

# McDONALD ROSS FINANCIAL PLANNING

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FINANCIAL PLANNING

SUPERANNUATION

INVESTMENT

INSURANCE

## Economic Overview

By the end of 2010 global economic growth prospects appeared more robust, prompting many economic commentators to increase their forecasts for the year ahead. The Chinese economy, the driver for a lot of the global growth last year, continued its impressive growth. The end of 2010 also saw increased market volatility amid mixed economic data, reasonable corporate earnings results and lingering sovereign debt concerns.

We expect to see more volatility this year and with continuing uncertainty about global recovery, investors can reduce the risks by including uncomplicated, liquid assets in their portfolio.

## Outlook for the Asset Classes in 2011

### Equities

We expect that concerns over the European sovereign debt crisis among others, will cause volatility and keep gross returns down at around 5% in the first half of this year. Equities should deliver higher returns – around the 15% mark – in the second half of 2011, as a more positive tone returns to the market and volatility subsides.

### Fixed Interest

The first half of 2011 should be positive both for global developed and emerging market sovereign bonds, and corporate credit. We believe developed market sovereign bond prices will decline as markets anticipate monetary policy in the key economies to gradually return to normal. Emerging market sovereign bonds and credit markets are likely to decline less than developed market sovereign debt during this period. Fixed interest investments should see aggregate returns of around 7% over the year.

### Currencies

As the US economy gains more economic impetus relative to its trading partners, we expect to see a weak US dollar gather strength against most major currencies. Emerging market currencies should also gradually appreciate over the year. The Australian dollar should strengthen during the early part of 2011 but then weaken somewhat against the US dollar, British pound and emerging market currencies later in the year.

### Commodities

Commodity markets should remain modestly strong in the early part of the year and then gather upward momentum, delivering returns of around 20% over the course of the year. Supply bottlenecks, sizable institutional investment flows and broad investor appeal for real assets as a hedge against higher inflation, are likely drivers that will buoy this sector.

### Listed Property

We anticipate domestic and global listed property markets to deliver returns slightly below equities in the short term but move sharply higher later in the year as investors search for yield and protection against higher inflation. Investors can expect listed property to return around 15% over the year.