Stock Market & Economic Update

March was a more volatile month on global stock markets as investors have weighed up the possibility of a US interest rate rise, following a much stronger than expected February jobs report.

The US Federal Reserve has held interest rates close to zero for more than six years to stimulate growth following the 2008 global financial crisis. As the US economy has gained momentum it has become increasingly apparent that these emergency policy settings are no longer needed. The 'emergency' has long passed.

As was expected, the US Federal Open Markets Committee (FOMC) removed the word "patient" from its monetary statement at last night's meeting, with regard to the timing of the first US rate rise. However, at the post meeting press conference Fed Chair Janet Yellen hinted that a rate rise is still months away and would be data-dependent (ie. consistently strong economic data would increase the chances of a rate rise sooner rather than later and vice versa).

While the Fed's next move has become less predictable, we believe the important part here is even if the Fed does commence the normalisation of monetary policy (ie. by raising interest rates), the path of that process is not expected to be rapid.We believe this process will take many years – with many stops and starts – to assess the health of the underlying economy as well as the policy settings of the rest of the developed world, most of which remain firmly in stimulus mode (eg. Europe, Japan, Canada, Australia).

So while the US will eventually increase interest rates, we expect the overall level of global interest rates will still be historically very low and provide support to stock markets and the yield story for some time yet.

In Australia, the economy is going through a period in which there is a mix of good and bad news, which on the whole, shows the economy is growing but at a slower rate than usual. Additional monetary policy stimulus appears likely with financial markets expecting a further 0.25% reduction in Australian interest rates by the middle of this year.

The Australian corporate earnings season concluded with overall results being respectable, dividend payments strong and outlook statements generally cautious. In some cases stocks reported well only to have their share prices pull back as investors were reminded that fundamental valuations have become somewhat stretched.

We were generally encouraged by the profit results and outlook statements provided by core portfolio holdings last month. Many of these companies also rewarded shareholders with strong dividends (eg. Telstra, Perpetual, BHP-Billiton, Wesfarmers and Woolworths).

Looking ahead, we see potential for business conditions and profitability to improve as the impact of lower oil prices, low interest rates and a low currency flow through to the economy. This is important as we believe earnings growth will remain the major stock market driver over the next few years as supportive macroeconomic factors (ie. interest rates) are largely priced in and have limited room to provide additional impetus.

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