Investment Watch

Summer Edition – 2019 Outlook

morgans

Welcome

Hasn't the year flown by. With Christmas around the corner, we take this opportunity to look back on an eventful year.

For the Morgans team it has been an exciting year of growth as we welcomed 30 new advisers into the family.

In other good news, Morgans via our charitable foundation, donated a record $1.5 million to around 70 charities in Australia. Many of these charities were chosen because of our staff involvement. For example, in November, a team of ten staff visited the east coast of Sri Lanka where they helped build houses through the charity Habitat for Humanity Australia.

In August, we donated a total of $785,000 to four charities who were the beneficiary of our Big Dry Friday appeal. Funds came from clients and friends and the Morgans Foundation donated $250,000. In addition, the Institutional team donated the brokerage for the day and raised $375,000.

In November, Morgans took out the Australasian Investor Relation Association's annual sell-side award for Best Retail Broker for the fourth year. The awards, which are determined by the heads of investor relations of ASX200 companies, are judged on breadth and quality of retail contacts and relationships; influence on key existing and targeted shareholder base; quality of personnel on the desk (including company knowledge); quality of corporate contact and feedback; consistency and support of analyst recommendations; and the investor broking relationship.

As for the outlook for 2019, Michael Knox, our chief economist, forecasts the ASX 200 index to recover its losses sustained in the last quarter of 2018. We expect the market will trend higher overall, although we remind investors to remain vigilant against a series of macro-economic risks which are likely to make for a bumpy ride, and as always, some sectors will outperform others. That is why in this extended version of Investment Watch we include our key themes and picks for 2019 and our high conviction stocks, which are outlined in the closing pages. As always, speak to your adviser in relation to which stocks suit your investment goals.

2018 has been another exciting year of growth for Morgans so from all the staff and management we appreciate your ongoing support as a valued client of our business. We wish you and your family a safe and happy festive season, and we look forward to sharing with you what we believe will be a prosperous 2019.

Morgans has been named the Best Australasian Retail Broker at AIRA's 2018 Australasian Investor Relations Awards for the fourth year in a row.

2018 Winner
2017 Winner
2016 Winner
2015 Winner

Best Australasian Retail Broker

AIRA Australasian Investor Relations Association

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Recently published research

- QBE – They always want more (11/12), ADD
- Orora – Maintaining a measured approach (29/11), ADD
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- Telecommunications sector – Fixed and mobile market share and price check

In this issue indicates published research available online.

Atomos Limited IPO

ATOMOS

Atomos Limited ('Atomos' or 'Company') is undertaking an Initial Public Offer of approximately 14.6 million shares to raise $6 million.

Atomos is a Melbourne based, global video technology company that designs, develops and commercialises, award winning, simple to use and affordable monitor recorder products.

Morgans is a Joint Lead Manager to the Offer.

Offer opened
Monday, 10 December 2018

Offer closes
Tuesday, 18 December 2018

ASX listing date
Friday, 28 December 2018

Company website
www.atomos.com

View offer details
www.morgans.com.au/atomos

Economics – what does an inverted yield curve really tell us?

In recent days the equity market has appeared to take fright at a change in the difference between the yield on US long-term interest rates and the yield on short-term US interest rates otherwise known as the 'yield curve'.

There are a couple of popular ways of measuring the US yield curve. The first one is the difference between US 2 year bond yields minus US 10 year bond yields. The second is the difference between US 90 day treasury bill yields minus US 10 year bond yields.

It is widely said that when either of these differences in interest rates or measures of the yield curve falls below zero, then that movement forecasts a coming US recession.

Our attention was drawn to this issue in October 2017. At that time the President of the Philadelphia Federal Reserve Patrick Harker did an interview with Bloomberg in which he drew attention to this issue. He said the Fed was closely watching the shape of the yield curve as the Fed tightened monetary policy by putting US short-term interest rates.

He said that the Fed was wary of allowing the yield curve to invert. This suggested that the Fed was very aware of the reputation of the yield curve as a forecaster of US recessions.

We then decided to examine the effectiveness of the yield curve as a forecaster of US activity. As our measure of the yield curve, we chose the difference between US 90 day treasury yields minus US 10 year bond yields, as our measure of us economic activity we chose the Chicago Fed national activity indicator. The Chicago Fed provides us with a history of the official timing of US recessions based on this indicator. Our research found that the yield curve was, in fact, quite a good forecaster of US recessions.

Since 1982 we found that when the yield curve inverted that a US recession had indeed followed by around five quarters in the period up until 2000. Since 2000 we found that when the yield curve inverted that a US recession had indeed followed by around nine quarters. However we found that the most reliable measure seemed to be not when this measure of the yield curve fell below zero but rather when this measure of the yield fell below 50 basis points.

Let us take as an example the most recent US recession beginning is 2008. On this occasion, the US yield curve inverted in the final quarter of 2005. It remained inverted until the end of 2006. The reason that it remained inverted may have been that US inflation remained stable through 2006. It was not until 2007 that long lags between falling US unemployment and US inflation lead rising inflation to lead to rising US ten year bond yields.

It was, in fact, this rise in bond yields and the rise in US mortgage rates that followed that caused the slump in US activity which showed itself finally as the US Great Recession of 2008 and 2009. It was the lesson of this period that it is not the yield curve itself that caused the recession. It is the sell-off in bonds, and the rise in bonds yield after the yield curve is no longer inverted that causes the recession.

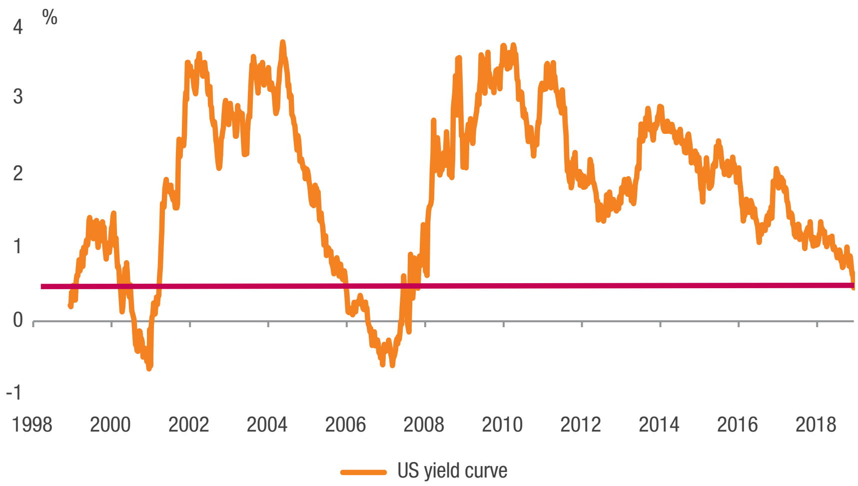
In the past month, the level of the US ten year bond yield has fallen to a level where it is 0.49% above US 90 day treasury yields. This means that the yield curve is only just beginning to invert. It needs to remain inverted for more than one quarter to even begin to signal a possible later recession. Should this recession occur, it will not arrive before five quarters later. Based on the data since 2000 the recession will not arrive until 9 quarters later. This means at worst no US recession before 2020 and probably no US recession before 2021. One either scenario, the US economy will see plenty of economic growth and plenty of US corporate earnings growth before then.

We can all sleep easy in our beds, the US recession bogeyman is not going to be stalking us in the night. A US recession may indeed actually finally arrive, however we will all likely enjoy a long period of prosperity before then.

Since 2000 we found that when the yield curve inverted that a US recession had indeed followed by around nine quarters.

Refer to our recent research for more Economics coverage
The panic into quality
bit.ly/2SGjl92

US yield curve



Source: Factset (US 10-year bond yield – US 90 day treasury bills

Equity strategy – 2019 outlook

Balancing risk and reward

Our equity strategy in 2018 emphasised the need for investors to stay vigilant. Low interest rates following the GFC had pushed investors into higher returning asset classes which helped extend the bull market from bonds, equities to property. This changed in 2018, as the source of asset price inflation was gradually withdrawn causing investors to re-evaluate the price paid for the lower returns they would receive in the future.

For major central banks, 2019 may be the year when the great monetary experiment, quantitative easing (QE), enters a new phase in which QE is very gradually unwound. Equity markets have already had a good taste of how disruptive this process can be with three >5% corrections in the S&P/ASX 200 Index this year. While stock valuations have reverted toward their long-run average we remind investors that volatility will remain a permanent fixture in the year ahead. The increased volatility in the market as a result of rising macro uncertainty and tighter financial conditions argues for a greater focus on portfolio resilience.

The outlook for global growth – from great to good

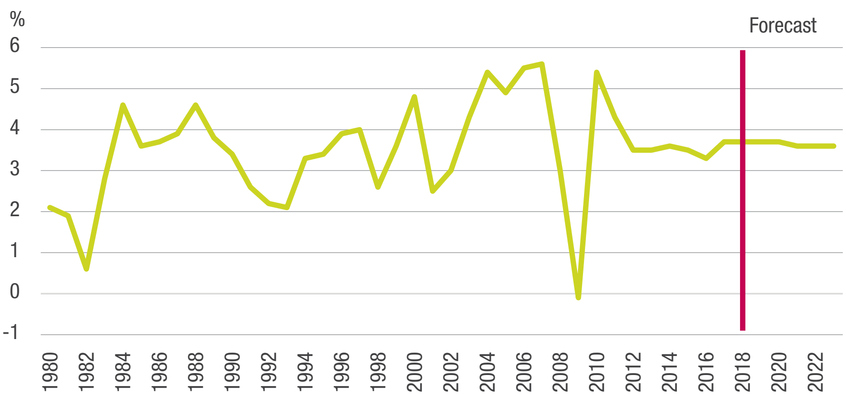
Global growth should peak in 2018, according to the International Monetary Fund (IMF). We do not expect recession is imminent, however some factors supportive of strong economic growth could slowly fade. The U.S. fiscal stimulus that helped push growth to around 3% in 2018 will cycle in early 2019, reducing growth to about 2.5%. Meanwhile, rising interest rates in the U.S., which we expect will continue in 2019, should also gradually lower corporate spending, given companies' reliance on leverage. As excess capacity gets soaked up, U.S. economic growth would depend on greater productivity, which is more difficult to achieve.

In China, the latest switch in policy priorities, from de-leveraging to targeted stimulus, should lead to a rebound in fiscal spending on infrastructure which should continue to underpin commodity prices. However, it is less clear whether corporate investment will accelerate as well. Additional pressure on the Chinese yuan (CNY), from the narrowing interest rate differential between the U.S. dollar (USD) and CNY, could also limit the extent of monetary easing in China. Consumption should remain resilient, Chinese consumers are still embracing a broad range of services such as education, healthcare, financial services and tourism. We expect growth in 2019 will not deviate significantly from 2018's official target of 6.5%.

Domestically, the economy continues to track slightly above trend with GDP growing at 3.3% for Q3 2018. Surveys of business conditions remain above average and job creation continues at strong pace averaging 21 thousand new positions per month in 2018.

We expect the RBA to keep rates on hold well past 2019 as inflationary pressures remain at bay. However, falling house prices and tightening liquidity will undoubtedly crimp growth in 2019. Moreover, political uncertainty may cause businesses and households to hold back investment decisions.

World Real GDP Growth



Sources: IMF

Housing a healthy correction or crash?

After a period of uninterrupted growth from 2012, Sydney and Melbourne house prices moderated in 2018 giving back 8% in Sydney and 6% in Melbourne. Despite the negative headlines we don't subscribe to the view that we're headed for a house price crash. The recent pullback has only brought house prices back to late 2016 levels and with official interest rates planted at 1.5% the out-of-cycle rate increases have only marginally impacted loan serviceability. According to the RBA two-thirds of outstanding household debt are held by households in the top 40% of the income distribution which should further provide insurance against a deeper correction.

More severe house price declines tend to occur when interest rates and unemployment rise neither of which are happening nor are they likely to happen in the near term in the absence of an external shock. We think the recent pullback in prices reflects a healthy adjustment after 6 years of strong growth rather than a recessionary risk.

Risks to watch for in 2019

Trade war, geopolitics and technicals geopolitics remains at the top of the list of concerns that could upset the global economy in 2019. The ongoing U.S.-China trade dispute could persist. However, instead of an unrelenting conflict we expect Beijing and Washington to go through intermittent rounds of threats over tariffs and export restrictions. The potential for further damage to their economies should help deter the countries from taking their threats too far.

Political developments in Europe and the UK could continue to challenge that region's unity. While we do not expect any member of the eurozone to leave the bloc, tensions could spark financial stress for countries on the periphery, such as Italy.

Investor sentiment could also turn more skittish as market participants shift their focus to growth and inflation data. The year 2018 can be seen as a period in which the investor mood beat fundamentals, with equity valuations suffering significant de-rating even as earnings remained respectable. Investors may also turn their attention to more technical factors, such as market liquidity and limit small cap exposure in times of stress.

Building a resilient portfolio

Overall we think the weakness at the tail end of 2018 will prove to be another 'reality check' for a market that had run a little ahead of itself, rather than a precursor to something more serious. Market corrections are healthy and normal. The increased volatility in the market as a result of rising macro uncertainty and tighter financial conditions argues for a greater focus on portfolio resilience. We prefer exposures that provide exposure to above average growth prospects, experienced management teams and healthy balance sheets. We highlight our preferred sector exposures below.

Overall we think the weakness at the tail end of 2018 will prove to be another 'reality check' for a market that had run a little ahead of itself.

Equities – Preferred stocks by sector	
Banks	Westpac
Diversified Financials	Link Administration, Suncorp, Kina Securities, AFG Group, CML Group
Industrials	Reliance, Orora, Cleanaway, PWR Holdings
Healthcare	ResMed, Volpara
Telco, IT & Software	Telstra, Over the Wire
Consumer Staples	Woolworths
Consumer Discretionary	Aristocrat, Lovisa, Baby Bunting, Noni B
Resources	BHP, Oz Minerals, Orocobre
Energy	Oil Search, Woodside, Sundance Energy
Food & Agriculture	Midway
Infrastructure & Utilities	AusNet Services, Transurban, Sydney Airport
Online Media	Carsales
Property	Aventus, Viva Energy REIT, Centuria Metropolitan

Equities – Preferred stocks	
AREITs	Mirvac, Stockland, Viva Energy REIT, Centuria Metropolitan REIT

Fixed Interest – Preferred securities	
Hybrid Securities	ANZPD, BENPE, IANG, GCI

High Conviction large caps
Cleanway, ResMed, OZ Minerals, Westpac, Reliance Worldwide

High Conviction mid-small caps
Lovisa, PWR Holdings, Volpara, Kina Securities, Australian Finance Group

Banks – fears look overdone

We continue to believe the extent of regulatory risk baked into major bank share prices is overdone. We do not expect new potential regulation will be as onerous as the bears expect, and we do not expect the magnitude of potential customer redress to hamper the ability of the major banks to meet APRA's 'unquestionably strong' capital requirements in an orderly manner by January 2020.

Consequently, our base case for all four major banks is one of no cuts to nominal ordinary dividends per share over our forecast period.

While we expect system home loan growth to remain subdued, we do not expect it to get much worse as increased first home buyer participation provides support to owner-occupier housing credit growth. On credit growth more broadly, it is encouraging to see improved lending growth in the areas of SME, institutional and New Zealand.

Asset quality conditions remain benign and we are not too concerned by the lead indicators which came through in the recent round of bank reporting. While there has been an uptrend in housing 90+ day arrears in some states, we believe this is being driven by transient factors outside of Western Australia and the Northern Territory.

While the major banks sector does not make for an exciting growth story, it does offer attractive dividend yields which we view as sustainable given comfortable capital positions and an environment of subdued credit growth. We also expect the regulatory risk premium for the sector to unwind over the next year, providing support to share prices.

Westpac remains our preferred major bank as it offers the most compelling valuation and relatively low risk profile.

Commonwealth Bank
ADD PT A$76.00
Update supports good value thesis

Westpac
ADD PT A$34.50
Enough light to be seen through the noise

National Australia Bank
ADD PT A$31.21
Comforting result

ANZ
ADD PT A$28.50
Rough patch coming to an end

Industrials – some global success stories

Overall, we remain cautiously optimistic about the Industrials sector in the year ahead. While there are no doubt some domestic headwinds with rising energy costs, higher labour costs and subdued consumer sentiment, there are also many positives. Interest rates are at historical lows, the economy is near full employment and GDP growth over the next 12 months is expected to be broadly on trend.

In general, we feel conditions are still conducive for growth but as always, we prefer to stick with high quality companies with strong competitive advantages, a capable management team and a solid balance sheet.

Two companies that stand out for us are **Reliance Worldwide** and **PWR Holdings**. These companies tick many of the boxes we look for in a high quality business and are not only leaders in their respective fields domestically, but are also highly regarded on a global scale. RWC is the clear market leader in the US brass push-to-connect (PTC) plumbing fittings market with ~80% market share. PTC penetration is still relatively low in the US and the product's ability to save plumbers significant time to complete jobs should see it continue to gain in popularity.

PWR is the world leader in cooling solutions, supplying its products to a range of industries but none more demanding than the highly engineered and technical Formula One racing category. The company boasts the majority of Formula One teams as customers which highlights the quality of its products. PWR has experienced strong growth over the past few years and we see this continuing over the medium term.

Other stocks that we like in the Industrials sector with good growth prospects in 2019 are Orora and Acrow Formwork and Construction Services.

Orora
ADD PT A$3.74
Maintaining a measured approach

Reliance Worldwide
ADD PT A$6.25
Still plenty in the pipeline

International – the importance of international diversification

The fading 'wealth effect' continues to weigh on the domestic economy as consumers and businesses adjust to a weaker housing environment. A strong infrastructure pipeline may take some pressure off over the short term, but with businesses looking to conserve capital rather than re-invest, we think the medium-term outlook will remain subdued.

Without meaningful tailwinds to offset some of the weakness, the Australian market is likely to underperform other developed markets over the next 12-24 months.

Meanwhile, the US economy continues to power ahead. Macro indicators of employment, corporate profits, consumer sentiment, and industrial production inflation are all at multi-decade highs. An investment in the broad based S&P 500 index would have returned investors 17% over the past two years. With the Australian market representing just 2% of world market capitalisation, we think it's prudent to diversify beyond the domestic market to access global themes and sectors that would otherwise be missed.

- The Euro Area economy continues to strengthen. Survey results point to solid broad-based growth. In particular, recovery in investment continues to benefit from favourable financing conditions and improvements in corporate profitability.
- The United States continues to lead the global economy post-GFC. We forecast the US economy to accelerate from 2.3% GDP growth in 2017 to 2.9% in 2018. US corporate profit growth is expected to finish up an impressive 20% in 2018.

Investing offshore has never been easier with 147 ASX listed products available to choose from. Much has been written about the fact that Australian retail investors' portfolios are heavily weighted to Australian equities, despite the domestic market representing a very small proportion of global equity markets. It is not difficult to understand the reasons for this home bias given:

- the benefits of the dividend franking system;
- the perceived difficulties of direct investing in foreign markets; and
- the cross-currency risks associated with offshore.

The universe of global equity investment opportunities is vast, but researching and selecting the right shares to invest in is a challenging task for the typical investor.

There are numerous indirect options for Australian investors to gain international exposure, with both managed and passive opportunities. There are a significant number of exchange traded funds (ETFs) with a broad range of exposures to global equities. These are passive investments designed to track the performance of a certain index. There are also a large number of unlisted actively managed funds offering exposure to a broad range of international markets and sectors.

For investors looking for actively managed international equity exposure, with the benefits of ASX market liquidity, there is an increasing number of listed investment companies, listed investment trusts and active ETF options.

Morgans key international themes

Technology revolution and digital disruption	Automation and Artificial Intelligence	Rise of the middle class
Digital disruption now has the potential to overturn incumbents and reshape markets faster than perhaps any force in history. Simply put, digital disruption is the effect of digital technologies on a company's current value proposition and market position. The difference between digital disruption and traditional competitive dynamics comes down to two main factors: the velocity of change and the high stakes involved. Digital disruptors innovate rapidly, and then use their innovations to gain market share and scale far faster than challengers clinging to predominantly physical business models. Few sectors are immune to this force.	The growth in robotics and automation is accelerating. Machines are becoming more affordable to develop and manufacture thanks to advancement in AI and the declining price of computing power. After growing at a compound rate of 17% a year, the robot market will be worth $135bn by 2019, according to IDC. A boom is taking place in Asia, with China and Japan, which is in the early stages of retooling its manufacturing sector, accounting for 69% of total robot spending. We believe this is only the start of a multi-year trend.	Over the next two decades, the Asian middle class is expected to expand by 3 billion people. China's population growth rate is quite slow. However, with nearly 1.4 billion people already, even half a percent of growth adds 7 million people –roughly the size of the population of NSW. Official statistics show China's urban population expanding by 18-19 million people per year, closer to the population of the state of New York. Global consumer franchises are best placed to capture this opportunity. E.g. In China alone consumers account for 30% of global luxury goods purchases
Investment ideas Disruptors with proven revenue models Financial technology Cloud providers	**Investment ideas** Artificial intelligence and big data Robotics and automation technology	**Investment ideas** Middle-upper class global franchises Financial services in emerging Asia

Resources and energy – oil sell-off an opportunity

A steep plunge in oil prices has spooked equity markets and seen a swift sell-off in oil and gas producers. During November, while attending a BHP Analyst Day, we met with BHP's head of commodities analysis, who confirmed our view that the current oil sell-off is more a case of futures markets having priced in unsustainably high oil price expectations in recent months, leaving oil markets vulnerable to a sharp correction on any broader market volatility, which often impacts views on future demand conditions, which is precisely what has occurred during November.

Looking at oil's underlying fundamentals presents a more positive picture than the recent price trend suggests, with the global market roughly in demand-supply balance and with demand conditions proving resilient despite recent concerns. On supply, US shale production has been exceptional having reached ~12 million barrels per day, but equally we note the speed with which shale producers are drilling through their tier 1 reserves in major basins. We estimate this will start to become apparent in approximately 2-3 years' time when productivity and cost performance for US shale starts to decline and, as an industry, the US share of global supply starts to shrink. Meanwhile we still haven't seen a significant pick-up in investment in conventional oil supply.

In our view the combination of current weakness in futures sentiment versus healthy underlying fundamentals (also partly masked by current seasonal weakness) will combine to see a volatile end to the year for oil prices that will be sensitive to any major market catalysts (such as an OPEC or Russia supply cut, or US-China trade deal). While it's difficult watching share prices of good businesses come under pressure, we see this period as creating opportunities to add to positions on weakness in our preferred Energy exposures **Oil Search**, **Woodside** and **Sundance Energy**.

Recent initiations

Novonix
HOLD PT A$0.67

Novonix (NVX) is building a battery anode business targeting the EV market. NVX has an existing battery testing business that services EV manufacturers and battery OEMs, e.g. Tesla, Panasonic and CATL.

Coronado
ADD PT A$4.05

Coronado (CRN) is the world's fifth largest met coal producer, and the largest listed pure-play met coal producer amongst a small peer group.

Genex
ADD PT A$0.36

Genex (GNX) is a renewable and energy storage company and developer of the Kidston solar and pumped hydro projects.

Viva Energy
ADD PT A$2.66

Viva Energy (VEA) is an integrated downstream petroleum company with c24% market share. VEA supplies to a network of 1,665 service stations as well as other retail, commercial and wholesale customers.

Infrastructure – safe haven in uncertain times

In weak markets, we expect core infrastructure stocks to outperform the broader market. Resilient revenues, growing distributions, strong balance sheets, and solid yield offer safety for investors. These features delivered downside protection in the broader market sell-off that occurred since late August.

Through to end-November, a portfolio of the eight core ASX-listed infrastructure stocks outperformed the market index by 5%. This strength is commendable given the backdrop of rising government bond rates that typically hampers the sector's performance, and the reduction in APA's share price as a result of the Federal Treasurer blocking Cheung Kong's bid for the company.

In the energy infrastructure space, APA continues to be best-of-breed, but we think the share price continues to factor in takeover activity that we aren't convinced will occur. AusNet Services (AST) is our preference of the regulated networks, albeit Spark Infrastructure may be Cheung Kong's next takeover target.

Sydney Airport (SYD) and **Transurban** (TCL) are our preferences in transport infrastructure. SYD's share price is being influenced by perceptions of slowing passenger growth and risks surrounding the Productivity Commission inquiry. Transurban is absorbing the mega-capital raising it undertook to fund its share of the successful bid for WestConnex. We think these issues for both stocks will come to pass, and so should see share prices lift. Comparing the two, SYD offers a higher yield and lower DPS growth mix than TCL.

Separate to the core infrastructure stocks, **Cleanaway's** (CWY) resilient revenues, strong earnings growth, and deleveraging are appealing. Based on the trading multiples of the leading USA waste management companies, there is upside potential beyond our valuation if the market becomes increasingly confident with the risk and growth potential of the company. **Qube** (QUB) is also increasingly attractive, given AGM commentary noting ongoing outperformance of Patrick and start-up of the Moorebank Logistics Park (QUB's jewel-in-the-crown) due in the later stages of 2019.

AusNet Services
ADD PT A$1.73
Growth in asset base continues

Sydney Airport
ADD PT A$7.34
Re-boarding

Transurban
ADD PT A$12.03
Capital raising for successful WCX bid

Asset Allocation
Recommended asset allocations and active tilts

Measures of economic uncertainty are extraordinarily elevated. Among the issues in the mix are Brexit (which remains unresolved as we go to print), the ongoing Trade dilemma between the US and China and fresh fears around the risks posed to a bumpier-than-expected economic slowdown in China. Arguably the biggest news for investors this quarter was the newly dovish tone of the US Federal Reserve which commented that it now sees the benchmark interest rate as 'just below' a neutral setting. This has contributed to the market's re-thinking of interest rate expectations.

Global investor sentiment is fragile, but we think the retraction in key equity indices hasn't been matched by a corresponding deterioration in global corporate earnings or industrial production. We'll watch these fundamentals closely. So far we think that the recent correction had been much more of a crisis of confidence, rather than in fundamentals, which can also be seen in elevated measures of economic uncertainty.

Australian shares have corrected in response to uncertainty in the near term outlook for the Chinese economy, and to a lesser extent due to deflating property prices, both of which are contributing to tepid growth in corporate profits.

This backdrop has validated our cautious asset allocation settings. Asset valuations are lower, but are still stretched by historical standards suggesting further scope for volatility until macro issues are resolved. Our discussion in the Equity Strategy section on Page 4 addresses this in more detail.

With upside risk to interest rates in 2019 abating slightly, we see justification for a slight re-shaping of our defensive tilts. We reduce our underweight tilt to Income assets (to -3%). We reduce our cash tilt (to +3%), but maintain it at an elevated level as insurance against several prevailing uncertainty.

Quick views per asset class

Equities	Australian equity valuations are beginning to look fairer, relative to tepid profit growth of ~5% (ex-Resources). We see the best current opportunities among the Banks, REITs and Telstra.
Listed Property	Headwinds due to fears of rising interest rates have eased slightly. Low cash rates remain supportive, as do defensive income streams amid broader volatility.
Global Infrastructure	Appetite for quality yield will not disappear in a hurry given where interest rates are in relation to long-run averages. Global infrastructure such as toll roads, airports and utilities remain attractive for income certainty and stable growth.
Listed Fixed Interest	With a number of financial issued Tier 2 securities being redeemed without replacement issues being offered, we expect investors may look to replace these positions in with Tier 1 instruments in the secondary market which should support security prices going forward.
Government Bonds	We expect domestic rates to gradually move higher and we recommend that conservative investors with <$250,000 stick to term deposits given the Government guarantee over direct Government bond investments.
Term Deposits	Leading term deposit rates continue to offer good risk adjusted returns at around 2.6% for 12 months.
Cash	Despite lower returns, we maintain higher cash weightings for capital preservation and protect against downside risks.

Benchmark long term asset allocations and tactical tilts

	Conservative	Moderate	Balanced	Assertive	Aggressive	Tactical Tilts
Equities	12%	27%	44%	62%	80%	0%
Property	3%	3%	6%	8%	10%	0%
Income Assets	49%	40%	30%	18%	7%	-3%
Cash	36%	30%	20%	12%	3%	3%

Source: Morningstar, Morgans

High Conviction Stocks

Investors today must remain on guard against market vulnerabilities, but at the same time, these very vulnerabilities provide opportunity. We've seen several episodes of a market pullback since the GFC, and think current weakness will again prove to be an accumulation opportunity into higher quality stocks.

This month we add Cleanaway, which is linked to the defensive sector of waste management led by a highly capable management team. We remove CML Group from our ex-100 list.

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Refer to our High Conviction update for more **www.morgans.com.au/stockpicks**

ASX 100	Ticker	Price	Price Target	FY19 Dividend Yield	FY19 Gross Yield	FY19 PE (x)	12m TSR
ResMed	RMD	$15.94	$16.73	1.3%	1.9%	30	7%
Cleanaway	CWY	$1.76	$1.89	2.0%	2.8%	27	10%
OZ Minerals	OZL	$8.89	$10.30	1.6%	2.2%	15	18%
Reliance Worldwide	RWC	$4.60	$6.25	2.4%	3.4%	22	39%
Westpac	WBC	$25.44	$34.50	7.4%	10.6%	10	46%
Ex-100	**Ticker**	**Price**	**Price Target**	**FY19 Dividend Yield**	**FY19 Gross Yield**	**FY19 PE (x)**	**12m TSR**
Lovisa	LOV	$7.48	$8.06	4.0%	5.7%	19	13%
PWR Holdings	PWH	$3.18	$4.25	2.7%	3.9%	22	38%
Volpara	VHT	$1.15	$1.61	0.0%	0.0%	na	40%
Kina Securities	KSL	$0.96	$1.30	11.6%	11.6%	7	47%
Australian Finance Group	AFG	$1.25	$2.00	9.2%	13.2%	8	74%

Source: FactSet, IRESS, Data as at 13 December 2018

Queensland

Brisbane Stockbroking, Corporate Advice, Wealth Management	+61 7 3334 4888
Brisbane Edward Street	+61 7 3121 5677
Brisbane Tynan Partners	+61 7 3152 0600
Brisbane North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

New South Wales

Sydney Stockbroking, Corporate Advice, Wealth Management	+61 2 9043 7900
Sydney Grosvenor Place	+61 2 8215 5000
Sydney Reynolds Securities	+61 2 9373 4452
Sydney Currency House	+61 2 8216 5111
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Victoria

Melbourne Stockbroking, Corporate Advice, Wealth Management	+61 3 9947 4111
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Australian Capital Territory

Canberra	+61 2 6232 4999

Northern Territory

Darwin	+61 8 8981 9555

Tasmania

Hobart	+61 3 6236 9000

Western Australia

West Perth Stockbroking, Corporate Advice, Wealth Management	+61 8 6160 8700
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South Australia

Adelaide	+61 8 8464 5000
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

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