

Let the good times roll?

April 2016

One minute, sharemarkets are crashing. The next, an extraordinary rebound. Investors would be forgiven for wondering what is going on – and whether the rebound will last. Tim Rocks, Head of Market Strategy and Research, looks at the background to this activity with the view markets will continue to offer returns.

Fears driving a crash

At the start of the year, concerns over a number of issues drove the crash in the sharemarket. These included:

- + China's decision to depreciate its currency in January which rose concerns over the state of its economy
- + The sharp fall in oil prices created fears of energy defaults, threatening the health of banks
- + Weaker US economic data
- + A poor response to Japan's introduction of negative interest rates.

Fast forward to a rally

From a dramatic start to 2016, sharemarkets rallied in February and March. So what changed from the fears at the start of the year?

- 1. The US Federal Reserve (Fed) changed its original plans to raise interest rates four times in 2016, reducing it to two times. This has reduced pressure on its economy, encouraging growth.
- China slowed down its reform agenda and acted to stimulate its economy, alleviating the concerns over the state of its economy.
- US economic data improved with a lower US dollar and rising oil prices helping the manufacturing sector to expand.
- The European Central Bank (ECB) began purchasing corporate bonds as part of its quantitative easing program which eased concerns in this area.

Will it continue?

While there are a number of challenges across the globe meaning economic activity should remain subdued, there are reasons to be positive about the outlook.

Continued central bank activity should support a number of economies – particularly Europe – which should mean some growth in international shares. Locally, as commodity prices stabilise, this will offer support and some growth in the Australian market. Property should also continue to benefit from low cash rates globally.

On the other hand, returns from fixed interest are likely to continue to be low and the poor market liquidity and lower volatility create less opportunity for alternative strategies.

As a whole though, the outlook suggests opportunities for investors and the potential for continued growth from some asset classes.





For more information on incorporating this outlook into your investments, please contact BT Financial Group.

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