

Media Release

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Higher global growth to support global equities

Positive economic news during the early months of the year underpins expectations for healthy global growth in 2017, supporting the case for further gains in global equities, according to AMP Capital's latest Quarterly Strategic Outlook released today.

Chief Economist Bevan Graham says that as 2017 progresses the issue is becoming the sustainability of the improvement in the data, particularly around inflation.

"We remain cautious on the reflation story as much of the increase in inflation recently has been driven by higher commodity prices and is largely contained to headline inflation," said Mr Graham.

Genuine reflation appears most evident in the US where the economy is at full employment and the output gap is effectively closed. AMP Capital's view is that the US Federal Reserve will therefore continue to tighten monetary policy, with a total of three rate hikes during 2017 the most likely outcome.

Turning to China, AMP Capital's ongoing view is that market concerns about a hard landing have been overplayed and authorities have in fact done an excellent job at stabilising the economy. However, it appears that near-term stability has been at the expense of longer-term sustainability, with little progress in terms of reform expected in the near-term.

Recent stability in China is also supportive of the broader emerging market picture. "Emerging markets are staging somewhat of a growth renaissance, though this recovery is in large part contained to commodity export countries benefiting from the recovery in commodity prices," Mr Graham said.

In terms of the New Zealand economy, AMP Capital expects a rebound in March quarter growth following disappointing data at the end of 2016. Looking further ahead growth is expected to slow over 2017 and 2018, particularly as lack of spare capacity increasingly constrains the ability of the economy to grow. Overall AMP Capital sees global share markets continuing higher over the next 12 months, helped by higher global growth improving corporate earnings and still-fair valuations, economic optimism, and supportive monetary conditions.

Head of Investment Strategy, Greg Fleming, said the current market backdrop remains supportive of AMP Capital's asset strategy. "We don't see a compelling case for significant changes to our current investment strategies, which have been proving successful. We are maintaining our over-weight to global equities though our portfolio positioning is now slightly more defensive due to lowering the allocations to property and commodities, which we consider the most vulnerable asset classes at present," he said.

Mr Fleming also reinforced the higher cash weightings in AMP Capital's diversified portfolios. "Holding an uncommitted cash buffer is of considerable value because of the scope it allows for re-entering markets at those (inevitable, if not imminent) moments of distress."

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