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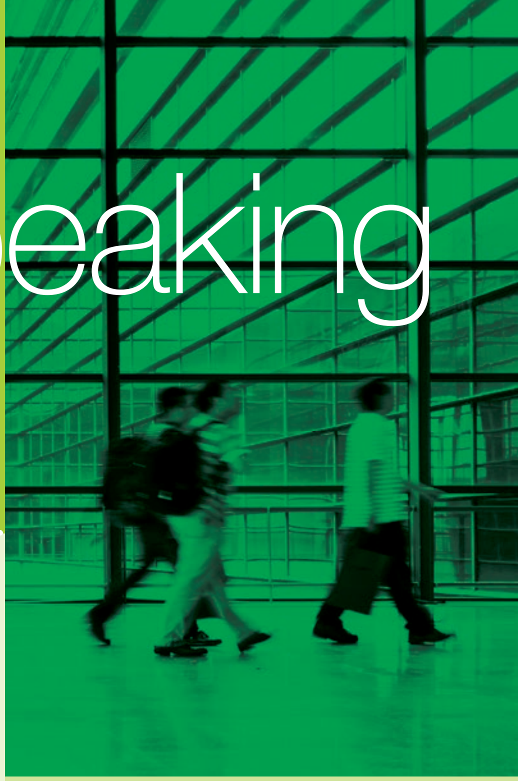

Economic outlook

Global economy

The US business cycle continues to expand. Employment is growing, economic growth is moderate, and share and real estate prices are rising. With inflation below target, prospects are good that this expansion can achieve a record length. The main risk to this scenario is that the Federal Reserve (Fed) tightens credit too sharply—not by raising rates but curtailing credit growth in the private sector.

Economic activity in the eurozone is finally near potential. This is largely a result of the European Central Bank's (ECB) asset purchase program. However, commercial banks will need to create credit more rapidly than at present, otherwise credit growth could weaken substantially when the ECB starts to slowly reduce its purchases. Eurozone inflation remains below target, reflecting the slow overall demand in the economy. UK economic growth has slowed due to the weaker pound, raising inflation and eroding real (inflation-adjusted) wages. While investment and capital inflows have slowed, export order books are buoyant.

In the Asia-Pacific region, the Japanese economy has seen slightly better growth in 2017. However, inflation remains well below two per cent despite the implementation of a massive and sustained quantitative easing (QE) program from the Bank of Japan.

Inside this edition

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China has continued to alternate between squeezing and easing credit with the aim of keeping the economy on the rails ahead of the autumn congress of the Chinese Communist Party. Restrictions on capital outflows and the encouragement of more inflows have helped stabilise the currency in recent months.

Looking ahead, the global business cycle expansion remains intact, supported by ongoing growth in the US, a gathering upturn in the eurozone, and the start of a renewed upswing in global trade. The expansion among developed economies is benefiting the export-oriented, manufacturing economies of East Asia, the Americas, and some of the commodity-producing emerging economies. There is good reason to expect that the current expansion will be an extended one, perhaps the longest in US financial history (exceeding even the 120 month expansion between March 1991 and March 2001). The only real threat to this prospect is that central banks may make a mistake and tighten too much as monetary policy returns to normal.

Australian economy

The Australian economy is growing in line with the Reserve Bank's forecast. Growth in consumption and the contribution from net exports was higher in the June quarter than the March quarter, and the decline in mining investment has mostly passed. Household consumption growth has picked up despite ongoing weakness in income growth. Employment growth has been strong in all states and is expected to support income growth, and therefore consumption growth, over the coming months. Price pressures were subdued across the economy in the June quarter, though retail electricity prices are expected to increase significantly in the September quarter. Housing market conditions continue to ease in Sydney and Melbourne but remain broadly unchanged in other cities.

Looking ahead, the outlook for employment over the next six months is positive. Job creation in the construction sector could prove to be an engine of growth over the medium term. Sharply rising infrastructure investment in NSW and Victoria will also help lift wages, stimulating consumer demand.

Actual versus forecast growth rates for key global economies are set out below (figures in brackets are Invesco's forecasts):

Consensus Economics	2016 actual		2017 consensus forecast (Invesco forecast)	
	Real GDP (%)	CPI Inflation (%)	Real GDP (%)	CPI Inflation (%)
US	1.5	1.3	2.2 (2.1)	2.0 (1.9)
Eurozone	1.8	0.2	2.1 (2.2)	1.5 (1.7)
UK	1.8	0.7	1.6 (1.5)	2.7 (2.7)
Japan	1.0	-0.1	1.6 (1.5)	0.5 (0.4)
Australia	2.5	1.3	2.2 (2.3)	2.1 (2.0)
Canada	1.5	1.4	3.0 (3.1)	1.6 (1.8)
China	6.7	2.0	6.7 (6.8)	1.7 (1.3)
India	7.1	4.5	7.0 (6.3)	3.5 (2.8)

Source: Consensus Economics. Survey date: 11/9/17

Implications for Australian investors

While growth is more synchronous across the key global economies, ongoing uncertainty leads us to support the move away from traditional asset classes into alternative sources of return and risk. These include high conviction and benchmark-unaware strategies, as well as diversification into strategies with greater offshore exposures to mitigate the pronounced home country bias many Australian investors have. We also favour floating rate over fixed rate investments, implemented by investing in senior secured corporate loans at the expense of government bonds, which are at risk of posting negative returns over the medium term as interest rates inevitably rise.

Source: Invesco, as at 19 October 2017

What will Amazon's entry into Australia mean for Australian property?

The impending entry of Amazon is garnering a lot of press. It is expected to boost online sales growth; however, as a proportion of the total retail market, Amazon and other online retail retailers will remain small.

Australian consumers spent approximately $22.5 billion online in the 12 months to May 2017, accounting for around 7.4 per cent of spending at traditional 'bricks & mortar' retailers.

According to the National Australia Bank[1], online retail sales rose by 1.3 per cent in May, up 7.9 per cent for the year. Media (movies, books and music), homeware & appliances and online department stores make up the majority of these online sales.

The entry of Amazon in Australia in 2018 is expected to boost online sales growth. However, as a proportion of the total retail market, Amazon and other online retailers will remain small. Overall, online retail is forecast to capture a further 0.5 per cent of traditional 'bricks & mortar' retailers and market share per annum over the five years to 2022.

The impact of Amazon's arrival may be more limited than what media headlines suggest. In the US, Amazon accounts for four per cent of total retail sales, after 20 years of establishment and 63 per cent of their sales are within the electronics and media categories. While rising online retail sales have adversely affected traditional (typically fashion-based and electronics) retailers, the evolution of retail trade has fuelled demand for industrial space from e-commerce business, retailers and third party logistic groups.

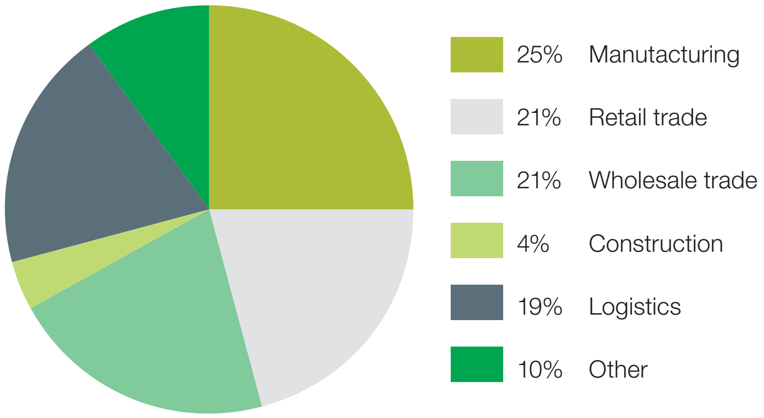
The arrival of Amazon will likely provide the impetus for small online traders to expand. This will further boost demand and the development of distribution centres and warehouses to fulfil growing online purchases.

E-commerce growth is demonstrated by the strong take-up of industrial facilities by retailers and associated suppliers, as many attempt to improve and consolidate their supply chains.

Over the year to June 2017, logistics and transport companies, retailers and wholesale traders accounted for approximately two thirds of all Australian industrial take-up (see opposite).

1 NAB online retail sales index

Industrial leasing Q2-2016 – Q2-2017



Source: JLL Research / Charter Hall Research

Amazon currently operates in 14 countries and has 393 active facilities, taking up 13 million sqm of space. In Canada, which has a similar population size and city density structure as Australia, Amazon has six warehouses in total ranging in size from 15,000 sqm to 80,000 sqm.

E-commerce retailers are also taking office space in CBD office markets in Australia as they seek to attract and retain the best talent.

In 2012, Amazon leased 800 square metres in the Sydney CBD before increasing its office footprint to nearly 10,000 sqm at 2 Park Street, Sydney in 2015.

The world's largest e-commerce company and China's biggest internet company, Alibaba recently opened its first Australian office in Melbourne, Collins Street in 2016.

1,300 Australian brands and 400 New Zealand brands are already sold through Alibaba's online stores with vitamins, dairy and agricultural products particularly popular with Chinese consumers.

To learn more about how you can capitalise on Australian property investments, speak with your financial adviser.

Source: Charter Hall

Self-employed?
Don't leave your business at risk

What would you do if you became sick or injured and were unable to keep your business running? It's not something that is often thought about, but it is important to take a moment to consider it.

Did you know that 1 in 2 Australians will be diagnosed with cancer before the age of 85[1]? And that Cardiovascular Disease kills 1 Australian every 12 minutes[2]?

These alarming statistics may make you think twice about covering yourself, and your business, for the unexpected.

every **12 minutes**
of **cadiovascular disease**

If you were unable to work for 12 months, would your business survive? A serious illness is debilitating and may require extended leave to recover. You may end up losing your livelihood that you've worked so hard to build. How would you begin to rebuild your business once you recovered? The above are questions every business owner should consider.

Are you aware of the total cost of all your business expenses every month? How would you pay for these expenses if something were to happen to you?

Many life insurance companies offer business insurance solutions which are designed specifically for the self-employed or business owner. This type of insurance includes business expenses insurance which covers the fixed expenses of a business or practice that still need to be paid, even if the life insured cannot work due to injury or sickness.

Business expenses that you need to consider may include, but are not limited to:

- Accounting and auditing fees
- Regular advertising costs, postage, printing and stationery
- Electricity, heating, gas, water, telephone and cleaning costs
- Security costs
- Net costs of a locum
- Rent, property rates and taxes

If you become disabled, and depending on the type of policy you purchase, the benefit may be paid monthly over a period of 12 months. This period can be extended if at the end of the 12 months the life insured remains totally disabled.

The type of policy you choose and the amount of cover that you need depends on you and your business needs.

Some people think that their income protection insurance is enough to cover themselves and their business. The advantage of combining a business insurance policy with an income protection policy is that as well as receiving an income stream from your income protection policy, your net business expenses will also be paid. It's a small price to pay for peace of mind.

Source: AIA

Speak to your financial adviser to discuss your business insurance options.

1 www.cancer.org.au

2 https://www.heartfoundation.org.au/about-us/what-we-do/heart-disease-in-australia

Turning threats into opportunities

'Don't put all of your eggs in one basket.' We've heard this message before, but there's never been a better time to remind ourselves why it carries so much meaning.

It's especially true when you look at the investment performance trends of the last 10 to 20 years. The recently-released *2017 Russell Investments/ASX Long-term Investing Report* shows five major threats facing Australians.

Pause for thought

Here are some revealing findings for the 10-year period to December 2016:

- The only asset classes to beat a typical balanced fund target were residential property, global bonds and Australian bonds.
- Many growth assets performed disappointingly, including Australian shares and hedged global shares. Both fell further away from the leading asset classes for the period: residential investment property, global bonds (hedged) and Australian bonds.
- While Australian property was once again the top-performing asset class, it showed a slight decline from last year's report with dwelling approvals declining. The report's authors believe the residential property market is overheated, and carries significant risk based on regions, dwelling types and suburbs.

If lower returns, slower growth and overvalued markets have largely become the norm of the investing environment, then how do you meet your financial goals?

From threats to opportunities

If you know the pitfalls to watch out for, the rewards of a diversified multi-asset investment approach can be very promising. Knowing the threats that can derail you also means knowing where the opportunities lie.

1. Rear-view mirror investing

Leave the past behind—at least when it comes to investment decisions. There's too much risk in constantly looking to past performances for guidance on what to do today. We live in times of dramatic global economic and political uncertainties, which is sure to change the fundamentals behind future investment performance.

The better approach lies in having an investment strategy that can respond in real time to market changes.

2. Lack of portfolio diversification

Once again we hear—don't put all your eggs in one basket. It's the same with pouring all your investments into one (or even two) asset classes.

Instead, spread your investments across a range of asset classes to cushion your savings against any large losses in one asset class.

3. Reliance on residential property

Property is a hotly debated topic. While it's true that residential property saw strong returns in the last 10 and 20 years, did you know that median house prices rose less in 2016 compared to 2015?

It's not about avoiding residential property altogether. It's more about avoiding the risks that come with investing only in a single asset class. Again, diversity is key.

4. Investing in over-priced traditional assets

Our investment experts see lower returns and higher volatility being the norm for core asset classes like shares and bonds. The reason? Increasingly expensive share markets, coupled with sudden market falls (because of numerous unexpected political changes around the world).

But diversification can help you make the most of changing market conditions and protect your portfolio against downturns in a specific asset class.

5. Setting and forgetting an investment portfolio

The days of 'set and forget' are over, especially in the face of volatile markets. Today, savvy investing means moving between asset classes in real time as market conditions change.

Listen to the experts…

How can you stay on top of all this when it comes to how your money is invested?

Look no further. You already benefit from the knowledge and experience of your adviser and the investment managers you've chosen together. For example, the strategy for Russell Investments' multi-asset portfolios is built on diverse sources of return, time and energy spent on finding quality investments, and active management of assets to minimise risks and take advantage of market opportunities.

…but make your voice heard too

Relying on the experts doesn't mean you have no say in how your money is invested. Start by connecting with your adviser to keep them informed of any changes to your circumstances—perhaps due to marriage, purchasing property, death of a loved one, retirement and more. Your adviser can also help you see if your current investment strategy is set up to achieve your long-term goals.

Source: Russell Investments

Financial matters for the over the 60s

Considering retirement and starting to plan the rest of your life, there are some important decisions you need to make. When you see a financial adviser, you might be surprised to find they're not always financial. These are some questions you might need to consider to prepare for retirement.

1. If you stop working, what are you going to do?

This is one of the most important questions that needs to be answered before you can progress with any other plans. People might want to retire from their full-time work, but a lot of people don't see themselves stopping work altogether when they 'retire'. It's important to understand the type of life you envisage because all your plans are dependent on this. If you are going to keep working, you need to structure your finances to make the most of that. If you want to travel overseas regularly, your financial position will need to reflect that. Sometimes, when someone hasn't really thought about their retirement they might retire prematurely and re-enter the workforce - some do it more than once. This can have a considerable effect on finances.

2. How much money do you need to live on?

What are your basic expenses (you can do this per week, per month, or on an annual basis) – how much do you spend on utilities (water, electricity, gas, phone, broadband, rates, transport etc.), then add how much do you need for lifestyle (dinners, birthdays, gifts, hobbies, entertainment) and finally how much do you need for luxuries (holidays, new cars, furniture). Once you know the amount you need to live on, figure how you can achieve that sum – or revise either your lifestyle, your retirement date or a bit of both.

You should also look at your relationship – are you calculating your assets separately or together and does that make sense? For example, if you are in a de facto relationship – would you not both be responsible for some of the living expenses? You also need to work out if you are going to retire and if you are both going to be retired at the same time and if that would impact your funds or expenses.

3. What about the house?

While you're making the big decisions about your future – one of them should include your home. Are you going to stay in the home you have been living in or is downsizing or moving elsewhere an option? Your home can be a profitable investment and you need to factor upkeep and your lifestyle needs in whether you stay or sell. For some, the upkeep could be expensive so downsizing might lessen the burden or offer more money to live on. It's often a good idea to look at this while you are able to access different options such as putting extra money into super. People are often emotionally attached to their home but should work out why they are keeping it; if keeping it for the children – make sure they have the same feelings about it – or alternatively, if it's about a certain lifestyle, will the home continue to offer that lifestyle in the future.

4. Have you reviewed your current situation?

Make sure you've taken advantage of the rules of adding money into super when you can. Further rules apply from age 65 onwards. If you are carrying assets outside super into retirement, you may find you are liable for higher tax rates.

Also, check if you are paying insurance premiums on policies that may no longer be relevant for you. Talk to your adviser to make sure this is tailored to your needs.

5. Is your estate in order?

Finally, while you are putting everything in order, it is a good time to make sure that your estate is as you intend. Make sure that your Will is in order so that your estate will be passed on according to your wishes. Have there been any marriages, divorces, births or deaths that will affect the distribution of your Will? Do you have the right power of attorney and enduring guardianship in place should anything happen to your health or mental capacity? Are your executors still right for you? You should review these as your circumstances change.

Speak with your financial adviser to find out what other things you may need to consider as part of your retirement.

Fitness for the 21st century

There's no doubt that your financial wellbeing is important to ensure you have a comfortable retirement. But, to make the most of it, it's just as important to have a healthy mind and body.

Physical activity can add years to your life, not to mention life to your years. While exercise undoubtedly helps you maintain or lose weight, it also enhances mobility and flexibility, reduces the impact of illness, boosts your mood and self-confidence, and keeps your brain sharp — ultimately helping to ward off memory loss, dementia and Alzheimer's disease. Here are the top five health and fitness tips to consider:

1. Consult your doctor

It's really important you talk to your GP before starting any exercise program. They'll need to give you the all clear and can also recommend what areas you need to focus on.

2. Start slowly

Your head might still think you're 30 but your body will soon tell you otherwise! Don't get discouraged if you tire out quickly at the beginning — just get plenty of rest between sessions. You should look to do about 150 minutes of low impact, moderate intensity physical activity a week. This can be broken down into 10 or 15 minute increments two or three times a day.

3. Find something you enjoy

If you're having fun, you're more likely to keep doing it. There are so many different ways to exercise, whether it's an online program, Tai Chi, water aerobics or going for a stroll along the beach.

4. Exercise with friends

You'll be more motivated to continue if you're working out with friends. But if you can't find anyone to join you, sign up with your local gym, council run classes or an online program or forum.

5. Think of your food as medicine

Try eating healthy, colourful, seasonal, fresh food that you cook yourself so you really get the best fuel possible. Stay away from processed foods and sugary drinks.

Make health normal and get up and get moving this summer, it's never too late to start. Your ability to enjoy your hard earned money in retirement means keeping fit and health.

For advice on how to be financially fit in retirement, speak with your financial adviser.

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