MEDIA RELEASE

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Market corrections deliver clarity and opportunity

AMP Capital's Quarterly Strategic Outlook released today sees opportunities for investors prepared to ride out the increased volatility in global sharemarkets, which has been especially marked over the last quarter.

AMP Capital Managing Director and Head of Fixed Income Grant Hassell says while the September quarter is notable for being the first negative quarter for global and New Zealand shares for over three years, this does not portend the start of a prolonged bear market but rather a necessary correction to return markets to reality.

"Our view is that China growth risks are overplayed, global share market valuations are attractive, US interest rates will not rise materially, the global banking system is better capitalised than in previous years and there are no major housing market bubbles to bring it down," said Mr Hassell.

While many have been concerned about the potential for a slowdown in the Chinese economy to lead to a global recession, which has been reflected in market sentiment towards broader emerging economies, commodities, and major developed economy exporters such as Japan and Germany, AMP Capital's view has been consistently less pessimistic.

"China is going through a challenging transformation but we remain of the view that a slower China is a more sustainable China. In addition, we're already starting to see signs of recovery. Consumer confidence rose to a 15-month high in September, which allays fears that the recent share market correction would have a detrimental impact on household spending," said AMP Chief Economist Bevan Graham.

Concerns about global growth saw the US Federal Reserve leave interest rates on hold in September. AMP Capital's view is that an interest rates increase is coming and a hike this year is possible, but it's looking increasingly likely to be 2016 before this happens.

In New Zealand, AMP Capital's expectations for growth are for a lower but still solid 2.0-2.5% rate over the next two years. Lower growth along with persistently low inflation has led to interest rate reductions and AMP Capital expects one further cut in the Official Cash Rate to 2.5% before Christmas.

"In the context of our expectations around interest rates, the approach we are taking within our portfolios is to look closely at the opportunities provided by the recent market corrections to buy assets at a cheaper price, but we remain patient," said AMP Capital Head of Investment Strategy Keith Poore.

In share markets some value has been restored to markets such as the United States and New Zealand, while other regions such as Hong Kong listed China shares and European shares have become increasingly inexpensive.

The defensive characteristics of New Zealand shares came to the fore again over the September quarter, limiting the losses to a third of global shares. This is despite September being the weakest quarter for domestic shares since June 2012. We expect a reduction in the rate of dividend growth to have an impact going forward.

"Dividend growth has been a key support for New Zealand shares over the past year but this will slow going forward because distributions have outpaced earnings in recent quarters as companies have responded to dividend-hungry investors," said Mr Poore.

Despite the recent volatility it is as important as ever to keep sight of fundamentals.

"In contrast to term deposits, volatility is the price investors pay for higher returning assets and the lesson of the last few years is not to panic during market corrections," said Mr Poore.

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All returns set out in this media release are before tax and fees. Past returns are not necessarily indicative of future returns. For further information about the Funds described in this media release, and before investing, please read the Investment Statement which can be found at www.ampcapital.co.nz.