

Years of living dangerously

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How investors want the world to be..



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How the world actually looks..

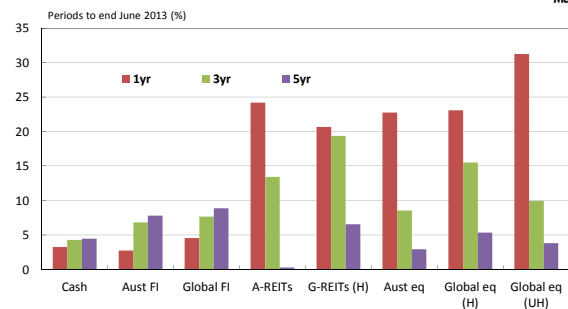


Knowing one's limitations

"If economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid."

- John Maynard Keynes 1930

Asset class returns: equity returns have been very strong



Source: Datastream, MLC Investment Management

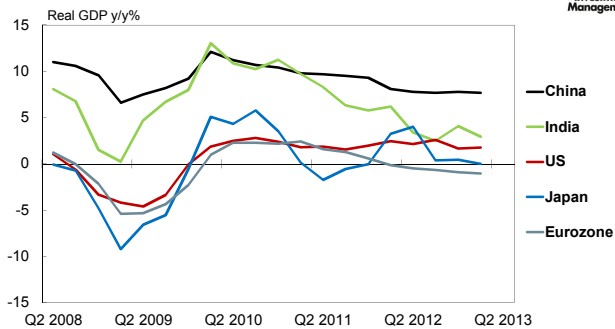
Main messages



- Returns have been very strong..
- ..but it remains a highly uncertain environment for the world and Australian economies and financial markets
- Risk of another crisis is still elevated – plenty of things could go wrong from here, *but*..
- ..future equity returns still look reasonable – particularly vs sovereign debt and cash returns that look poor. (Safe havens don't look all that safe!)
- There are no guarantees in life or investing
 - **Diversification, risk management are absolutely critical**

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Global growth in snapshot

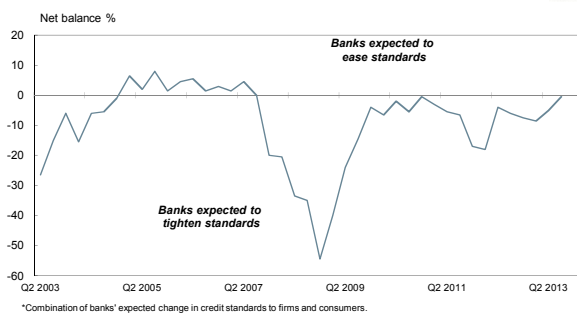


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Eurozone banks are still reluctant to lend



Eurozone banks credit standards



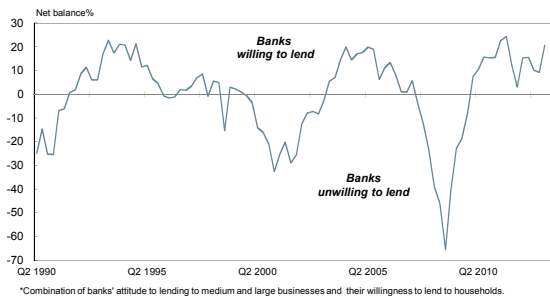
Source: Datastream, European Central Bank, MLC Investment Management.

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In contrast, US banks seem happy to lend



US banks' lending stance*



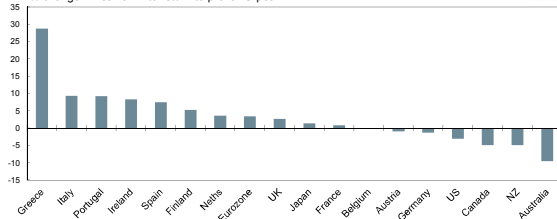
Source: Datastream, US Federal Reserve, MLC Investment Management.

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Global economy: how far does GDP need to rise to get back to pre-GFC peak?



% change in real GDP to return to pre-GFC peak



- Eurozone economies are either in recession or still teetering on the brink; conditions in the European periphery remain dire
- Fiscal austerity is acting as a drag on growth across much of the world, particularly in Europe

Source: Datastream

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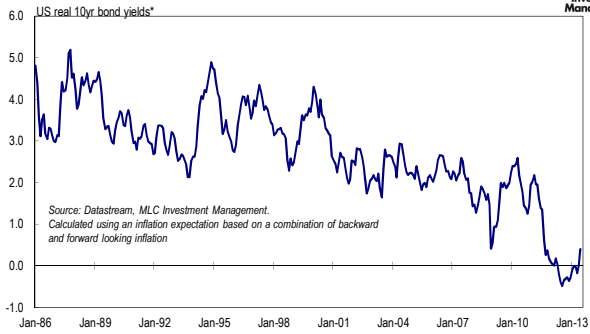
Things we worry about today



- Safe havens
- China in transition
- Australia – are we *really* that well placed?
- Austerity is the new black – risk of a policy-induced global recession?
- Europe – the risk of a eurozone collapse
- An (eventual) inflationary solution to the GFC?

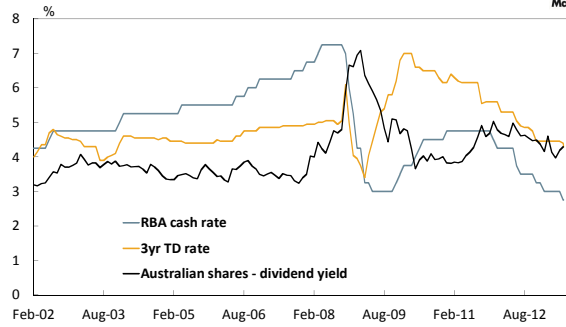
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How safe are the traditional safe havens?



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Now about those 7% TDs....



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Gold as a safe haven??



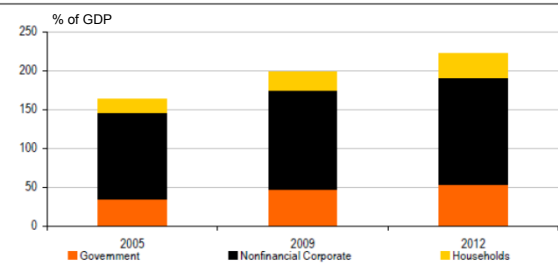
Source: Datastream. Last observation is 12 July 2013.

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Chinese consumers

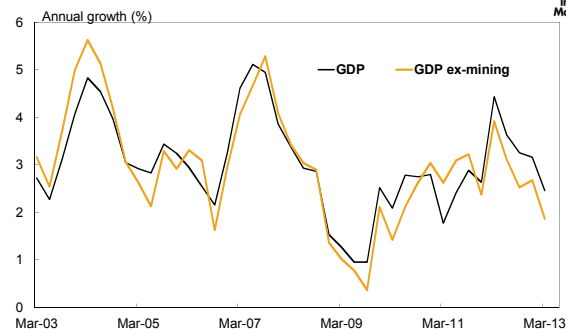


China: aggregate debt by sector



Source: Ben Simpfendorfer, Silk Road Associates, summarised at Financial Times, beyondbricks, 11th February 2013

Australia's ex-mining growth is very subdued

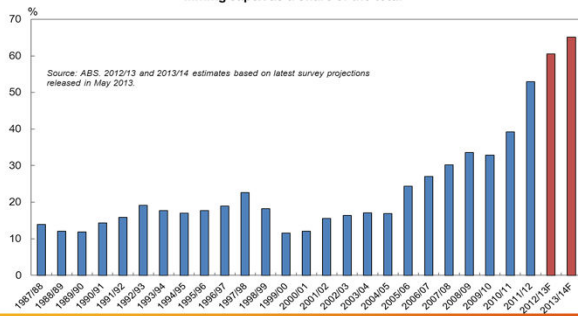


Source: Datastream

Mining still accounts for the lion's share of business investment



Mining capex as a share of the total



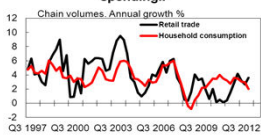
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Australia: consumers in snapshot



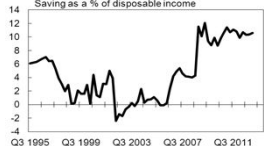
Australian consumers are still spending..

..but consumer sentiment is still fragile.



Personal credit growth has stagnated..

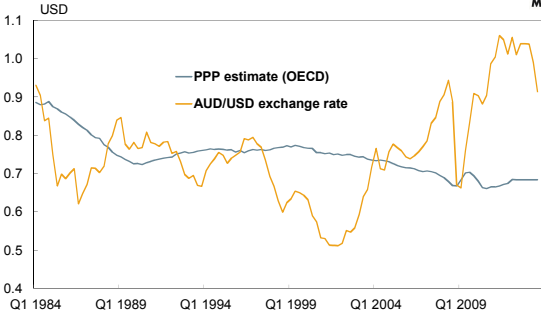
..and the household saving rate has soared.



Source: RBA, Datastream.

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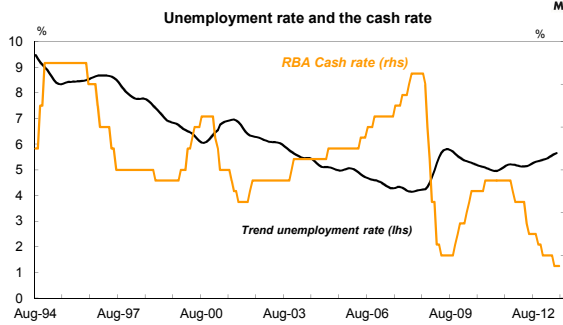
The Australian dollar: overvalued and vulnerable under adverse scenarios



Source: OECD, Datastream

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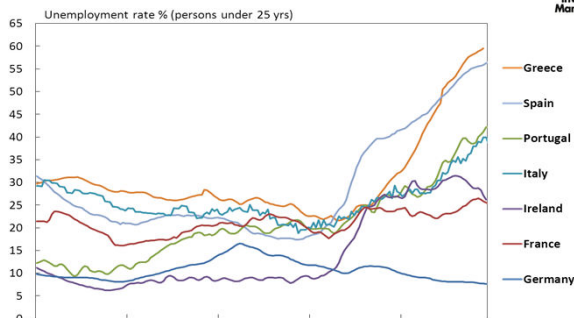
Higher unemployment rate typically points to lower cash rates



Sources: RBA, Datastream, MLC Investment Management

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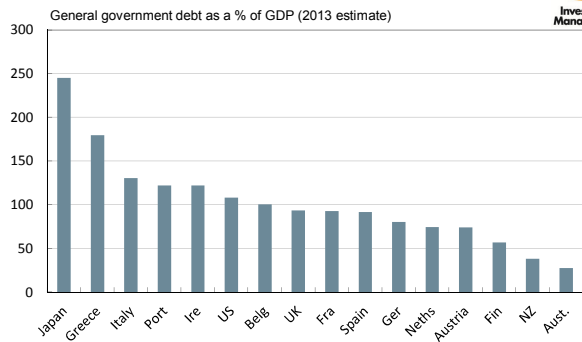
A social catastrophe: youth unemployment in the Eurozone



Source: Datastream

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The elephant is still in the room!



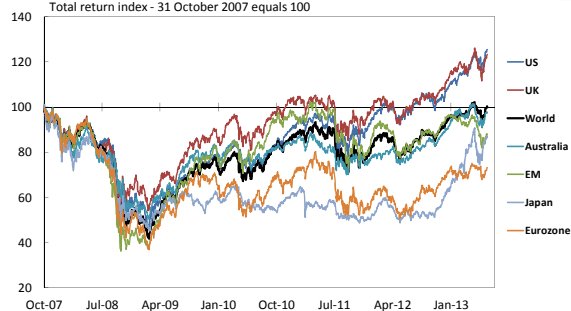
Source: Datastream, IMF World Economic Outlook database

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Climbing the wall of worry



Equity market total returns since pre-GFC peak
Total return index - 31 October 2007 equals 100



Source: Datastream. Last observation is 19 July 2013.

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Main messages



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