ADVANCE ASSET MANAGEMENT

EQUITIES

How the US continues to influence performance

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The US economy has been the dominant force influencing global market activity for much of the past century. While it may have lost the title of biggest economic superpower to China in terms of GDP, activity in the last year and forecasts for 2015 indicate the US economy will continue to drive overall activity and performance in global equities markets.

Peter Davies, Jonathon Regis and Stuart Roden from Lansdowne Partners discuss market activity over the past year and their views that US consumption and fiscal policy will be key drivers for markets in 2015. You can access Lansdowne Partners via the Advance International Shares Multi-Blend Fund as well as the Advance Diversified Multi-Blend Funds.

Recovery and volatility in 2014

The past year saw continued recovery for many developed markets (like the US and Australia) and weakness in emerging markets (like India and China). Across the year, there was also increased investment and technological change for companies. Performance of equities was volatile with international equities overall offering better returns than Australian equities. This was largely due to the recovery of the US market and the decline of the Australian dollar.

At Lansdowne, we found the better returns in our strategy came from Airlines, Banks, Cable Companies and Consumer Brands while Technology companies tended to underperform other investments.

Consumption and policy in 2015

In general, the US tends to dominate market activity, and its consumption and tighter policy are anticipated to be key drivers for equities in 2015.

1. **Stronger US consumption**
    a) Factors such as oil, low mortgage prices and increasing competition between companies may encourage increased discretionary (non-essential and luxury) spending in both the US and UK, in turn benefiting companies that offer these goods and services.
    b) The current levels of economic activity for housing, labour and industrial capacity are likely to assist with generating investment in new capacity or pricing power. This reinforces economic growth through both development and the prospect of increased employment.
2. **US fiscal policy**
    a) There is some indication the US Federal Reserve (the Fed) may increase interest rates if US economic recovery continues to be strong. This would represent normalisation of markets, and the prospect of less risky and less volatile markets.
    b) In the past, rate normalisation has meant the risk of holding an asset has gone down and in turn, its value has gone up. This is certainly true for equities, but also, interestingly, for fixed interest assets that have a shorter time to maturity as they are less risky to hold than those with a longer maturity which are set at an old lower interest rate. Banks tend to be geared towards the shorter maturity assets and in turn, will benefit in their returns and performance from such a scenario.
    c) Lansdowne believes the US dollar is likely to rise further if interest rates go up, meaning investors in international equities not hedged to the Australian dollar may see growth in this area.

Summary

In all, Lansdowne expects 2015 to offer some continuation of the themes of 2014 with a strengthening US economy that other developed markets will benefit but emerging markets will continue to show weakness. The decline of the Australian dollar is also likely to be a consideration for 2015.

Advance's ongoing monitoring has identified the potential continuing strength in US markets and has balanced the Advance Diversified Multi-Blend Funds to take advantage of any opportunities and growth while minimising the impact of any potential risks detected. This is part of Advance's active process which seeks to preserve and enhance the value of our clients' investments.

For more information on equities in the Advance portfolios, please speak to your adviser.

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