## A Fine Vintage for Investors: A Financial Year Recap

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An updated economic market commentary written by Frank is available on the Perennial website at the beginning of each month.

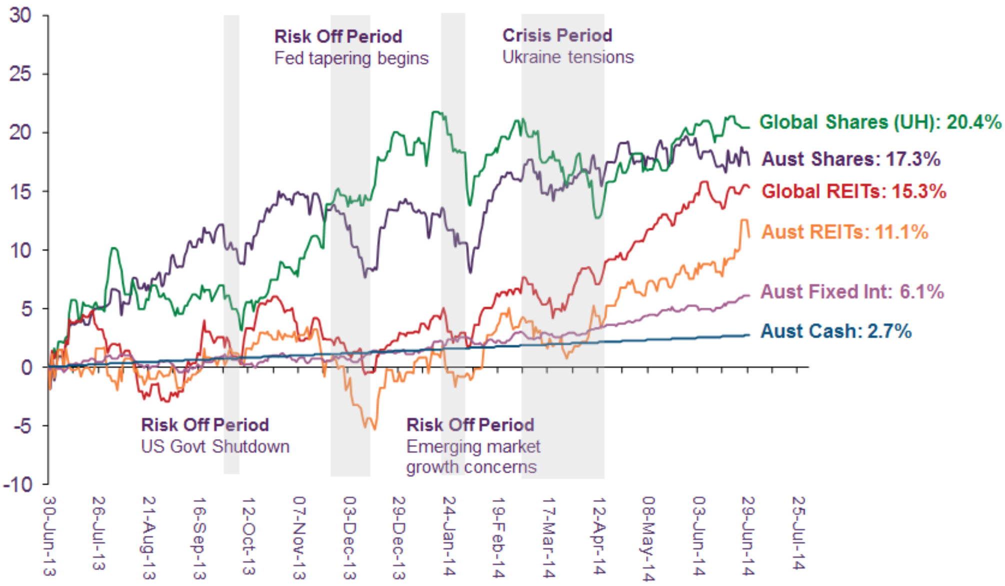
Frank has over 28 years investment management experience and owns equity in Perennial Fixed Interest.

Investors can thank supportive central bank policy settings for another year of sparkling returns from **growth assets** such as shares or listed real estate securities. As the global economy is still healing from the GFC, many economies have higher than normal levels of unemployment and this is giving central banks the room to run very supportive policies with minimal risk of generating excessive inflation.

Nevertheless, there were a few risk-off periods over the year but they did little lasting damage. These included the US government shut down in October over deadlock regarding the debt ceiling, the US Fed tapering of its quantitative easing programme in December, winter storms in the US in early 2014 and in March we saw geo-political tensions lift sharply following the Ukraine's loss of control over Crimea, which became an independent republic and joined the Russian Federation.

Investors in **defensive assets** such as cash and fixed interest also did relatively well over the year given the low level of interest rates across the globe.

Fixed interest investors faced headwinds over the second half of 2013 as fixed interest markets across the globe adjusted to the prospect of an eventual rise in the US cash rate. However, these expectations were pared back over the first half of 2014. Periods of rising geo-political uncertainty and the prospect of a quantitative easing programme from the European Central Bank helped push yields lower and delivered investors modest capital gains.




**Source:** Bloomberg. Daily cumulative returns to 30 Jun 2014. Aust shares = S&P/ASX 300 Accum Index; OS shares = MSCI World (ex Aust) Accum Index – unhedged; Global REITs = FTSE EPRA/NAREIT Global Real Estate Total Return Index (Hedged to $A); Aust REITs = S&P/ASX 300 Property Accum Index; Aust Fixed Interest = UBS Composite Bond Index (All Maturities); Aust Cash = UBS Bank Bill Index

Looking to the year ahead, investors can expect central banks across the globe to continue running very accommodative policy settings. These policy settings, along with an increasing focus on G-20 countries to lift growth outcomes and fine tuning steps in China, should all help underpin global growth.

The Australian economy should continue to grow at a moderate rate over the year ahead. Activity levels in the interest rate sensitive sectors are beginning to lift and should help offset a sharp fall in mining investment. Export volumes are rising as a result of earlier investment and there are tentative signs of a recovery in non-mining investment. Against such a backdrop, growth type investments should outperform defensive type investments.