

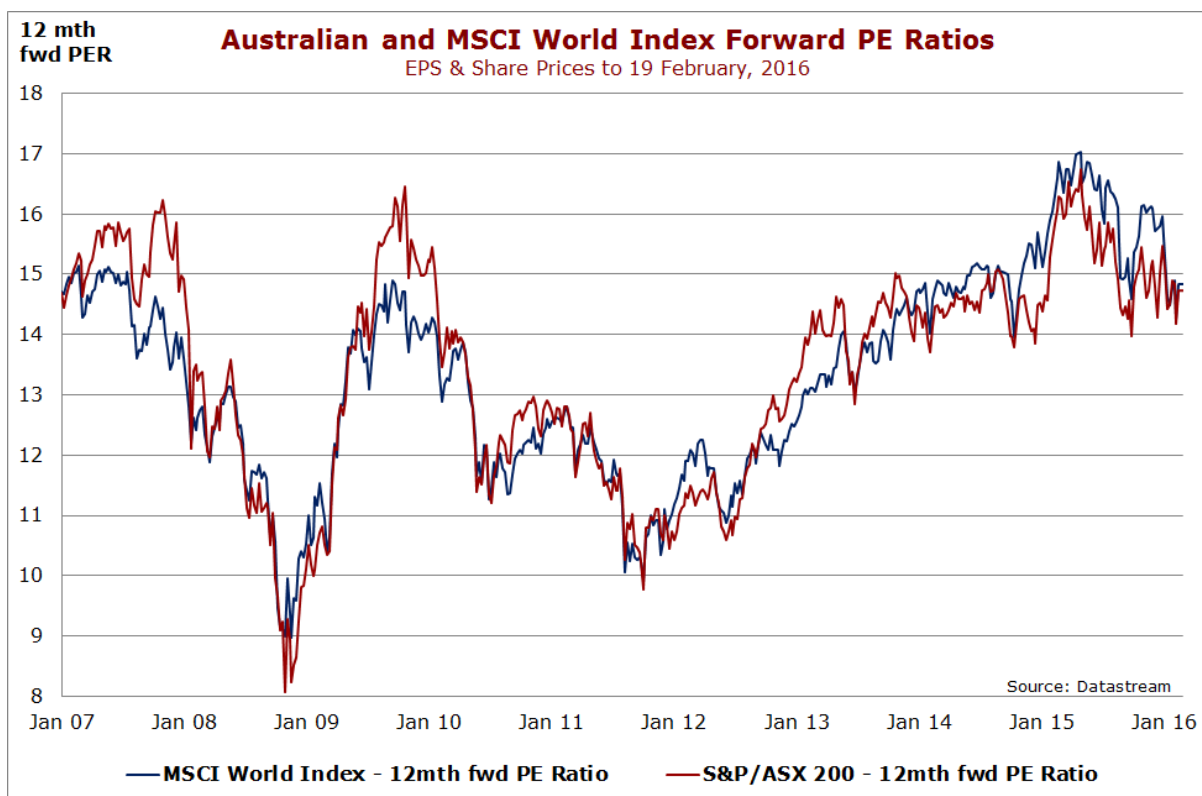
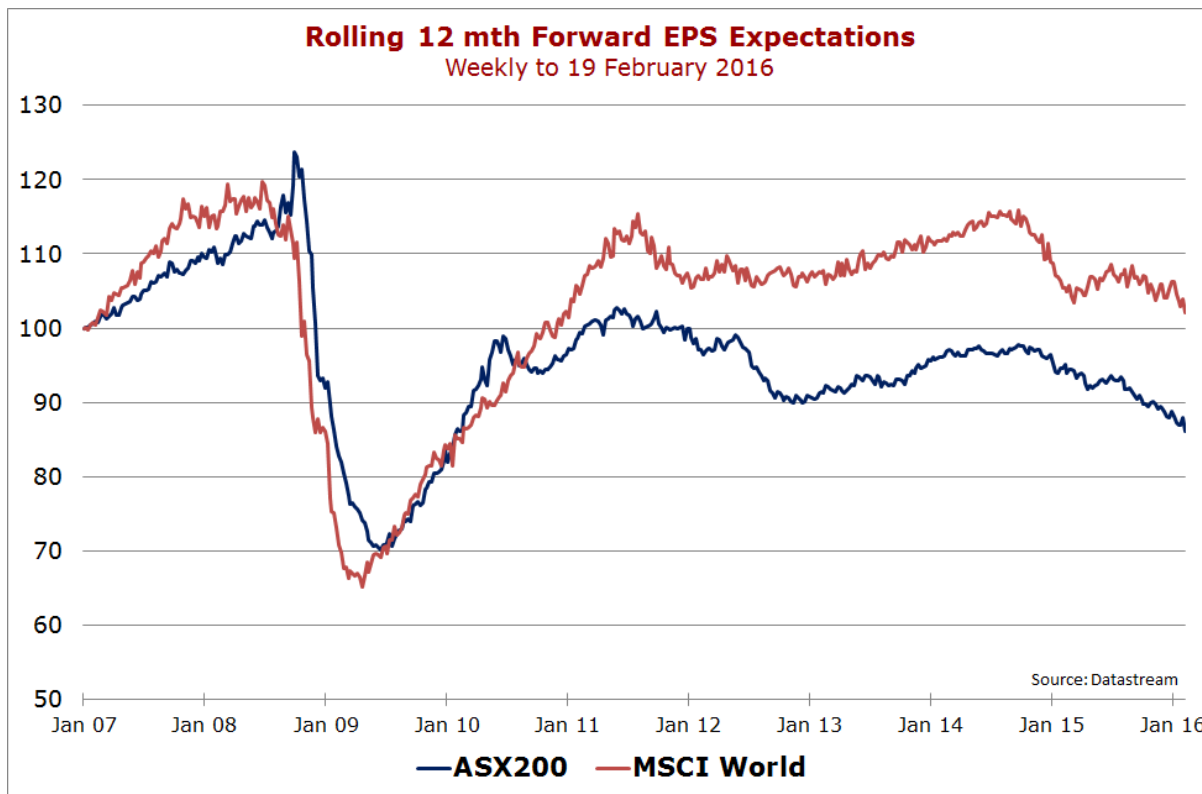
## Evans & Partners Market Outlook March 2016

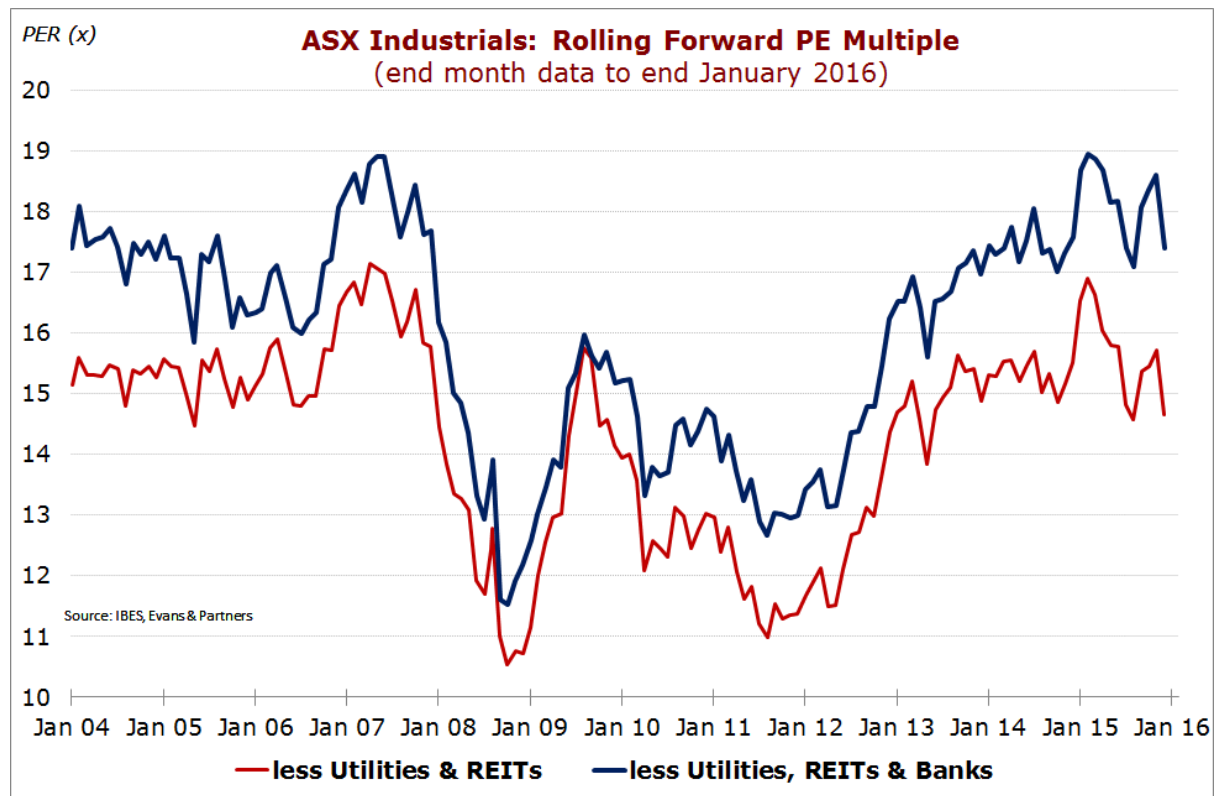
The ASX200 price index fell modestly in February (4906 at time of writing) after the very poor start to the year in January (-5.5%). The market did improve modestly in the second half of the month as excessive pessimism re US economic growth prospects were re-appraised, the domestic profit reporting season ended relatively mixed (although FY16 & FY17 consensus estimates were further reduced) and risk appetite improved in global markets.

Many of the issues that undermined global equity markets in January remain unresolved and are likely to limit scope for a market re-rating:

- Global economic growth estimates have continued to be revised lower. The market probably underestimated the importance of emerging economy demand growth post GFC; in particular China;
- The downgrade in Earnings per Share (EPS) estimates over the last three months both domestically and internationally has been significant;
- The 70% decline in the oil price since mid-2014 (and the weakness in commodities more generally). While a longer term positive for consumers, the short term impact (for example on energy company capex) is negative and destabilizing;
- The universe of negative central bank cash rates (and government bond yields) has widened and now includes Japan. Negative rates are a negative for bank net interest margins, while more broadly concerns have been building that monetary policy in much of the developed world is reaching its practical limits in reflating economies;
- The rally in bonds was seen as signaling increased fears of deflation (although this is not our core view);
- Concerns over China: policy measures to manage the A-share stockmarket and the Renminbi have been viewed by many as denting the authorities credibility while ongoing capital outflow (recently running at \$US 100billion per month) alongside a weak domestic economy would increase the risk of currency devaluation.

Whilst we expect equity markets to outperform cash over the balance of 2016, the range of risks and unresolved issues suggests it may remain a volatile year ahead. Domestically, the weakness in recent months has been skewed to resources and banks leaving non-bank industrials (ex-REITS and Infrastructure) still somewhat expensive by historic standards; such is the market desire for greater earnings certainty. The charts below show a number of these metrics and EPS growth.





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