

INVESTMENT OUTLOOK

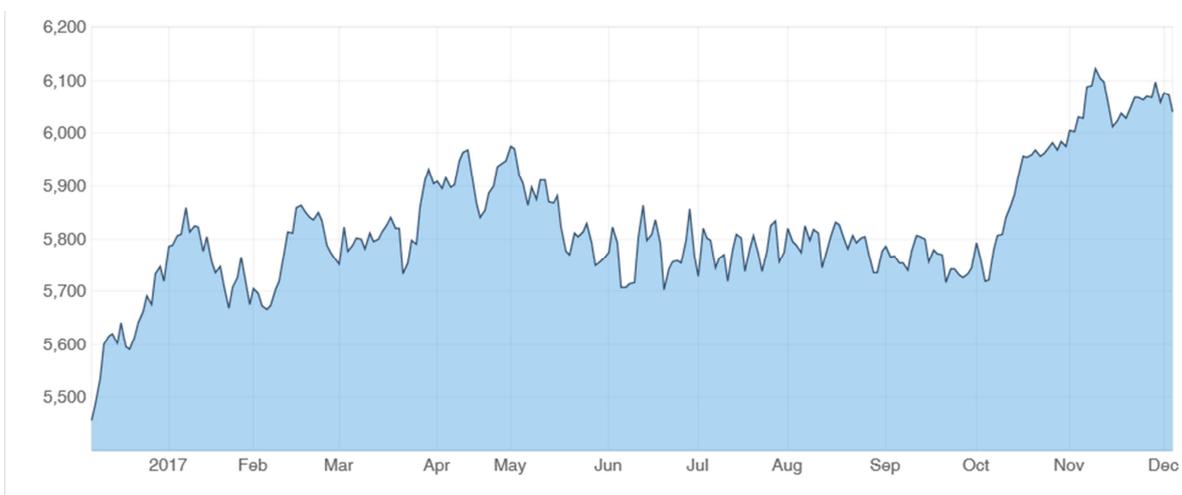
As we head into the final weeks of 2017, it looks like investors will end the year on a high after strong recent gains across global markets. In Australia, the market is once again sharing in the global gains, and economic fundamentals appear supportive of continued growth, albeit at the more moderate pace investors have become accustomed to. While inflation and wages growth remains subdued, the upshot has been lower labour costs and a greater appetite from businesses to invest and deploy capital. The only thing in danger of ruining Christmas is the current weakness from the retail sector, which has had a challenging year in the face of imminent competition from Amazon.

In the US, investors remain bullish, although the outlook has changed over the year in some subtle but significant ways. Much is still riding on the US administration's ability to have their tax reform legislation passed into law. Of course, many US companies (including some of the world's biggest) already pay less than the official corporate tax rate, however the reforms should see a boost to Industrials, allowing for the immediate deduction of durable goods purchases, which would undoubtedly have an impact on company value and possibly levels of investment.

Whether tax reform will allow valuations to continue to stretch ever higher is a different question. Our research indicates valuations are already on the expensive side in many parts of the world, and the impact of any resulting reform will depend on how much 'hope' has already been priced in. On the central banking front, monetary policy tightening and the normalisation of balance sheets may also work in the opposite direction, although the appointment of Jerome Powell to the US Federal Reserve has allayed fears of a rapid policy shift.

Over the coming months we see the key economic and market risks being a slowdown in global growth, European political risk, Geopolitical risk (mainly North Korea), US monetary policy, Australian house prices weakening considerably and/or a slowdown in China. Whereas continued global growth with modest inflation and/or low rates with strong commodity prices should see continued gains in equity markets.

ASX ALL ORDINARIES 12 MONTH PERFORMANCE CHART



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