



Antipodean Advisory

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## Five global themes that may impact your investment portfolio

When running a self-managed superannuation fund (SMSF), it's important for investors to be aware of some of the key global and economic environmental factors that may impact their investment portfolio. Here we look at five global themes that are currently playing out in world markets, and how they may potentially impact their investment portfolios.

### 1. Trade Wars

Trade tensions between the United States and China have shown their ability several times to cause turmoil in the investment markets.

The showdown kicked off in July 2018, when the US implemented its first China-specific tariffs. In turn, China has retaliated with its own tariffs, and threatened a range of other measures that may affect US businesses operating in China.

Things escalated in May 2019, as the US extended tariffs on a range of imported goods from China, drawing further tit-for-tat measures from Beijing.

With the solution of the trade tensions having a long way to go; nobody wants to see a full-blown trade war. The prospect makes markets nervous, and that may mean volatility for portfolios.





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## **2. Slowing global economic growth**

Global economic growth is an important driver of investment performance, but to a certain extent is hostage at present to the trade war concerns.

In March 2019, the Organisation of Economic Co-operation and Development (OECD), Australia's peer group of developed countries, said in its Interim Economic Outlook that global trade growth had slowed from 5.25 per cent in 2017 to about 4 per cent in 2018.

In April 2019, the International Monetary Fund (IMF) cut its global economic growth forecasts for 2019 and said growth could slow further due to trade tensions. The IMF lowered its growth forecast for the global economy in 2019 from 3.5 per cent, which it expected back in January, to 3.3 per cent with the ongoing trade tensions remaining a risk for the global economy.

Any further deterioration in the outlook for world economic growth could mean volatility for equities.

## **3. Growth in China and how it affects Australian Resources**

As China's economy has grown, the world has become used to spectacular numbers: its gross domestic product (GDP, the amount of goods and services produced in the economy) grew at an average annual rate of 9.5 per cent between 1989 and 2019, with a peak of 15.4 per cent in the first quarter of 1993.

Falling Chinese economic growth rates is not good for investors, as it raises concern for global economic growth. Investors are now conditioned to expect Beijing will stimulate the economy when growth rates slip, but there are also concerns about its ability to sustain this given China's huge levels of debt.

One of the closest exposures to China that many Australian SMSFs have is through holding shares in the big miners that supply the country's voracious heavy industries including: BHP (iron ore and steelmaking coal), Rio Tinto (iron ore) and Fortescue Metals Group (iron ore). While China is a concern at the portfolio level, in terms of the sensitivity of the broader share market to perceptions of Chinese economic health, at the company level, these stocks continue to benefit from selling to China.

The big miners are also benefiting from the fact that iron ore supply from Brazil has suffered in the wake of January's tailing dam disaster. Brazilian miner Vale has stated that it could be up to three years before it resumes exporting at full capacity, and the supply disruption means that iron ore prices are likely to stay stronger than had been expected over that time.



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#### **4. The low-interest rate environment**

The low-interest-rate environment that has been the investment setting for several years appears unlikely to change anytime soon. This is mainly due to central banks being reluctant to lift interest rates from long-term lows and bond yields pushed lower as investors become pessimistic about economies.

The dilemma for yield-oriented investors is that income is difficult to find in the traditional areas, meaning that higher risk has to be borne to generate higher levels of income. In Australia, listed shares have been popular for this purpose, using Australia's dividend imputation system: infrastructure investments, real-estate investment trusts (REITs) and corporate bonds have been other alternatives used.

The challenge of a global low-interest-rate environment for investors looks like it will remain for some time.

#### **5. New and disruptive technologies**

An area that has opened up for investors recently is new and disruptive technologies. These include advances in areas such as cloud computing, artificial intelligence, virtual reality as well as social and new media.

Companies that have "disrupted" established industries by doing business differently such as the likes of Amazon, Uber, Netflix and Airbnb, have created new levels of value in very short periods of time, but now find themselves vulnerable to disruption.

The digital and IT-powered revolution will continue to pose both risks and opportunities for investors: the only certainty for an investor is that technological advances cannot be ignored.