

# Monthly Market Outlook

DECEMBER 2017

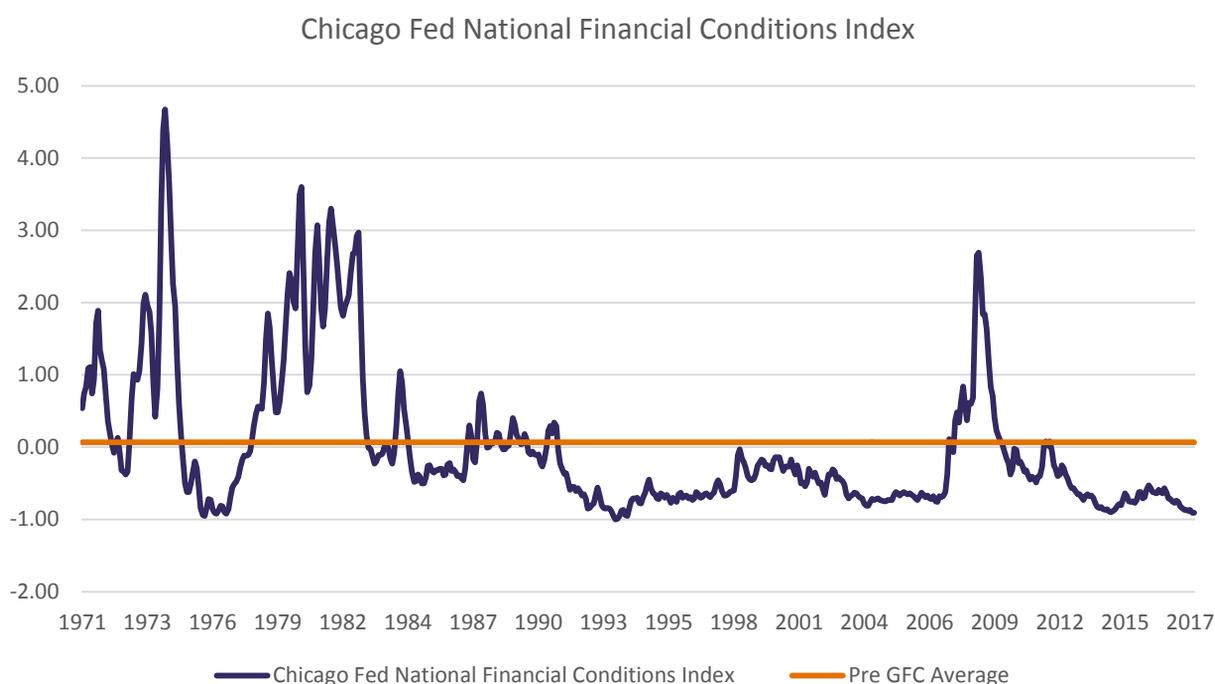
*The Monthly Market Outlook publication covers the latest market developments and a summary of long-term financial market trends*

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# Latest developments in the market

## US Monetary Conditions



Source: FRED, Frontier

The US Federal Reserve hiked the Fed Funds rate by 0.25% to a target range of 1.25% - 1.5%. Inflation continues to remain below the Fed's target of 2% but is expected to stabilize around 2% in the medium term. The US Federal Reserve has continued to hike rates despite the short-fall in inflation relative to targets. This could be attributed to a strong labour market and

monetary conditions that remain accommodative, despite an ongoing reduction in its balance sheet and the recent federal rate increase in December 2017.

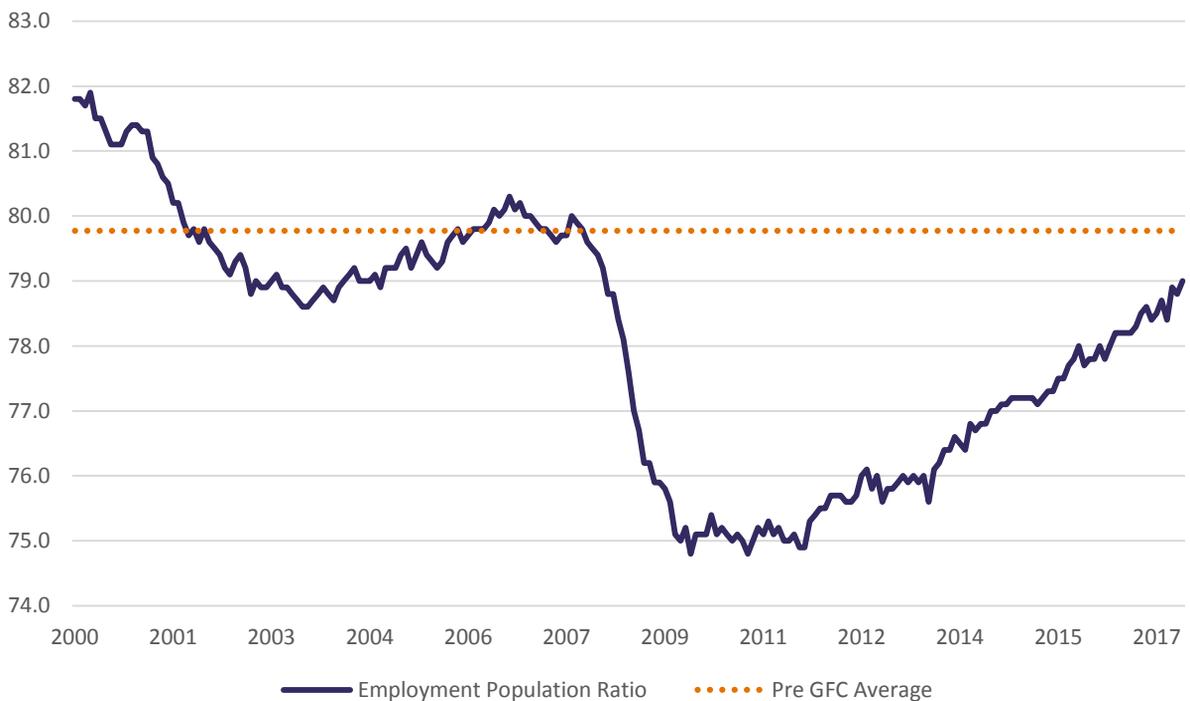
Monetary conditions in the US remain accommodative large due to the reduction in volatility and funding risk in the financial sector.

## US labour market continues to improve

The labour market in the US continues to strengthen. Unemployment rate has declined to 4.1% while annual wage growth has stabilised at 2.5% in 2017. Underemployment data has indicated a strong momentum in the labour market. The existing data suggest that underemployment data is below its pre GFC levels.

Despite the strong indicators of an improving labour market, there are pockets of weakness that suggest the labour force has more room to grow. Employment to population ratio among 25 to 54 year olds remains below the pre GFC level. This suggests there is additional slack that is not captured in the headline metrics that are used to gauge the state of the labour market in the US.

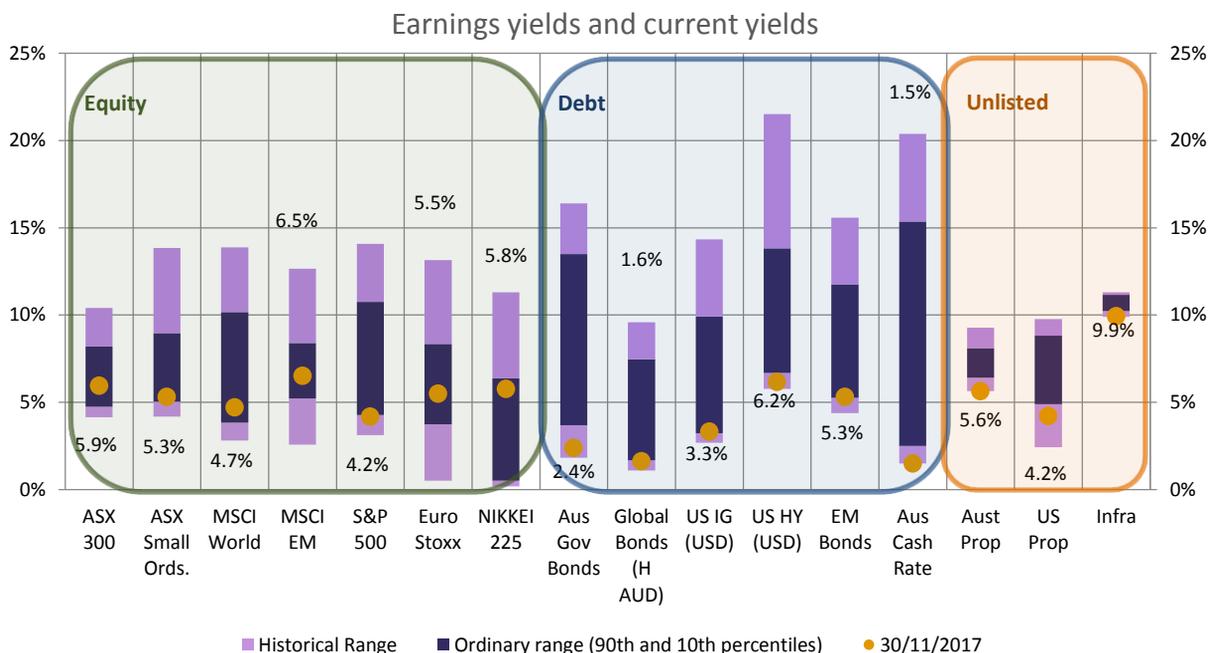
Employment to Population Ratio (25 to 54 year olds)



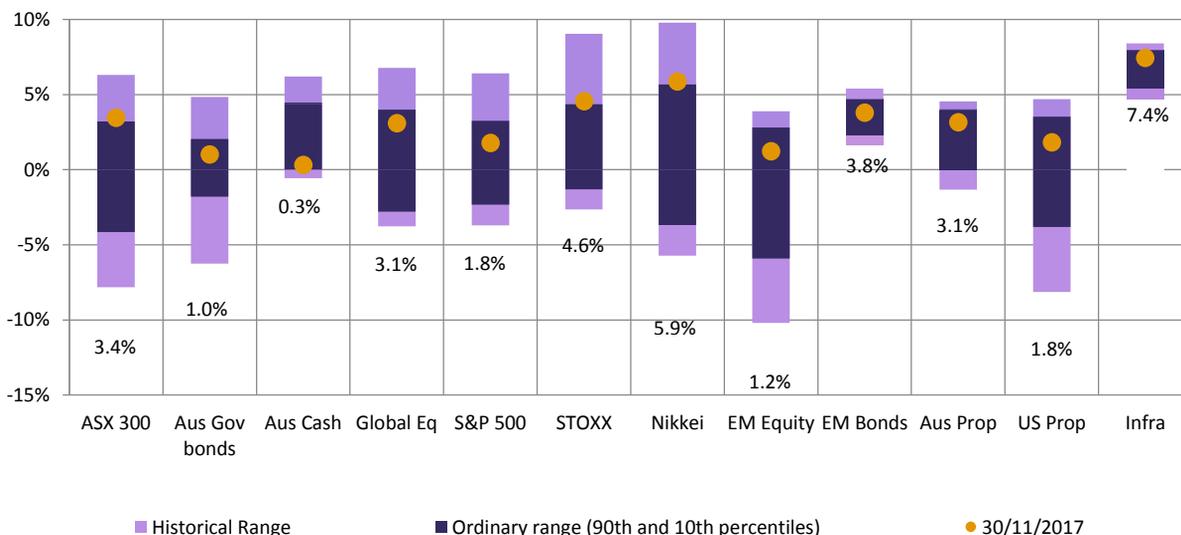
Source: Bloomberg, Frontier

# Long-term trends

## Asset class yields relative to history

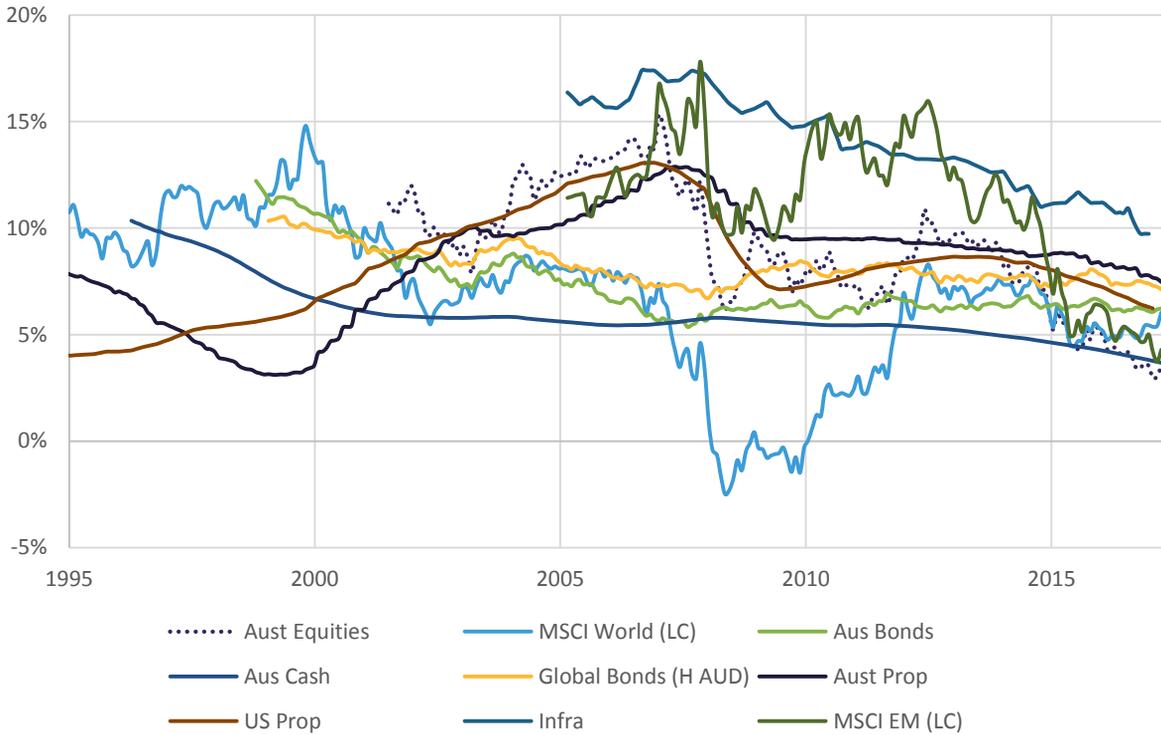


### Relative yields (vs bond or cash yield): historical ranges



# Asset class returns: long-term performance

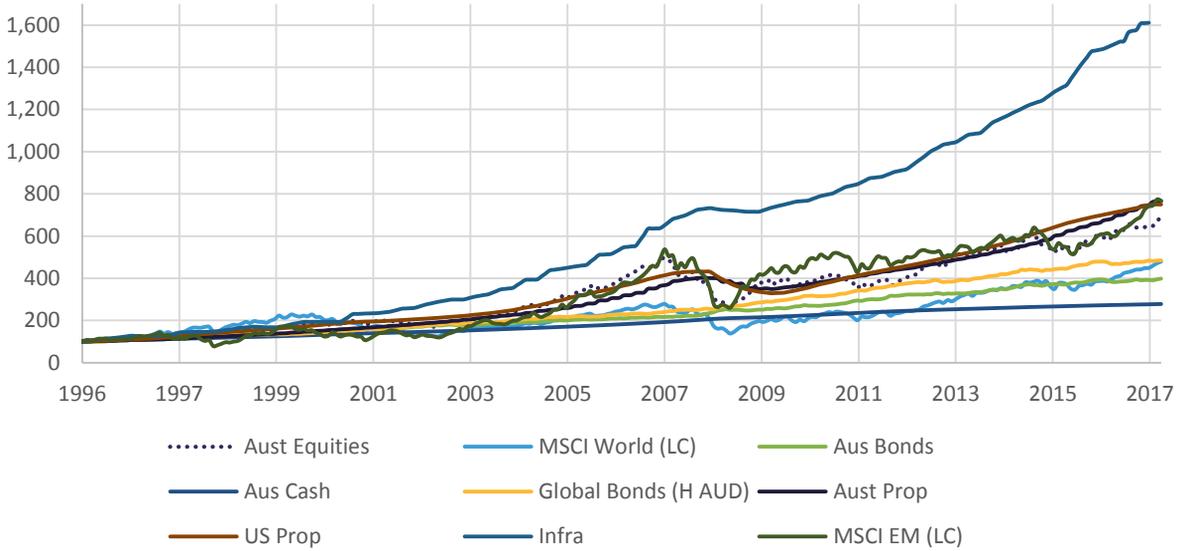
Major asset classes: rolling 10-year returns (% p.a.)



Source: Bloomberg, Datastream, Frontier

# Asset class returns: long-term returns

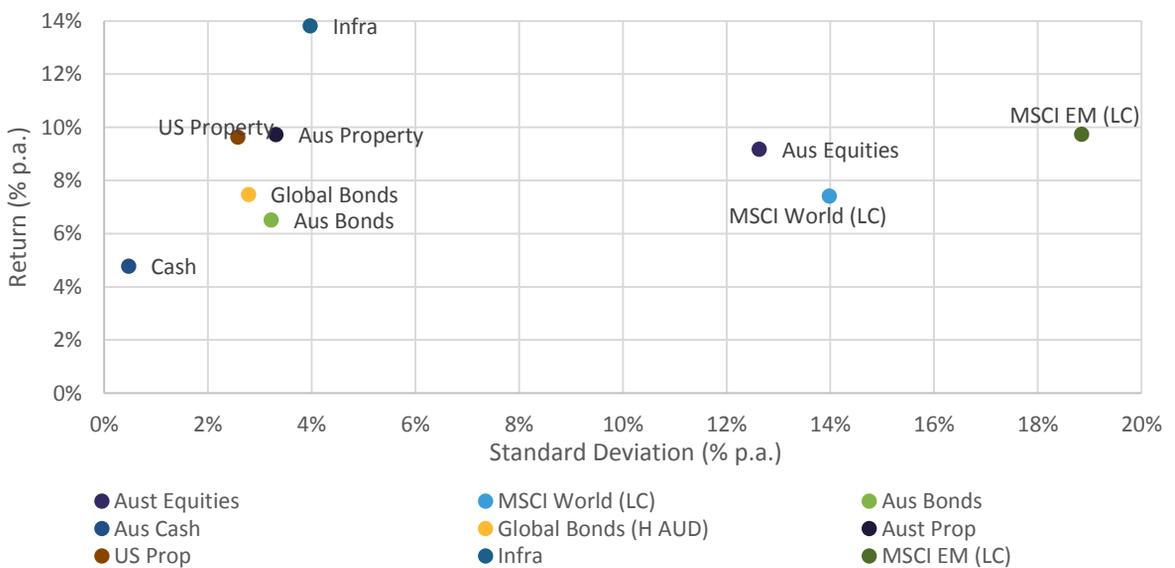
Cumulative values (\$100 reinvested)



Source: Datastream, Bloomberg, Frontier. Infra returns are lagged by 4 months

# Asset class returns: long-term returns and volatility

Major asset classes: return-risk profile over 20+ year period (% p.a.)



Source: Bloomberg, Datastream, Frontier

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