

# CIO MONTHLY NOTE

February 2017

## Reporting season – the heat is on...



After one of our hottest months on record, and with more extra-hot days forecast for February, the local equity market is set to dial it up a notch too.

The spotlight is firmly on reporting season, with local corporates set to deliver a long overdue earnings-led recovery after two consecutive negative fiscal years. The forecast numbers look good on the surface, but let's not forget the very low base these increases are coming off.

The Australian market is looking at a year-on-year rebound in earnings (market cap adjusted) of around 18%, based primarily on the recovery in the resources sector. This is clearly a very strong number.

Outside of that, the market is anticipating to be up a relatively small, but solid, 5.5% for the year, which highlights the significant impact of resources alone.

Resource companies, and those leveraged to the sector, are obviously benefiting from improved commodity price performance. Thankfully, that price recovery has not resulted in the typical sharp appreciation of the Aussie dollar, which would make our goods more expensive globally.

We expect the February earnings period to deliver further confirmation of domestic market improvement, and the long overdue earning-led recovery. The local market has already begun to rally in anticipation.

Key local "bellwether" companies that will be drive the bulk of the earnings will be the key miners such as BHP and Rio Tinto, consumer staples like Woolworths and Wesfarmers, along with CSL and the major banks.

When it comes to interest rates, we feel there is very limited scope for any rate rises this year, and despite some economists suggesting higher cash rates locally, it really is too early to tell.

Corporate Australia and households would be unable to adjust to any cash rate increase and we forecast steady interest rates into 2018 with a small possibility of a cut.

Looking to global markets, we still anticipate a US economic and earnings recovery to continue on expected infrastructure spending and tax cuts. The recent US quarterly reporting season was also quite positive for equity markets.

In that sense, the US continues to be our favourite market and the current level of the Aussie dollar, which we believe will continue to trade between 75 to 80 cents, provides an opportunity for the investor to accumulate global assets.

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