ASX INVESTMENT VIDEOS

Heading for a fall or steady as she goes?

SPEAKER: George Boubouras, Equity Trustees
LOCATION: Melbourne
DATE: July 2014

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ASX Investor Update

CIO Investment

July 2014

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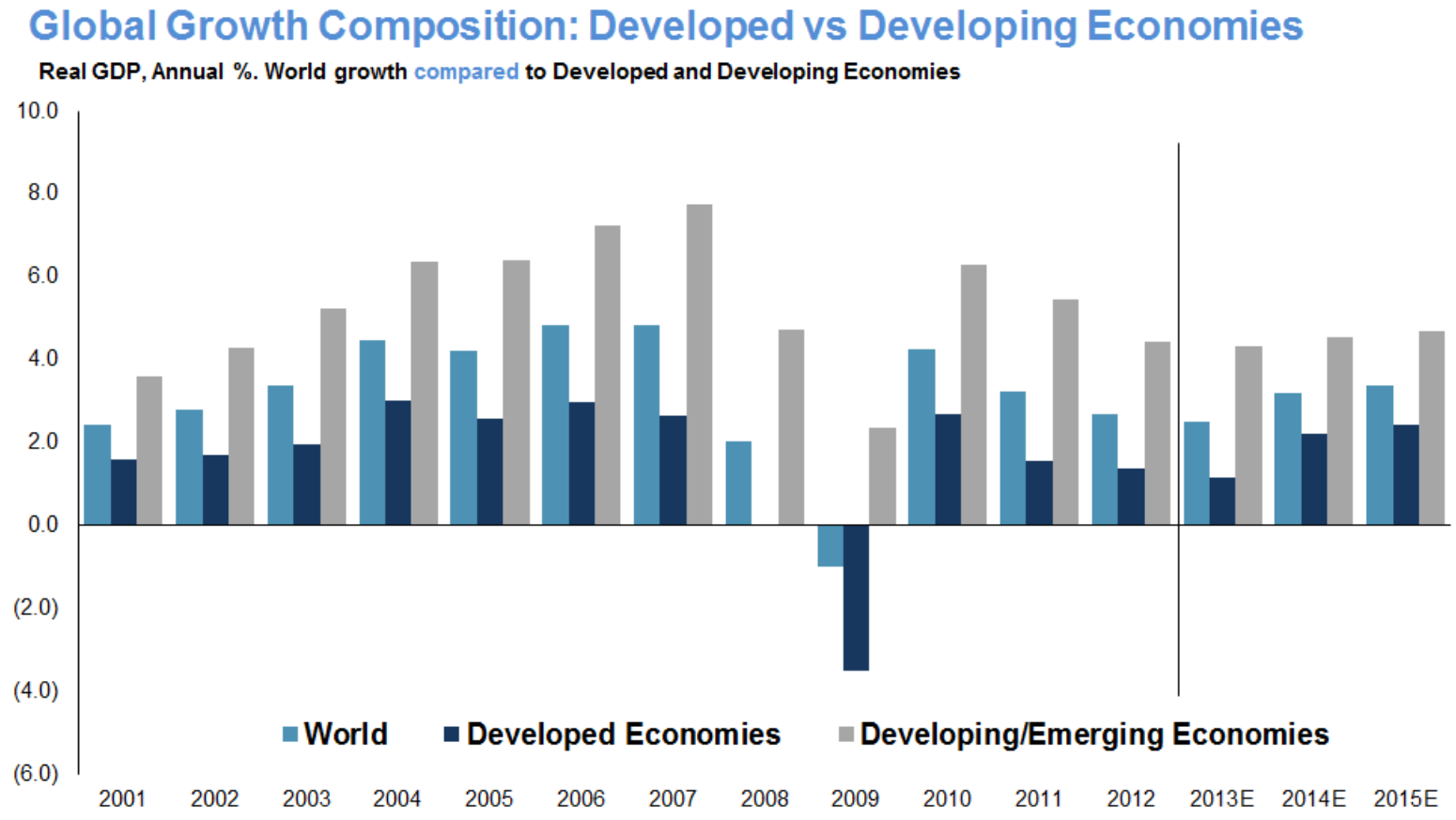
SECTION 1

Market macro economic & risk indicators

Global growth expectations more synchronised…

Global growth forecasts remain around long run trend. Developed markets, the big improver. The emerging economies contribute more to global growth however they are showing signs of slowing economic activity, in particular China. Anticipate growth to remain around long run trend levels in 2014 and 2015…



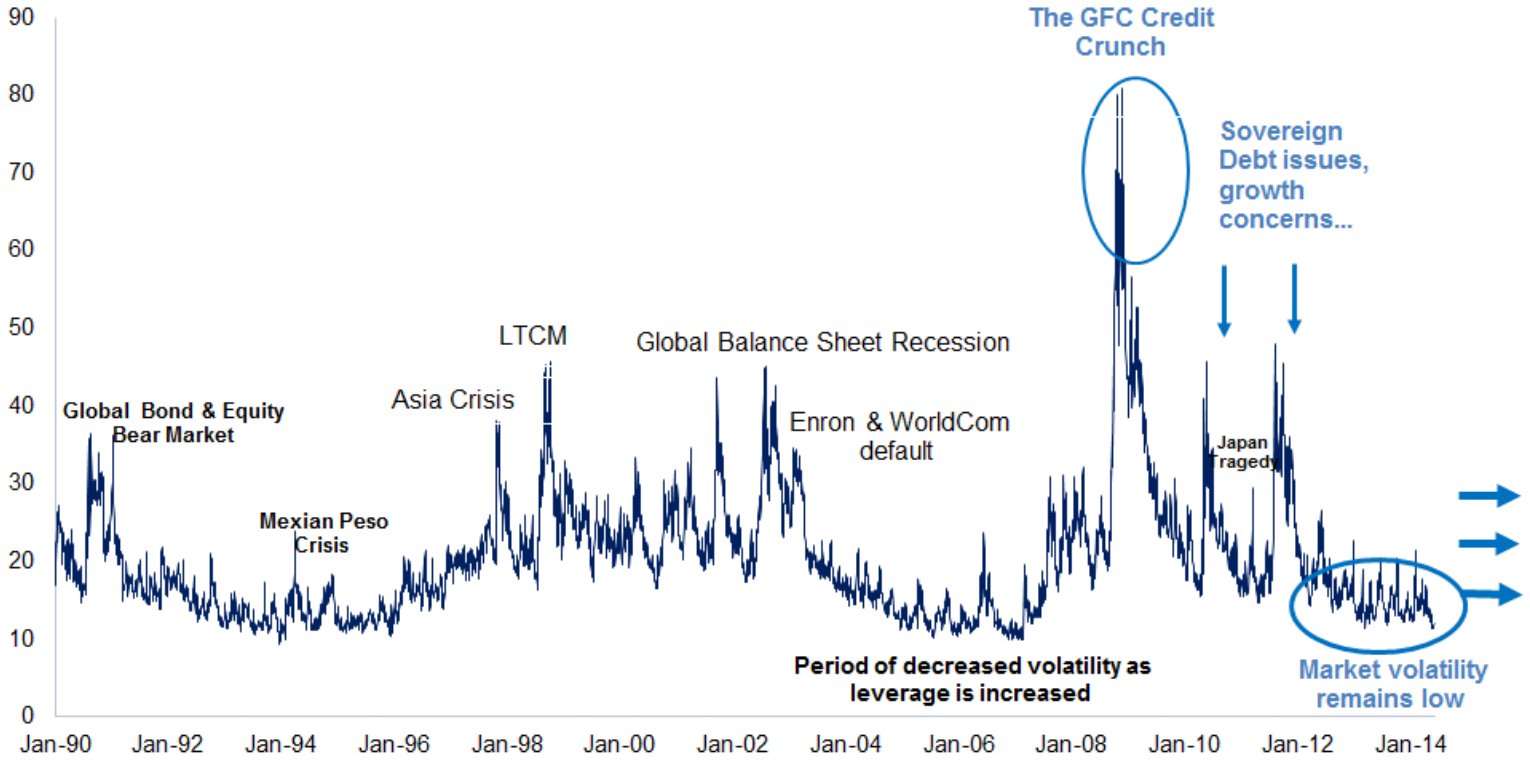
Source: Bloomberg, IMF, Equity Trustees

Market implied volatility remains very low…

Equity market implied volatility remains very low. Global central bank rhetoric in coming months will give more direction…

Market Volatility (VIX) Index

Implied Volatility Index, daily data

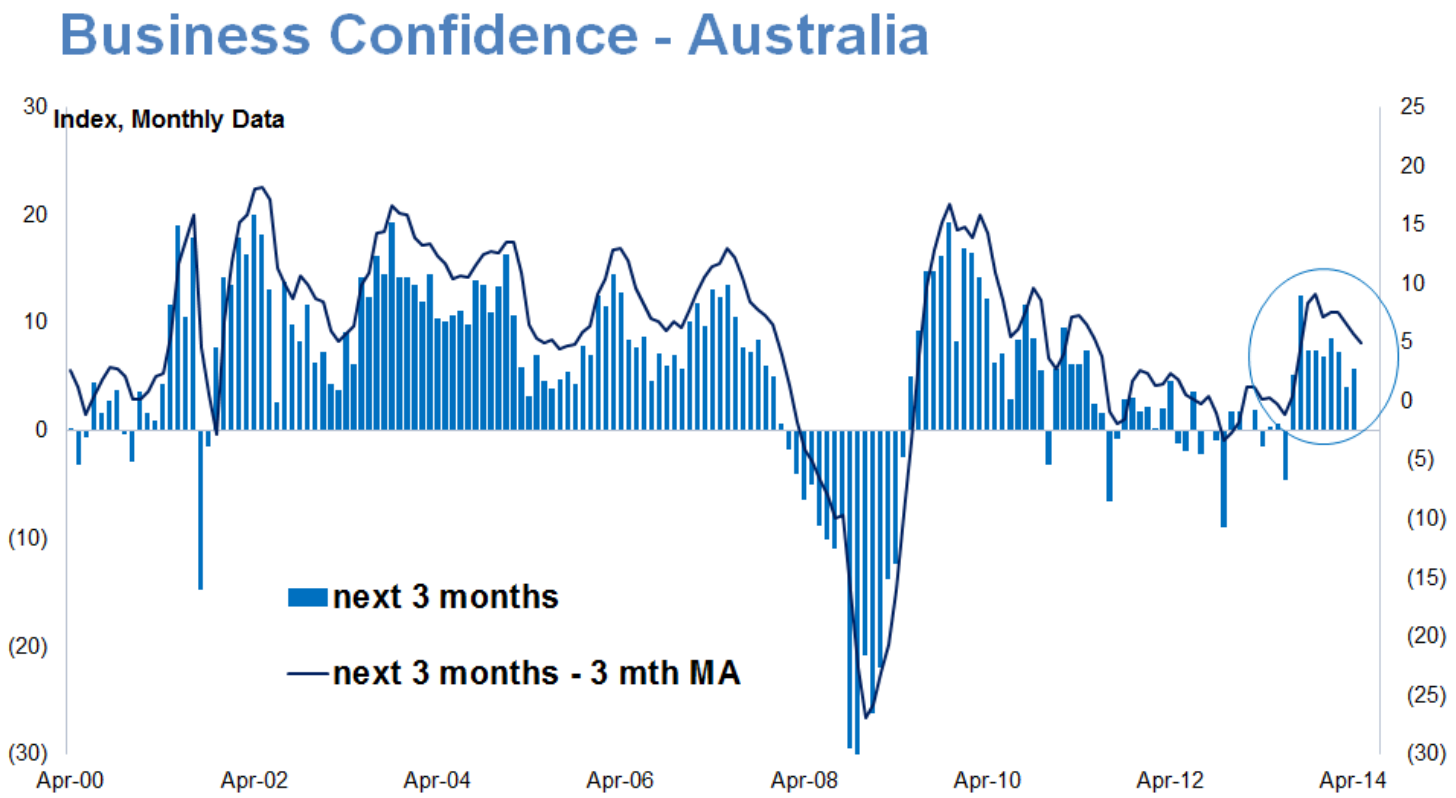


Source: Bloomberg, CBOT, Equity Trustees

* Data as of 5 June 2014

Australian business confidence holding up…

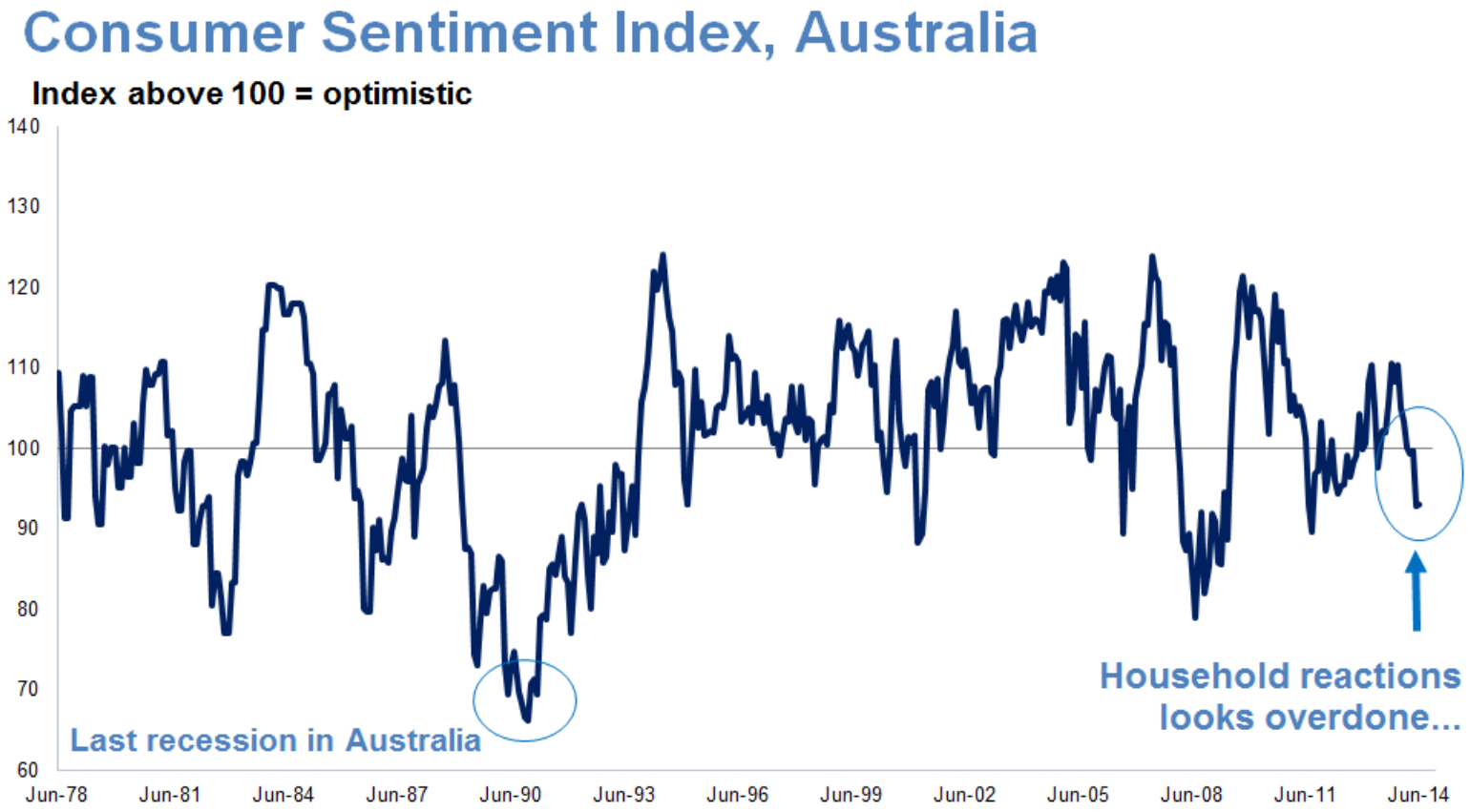
Australian business confidence improving. Corporate Australia repairing their balance sheets. Recent reporting season imply improving conditions but challenges remain. Companies will benefit from low steady rates and a lower AUD…



Source: Bloomberg, NAB, Equity Trustees

Aust household is a little bit emotional…

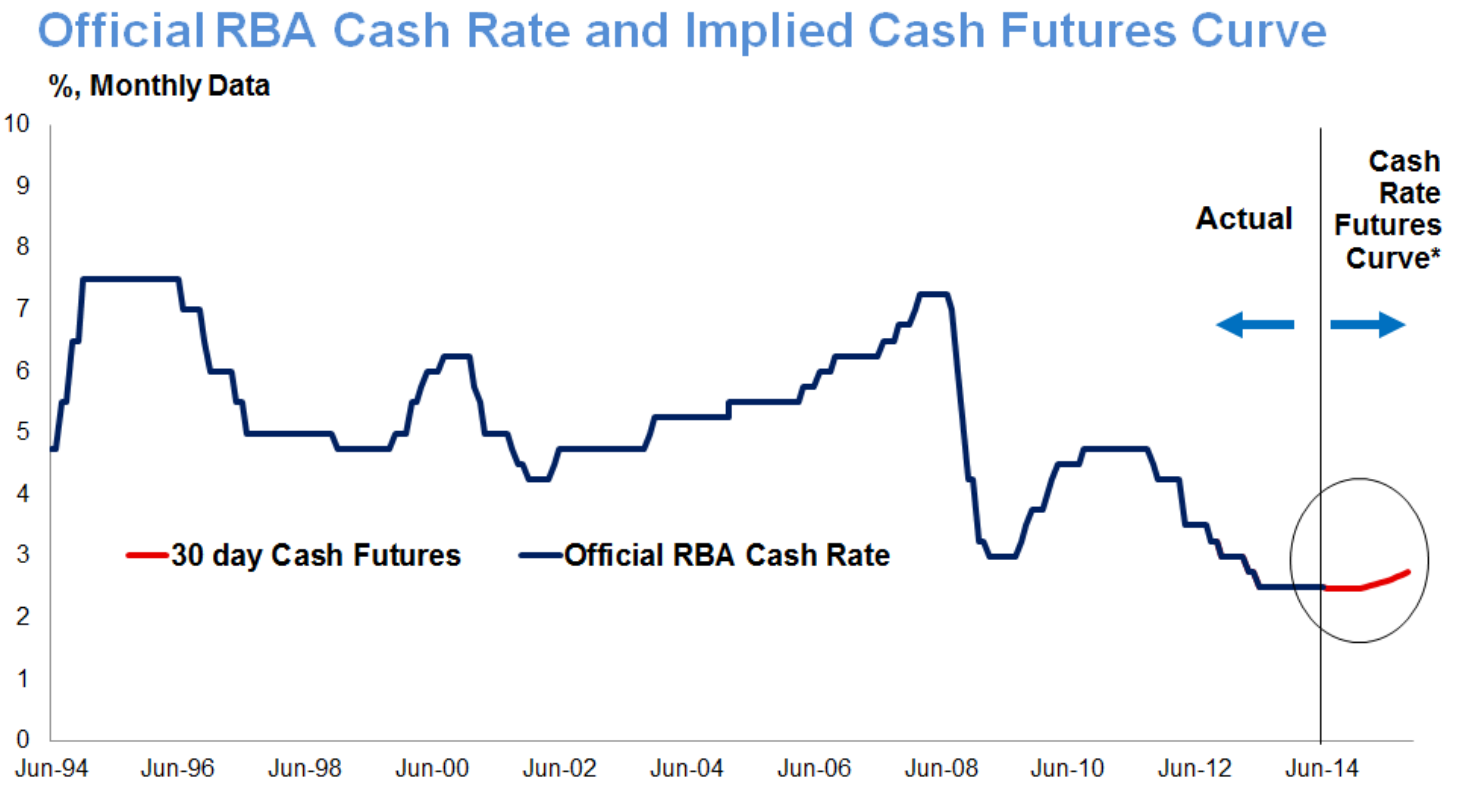
Lower rates required to help drive Australian sentiment higher. Sentiment at household level more mixed. Consumer remains fragile post the Federal Budget…



Source: Melbourne Institute-Westpac, Equity Trustees

Higher recent AUD implies cash rate must remain low

The 30 day interbank cash rate futures forward curve is indicative of cash rates over the next 12 mths. Steady rate outlook until late 2015. Corporate Australia unable to absorb the rate hike with the AUD above 0.90…



Source: ASX, Bloomberg, Equity Trustees

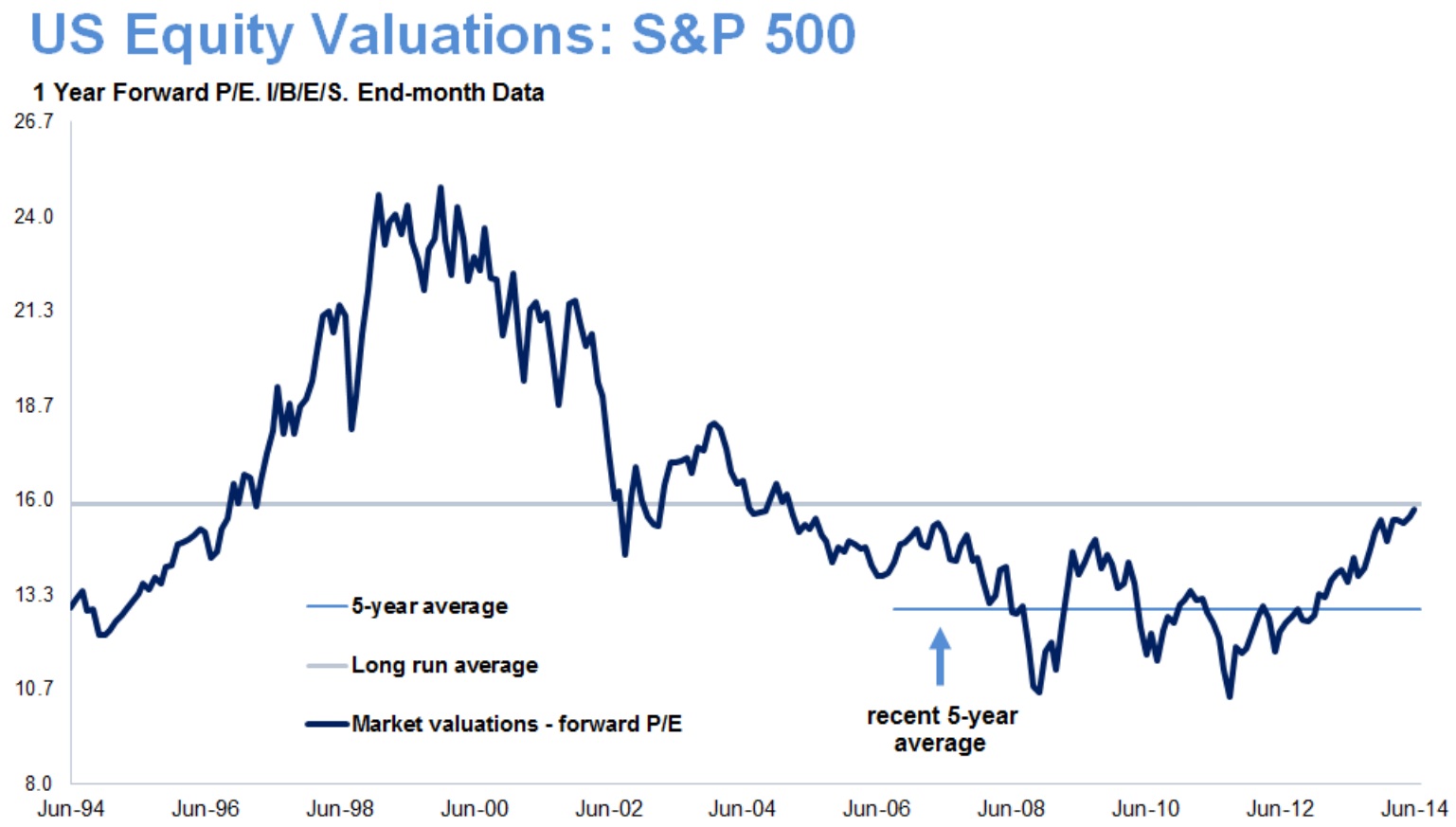
***Cash rate futures curve as of 5 June 2014**

SECTION 3

Equity market indicators

US equities: multiple expansion…

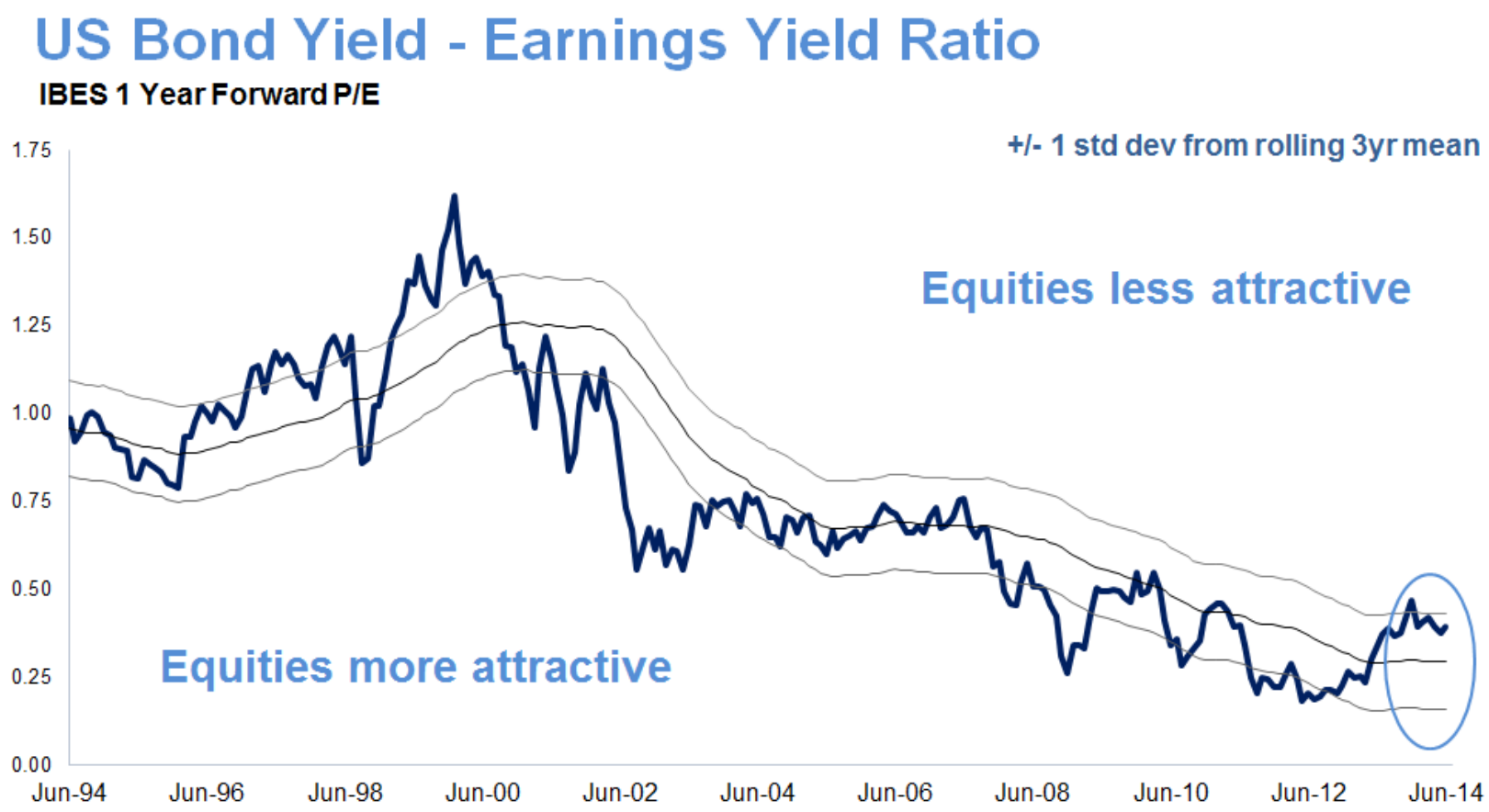
US earnings momentum has continued to improve in recent years. More stable conditions & accommodative policy have helped drive a broader recovery delivering better earnings vs expectations. Valuations no longer cheap but reasonable compared to long run averages…



Source: Bloomberg, IBES, Equity Trustees

Recent bond rally supports earnings yield…

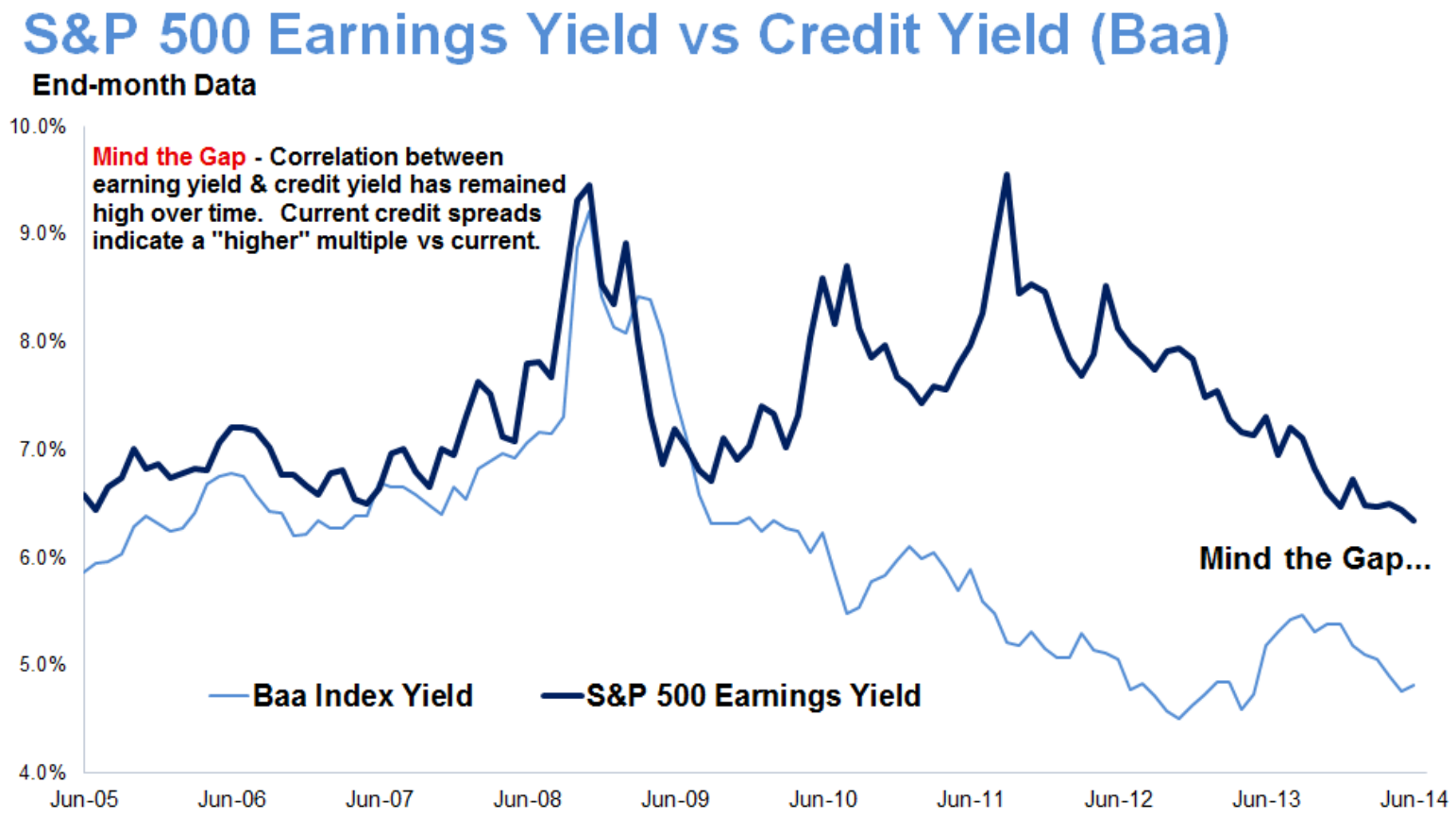
US earnings yield vs bond yields suggest the recent bond rally is supportive for equity valuations. Expanding US conditions imply long bond yields need to eventually rise…



Source: Bloomberg, Datastream, IBES, Equity Trustees

Credit spreads supportive for equities…

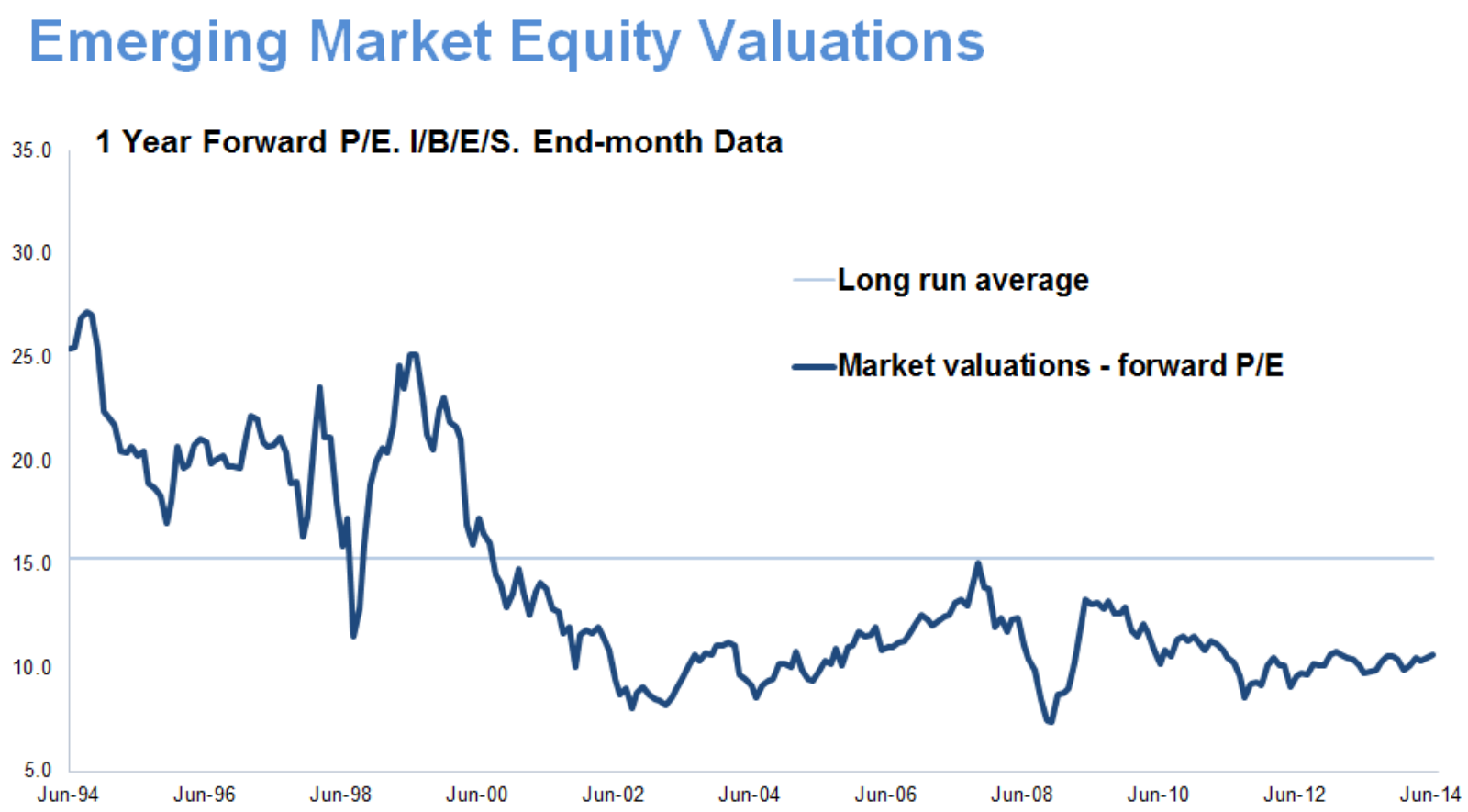
Current credit spreads are supportive for equity valuations…



Source: Bloomberg, Moodys, IBES, Equity Trustees

Emerging market equity valuations remain cheap…

Emerging market valuations are set to remain cheap vs long run historical benchmarks…

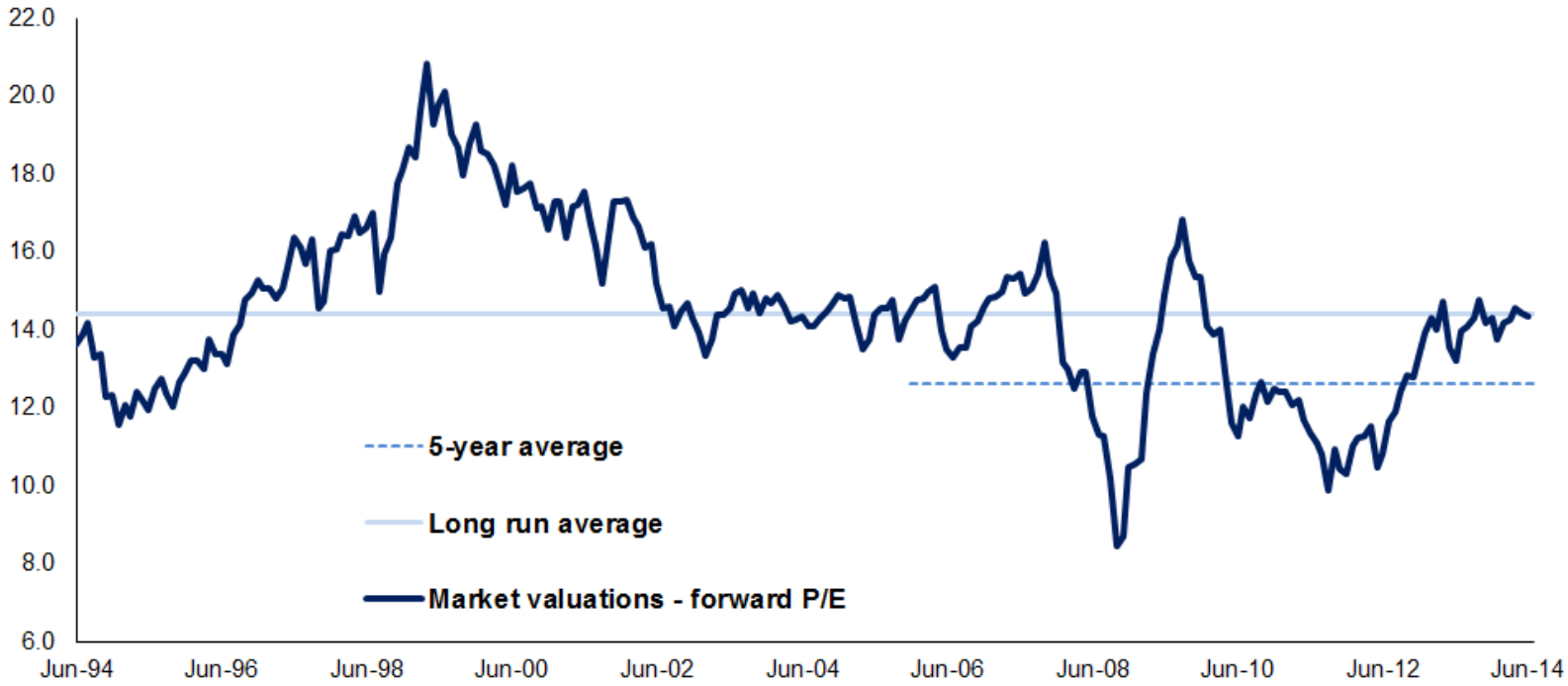


Source: Bloomberg, IBES, Equity Trustees

Australian equity valuations no longer cheap…

The recent reporting season has delivered better earnings vs expectations. Valuations no longer cheap but reasonable compared to long run averages…

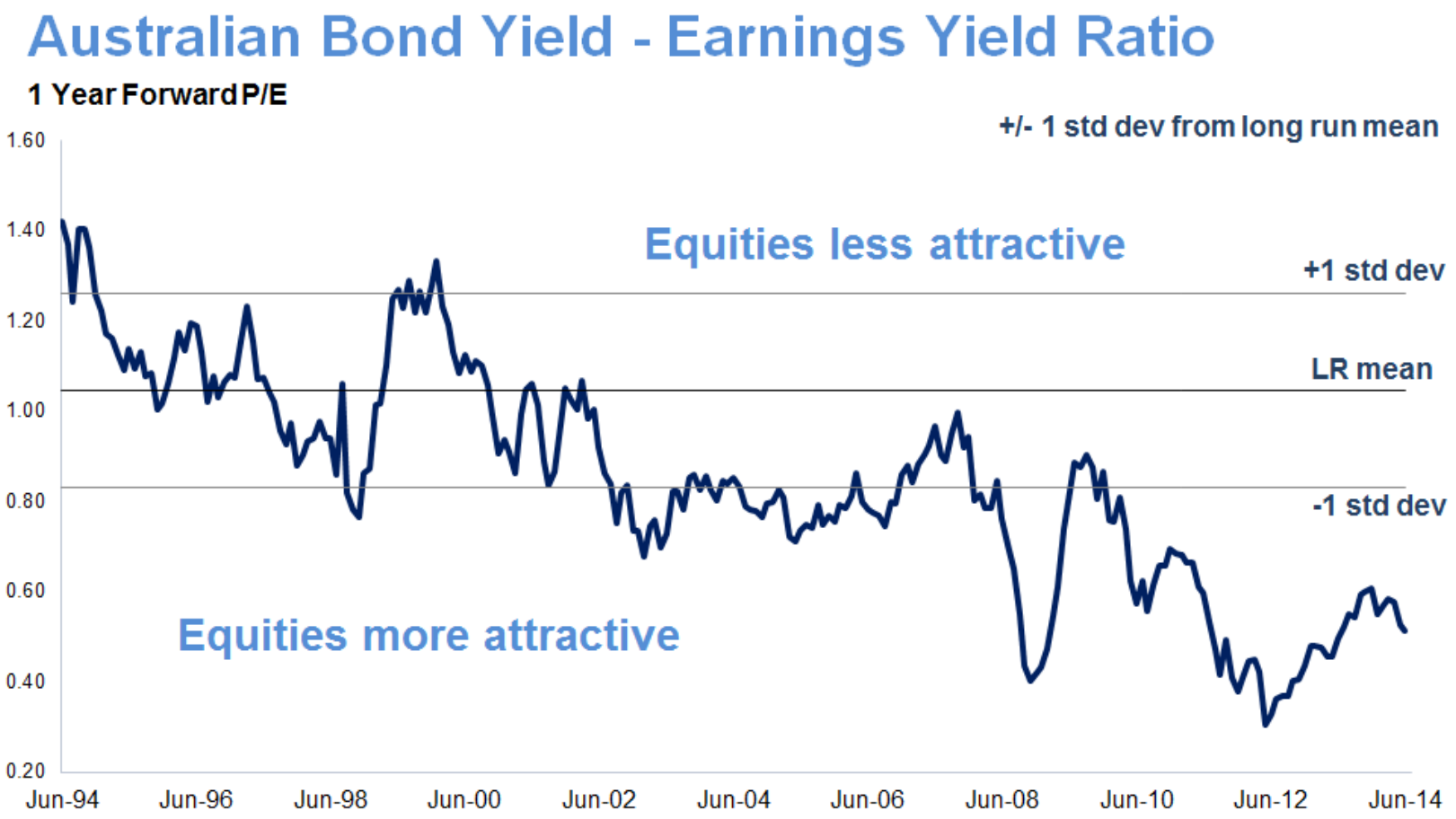
ASX 200 12 Month Forward P/E Ratio



Source: Bloomberg, IBES, Equity Trustees

Lower bond yields supports equities…

Aust earnings yield vs bond yields suggest that the recent fall in bond yields is supportive for dividend seeking investors…



Source: Bloomberg, Datastream, IBES, Equity Trustees

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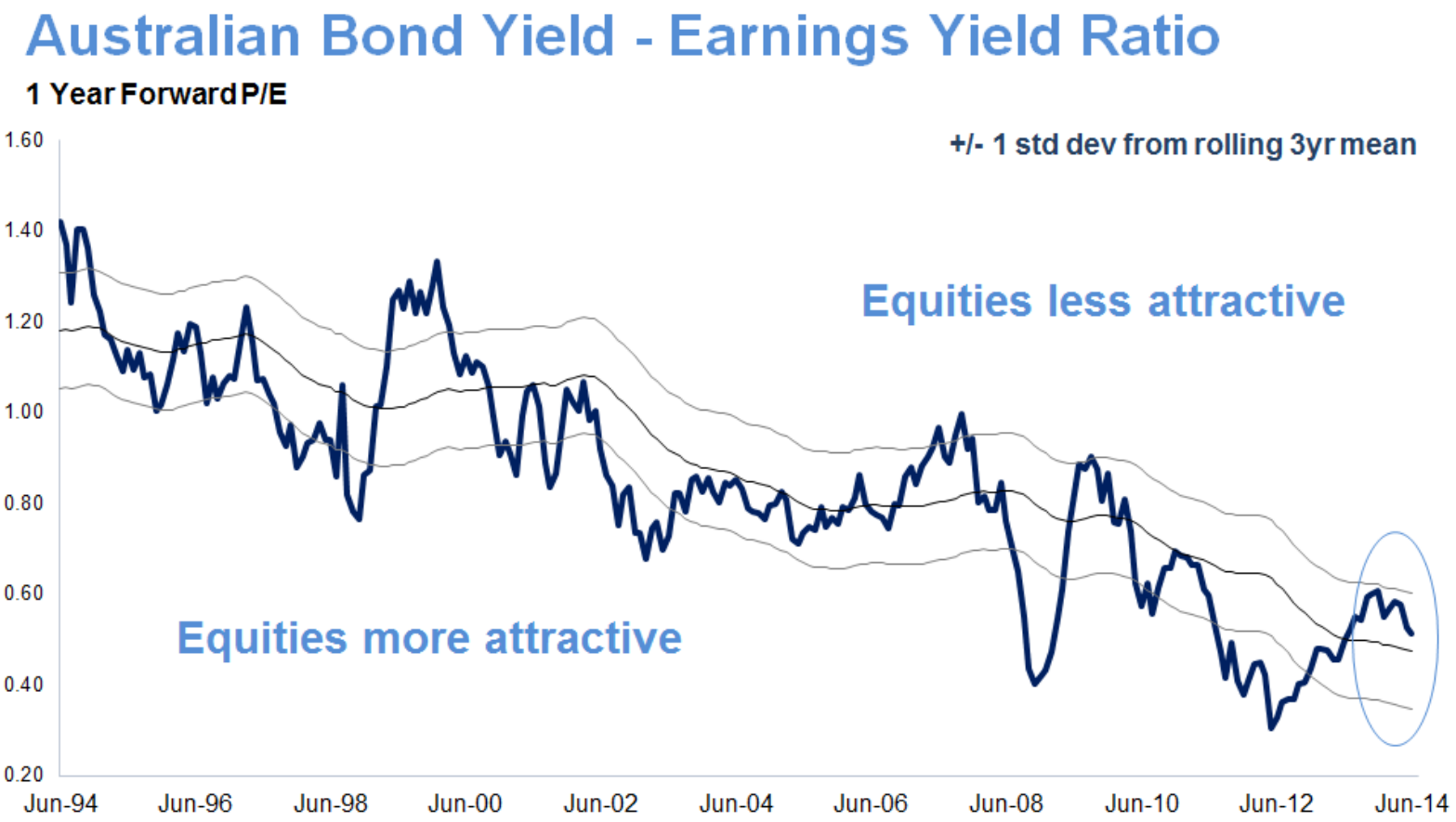
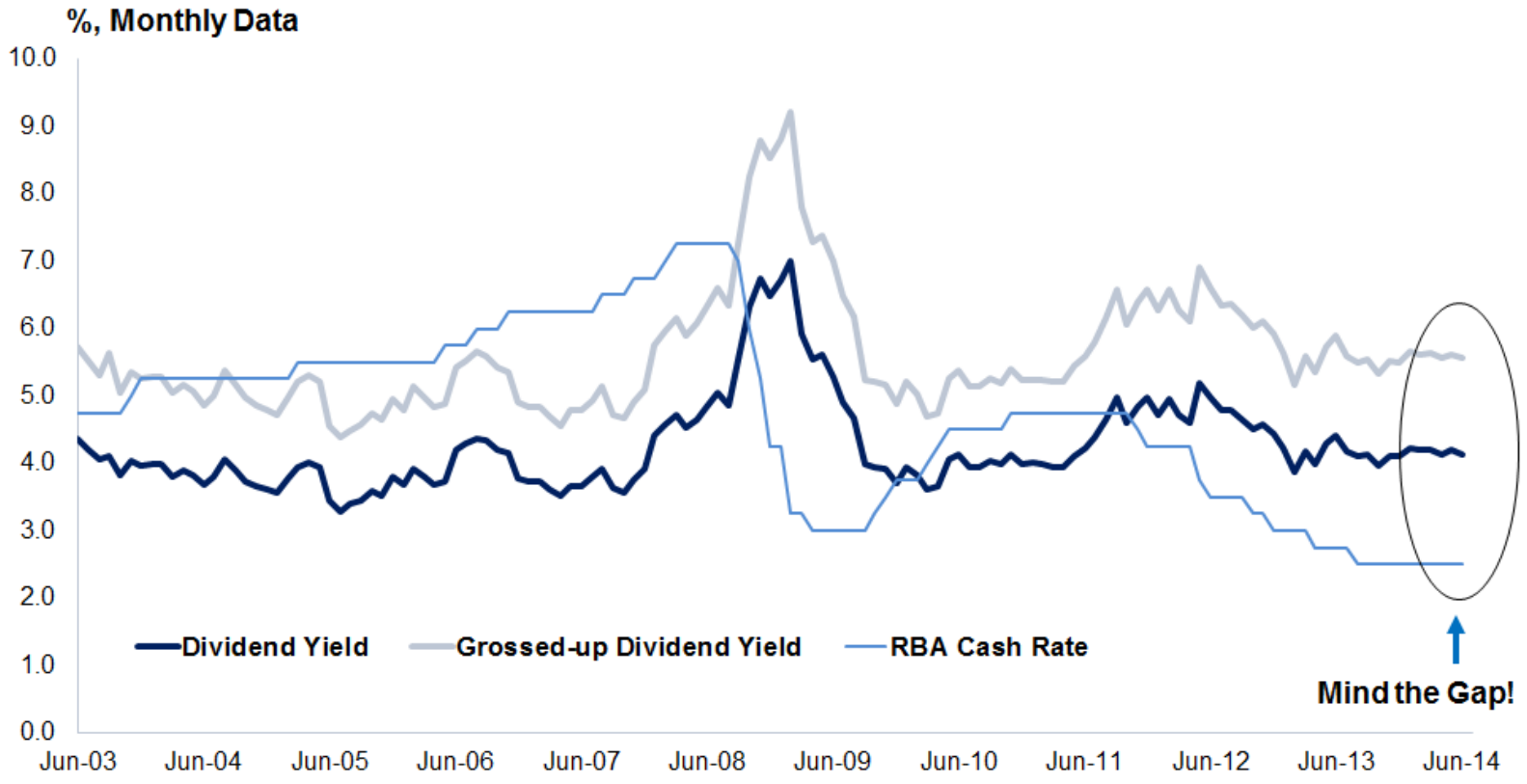


Source: Bloomberg, Datastream, IBES, Equity Trustees

Dividend growth feeds yield hungry investors…

Historic low Australian cash rates (& lower rates for longer) are supportive for dividends. Lower rates ultimately increases risk appetite…

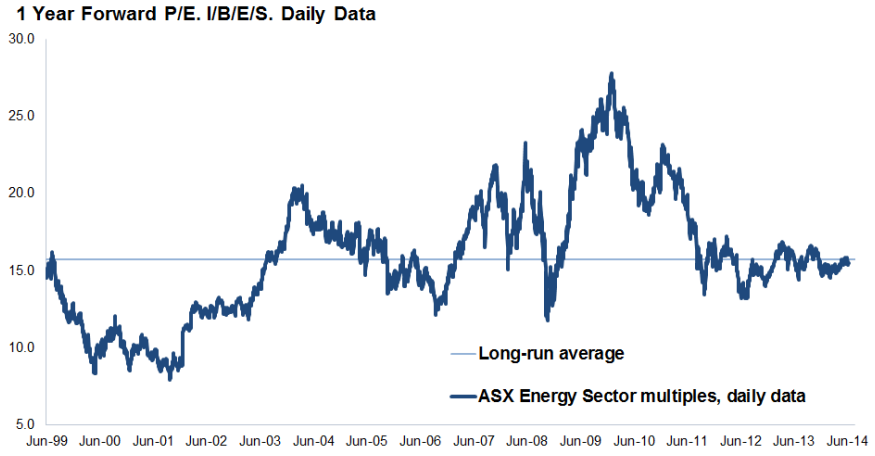
ASX 200 Dividend Yield & Cash Rate



Source: Bloomberg, IRESS, RBA Bulletin, Equity Trustees

Sector valuations – mixed picture remains…

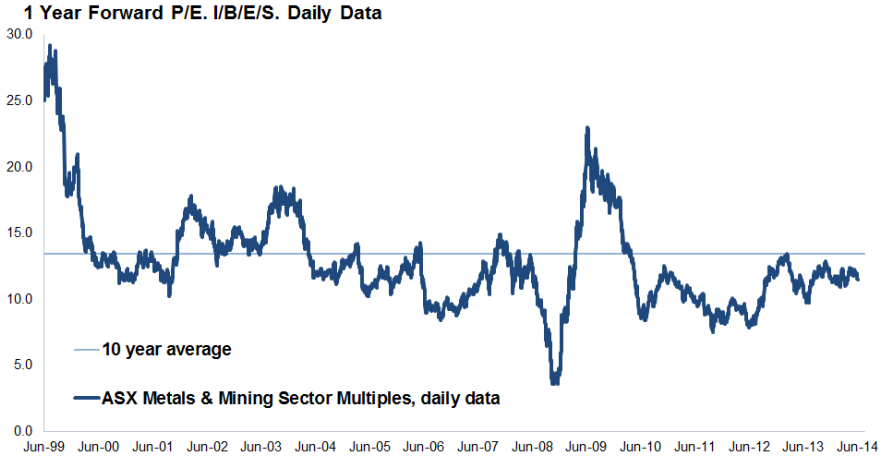
Australian Energy Sector 12 Month Forward P/E Ratio



Source: Bloomberg, IBES, Equity Trustees

Energy sector valuations around long run historical benchmark. However, divergence varies within sector. Wide range between 14.5 – 20.0x for ORG, OSH, STO and WPL. Each stock has a different growth outlook

Australian Metals & Mining Sector Forward P/E Ratio

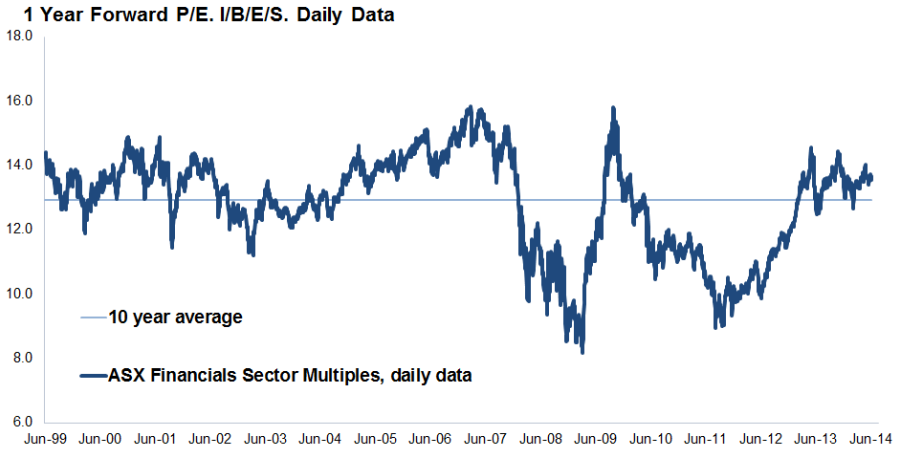


Source: Bloomberg, IBES, Equity Trustees

Metals and mining sector is expected to remain cheap in the year ahead. Mid to smaller cap stocks within the sector will continue to trade at a larger discount. They are potential a value trap. We continue to prefer the lowest cost producers within sector

Sector valuations – mixed picture remains…

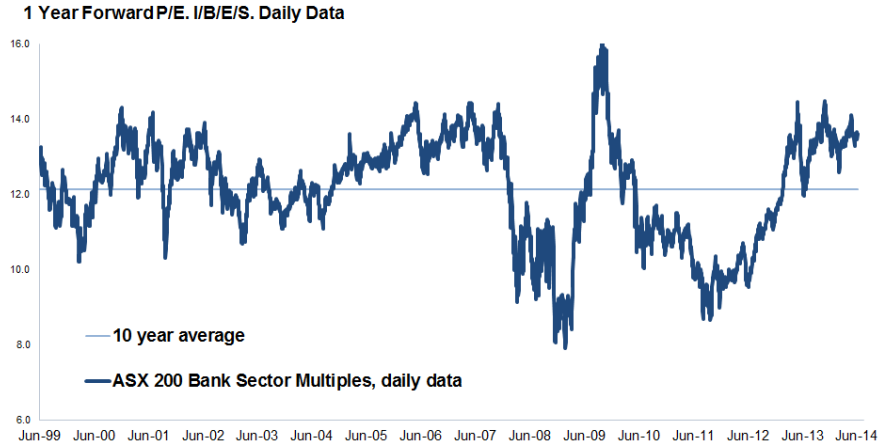
Australian Financials 12 Month Forward P/E Ratio



Source: Bloomberg, IBES, Equity Trustees

Australian financials are only marginally above long run valuations but remain well placed to deliver earnings growth with improving macro conditions and lower funding costs

Australian Bank 12 Month Forward P/E Ratio

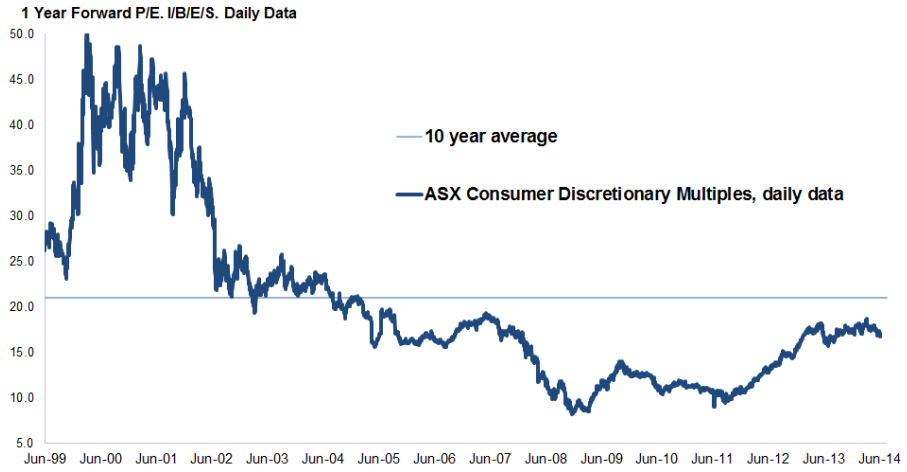


Source: Bloomberg, IBES, Equity Trustees

Australian banks are expensive (even from a P/B) however context is important. Lower funding costs, on going capital management and stable conditions are supportive for domestic banks

Sector valuations – mixed picture remains…

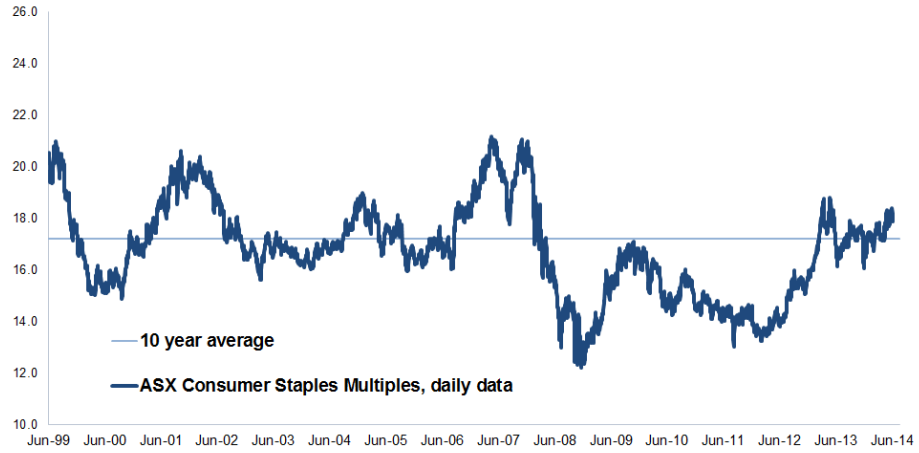
Australian Consumer Discretionary



Source: Bloomberg, IBES, Equity Trustees

Recent downgrades in the sector partly reflecting weak consumer sentiment. There is however scope for improved wealth effects from superannuation and house price gains. Higher AUD and rate outlook critical going forward

Australian Consumer Staples

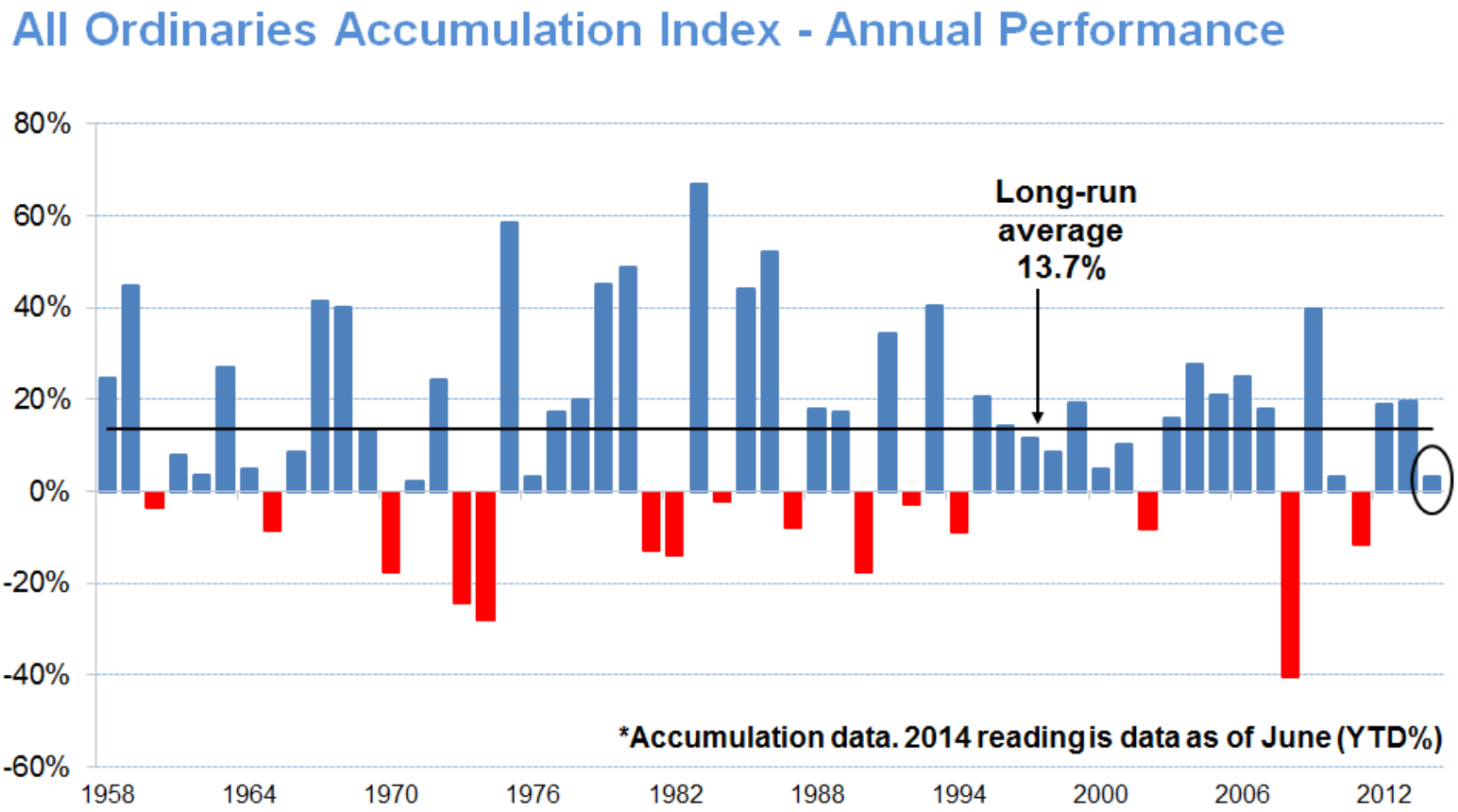


Source: Bloomberg, IBES, Equity Trustees

While the consumer staple sector is on longer cheap valuations remain realistic

Australian equity performance over the long run…

The Australian equity market has averaged one negative annual return every 3.4 years over the past 50 years. Looking forward expected returns for equities are around 10.0%...



Source: Bloomberg, Datastream, RBA Bulletin, Equity Trustees

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