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Global growth on positive trajectory says VanEck

Sydney, 09 January 2017 – Global growth in 2017 is expected to surpass growth in 2016 driven significantly by positive growth of the US and Chinese economies. On the local front a lower Australian dollar, record low official cash rate and rebound in commodity prices will bode well for the economy to secure growth this year according to Russel Chesler, Director Investments & Portfolio Strategy, VanEck Australia.

"However despite positive growth projections for the global and Australian economies, prevailing global volatility as a result of political changes in 2016 and the rise of protectionism and anti-establishment sentiments has created a buyer-beware market. Investors are generally more cautious about where to invest and this cautious optimism will play out for much of 2017," Mr Chesler said.

According to Mr Chesler the US economy is in reasonable health and the US dollar will likely strengthen throughout 2017. While the Fed is likely to raise rates several times in 2017 this will likely be offset by fiscal stimulus from Trump's administration.

"US GDP growth rate will be in the range of 2-3% in 2017 and inflation is under control. With reasonable unemployment levels this is very much a Goldilocks economy. Fiscal easing together with tax reform and infrastructure spending promised by Trump is positive for the US. There is a possible risk that by the end of 2017 inflation may jump and there may be modest overheating in the US economy. Increasing interest rates should temper the possibility of overheating," Mr Chesler said.

"China is experiencing a bit of a bumpy deceleration but is still expected to hit the 6.5% growth target this year contributing significantly to global growth. Ongoing infrastructure spending and consumer spending is expected to continue. The main risk is credit growth which will need to be carefully managed. China's inclusion into the MSCI EM Index could be on the cards in 2017.

"For Europe we expect it to continue to muddle along with growth similar to last year. Growth will be driven by lower unemployment and easier fiscal policy. The big unknowns in Europe are the upcoming elections in Germany and France this year which could cause significant market volatility. Last year's surprise wins for Brexit and Trump could indicate big changes ahead in Europe.

"While the gold price dropped after the US election, there still remains a number of obstacles that pose an imminent risk to global growth. The prices of gold bullion and gold miners respond to worrying levels of inflation and especially inflation that drives real rates lower. We have yet to see signs that inflation is getting out of control and therefore there has been no recovery in the gold price yet," Mr Chesler said.

Mr Chesler holds a positive outlook for the Australian economy this year based on a number of factors:

"A strong pipeline of housing activity will continue to contribute to growth of the economy. Tourism will continue to pick up particularly if the Australian dollar weakens, which is likely with the expected strengthening in the US dollar. Provided the current bounce in commodity prices remains and retail sales continue to improve, the scene is set for increasing equity prices. Our belief is the RBA cash rate will remain low with a possible further cut in 2017, however a rate hike is unlikely this year.

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“We believe there are better opportunities for growth and yield outside the top 10 shares in the large and mid-cap space. We are positive on companies which generate offshore income because we believe that the Australian dollar still has more to fall. Strategies with an inherent value bias should continue to outperform this year on the back of strong performance towards the end of 2016. Overall we expect shares are likely to trend higher this year, resulting in positive returns in 2017,” Mr Chesler said.

General information only

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