

25 August 2015

SPECIAL EDITION

What's causing the current volatility in global investment markets?

by **Jeff Mitchell**, Head of Investment Research, Australian Unity Personal Financial Services

Share markets around the world have been experiencing a significant level of volatility this past week, and in fact since May this year.

The Australian market is down 13% over this four month period, and the US market is down 10%. Markets are also generally down across Europe and Asia.

There are a number of causes of this volatility, including:

- The most recent catalyst for share market weakness which came on Friday 21 August when the Chinese Purchasing Managers Index (PMI), a key measure of all important manufacturing activity, reported its biggest decline in two years to its weakest level in six and a half years.
- The PMI data served to validate concerns about a slowing Chinese economy and the possible ramifications for global growth given China is generally viewed as the factory for the world economy. Earlier this month, the surprise devaluation of the Yuan was also viewed negatively and seen as confirmation of slowing Chinese export growth.
- The global market appears unconvinced that the US economy will be able to handle the commencement of interest rate hikes in September. If the Chinese economy slows, then so will global growth and therefore it will be more difficult for the US economy to absorb the anticipated higher rates. Should the US not raise rates as expected, then it will provide further evidence, along with declining commodity prices, that the global economy

remains weaker than expected and a further validation for share market softness.

- Some parallels have been drawn with this situation to the Asian currency crisis of the late 1990s. As other Asian currencies have also sold off because a lower Yuan will make China more competitive in export markets, and imports to China will be less competitive with domestically produced goods. While falling currencies of China's neighbours and trading partners is to be expected, the Asian economies are now generally in much better financial shape and more able to control their own destiny than they were in the 1990s and able to weather this bout of volatility.
- Europe has also made its own contribution to recent volatility as the Greek tragedy continues to play out, most recently with the shock resignation of their Prime Minister last week.

What is the longer term outlook?

The current volatility is part and parcel of being an investor in share markets. It is normal for share markets to experience short periods of small but sharp negative returns as well as, of course, small but sharp positive returns.

As long as you have high quality investments and you are a long term investor, it is usually nothing to worry about.

Given there has been little tangible change at this stage to the underlying fundamentals supporting global share markets, we remain confident that most global share

markets will recover from the current volatility and should deliver solid returns over the long term.

The exception is if this current bout of volatility is driven by a fundamental change in the structure of China and its economy, then our longer term return forecasts will be downgraded a little, though our expectation of that being the case is low.

In the meantime, the current volatility could present potential buying opportunities for investors looking to increase their asset allocation to share markets. However, as always, investment selection is important.

Who is Australian Unity Personal Financial Services?

We specialise in providing professional strategic advice to help you improve your current financial position and ultimately achieve your long term lifestyle goals.

Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

- Financial advice
- Wealth creation
- Retirement planning
- Investments
- Superannuation
- Home loans
- Commercial loans
- Investment loans
- Equipment finance
- Car finance
- Personal estate planning
- Business estate planning
- Personal risk insurance
- Business risk insurance
- General Insurance

Australian Unity has a proud 175 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services... each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

After all, your financial wellbeing is at the heart of everything we do.

If you no longer wish to receive 'Money Insights' please send an 'Unsubscribe' email to the person who sent it to you.

Contact us: You can contact us by calling your Australian Unity financial adviser or mortgage broker, or you can call Advisory Services on 1800 806 603, or write to us at Level 8, 114 Albert Road, South Melbourne Vic 3205, or email us at advisoryservices@australianunity.com.au, or visit our website www.australianunitypfs.com.au

Disclaimer: This article is not legal advice and should not be relied on as such. Any advice in this document is general advice only and does not take into account the objectives, financial situation or needs of any particular person. You should obtain financial advice relevant to your circumstances before making investment decisions. Where a particular financial product is mentioned you should consider the Product Disclosure Statement before making any decisions in relation to the product. Whilst every care has been taken in the preparation of this information, Australian Unity Personal Financial Services Ltd does not guarantee the accuracy or completeness of the information. Australian Unity Personal Financial Services Ltd does not guarantee any particular outcome or future performance. Australian Unity Personal Financial Services Ltd is a registered tax (financial) adviser. Any views expressed are those of the author and do not represent the views of Australian Unity Personal Financial Services Ltd. If you intend to rely on any tax advice in this document you should seek advice from a tax professional. Australian Unity Personal Financial Services Ltd ABN 26 098 725 145, AFSL & Australian Credit Licence No. 234459, 114 Albert Road, South Melbourne, VIC 3205. This document produced in August 2015. © Copyright 2015

