

Keep calm and carry
on. Everything is fine,
really.

October 2018
Brian Parker CFA
Chief Economist



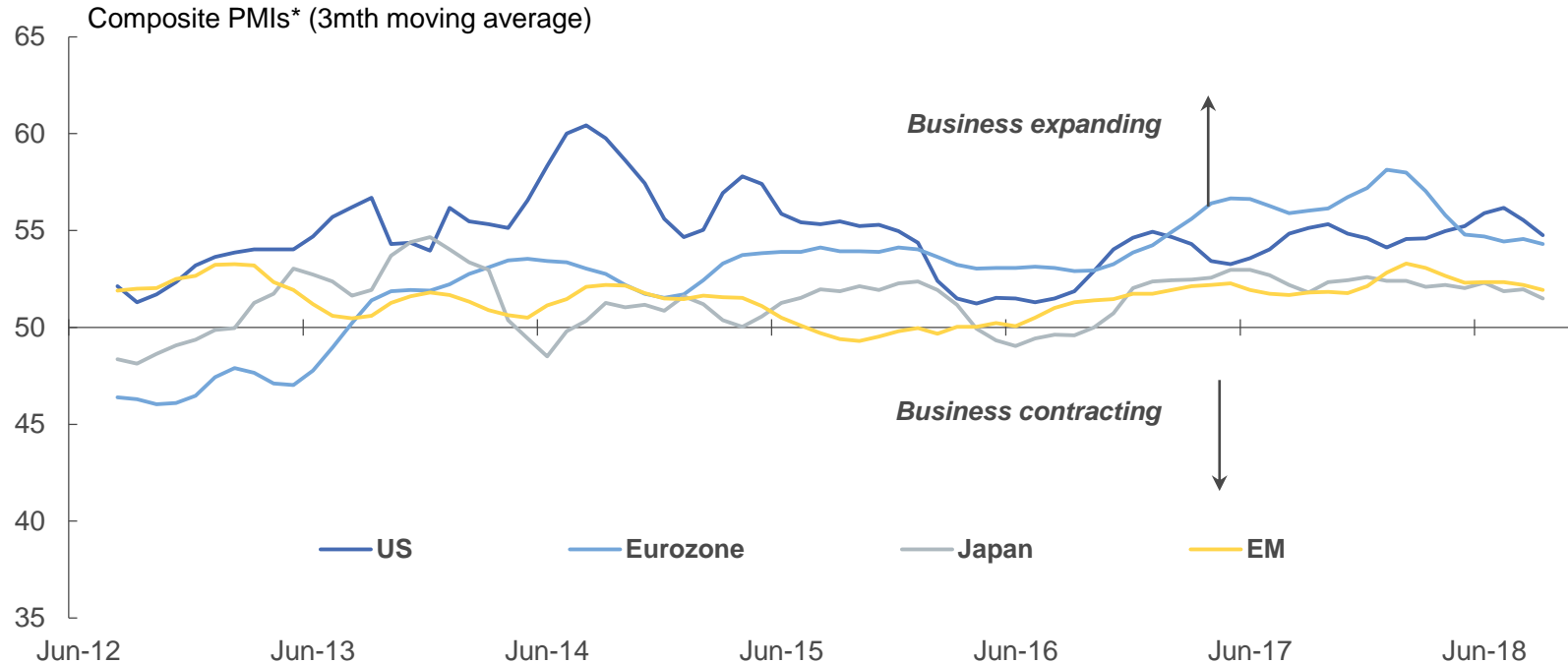
 **sunsuper**

Main messages

- Modest global growth, late cycle economy, but no near term recession.
- Inflation remains (mostly) very low, but upside risk in US and Japan.
- Fed rate hikes continue in 2019: BoJ, ECB on hold.
- Equities still fully valued – lower returns in prospect.
- Geopolitical risk – remaining elevated for some time
- Bond yields still low –sovereign bond returns likely to be lousy, but still opportunities in credit.
- Alternatives – prospective returns have fallen, but still very attractive vs publicly traded markets.

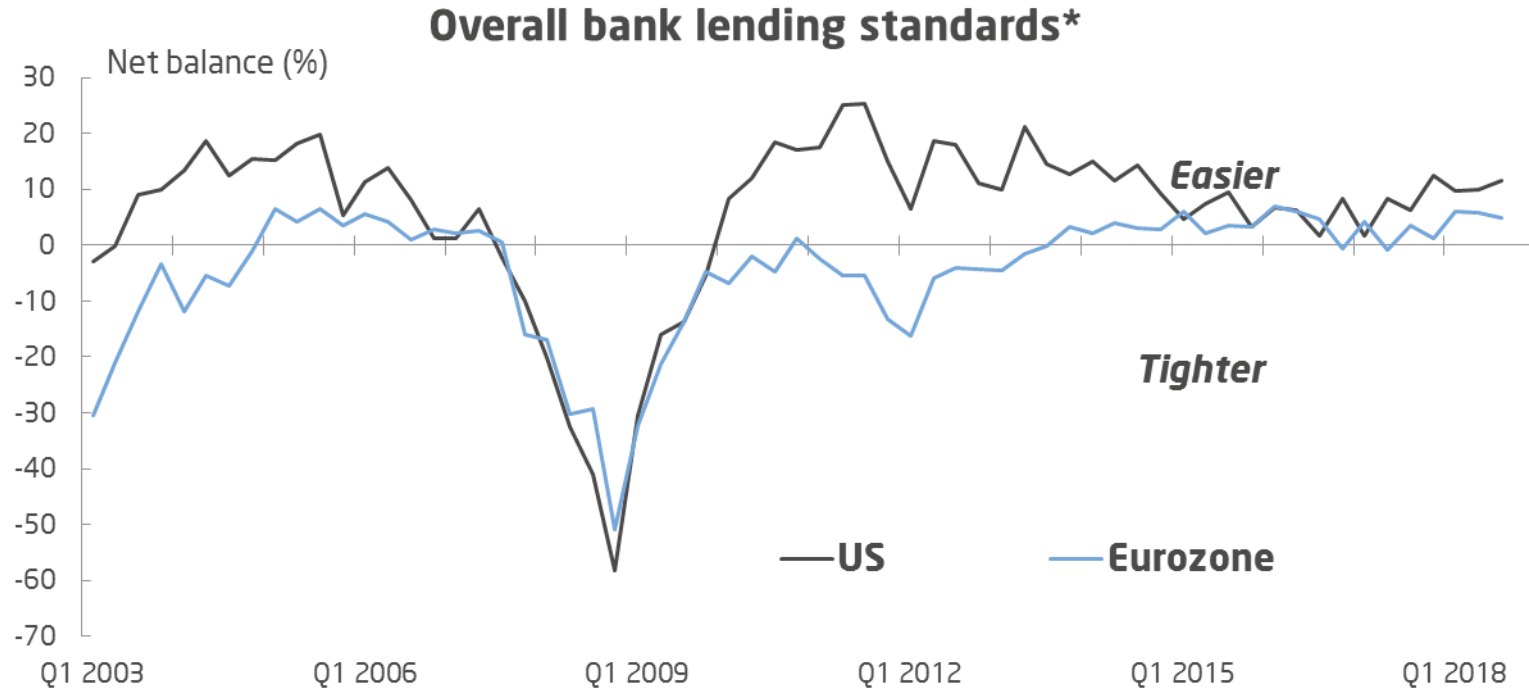
Global economy still growing solidly

Business conditions



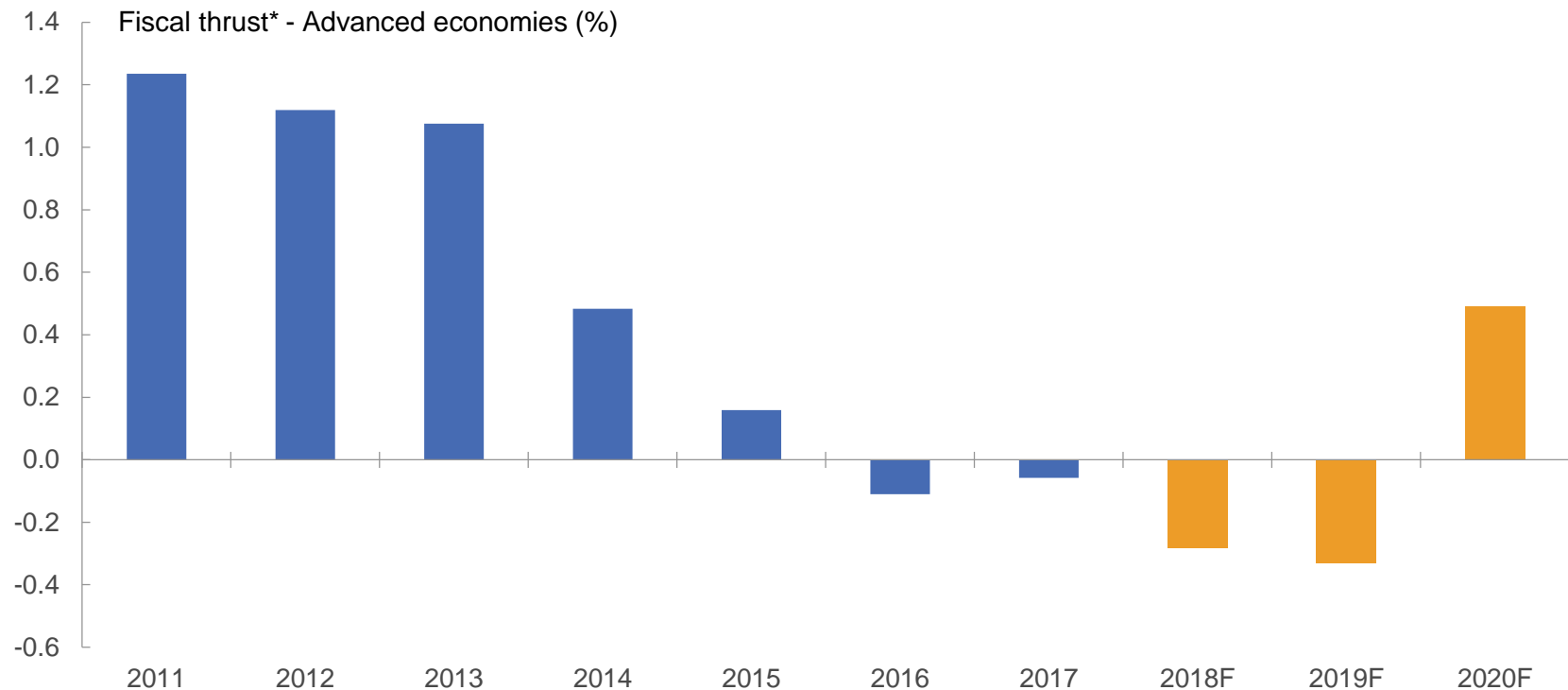
Source: MarKit, Datastream. Latest observation is September 2018 *Purchasing Managers' Indices.

Global economy: bank lending surveys



Sources: US Federal Reserve, European Central Bank, Datastream, Sunsuper. *Weighted average for business and household lending.

Global economy: expansionary fiscal policy (*at least until 2020!*)



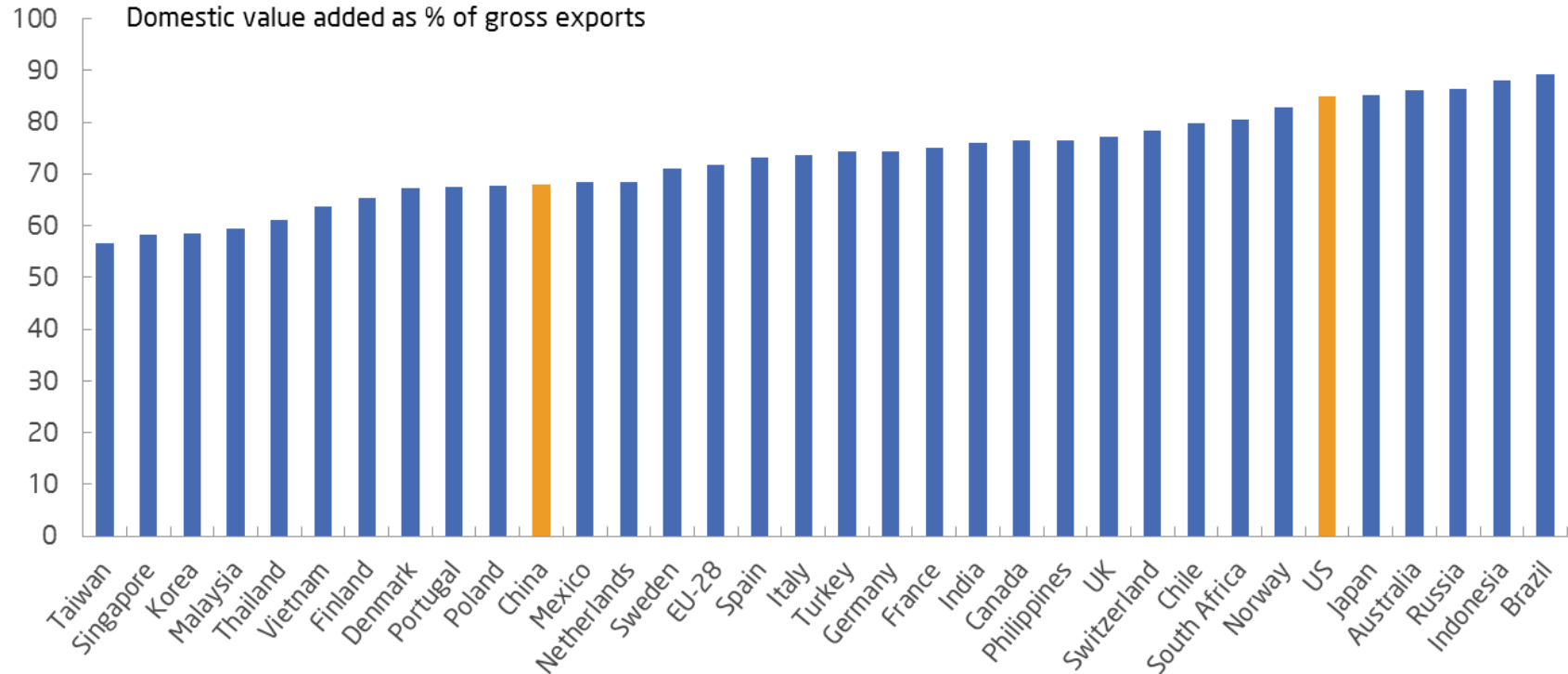
Source: Datastream. IMF Fiscal Monitor. *Annual change in the cyclically adjusted primary budget balance as % of potential GDP.

Things we worry about

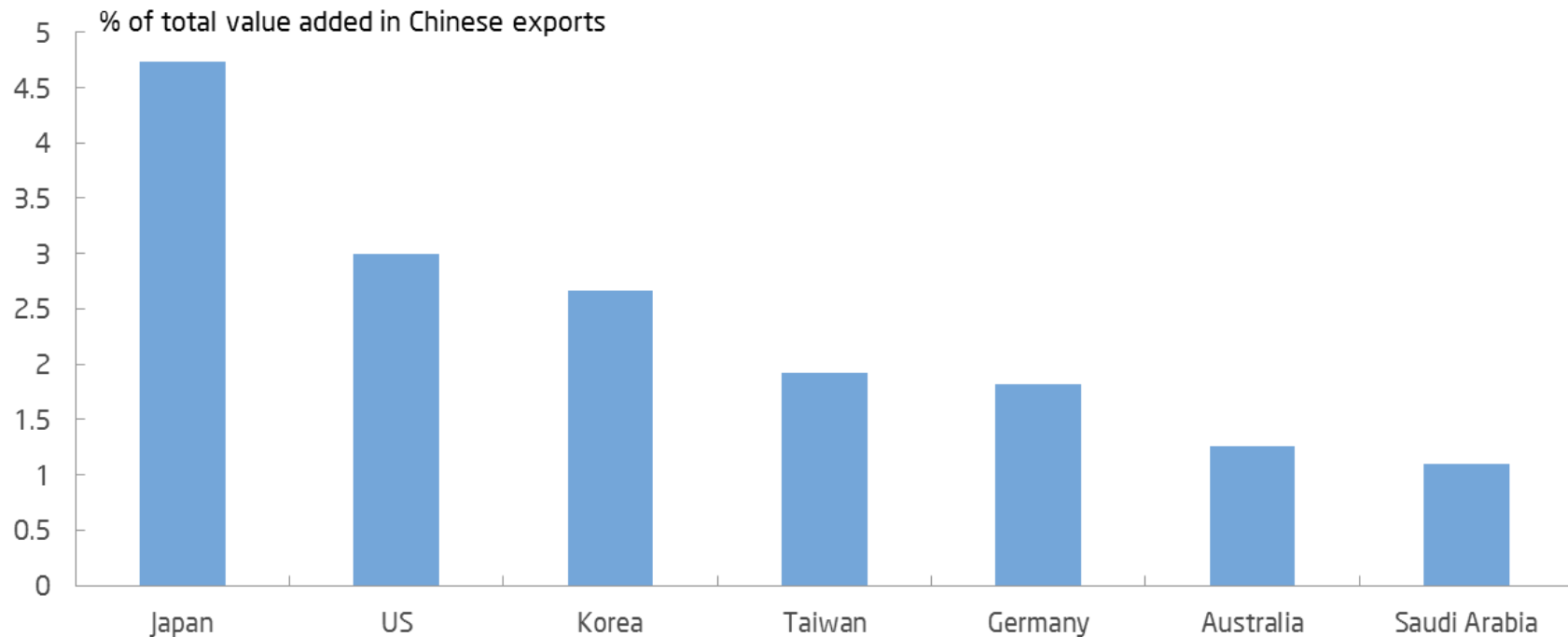
- Geopolitics
- Trade tensions
- Inflation
- Europe
- China
- The next crisis?



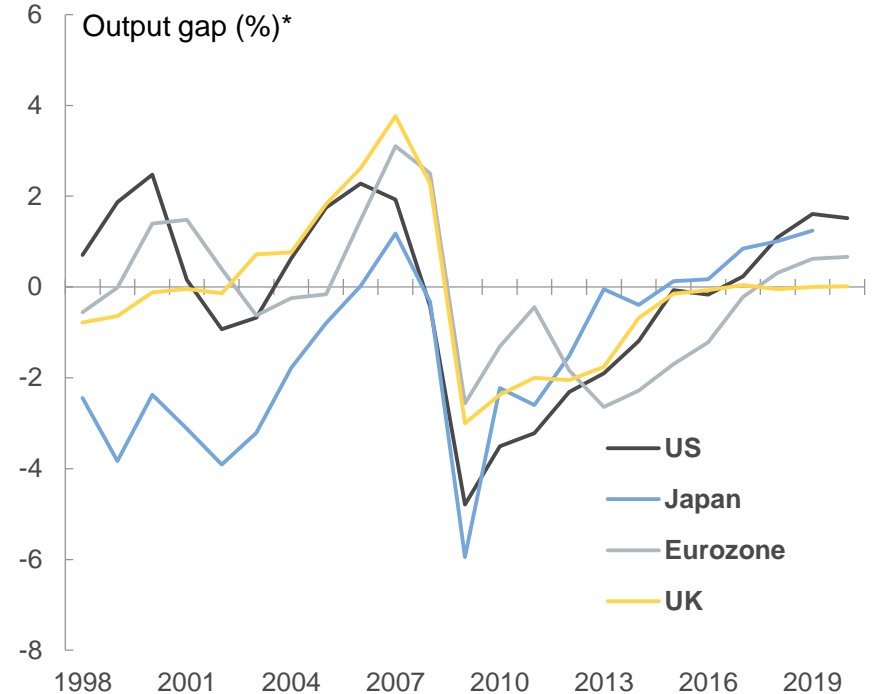
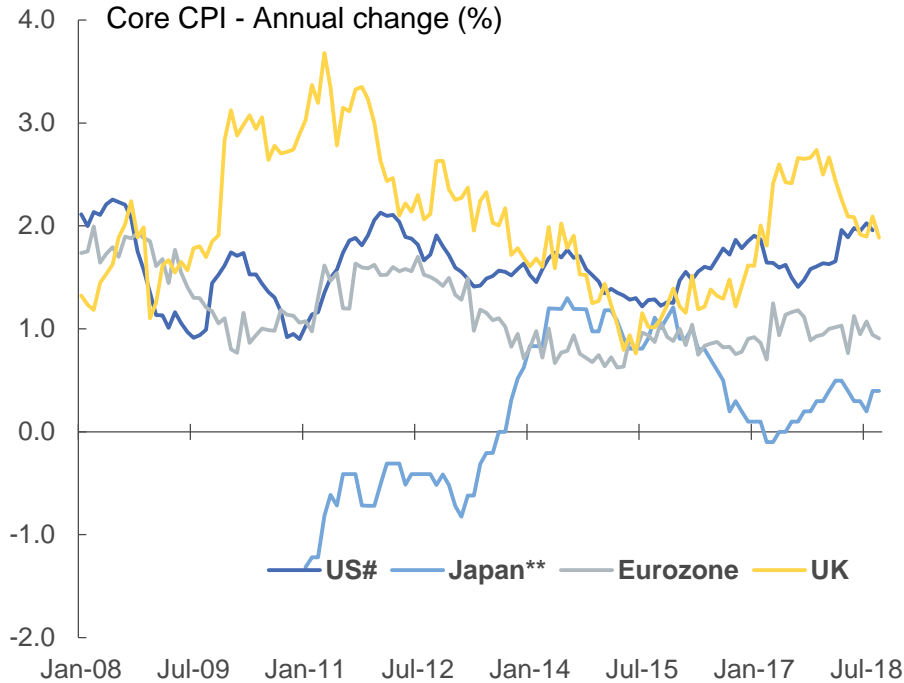
What Trump doesn't understand: global supply chains



What Trump doesn't understand: where are China's exports made

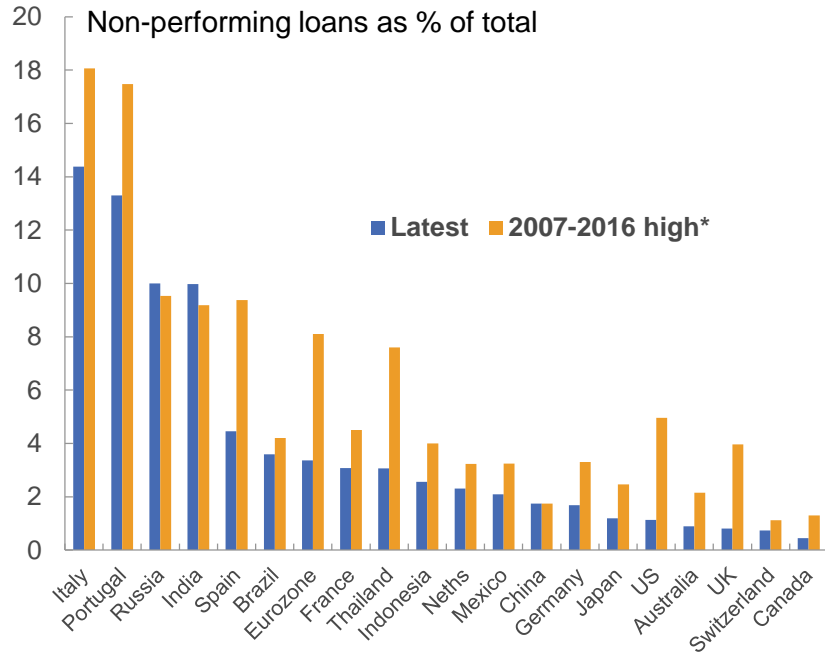


Global economy: low inflation, but for how long?

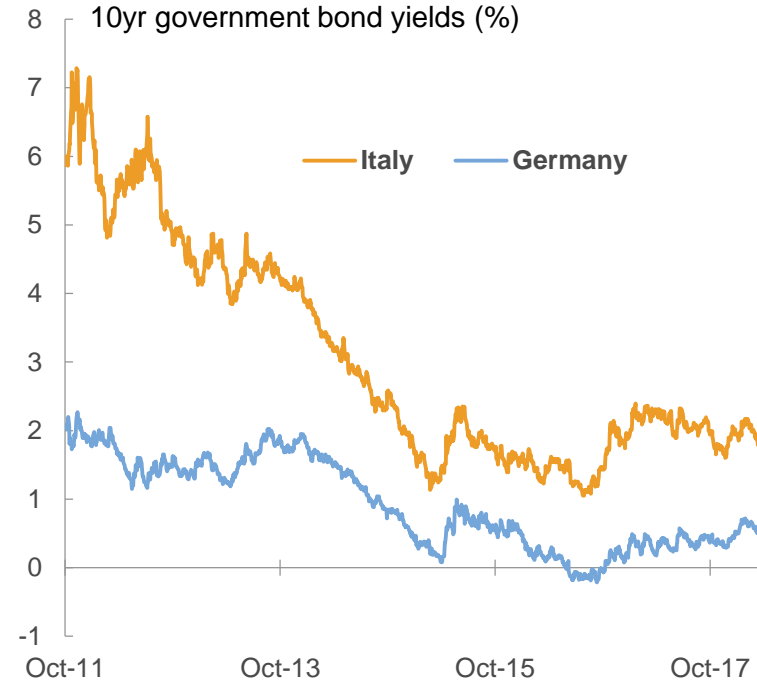


Sources: Datastream, IMF, OECD. *Output gap as a % of potential GDP. **Japanese CPI adjusted for tax changes in 2014. #US data is chain price index for private consumption ex food & energy.

Italy

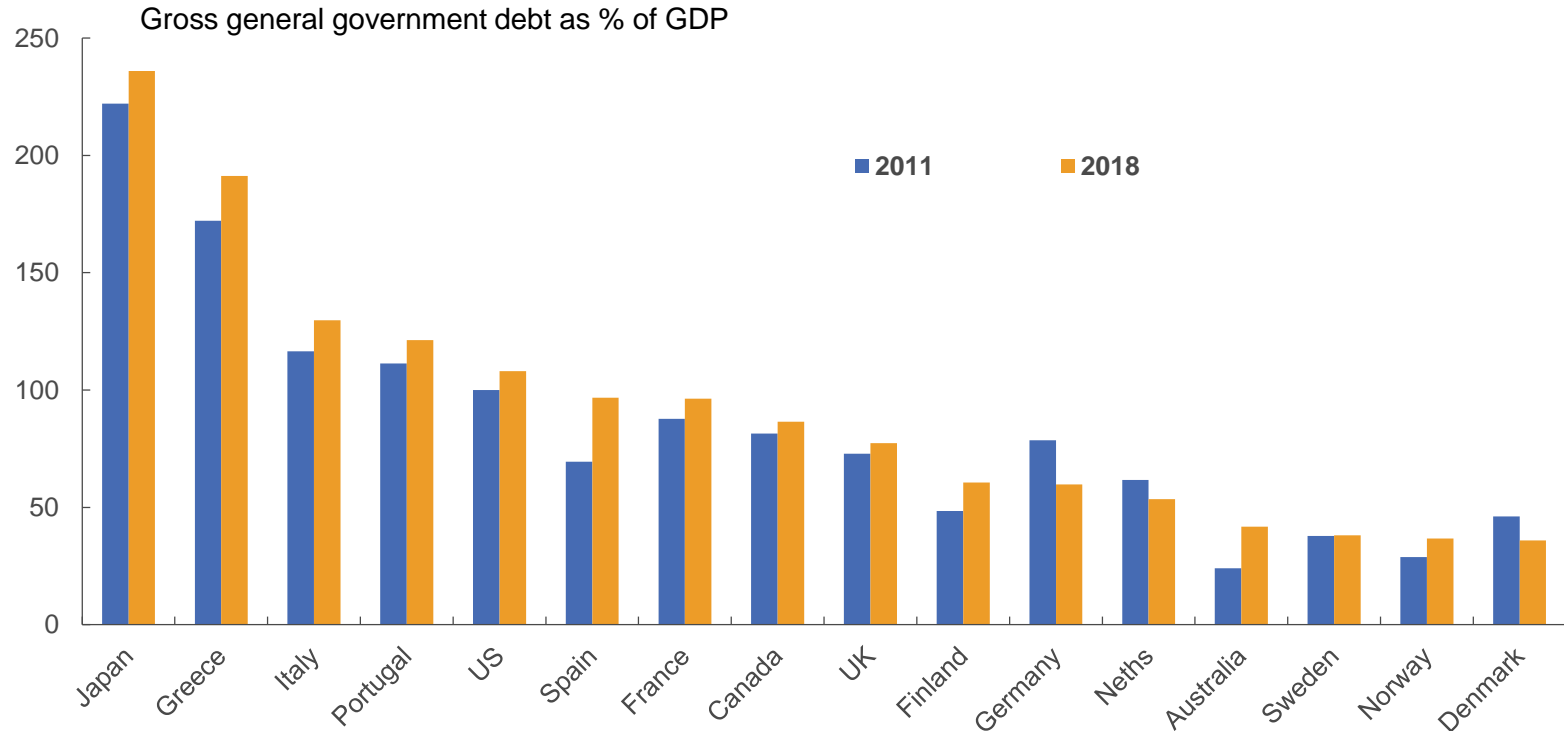


Sources: Datastream, World Bank. *Where data available

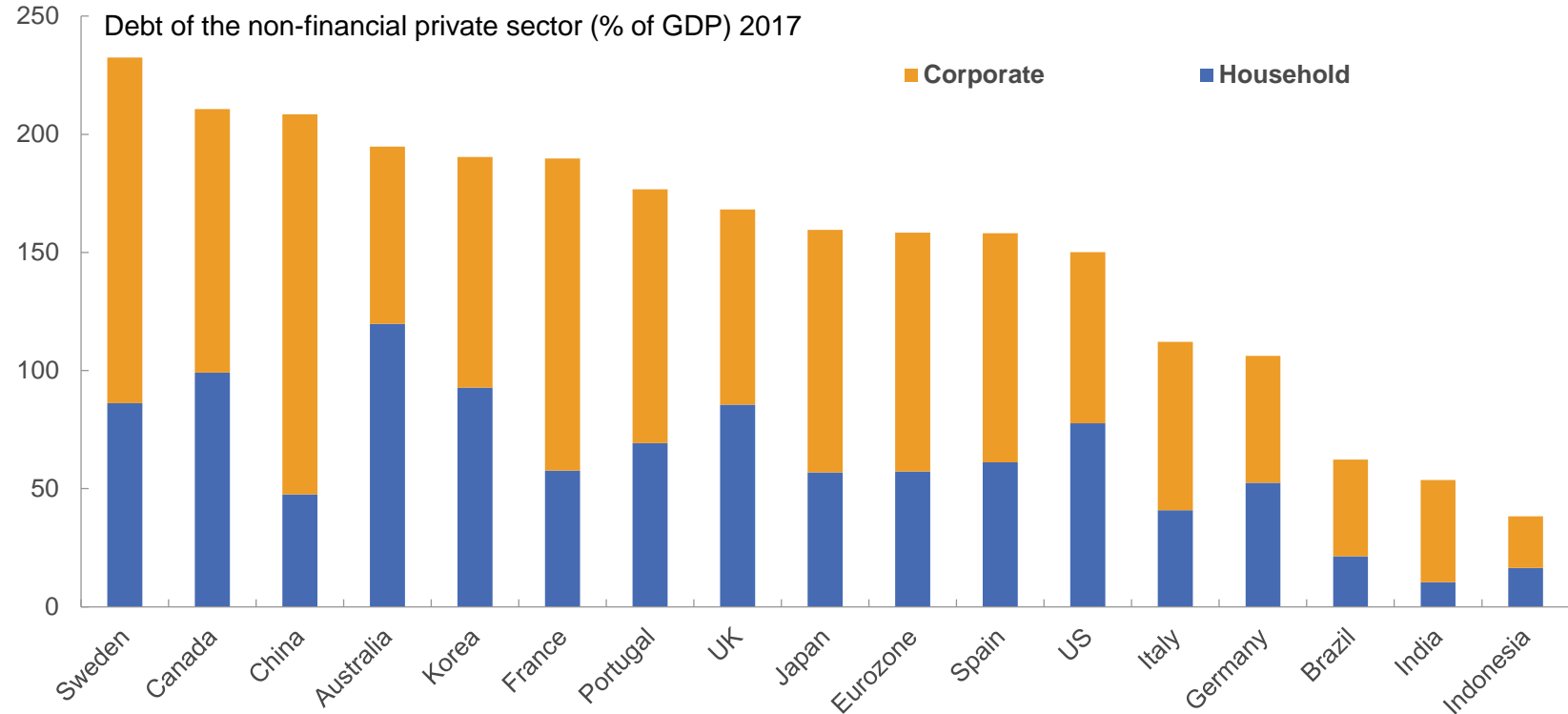


Source: Datastream

Global economy: how to deal with the next crisis?

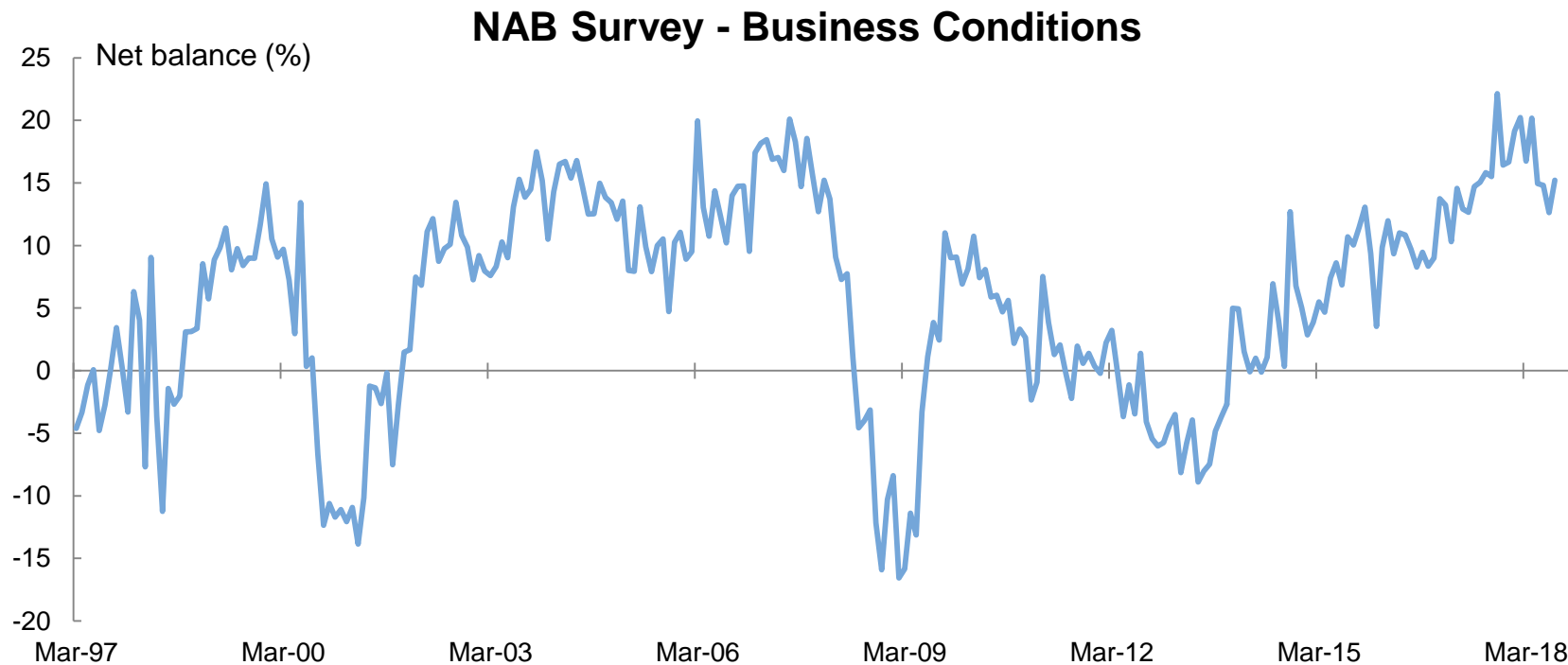


Global economy: how to deal with the next crisis?

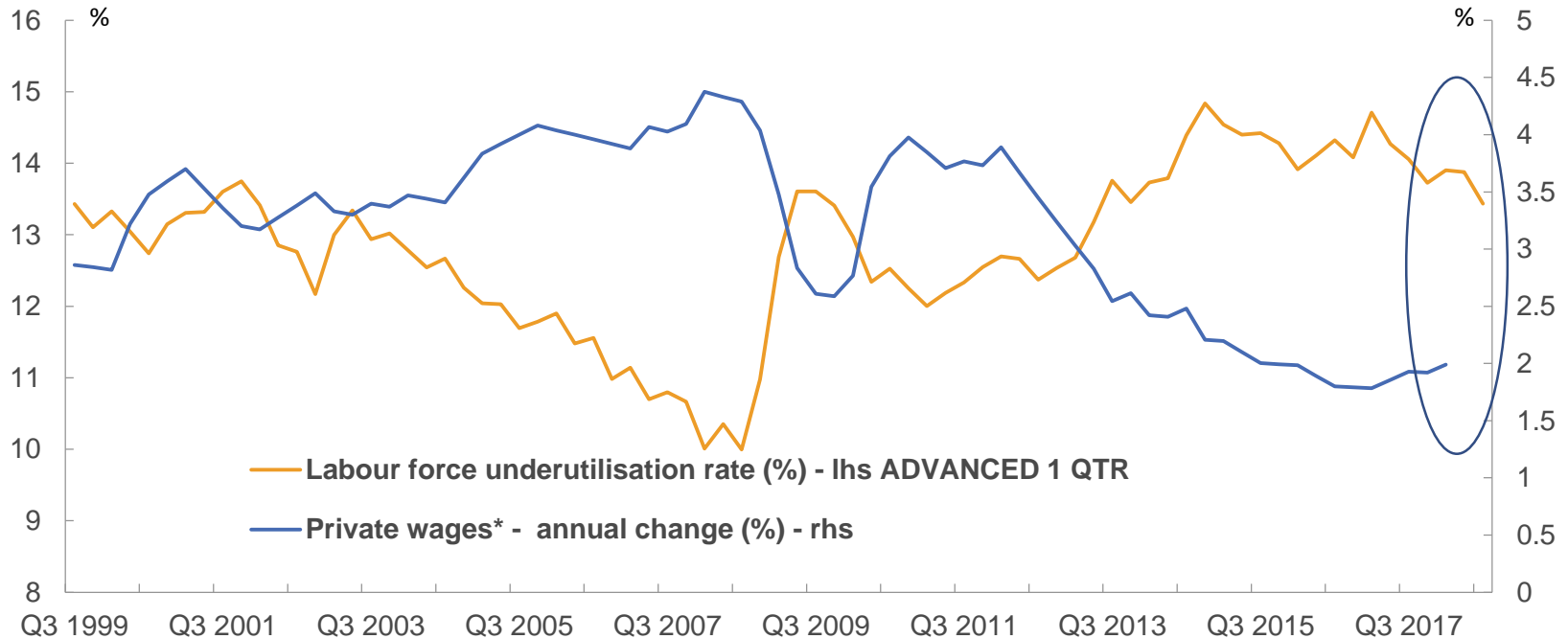


Sources: Datastream, IMF World Economic Outlook Database, Bank for International Settlements.

Australian economy: business reporting very strong conditions

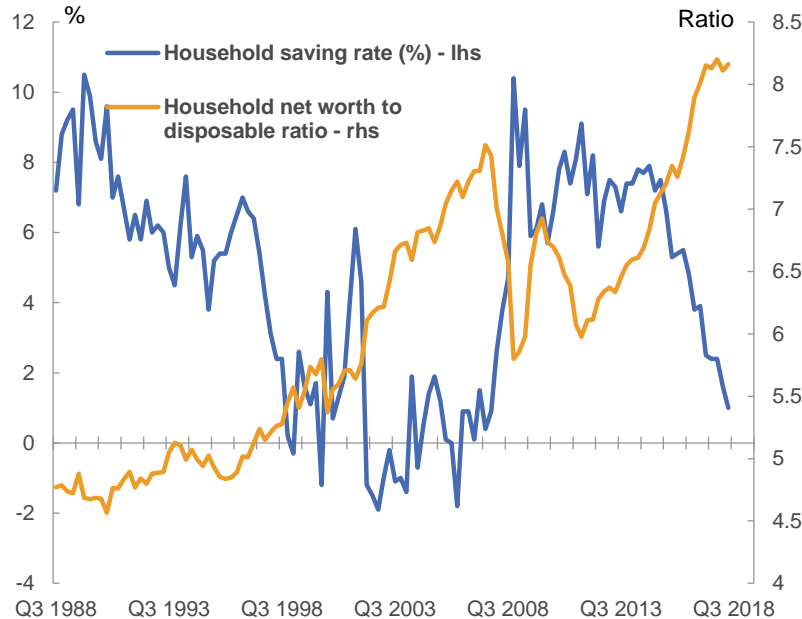


Australian economy: will wages (finally) start to accelerate?

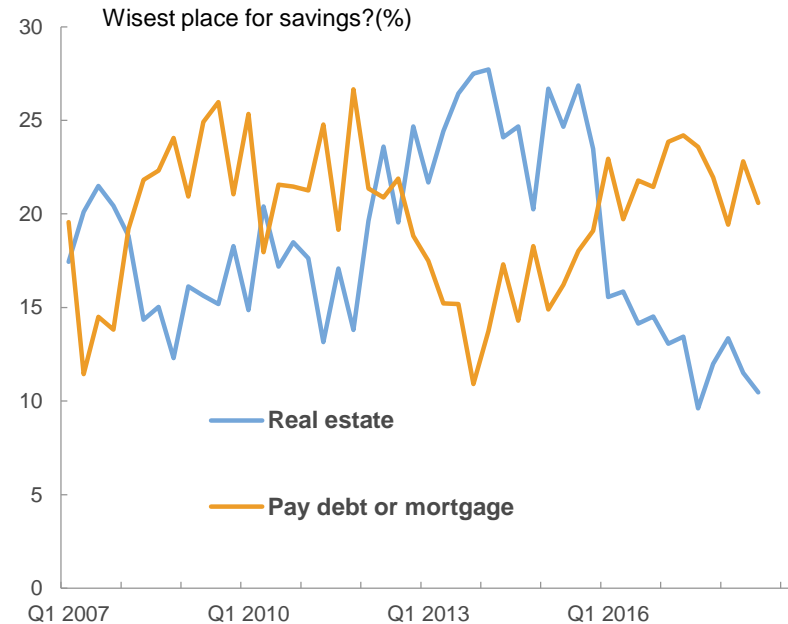


Australian economy: just how vulnerable are consumers?

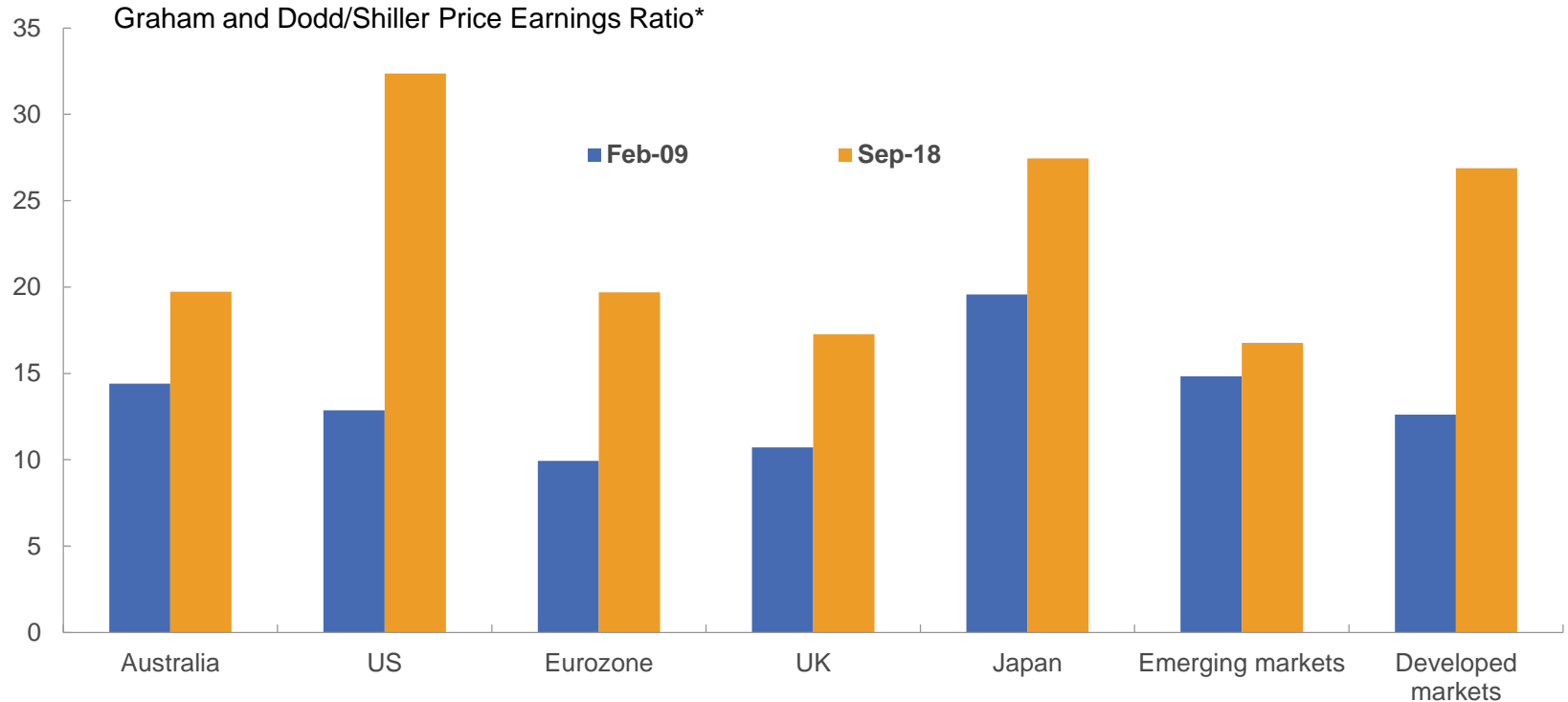
Soaring wealth and lower saving rate supports household spending



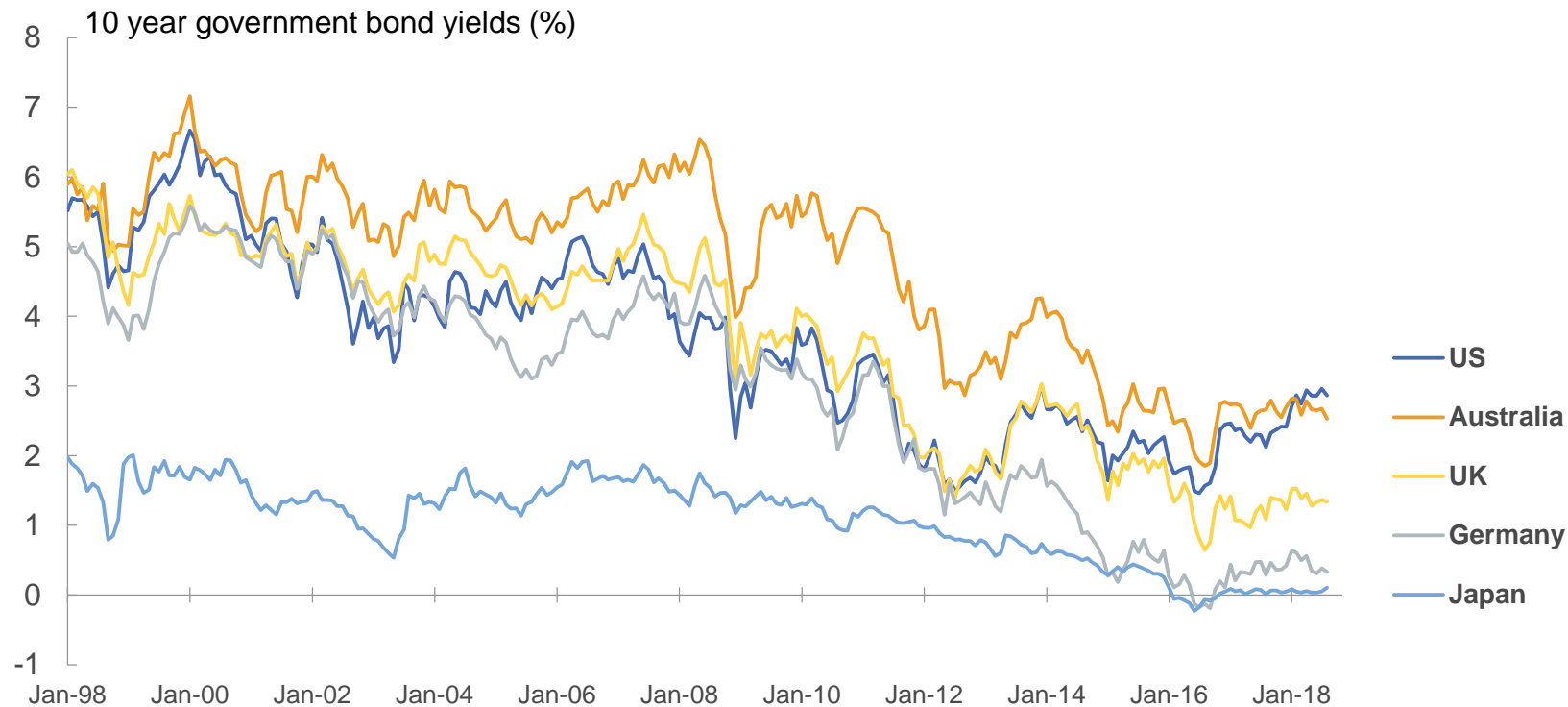
Australians' looking to pay down debt?



Shares are not cheap



Bond yields have risen but future returns are still likely to be low



Source: Datastream. Last observation is August 2018.

Opportunities in credit, **but risks are rising**



Sources: Sunsuper, BofA Merrill Lynch, Datastream. Last observation is end September 2018.

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Could be worse..

“The complete annihilation of all human life represents the mother of all tail risks. We estimate that there is a 50% chance that doomsday will occur by 2290 and a 95% chance that it will occur by 2710.”

- *BCA Research September 2016.*