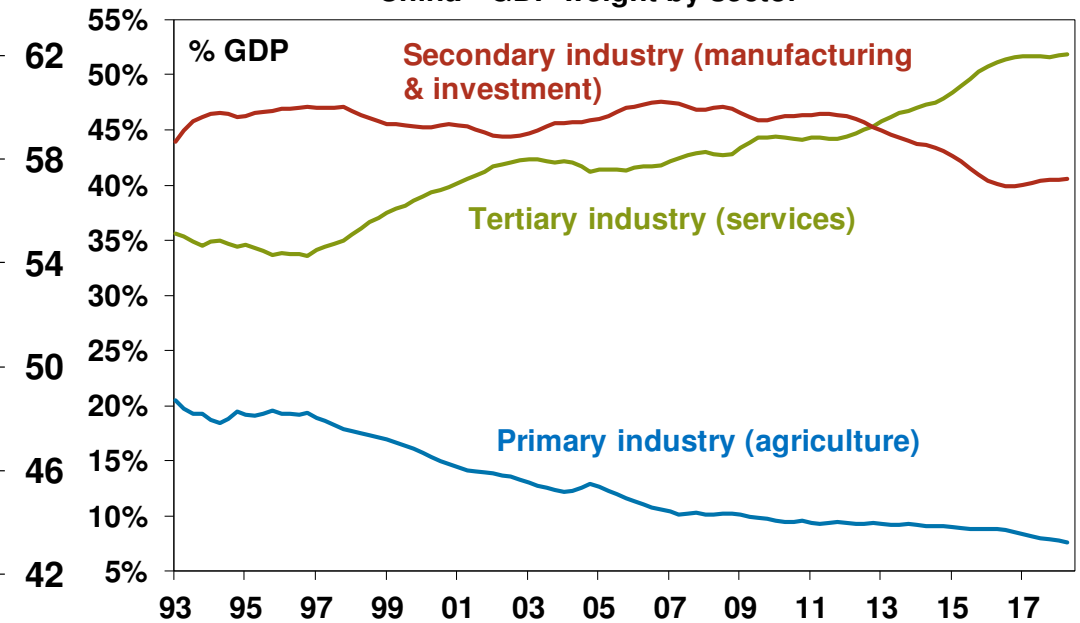
Chinese growth has stabilised

Chinese growth is holding steady

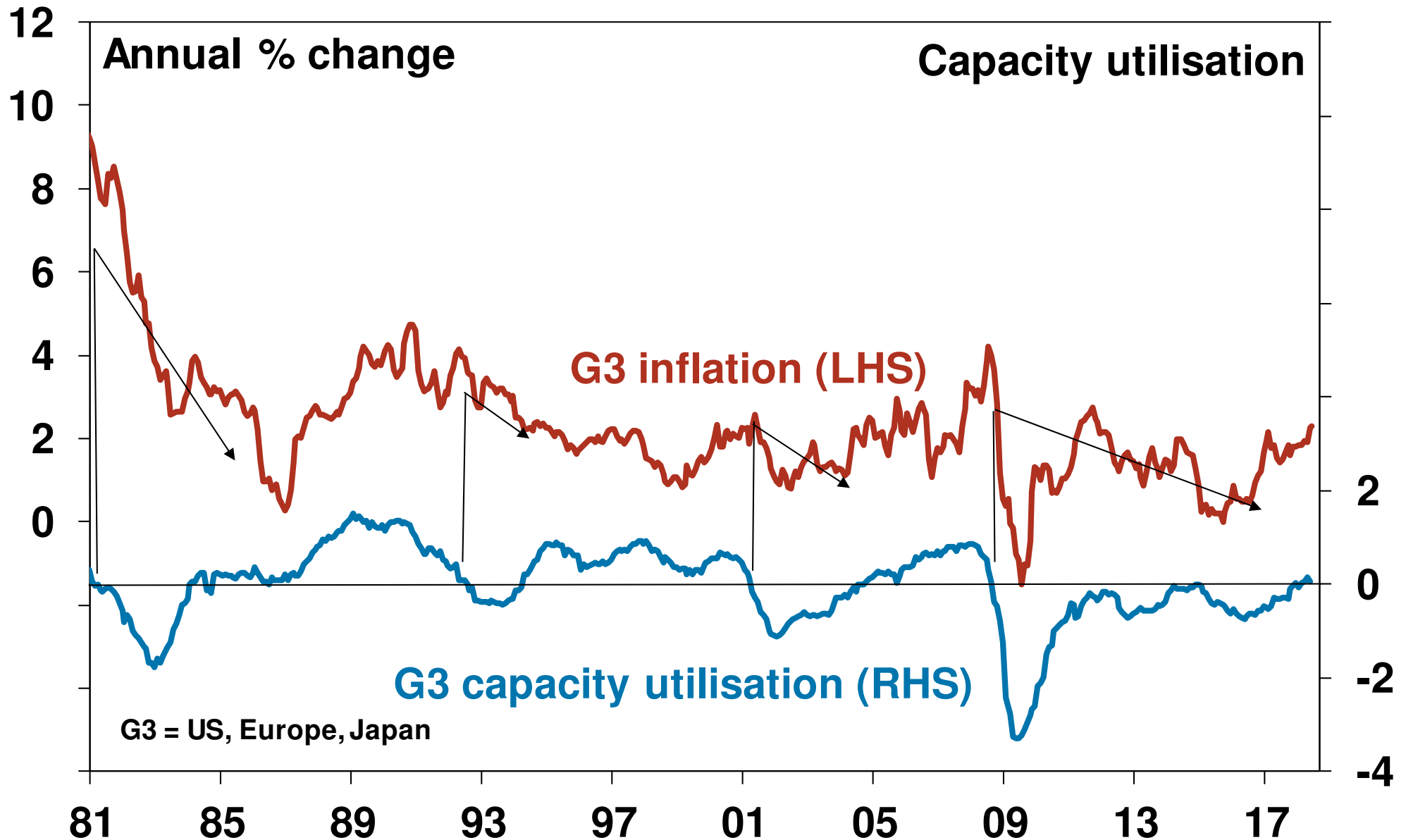


China is in transition from manufacturing & investment to services & consumption

China - GDP weight by sector

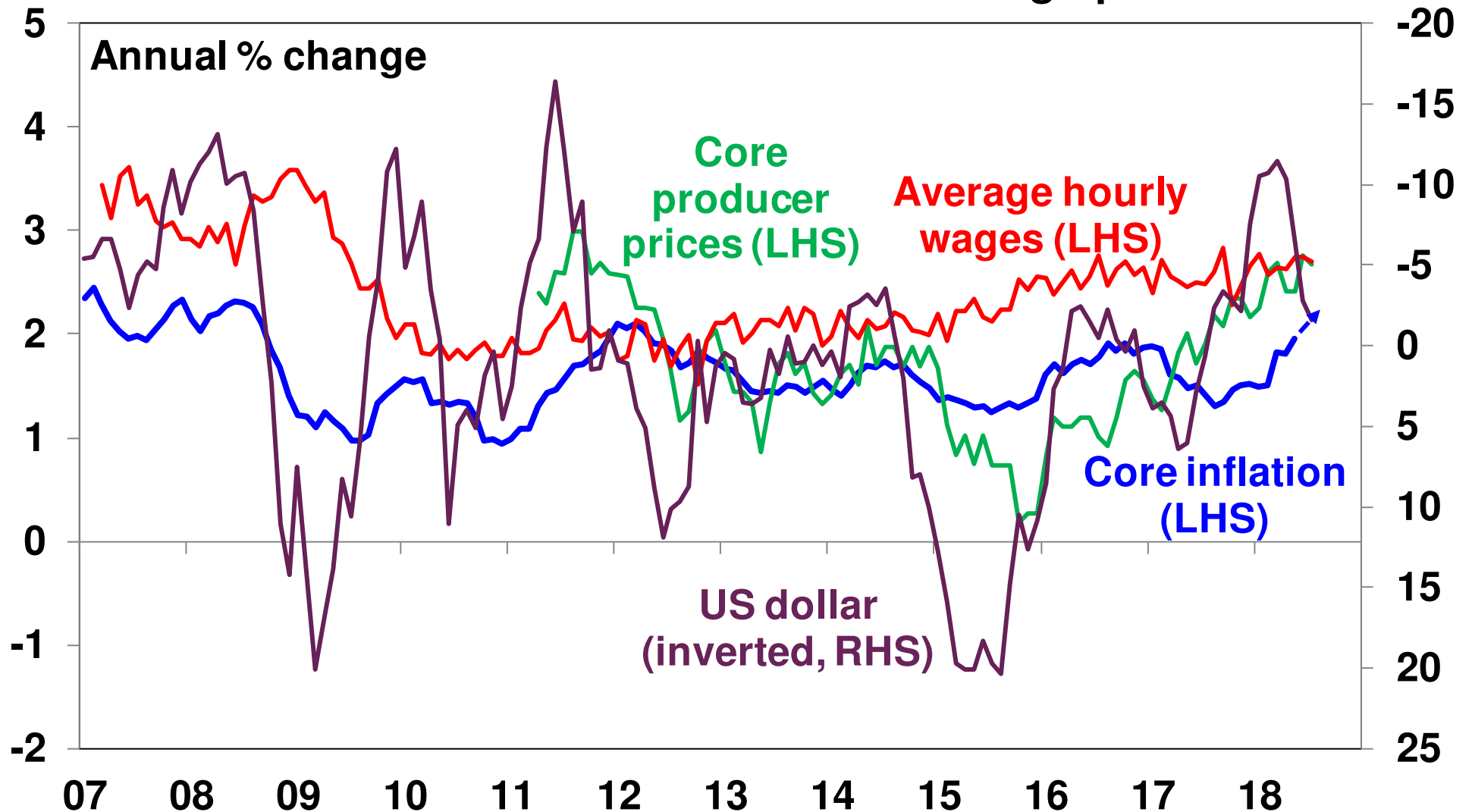


SPARE GLOBAL CAPACITY IS BEING USED UP – MAINLY IN THE US



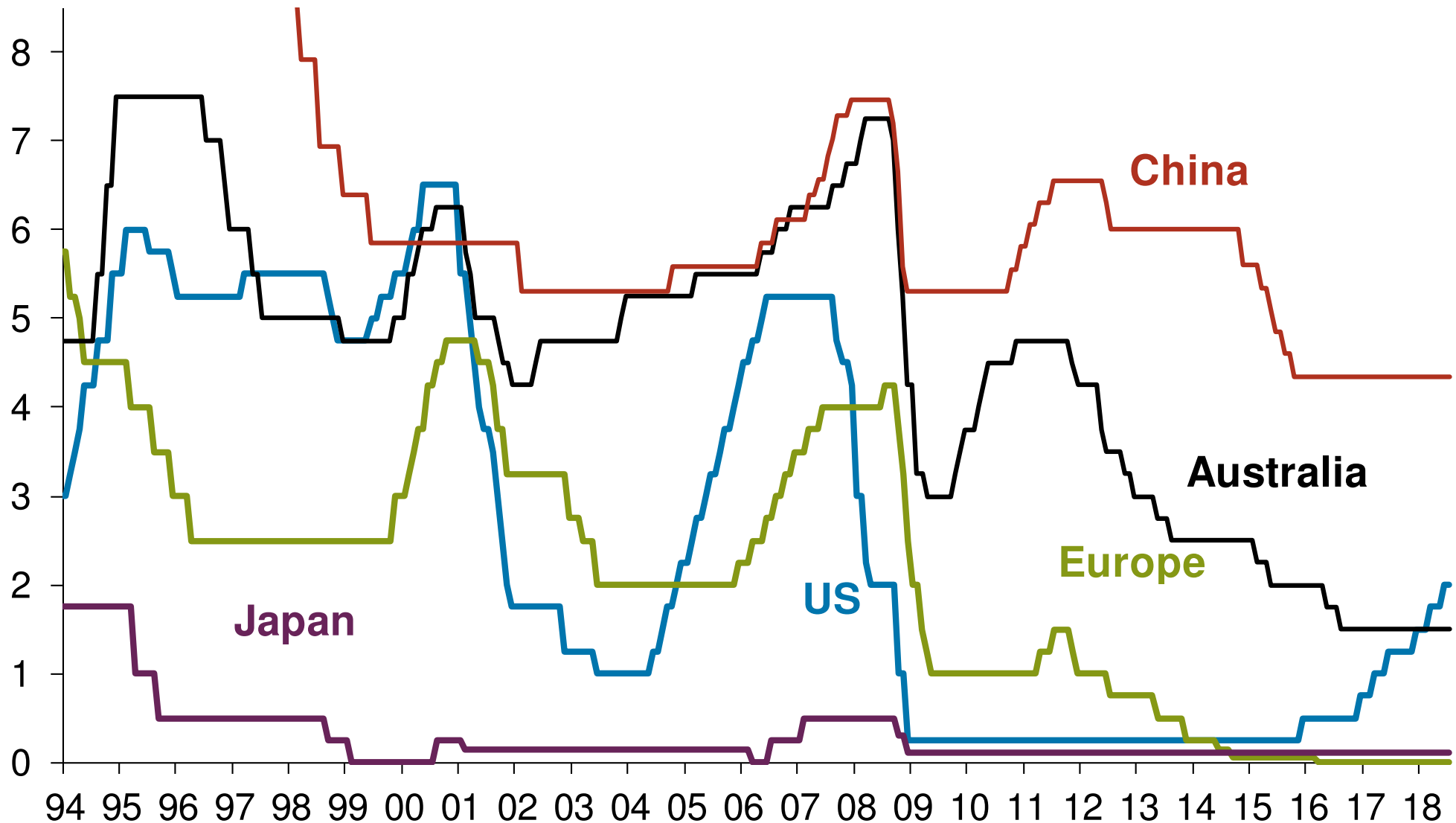
INFLATIONARY PRESSURES ARE SLOWLY LIFTING IN THE US AS GROWTH RUNS ABOVE POTENTIAL

US inflation indicators are heading up

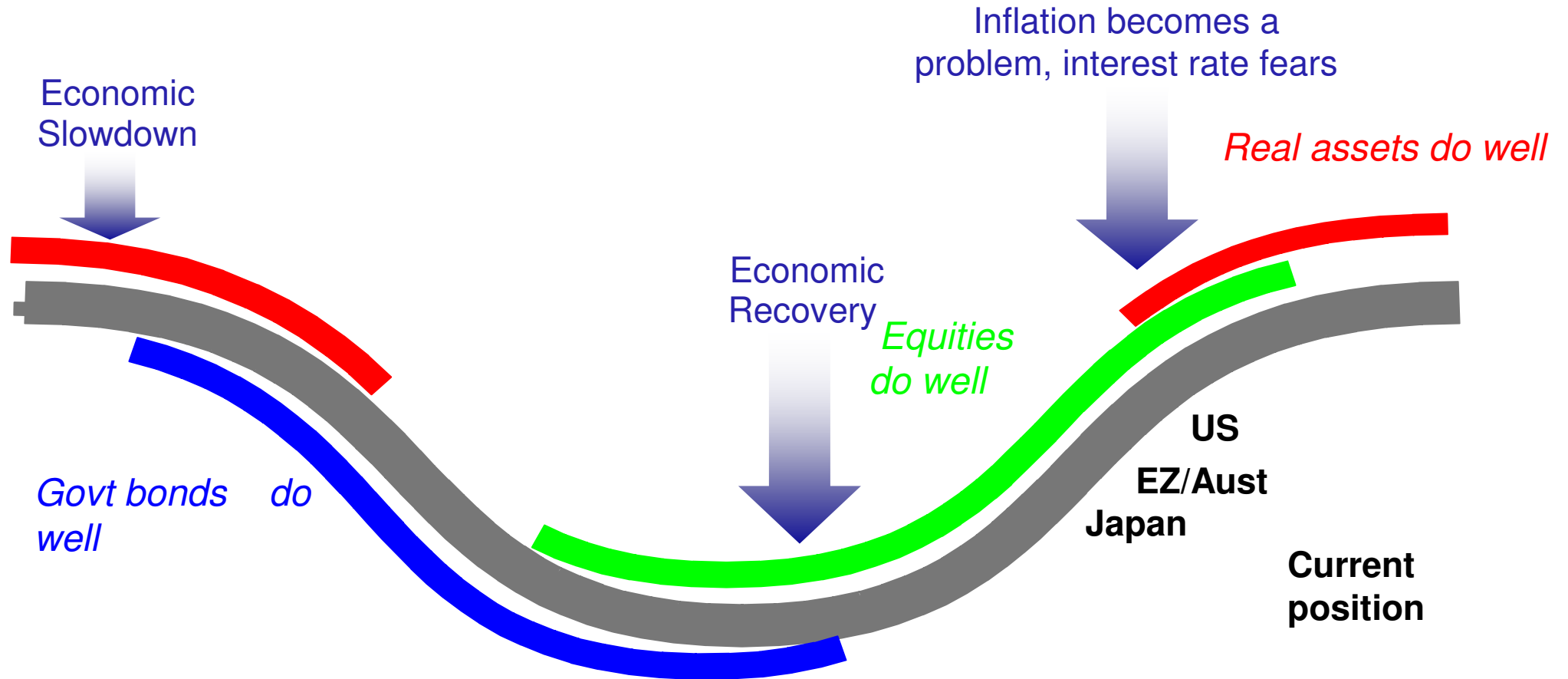


INTEREST RATES TO REMAIN LOW, BUT FED GETTING MORE AGGRESSIVE

Interest Rates %



THE GLOBAL INVESTMENT CYCLE – STILL IN THE SWEET SPOT BUT MATURING IN THE US



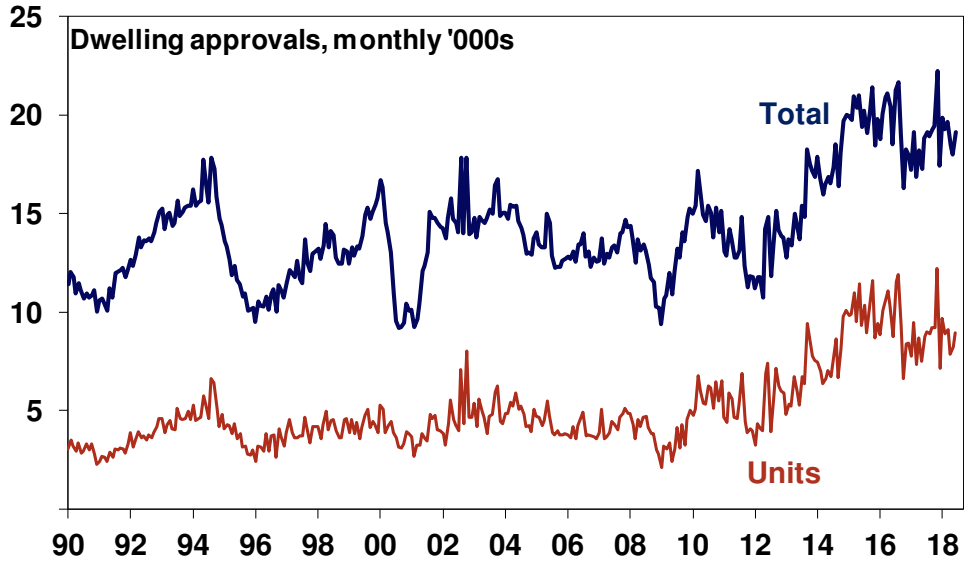
Source: AMP Capital

THE AUSTRALIAN ECONOMY

STILL MIXED

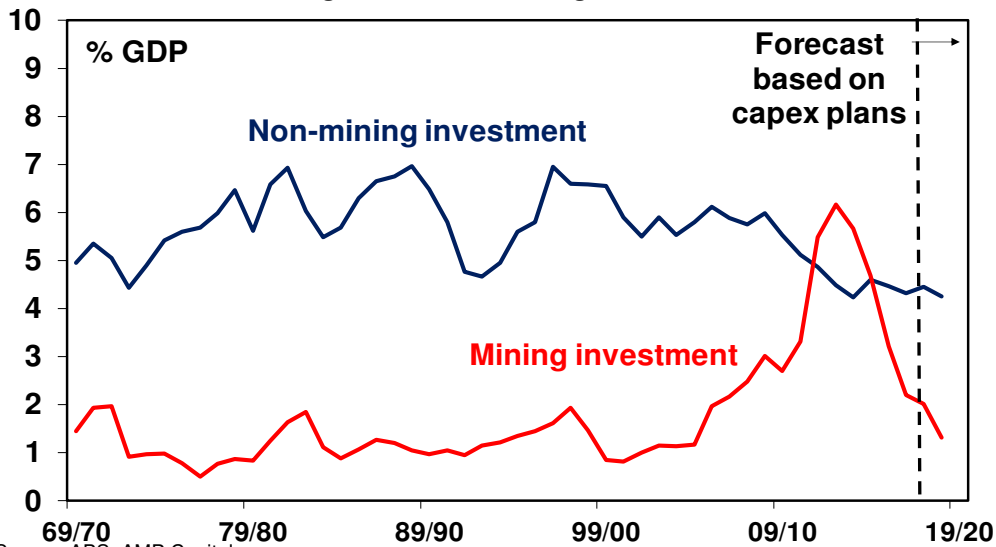
Housing investment has slowed...

Building approvals down from 2015 highs



But mining investment is close to the bottom, non-mining capex is lifting

Mining versus non-mining investment

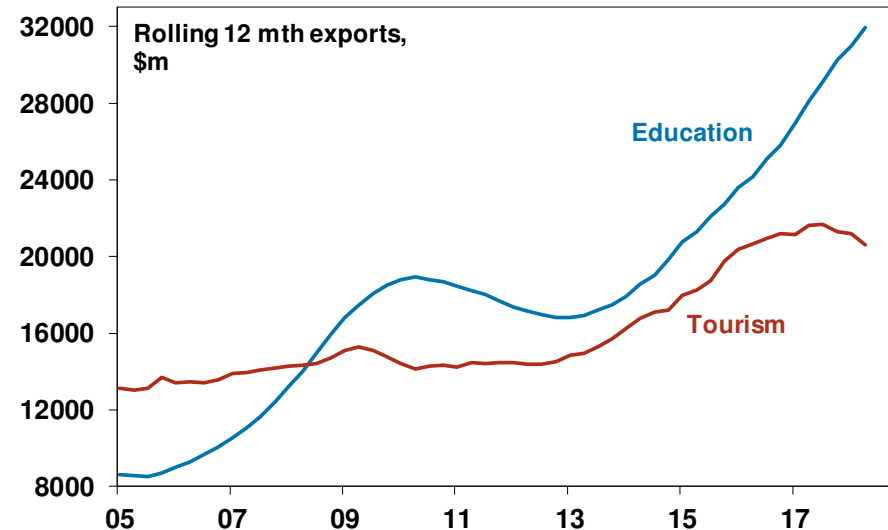


...and retail sales growth is sluggish



...and services exports are strong

Surging services exports



VICTORIA STILL DOING WELL, NSW IMPROVING AND NT AND WA STILL AT THE BOTTOM

State of the states, annual % change to latest

	Retail Sales	Building Approvals, trend	Real State Final Demand	Home prices	Employment	Unemployment %	Rank*
NSW	+3.0	-6.0	+3.7	-5.4	+3.9	4.8	4(=3)
Victoria	+5.8	+12.6	+4.9	-0.5	+1.9	5.3	2 (1)
Queensland	+0.6	-5.2	+3.1	+1.2	+3.5	6.1	6 (6)
WA	-0.5	-10.9	+0.8	-2.3	+1.1	6.2	8 (8)
SA	+2.5	+21.2	+2.1	+0.7	+2.1	5.6	5 (=3)
Tasmania	+3.9	+13.0	+3.9	+11.5	+0.6	6.0	3 (=3)
NT	+2.4	+0.0	-7.9	-6.2	+2.2	4.1	7 (7)
ACT	+4.3	+48.4	+1.6	+2.4	+2.9	3.5	1 (2)

* Rank a year ago shown in brackets. Source: Bloomberg, CoreLogic Data, AMP Capital

US SHARES A BIT EXPENSIVE BUT OTHER MARKETS OKAY

SHARE MARKET VALUATION INDICATORS

Australia



Europe



USA

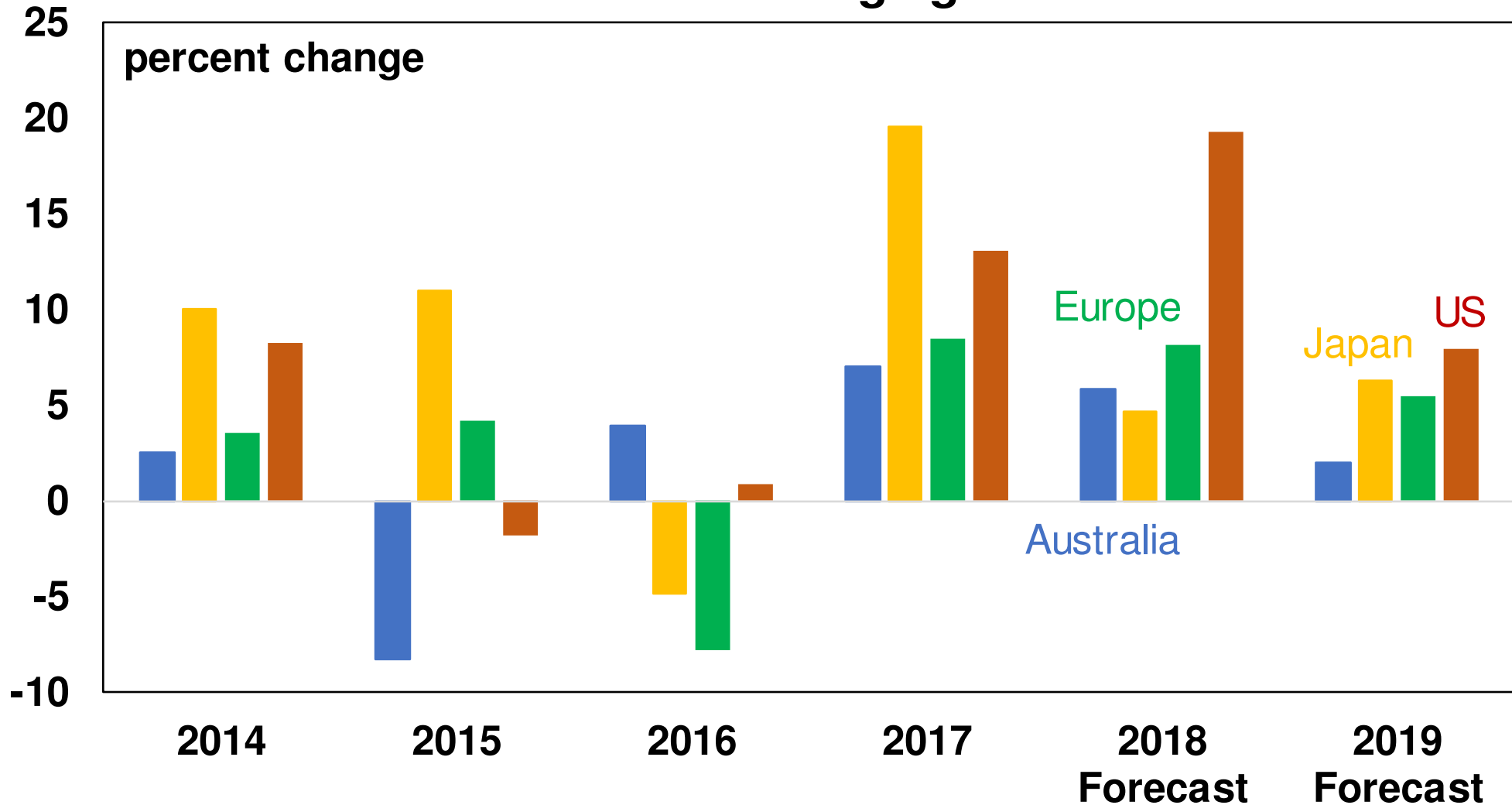


Japan



AUST LISTED COMPANY PROFITS ARE RISING (+6%) BUT THE OUTLOOK IS STRONGER GLOBALLY (+14%)

Global earnings growth

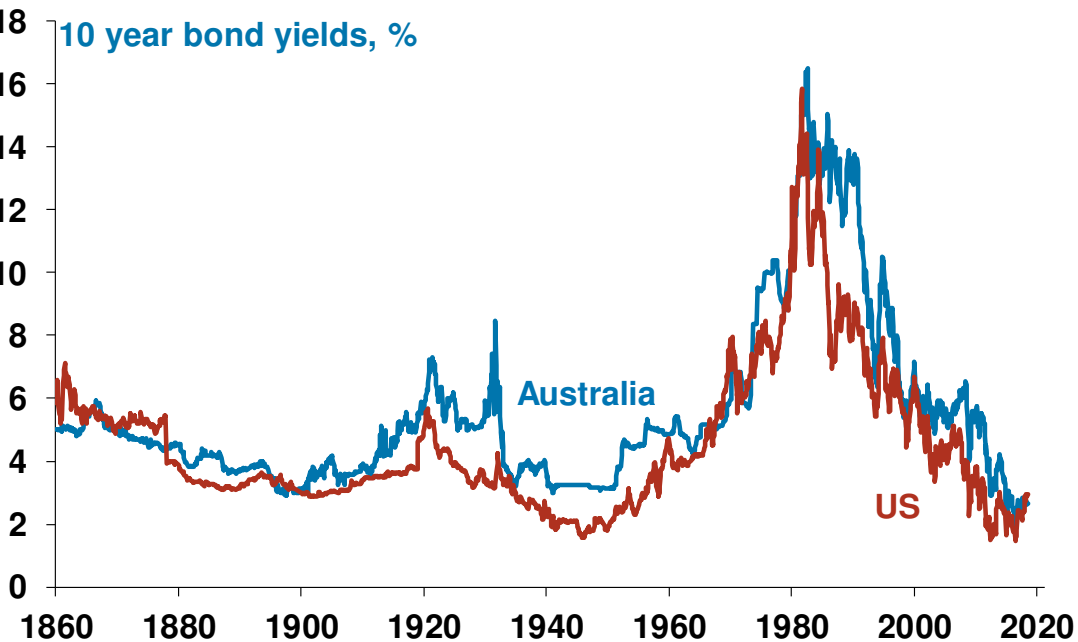


Source: Bloomberg, UBS, AMP Capital

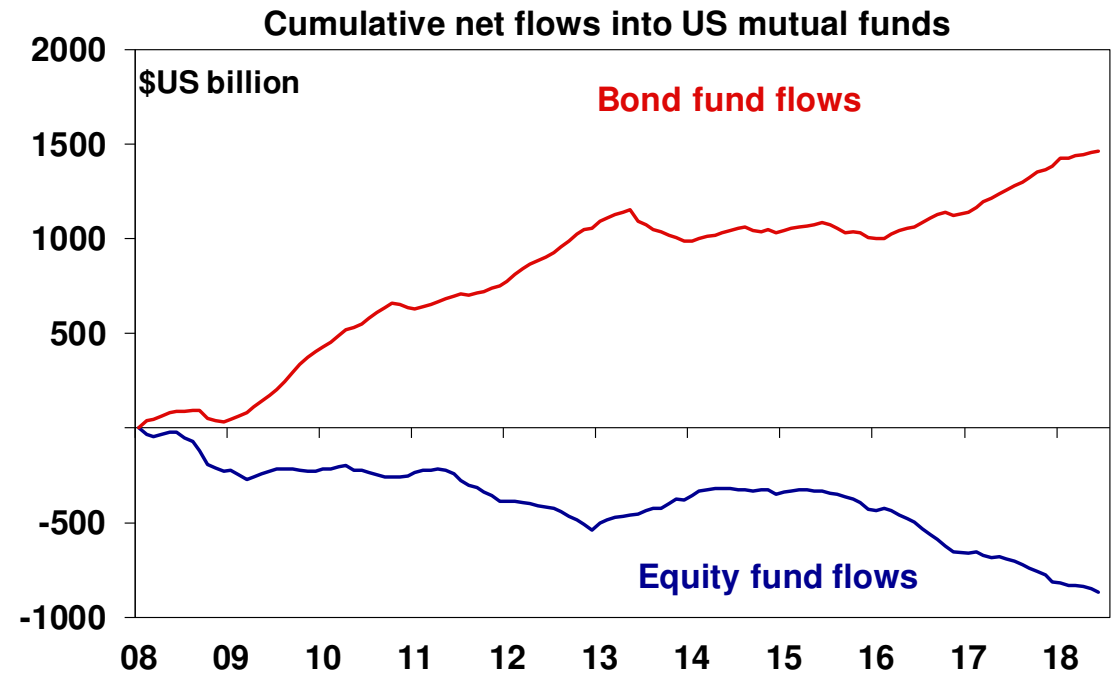
BONDS AT THE END OF A 35 YEAR BULL MARKET

EXPECT POOR RETURNS FROM BONDS

Bond yields have seen a 35 year bull market

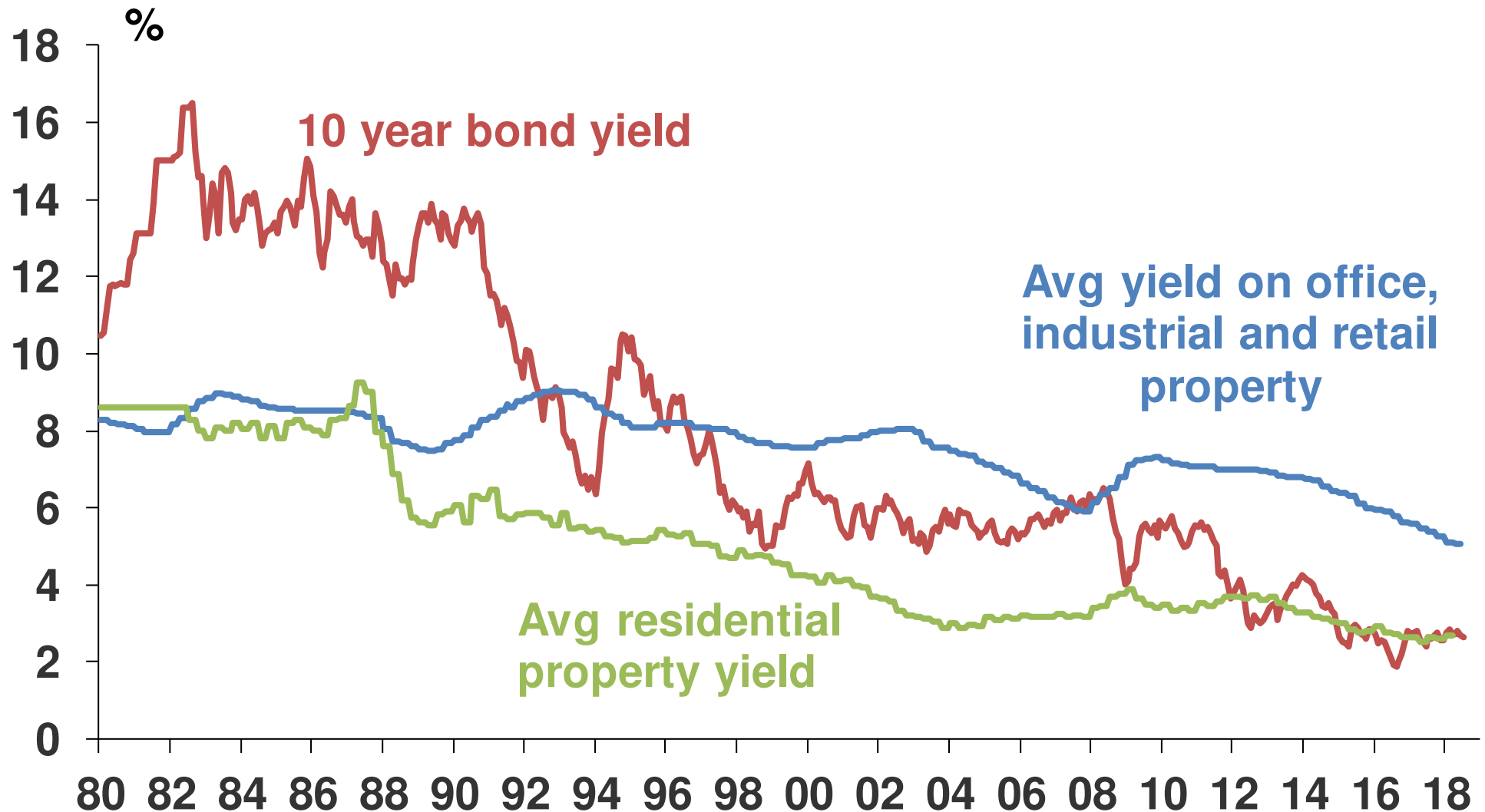


Strong fund inflows post GFC leave bonds vulnerable

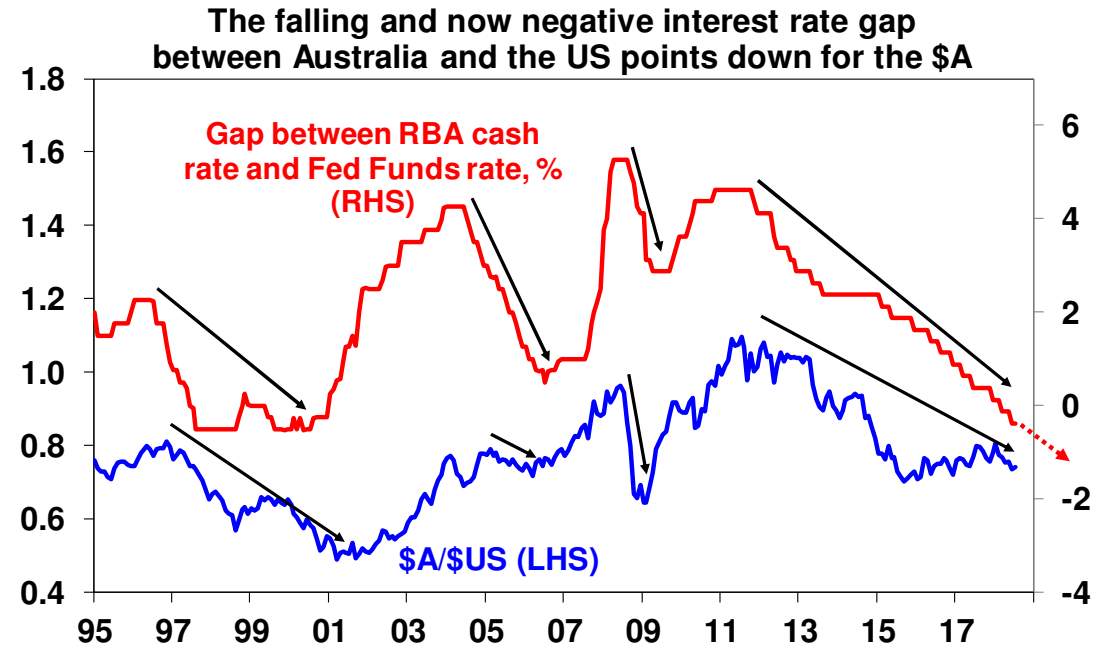
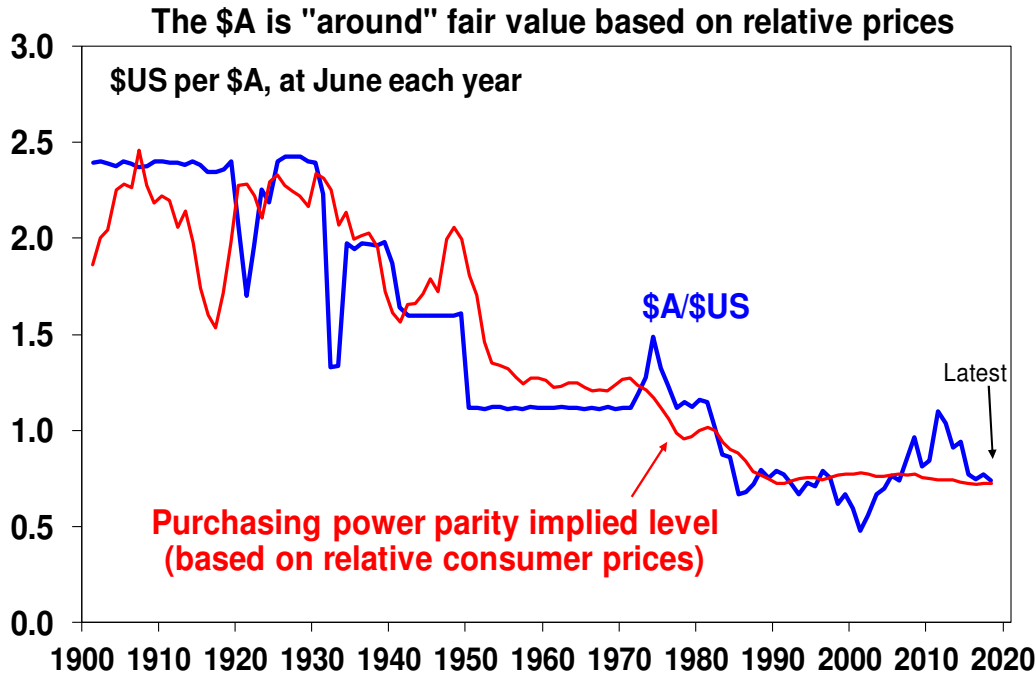


THE “SEARCH FOR YIELD” CONTINUES FOR UNLISTED ASSETS BUT IS LIKELY TO WEAKEN OVER TIME

Australian property yields versus the bond yield



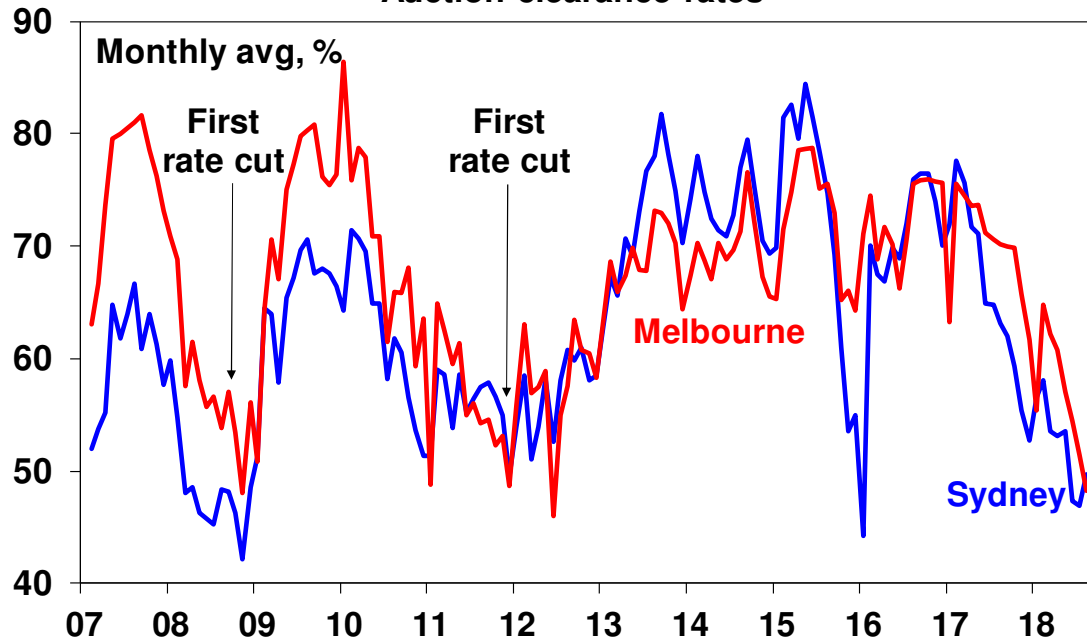
THE \$A IS LIKELY TO FALL AS THE FED TIGHTENS AND THE RBA HOLDS



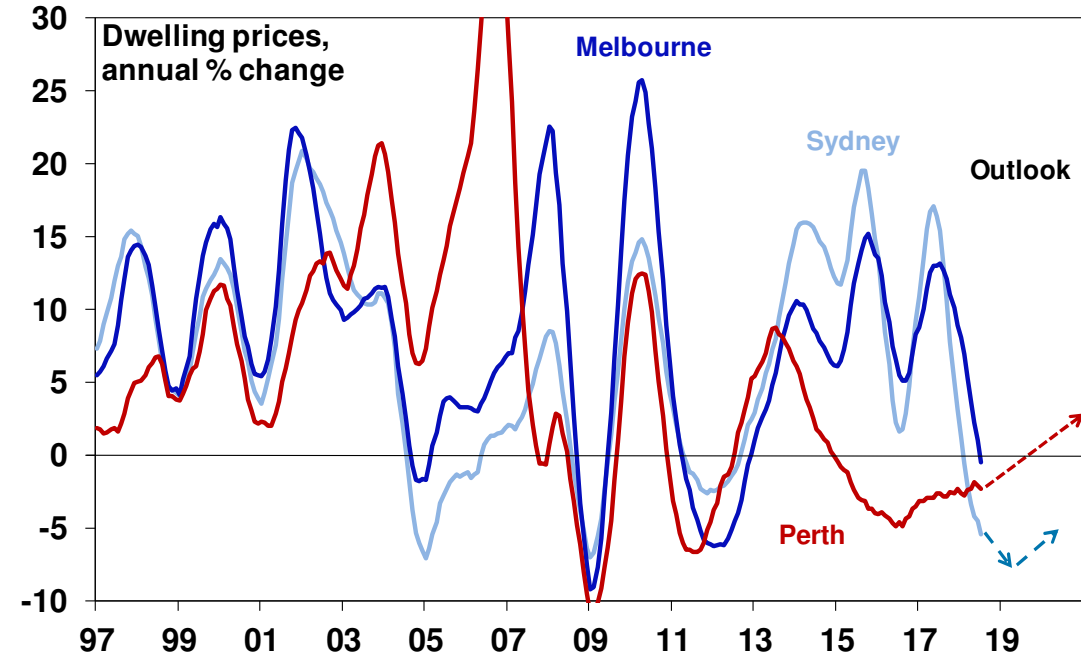
SYDNEY AND MELBOURNE HOME PRICES TO FALL FURTHER

OTHER CITIES LOOK OKAY

Auction clearance rates






















Property prices have more downside in Sydney & Melbourne



Source: Core Logic, Domain, AMP Capital

TRAFFIC LIGHT SIGNALS FROM DAA PROCESS

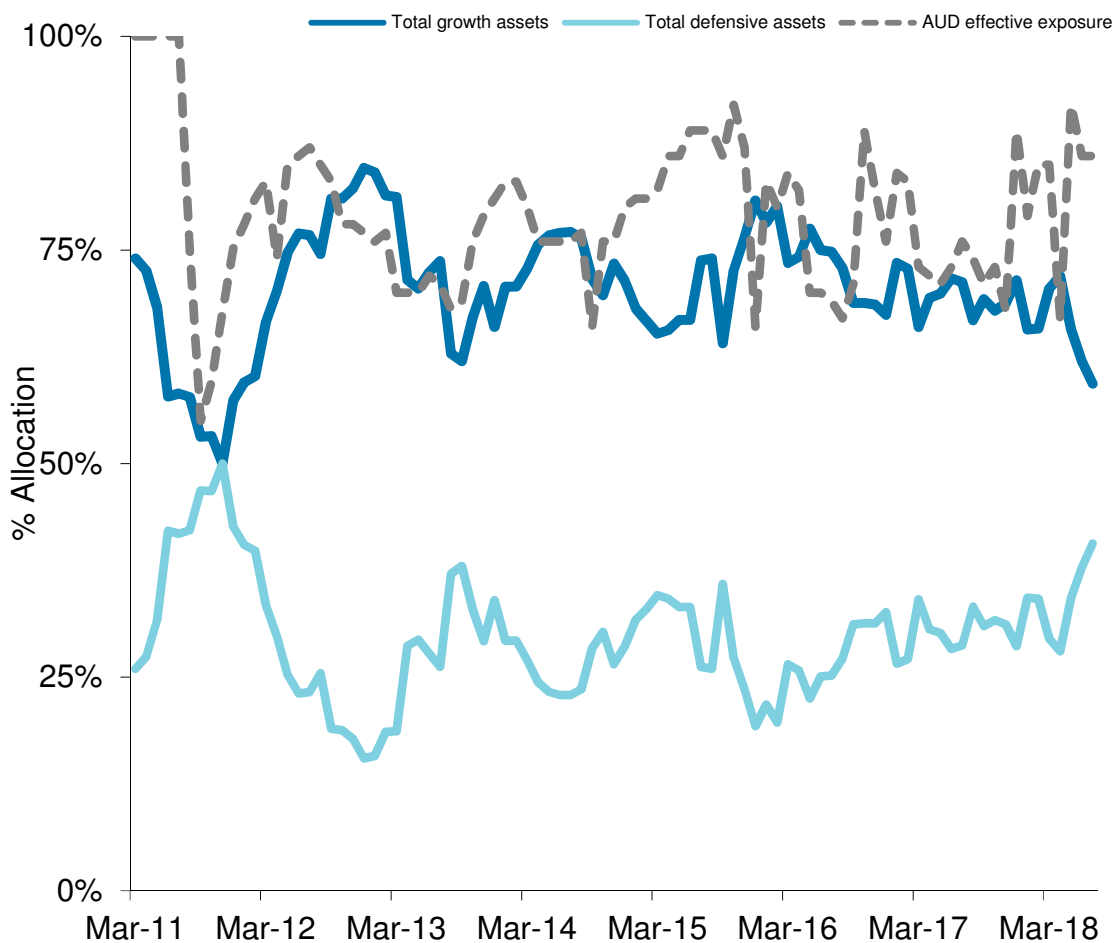
Signal	Equities	Listed property	Fixed income	Commodities
Valuation				
Cycle				
Liquidity				
Sentiment				
Technical				
Result	Favourable	Neutral	Negative	Favourable

Source: AMP Capital. As at August 2018

DYNAMIC ASSET ALLOCATION

DYNAMIC MARKETS FUND

Change in growth/defensive mix and hedge ratio



Allocations	Range (%)	Current AA (%)
Growth	0 – 90	57.5
Australian Shares	0 – 50	9.0
International Shares (Developed Markets)		33.5
International Shares (Emerging Markets)	0 – 50	4.5
Global REITs	0 – 25	0.0
Commodities	0 – 25	10.5
Global High Yield Credit	0 – 25	0.0
Defensive	10 – 100	42.5
Australian Sovereign Bonds	0 – 25	0.0
Global Sovereign Bonds	0 – 25	13.5
Global Investment Grade Credit	0 – 25	0.0
Global Inflation Linked Bonds	0 – 25	10.0
Cash & Hedges	0 – 50	19.0
AUD exposure (% of total fund)	0 – 100	80.0

PROJECTED MEDIUM TERM RETURNS, %PA, PRE FEES AND TAXES

	Current Yield #	+ Hedge Points	+Growth	=Return
US Equities	1.9	-0.5	4.5	5.9
Asia ex Japan Equities	2.7	-0.6	7.0	9.1
Emerging Equities	2.9	-1.4	7.0	8.5
World Equities, local currencies	2.4	0.6	4.1	7.1
Australian Equities	4.3/5.6*	0.0	3.5	7.8/9.1*
New Zealand Equities	2.8	0.1	3.8	6.6
Unlisted Commercial Property	5.5	0.0	2.0	7.5
Australian REITS	4.4	0.0	2.3	6.6
Global REITS	4.1	0.1	2.0	6.1
Unlisted Infrastructure +	4.5	0.0	3.2	7.7
Global Listed Infrastructure	2.8	0.1	3.0	5.9
Australian Gov't Bonds	2.3	0.0	0.0	2.3
Australian Corporate Debt	3.3	0.0	0.0	3.3
Australian Cash	2.7	0.0	0.0	2.7
Diversified Growth Mix				6.1

Current dividend yield for shares, distribution/net rental yields for property and 5 year bond yield for bonds. * With franking credits added in + Does not include franking credit which could add 0.45% to the return
Source: AMP Capital



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