Markets in a sweet spot for now


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The Australian Financial Review, Tuesday 1 July 2014.

Six leading fund manages spoke to The Australian Financial Review about the key drivers of the local equity markets's 12.4per cent rise in the 2014 Financial Year. ***Sally Rose*** *reports.*

Below is IML's Investment Director, Anton Tagliaferro's excepts:

What do you believe is likely to be the most important macro-economic theme driving the direction of the ASX in the months ahead ?

Global sharemarkets are in a sweet spot at the moment with extremely loose monetary conditions in most parts of the world, continued low inflation and economic growth, which while relatively low, remains steady in most parts of the world. While many companies are also struggling to grow their earnings in a meaningful way, the lack of alternative attractive assets is also helping to support sharemarkets around the world.

Given that these conditions are unlikely to change in the short term, it appears sharemarkets will remain well supported in the months ahead. It wouldn't surprise us however to see some volatility given the current lack of concern amongst many investors that anything could go wrong.

How important is it that the Reserve Bank of Australia keeps the official interest rate on hold into 2015 for the stockmarket to keep pushing ahead?

Like many other countries in the world, official interest rates in Australia are at record lows .This is clearly adding support to the Australian sharemarket. Any change in the perception of the direction of local interest rates would flow directly to Australian sharemarket valuations. Again given Australia's lack lustre economic conditions, it is unlikely the RBA will have to change its interest rate policy stance here till at least 2015.

What sectors are you most overweight at the moment? Why?

Given our long held view that economic growth both in Australia and overseas will remain relatively lack lustre, we continue to look for stocks that we believe can grow earnings and which are reasonably priced, as opposed to investing in companies that need a huge uptick in economic activity to improve their earnings. For this reason we continue to prefer sectors such as the Healthcare and Packaging sectors and also companies outside the top 20 such as Recall and Caltex which will grow earnings in the years ahead either through incremental acquisitions or through streamlining their existing operations.

What does the recent uptick in capital markets activity, with more IPOs and M&A deals, tell investors about the state of the market?

It is an interesting time in sharemarkets as we are seeing many private equity funds using the current strength in the sharemarket as well as investors' optimism and hunger for yield to package up and float off many companies through IPO at the moment. We are cautious on many of these listings as it appears to us that many of these companies may well disappoint in the years ahead as the lack of spending in areas such as IT and marketing areas while owned by private equity will take its toll on future earnings.

The continued low interest environment and the ready availability of cheap debt on corporate debt markets are the main reasons behind the uptick we have seen recently in M&A activity.