AMP CAPITAL

We spoke to some of our investment professionals to get their views on how the Federal Budget has impacted their respective asset classes.

John Julian
Investment Director
– Direct Infrastructure

Shift in approach to funding infrastructure projects

A focus on infrastructure projects, such as inland rail and Sydney's second airport, prioritises initiatives in the public interest but not yet financeable by the private sector.

From an investor perspective, the adoption of such policies is good news because signals the delivery of much-needed infrastructure; and it may also provide a pipeline of assets available for future privatisation. We are supportive of efforts to strengthen the links between the private sector and various levels of government to create more innovative financing solutions.

Michael Kingcott
Head of Property
Investment Strategy

Tackling softness and a lack of investment

Commercial real estate is performing strongly in the current environment of lower interest rates but a lack of investment in infrastructure and housing over a long period has led to added costs and congestion. The government's move to boost infrastructure spending, address housing affordability, introduce taxation reform and alleviate business red tape should translate into stronger economic momentum over the long term.

While the public eye is very much focused on residential property, it's the commercial real estate market that is likely to outperform in the next couple of years. As economic growth strengthens, the commercial space will benefit from higher income yields and increasing demand for accommodation and retail spending.

Andrew Scott
Senior Portfolio Manager
– Fixed income

Is the Budget inconsequential for bonds?

The direct implications of the changes in the Federal Budget for the Australian bond market are unlikely to be large. In an environment of relatively modest budgetary changes, weak inflationary pressures, and an ongoing strong credit rating, we expect to see Australian bonds continue to be well supported relative to other markets

The government continues to run the risk of a credit downgrade with a return to surplus not projected until 2020/21. But the ratings are likely to be maintained with a modest growth profile in government debt levels. The tilt towards additional infrastructure spending is welcome from a growth perspective, but small in overall terms and will ultimately add to the overall debt burden via increased bond issuance.

Michael Price
Head of Australian
Fundamental Equities

Budget may put downward pressure on the Australian dollar

The budget intends to deliver $75 billion in infrastructure funding and financing (with local content requirements) over the next ten years. The spending also introduces the concept of good debt, or debt that increases the budget deficit for the sake of productive infrastructure and returns to the economy in the longer run.

At the macro level, an increasing deficit will put downward pressure on the Australian dollar. A lower Australian dollar will help address the Reserve Bank of Australia's concerns about the current gap between credit growth (7%) and wage growth (2%). A 5% decrease in the Australian dollar equals a five-year correction to high credit and low wages growth differential.