END OF QUARTER REVIEW.

Market review

World equity markets in calendar 2019 went through various mini-cycles with periods of subdued investor confidence alternating with periods of renewed optimism. Over most part of 2019, investors primarily focussed on two main concerns: the prospect of an economic disruption from an intensified tariff war between the U.S. and China, and a softer global macroeconomic outlook. There had also been a slew of other worries including slower Eurozone growth, Brexit negotiations, and geopolitical tensions in the Middle East. In other parts of the world, months of anti-government protests and demonstrations in Hong Kong pushed the territory into a slowdown. The European economy had a mixed year, but was supported in November by news that Germany, the Eurozone's biggest economy, had narrowly avoided recession.

All up, global markets staged a solid finish to calendar 2019 as the trade war concerns eased somewhat when Trump recently called off plans for tariff increases on Chinese goods, along with increasing hopes of stimulus by major central banks to avoid an economic slowdown globally. On 31st December, US President Trump has also announced that he will be signing a "very large and comprehensive Phase One Trade Deal" with China on 15th January 2020 though investors remain cautious and await concrete details of the agreement.

The Australian share market finished the calendar 2019 year at 6,684 points, up 18.4% with the Healthcare and Information Technology sectors the standouts — rallying 41.2% and 31.8% respectively. The Consumer Discretionary sector rose 27.2%, the Industrials sector climbed 22.6%, and the Communication Services sector strengthened 22.3%. In comparison, the MSCI All Country World Index gained 24.0% to 565 points, the S&P 500 was up 28.9% to 3,231 points and, China's Shanghai Composite climbed 22.3% to finish the calendar year 2019 at 3,050 points.

During the course of 2019, the Australian Dollar varied from a decade low of US66.7 cents to a high of ~US73 cents before settling at the current ~US70 cents, as the effects of global interest rate outlook and commodity prices played off against one another. Global growth worries and expectations for further monetary easing saw bond yields fall sharply with the Australian 10-year bond yield hitting a new record low of 0.85% in late August 2019 before rising to finish the year at 1.37%. In commodities, the quoted iron ore price climbed 27% to US$92/tonne and the quoted Brent oil price strengthened 22% to finish the calendar 2019 year at US$66/barrel. Gold, the traditional 'safe haven' commodity rallied over 18% for the year to US$1523/oz as the long-drawn U.S. China trade dispute caused fears of a global economic slowdown, the likely quantitative easing by the major banks in response and the prevailing low interest rate globally — an environment supportive of gold.

Investment Environment

After three cuts of 0.25% each in June, July, and October 2019, the Reserve Bank of Australia (RBA) at its final meeting for 2019 maintained its benchmark cash rate at an historic low of 0.75% on the back of below-trend economic growth, softer wage growth and some signs of a slowdown in global trade, partly stemming from the ongoing global trade tensions. The underlying inflation rate at 1.7% in September 2019 continues to sit below the bottom of the Reserve Bank of Australia (RBA) target range of between 2% and 3% — supporting RBA's decision to keep the cash rate at a record low of 0.75%. The RBA last raised the official cash rate in November 2010 and we forecast another 25 basis points cut to take the official cash rate to 0.50% by end of calendar 2020 and the Australian dollar to oscillate around US70 cents over the same period.

END OF QUARTER REVIEW.

Looking forward, we forecast the Australian economy to grow by 2.2% in calendar 2020 and then 2.4% in 2021. The low level of interest rates, recent tax cuts, ongoing spending on infrastructure, signs of stabilisation in some housing markets and a brighter outlook for the resources sector should all support growth. By comparison, we expect the world economy to grow by 2.7% both in calendar 2020 and 2021.

Share Market Outlook

All up, we see this year's market performance as a reset to slowing economic growth and earnings expectations globally along with lagged monetary tightening in some major economies. Signs of growth stabilisation in the short term, coupled with positive developments on the trade war, and a more accommodative monetary policy from the US Fed, the European Central Bank (ECB), and other central banks should further support global equity markets in 2020.

The Australian share market is currently valued on a forward consensus price earnings ratio of 16.5x, which is 13% above the long term average of 14.6x. The forward consensus dividend yield for the Australian share market is an attractive 4.2% (80% franked) and this also continues to attract investors searching for yield, particularly given the very low interest rates that currently prevail.

All up, modestly positive domestic and global indicators should enable the Australian share market, as measured by the S&P/ASX 200, to reach our target of 7,200 by the end of calendar 2020, which is ~8% above the 31 December 2019 close of 6,684 (excluding dividends).

The 2020 Favoured Stocks

Our favoured stocks for calendar 2020 (in alphabetical order):

After the acquisition of Bemis Company, the combined group is the global leader in consumer packaging with a footprint encompassing North America, Latin America, Asia Pacific, Europe, Middle East, and Africa.

The group offers an attractive combination of defensive earnings in the developed countries with faster growth in emerging markets, which accounted for 27% of group sales in fiscal 2019.

The group develops, manufactures and sells gaming content, platforms and systems. Group revenue consists of land-based gaming (27.7%) involving the placement of gaming machines in customer venues for no upfront cost and then leasing the games/ titles for a recurring revenue stream; land-based outright sales of gaming machines (31.6%); and digital (40.7%) encompassing the monetisation of social casino and casual games/ titles.

The group has a dominant position in the North American gaming industry and the land-based operations should underpin medium term growth while the digital business offers opportunities in a market growing at around 13% per annum over the next three years or so.

END OF QUARTER REVIEW.

A leading global company in the development, manufacture, and distribution of plasma therapies as well as non-plasma biotherapeutic products and influenza related products.

The global growth in plasma volumes is expected to be around a solid 8% per annum for the foreseeable future and, in addition, the group is planning to launch new products from its very extensive Research and Development portfolio.

The group designs, builds and maintains a wide range of assets, infrastructure and facilities in Australia and New Zealand. The urban services operations — transport, utilities and facilities — account for 83% of group earnings while mining services (currently under review) and engineering/ construction/ maintenance represent a combined 17% of group earnings.

Over the coming years, the group should benefit from strong infrastructure spending and the continuing trend of both government and corporate outsourcing.

One of the world's largest integrated industrial property groups with operations centred around development, management and ownership throughout Australia, New Zealand, Asia, Europe, United Kingdom, North America, and Brazil.

The long term outlook for industrial and logistics properties is favourable given the continuing growth in ecommerce (or on-line retail sales) and the growing middle class in developing countries.

A global investment bank with an extensive range of operations including asset management; banking and financial services; corporate and asset finance; commodities, equities, fixed income and currencies; and corporate advice and transactions.

A key attraction is the group's ability to switch its emphasis between annuity-style and markets-facing operations to suit changing financial conditions and optimise returns.

A specialist investment platform technology provider in Australia that offers investment management solutions to financial intermediaries, who provide financial advice on superannuation and other investments, and self-directed individuals who have chosen not to seek advice.

In recent years, the group has been taking market share from the institutional platform providers such as the major banks and other large diversified financial companies. Looking forward, a structural shift within the wealth management sector from large vertically integrated players towards the more independent players should further boost the group's growth outlook.

END OF QUARTER REVIEW.

The world's third largest pathology provider with significant operations in the USA, United Kingdom, Germany, Switzerland, Ireland, Belgium, Australia and New Zealand.

Against the backdrop of continuing growth in the demand for pathology services over the longer term, the group has further international expansion opportunities in both existing and new geographical markets.

The group operates supermarkets, liquor stores, discount department stores, and hotels. It is Australia's largest grocery retailer and accounts for around 37% of the food and liquor retailing market.

Management is currently planning to demerge or sell /IPO the group's alcoholic drinks and hotels business (Endeavour Group).

A global company providing engineering services, project management, and maintenance to the oil and gas, mining and chemicals, and infrastructure (such as water and power) sectors.

Medium term earnings should benefit from improving activity levels in the group's markets as well as the highly synergistic acquisition of the Jacobs Energy, Chemicals and Resources business at the end of April 2019.

Note: refer to our latest company research and contact your adviser for more information.