

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	64,140	-0.35%	12.12%	8.13%
MSCI World Ex-Aus. (Unhedged)	9,672	2.22%	12.34%	9.97%
MSCI World Ex-Aus. (Hedged)	1,701	2.67%	10.33%	2.92%
Bloomberg AusBond 0+ Composite	9,767	0.30%	3.18%	6.40%
BloombergBarclays Global Agg. (Hedged)	1,005	0.15%	2.15%	4.05%
S&P/ASX300 Property	54,609	0.77%	11.55%	21.90%
FTSE/Epra NAREIT (Hedged)	2,759	1.80%	8.76%	13.89%
S&P Global Infrastructure (Hedged)	5,145	1.55%	11.87%	10.50%
BarclayHedge Global Hedge Fund Index (USD)	5,605	N/A	0.57%	-3.59%
AUDUSD	0.7085	0.57%	-1.31%	-9.14%
AUDEUR	0.6256	-0.24%	-1.09%	-1.31%
AUDNZD	1.0347	-0.06%	-2.02%	-3.57%
AUDGBP	0.5331	-1.57%	-6.61%	-4.96%
AUDJPY	78.9820	0.83%	-2.57%	-4.99%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, Barclays, 17th March 2019

Our thoughts are with our neighbours across the Tasman after Friday's horrific events in Christchurch. Facebook, the seventh largest stock in the S&P500, may see serious questions asked after allowing a shocking live broadcast of the attack.

As we approach quarter-end rebalancing, the data published last week has produced a clearer picture of the earnings outlook. Global EPS growth has begun to turn down in line with global industrial production.

The US remains a relative bright spot compared to other developed countries, including Australia. The US is not slowing as fast, and the US consumer remains relatively optimistic. That optimism may be overdone as the market increasingly expects the next move in US interest rates to be down.

The Federal Reserve is unlikely to make any changes to interest rates at its meeting this week, but there may be an announcement on balance sheet policy. Comments in the previous minutes suggested that the process of balance sheet normalisation may end before 2020.

A series of votes in the UK last week included the removal of the "no deal" path and surprisingly seemed to rule out a second referendum. But we are far from receiving any clarity on how Brexit will eventually occur. Tensions remain high as Theresa May heads to the EU summit on Wednesday to request an extension.

The end of the first quarter is likely to see some significant rebalancing trades. Risk assets have rallied significantly since the last December quarter end. Australian property, in particular, has performed very well, and some profit-taking is likely.

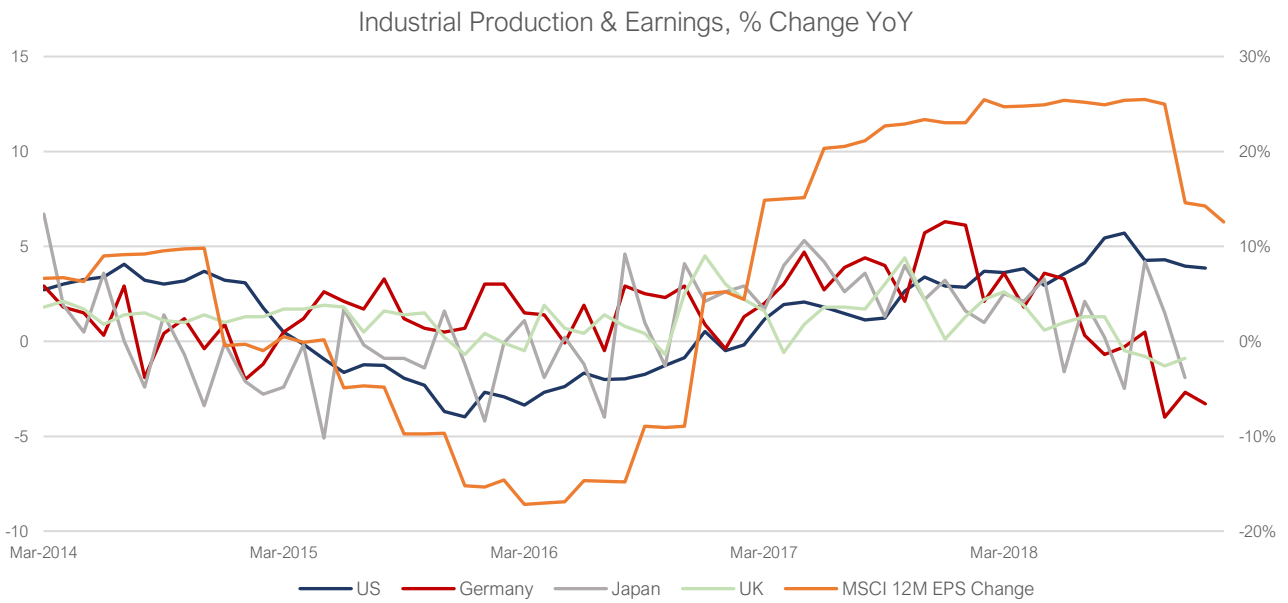
Citi G4 Inflation Surprise Index



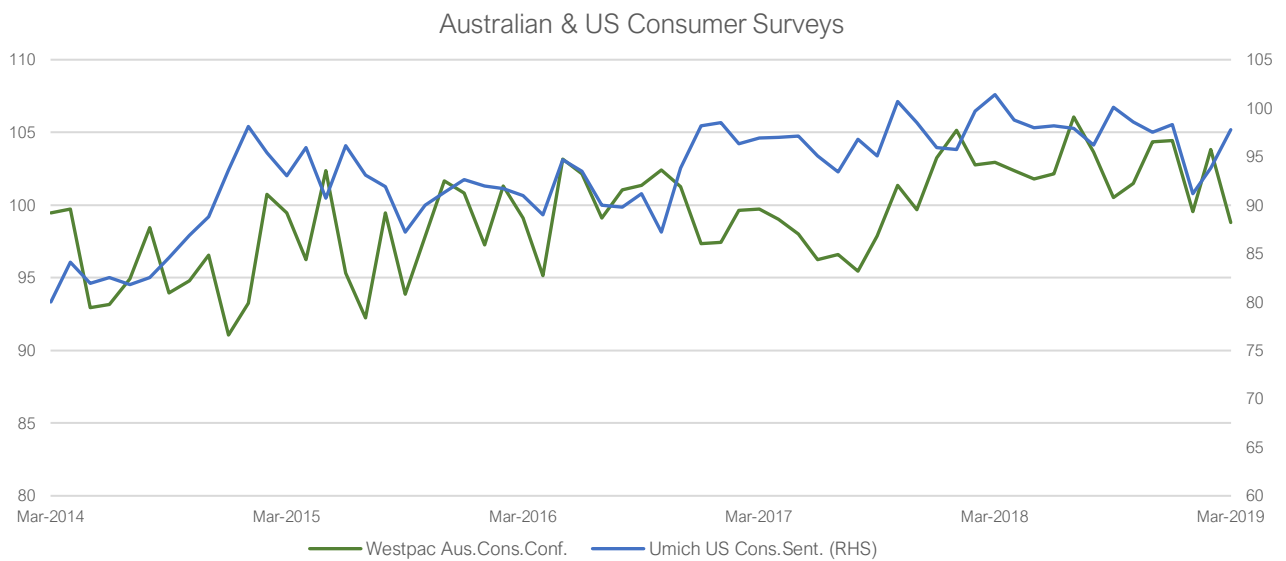
Source: Bloomberg, Citi, 17th March 2019

Since central banks have turned less hawkish, it is apparent that assets have become much more sensitive to interest rates. Multiples have expanded as interest rates look set to remain low. Recent inflation data has also been benign, including this week's US CPI numbers. The Citi G4 inflation surprise index recently turned negative (see chart above).

The February industrial production numbers for the US and China disappointed expectations last week. Industrial production tends to be highly correlated with earnings, as can be seen on the chart below. Germany, Japan and the UK have seen declining production throughout 2018. In previous notes, we have highlighted the nascent decline in the US manufacturing sector. This appears to be evolving into a trend and, although the slowdown is not as pronounced as in other countries, it is now showing up as lower *trailing* earnings growth in the MSCI AC World index¹ (see chart below).



Source: Bloomberg, MSCI, Federal Reserve, BWA, ONS, METI, 17th March 2019

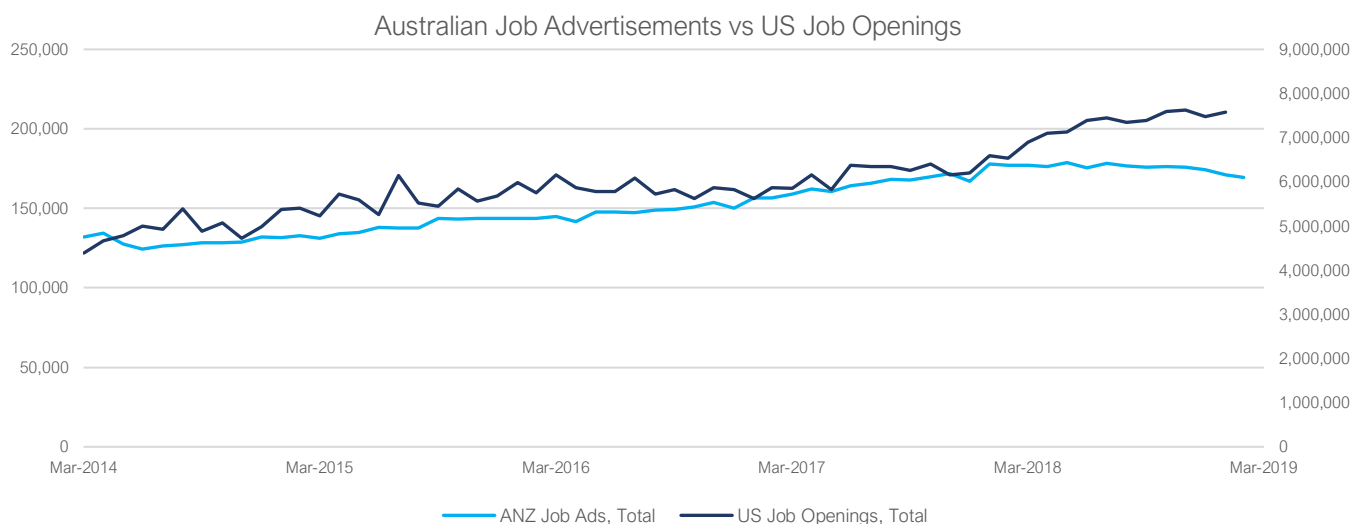


Source: Bloomberg, Westpac, University of Michigan, 17th March 2019

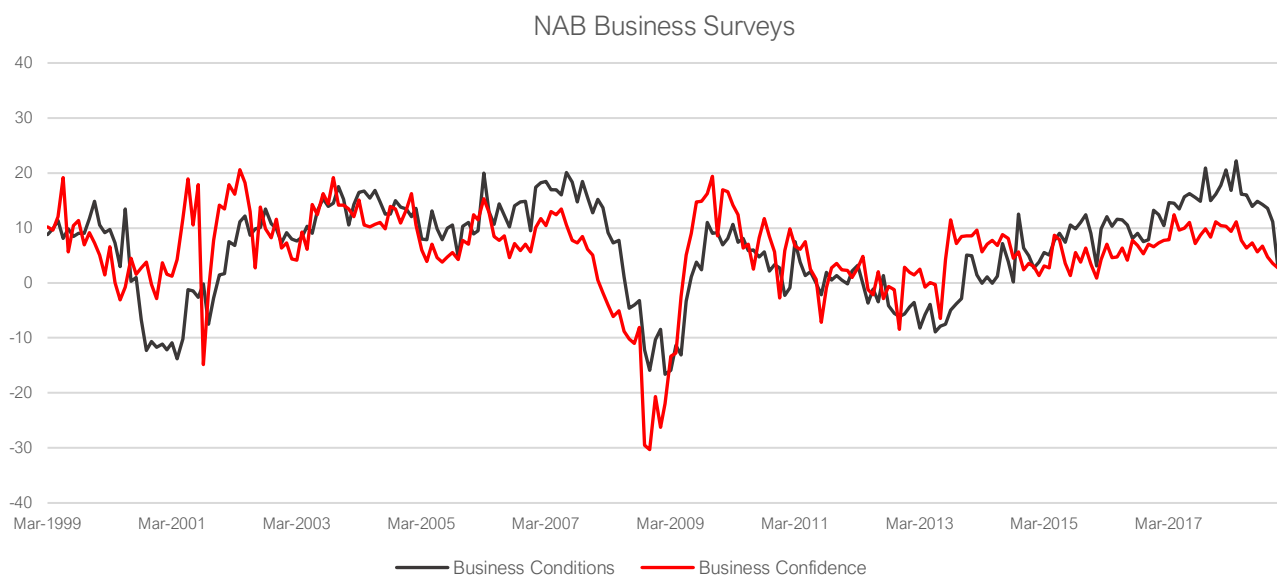
While the manufacturing sector in the US is likely to prevent the Fed from acting too quickly on rates, the consumer (the real driving force in the economy) remains relatively optimistic. As the effects of last year's tax cuts fade, sentiment is below the highs of 2018. But the less hawkish tone from the Fed and the consequent rebound in financial markets has lifted consumer sentiment back to December levels (see chart above).

The optimism of the American consumer is not shared by their Australian counterpart. Consumer confidence last week made another short-term low. House price declines in Sydney and Melbourne are taking their toll, but the employment outlook is also less positive than a few months ago. Job adverts in Australia are declining, while the US the number of openings continues to rise (see chart below).

However, declines in US bond yields this week suggest that the outlook may not remain as rosy as consumers expect. The market is now pricing a 40%¹ chance of a US interest rate cut by the end of January 2020. This expectation is supporting the global PE multiple close to the long-term average. But given that earnings will almost certainly slow in the next few quarters, equity and listed property prices now look vulnerable if major central banks simply remain on hold.



Source: Bloomberg, ANZ, BLS, 17th March 2019



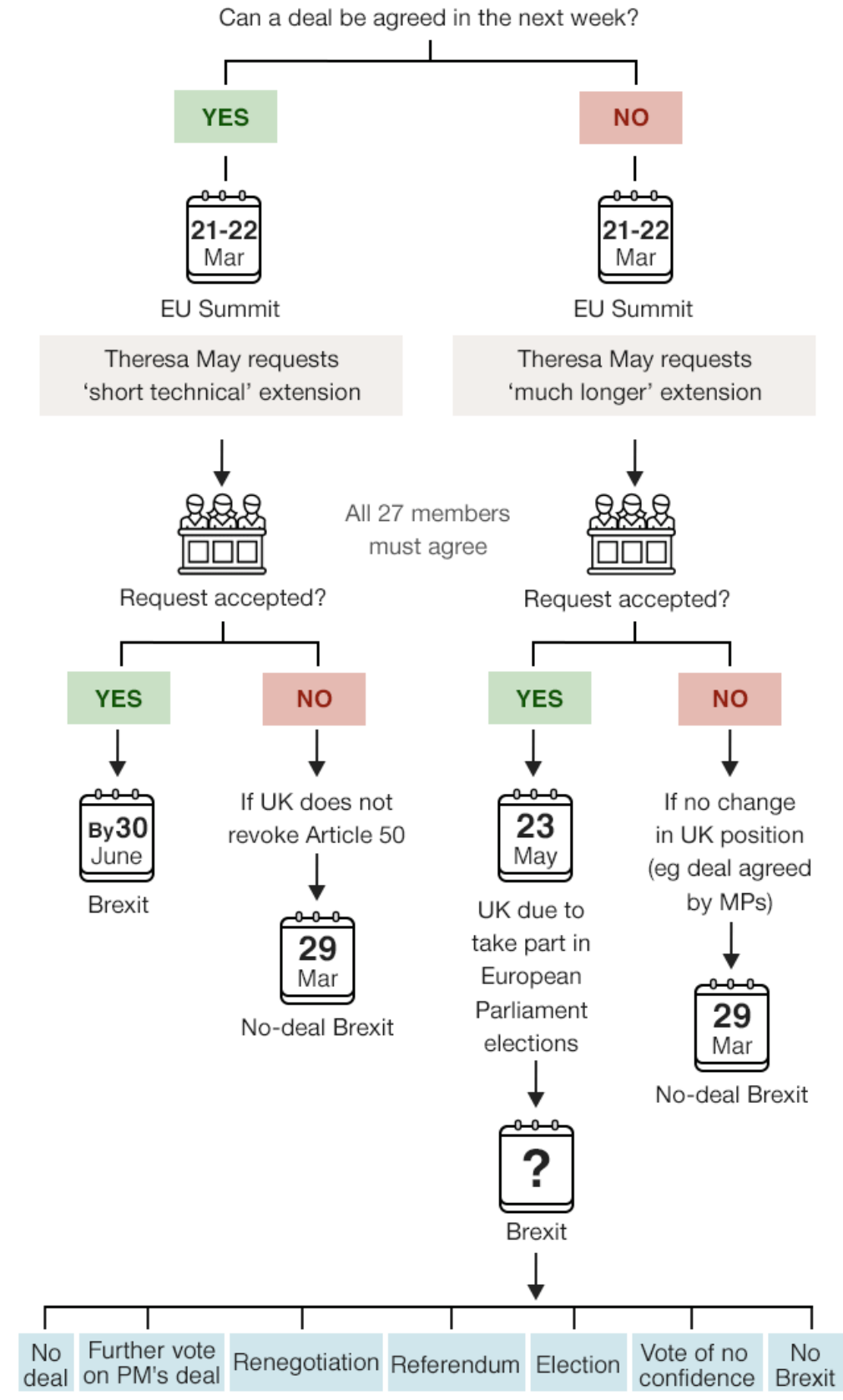
Source: Bloomberg, ANZ, BLS, 17th March 2019

With business confidence also very weak in Australia (see chart above), the market is more certain that the RBA will eventually be forced to ease. The chances of at least one cut by year-end are priced above 80%¹. As a result, the Australian market is trading on a higher multiple than international markets, and we continue to suggest holding both Australian equities and listed property underweight heading into the quarter end. The combination of declining earnings expectations and high valuations presents a substantial headwind for the asset classes. International growth assets are trading at much more reasonable valuations.

The risks of a sudden shock to markets have also receded. US/China trade talks have been pushed back into April and this week's series of votes in the British parliament seem to have reduced the risk of a "no deal" Brexit. Theresa May will try to negotiate an extension to the withdrawal when she meets her European colleagues on Wednesday. All twenty-seven member states will have to agree to the extension, which is the base case even if we cannot say how long the extension may be. It is worth remembering, however, that if she fails to secure their agreement, a "no deal" Brexit at the end of the month remains the current default. There is a wide range of eventual possibilities beyond the next step. Please see the BBC graphic below for an illustration.

¹ Bloomberg, 17th March 2019

Extending Article 50



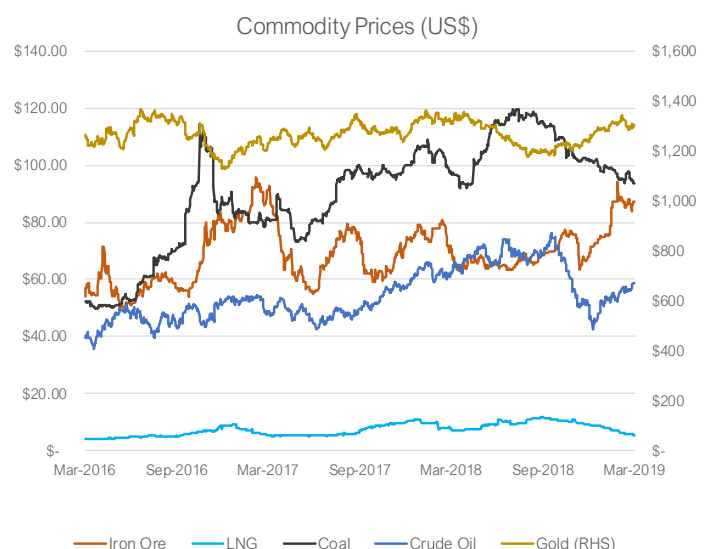
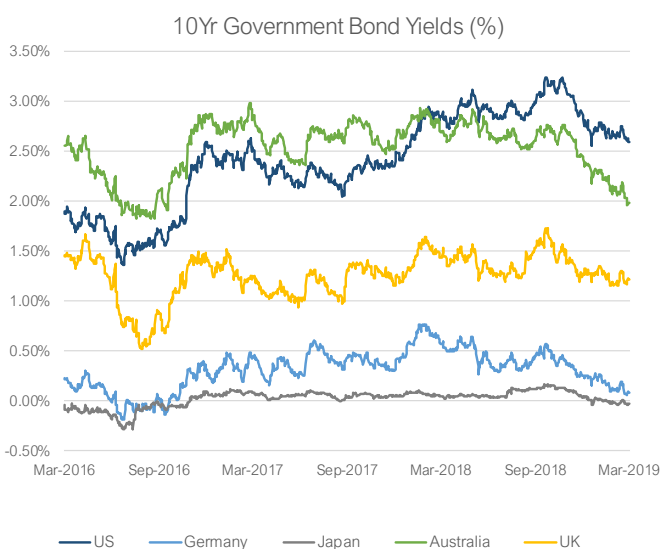
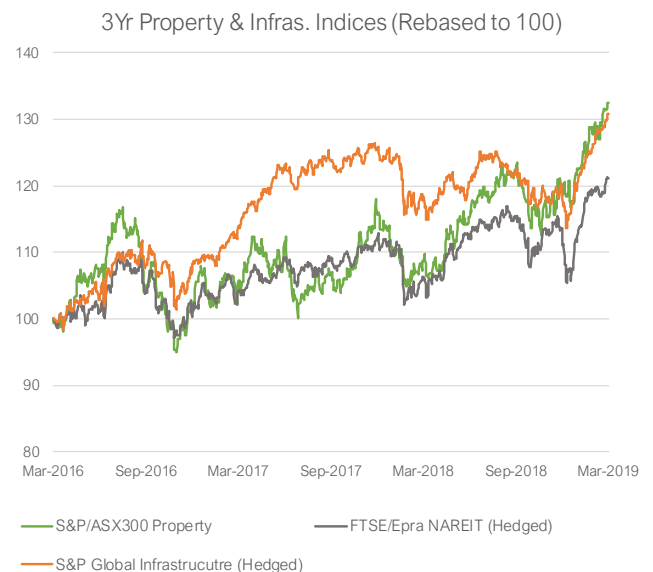
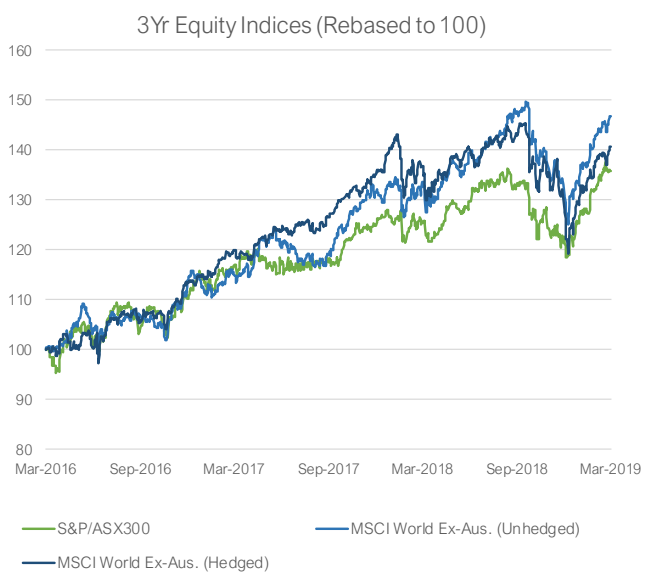
BBC

Source: BBC, 17th March 2019



Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		RBA Minutes; House Prices	Westpac Leading Index	Unemployment	CBA PMI
US	NAHB Housing Market Index;	Durable/Capital Goods (Final)	FOMC Rate Decision; MBA Mortgage Applications,	Philly Fed	Markit PMI; Conf.Board Leading Index; Existing Home Sales; Monthly Budget Statement
Europe	Eurozone Trade Balance; UK House Prices	ZEW Survey; UK Unemployment; Italian Trade; Eurozone Construction Output	UK Inflation	UK, Swiss, Norwegian Interest Rates; ECB Economic Bulletin; UK Retail Sales; Dutch Unemployment;	PMIs; Eurozone Current Account & Cons.Conf.;
Japan	Trade Balance; Ind.Prod.; Capacity Utilisation		Machine Tool Orders		CPI; Nikkei PMI
China					



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE/EPRA, 17th March 2019

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