

## THE AUSTRALIAN

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# Global Investor: coming months volatile for multi-asset investors

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**A domestic or global investor doesn't need to be an economist, financial specialist or rocket scientist to see the upcoming months — especially June — will be a tumultuous and volatile time for multi-asset investors.**

Whether now is the relative quiet before the storm or a lull between seismic shifts, the kaleidoscope of events about to unfold have Australian ultra high net worth (UHNW) investors battenning down the hatches — and with good reason.

US earnings growth is slowing significantly and it appears “short covering” — buying back borrowed securities to close an open short position — explains a lot of the best- and worst-performing S&P 500 stocks since the end of January.

In these circumstances during early 2016, what has been transpiring on the S&P 500 has been almost identically shadowed on Australia's ASX 200.

This holds significance as it indicates the range-bound price action seen within core equity bourses — the S&P500, the ASX 200, Japan's Nikkei 225 — is driven by institutional participants trading around what is referred to as “top and tail” and is not, as it appears, motivated by fundamentals, or even aspirational longer-term investing.

Accepting that global bourses remain in such a holding pattern, the following known events heading towards June simply complicate investing within markets even further.

- On June 23, Britain will hold a referendum on its membership of the EU, known as “Brexit”. Markets, currencies and entire economies linked to the European project remain in a state of flux until then.
- In the recent “Panama Papers” leak, Chinese President Xi Jinping's brother-in-law, Deng Jiagui was named as a sole director and benefactor of two British Virgin Islands-based shell companies established in September 2009. While Deng and his wife, Qi Qiaoqiao, Xi's older sister, owned hundreds of millions of dollars in real estate, shares, and other assets that were declared, they did not mention offshore holdings. Given Xi's anti-graft campaign, has caused a rise in tensions within China to levels not seen since the Cultural Revolution, this may serve as a tinderbox for political instability within China and across regional markets that engage with the country.
- The US Federal Reserve's policy direction remains uncertain. Only 28 per cent of research economists polled by Bloomberg expect a 25 basis point rate hike on June 15.
- Worse, it appears the Bank of Japan is fast approaching the technical limits of its

Qualitative and Quantitative Easing (QQE) programs, with no new government bonds to purchase.

- Referring to the risk of “Grexit”, Greek refinancing risk will likely re-emerge in June-July, with about €10.2 billion (\$15.4bn) falling due.
- Rumours are mounting Prime Minister Shinzo Abe could call a snap election for Japan’s Upper House around June, and an election victory for the ruling Liberal Democratic Party — highly expected — would empower Mr Abe to push through his constitutional reform agenda, causing geopolitical tensions with China in the South China Sea.
- In the US, the 2016 Republican National Convention falls on July 18. Need we say more?
- On May 20, Taiwanese president-elect Tsai Ing-wen will be sworn in and with the Democratic Progressive Party’s charter still calling for an independent sovereign Taiwan, cross-straits tensions will be near their highest since 1950.
- The likelihood of an Australian double-dissolution election, probably around July 2, will cause more uncertainty, fiscal ambiguity and political noise, distracting markets and the real economy.
- As summer nears in Europe, milder weather may induce another round of refugees to seek shelter there.

If these known uncertainties were not sufficient to concern UHNW investors, the fact the ASX 200 remains the worst-performing OECD bourse since January 2015, combined with a buoyantly strong dollar and weak domestic economic metrics, means it becomes trickier than ever to find a balance between domestic and global investing.

For long-term investors, remaining in asset allocations that present relatively predictable and reliable cash flows, are somewhat defensive and thus resilient to market volatility and remain tied to longer-term growth narratives, continues to make sense.

Such logic goes a long way towards explaining the 2016 demand for US Treasury inflation-protected securities (TIPS), now at their strongest in years. And so, despite a cluster of concerning events ahead, the patient and rational global investor as always continues to have options.

*Larkin Group is an ultra high net worth wealth team focusing on high-yielding global investments. [www.larkingroup.com.au](http://www.larkingroup.com.au)*