YOUR PERSONAL WEALTH

SPRING 2020

INSIDE OUR SPRING EDITION

Markets hopeful of early vaccine success

Drop in pension payments

Beware Covid-19 scams

It is time to prioritise your health and wellbeing

MARKETS HOPEFUL OF EARLY VACCINE SUCCESS

Global and domestic shares have rallied strongly from the lows of late March 2020. Markets have been encouraged by the gradual relaxation of lockdown restrictions across many regions. Some of the worst affected places such as Italy, Spain, and New York City have now started opening up.

There has also been good progress on several vaccines that could be deployed, on a limited basis, as early as the end of this year. While there is no cure for the virus, mortality rates in the US for example have fallen as we have learned more about this disease. However, coronavirus cases continue to rise and have passed 20 million confirmed cases globally.

The March sell-off

The sell-off in March not only led to extreme volatility in equities, but also to illiquidity in fixed interest markets. With the help of central banks, global conditions in financial markets have continued to improve and bond markets are now functioning normally again. The US Fed (as have other central banks) has indicated it will continue to provide as much support as is necessary to get the economy through this pandemic. Most countries remain in recession due to forced lockdowns.

A positive for markets, however US-China problems deepen

One positive for markets has been that the Saudi - Russian oil price war has been put on hold for the moment with WTI oil now trading above US $40 a barrel. However, the geopolitical situation has taken a turn for the worse over the last few months. The relationship between the US and China has continued to degenerate over issues such as the origins of the virus, economic espionage, and effective annexation of Hong Kong.

Australian markets

Australian large cap equities returned 7.6% for the 3 months to 31 July 2020 while Australian small cap equities returned 9.9%. A strongly rising Australian dollar was a headwind for (unhedged) developed market global equities which returned 2.9% for the same period.

Australian listed property returned 6.1% for the period but is still well down over 12 months. Australian fixed interest returned 0.97% while cash produced a small positive return of 0.03% over the period.

> "THE GOOD NEWS IS WE BELIEVE WE ARE PAST THE LOW POINT OF THIS CONTRACTION AND MOST ECONOMIES ARE STARTING TO GROW AGAIN. "

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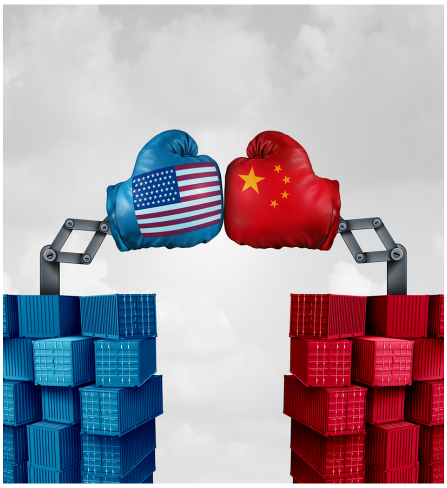
Economy

We said in our last note that it is difficult to predict how deep this contraction will be, and more importantly, how long it will last. The good news is we believe we are past the low point of this contraction and most economies are starting to grow again. While economic recovery is underway in many parts of the world, economies are a long way from getting back to where they were or would have been in the absence of the COVID-19 pandemic. The feeling is that it will take several years to get back to where we were before the virus.



The US and China

US economic data has surprised many with its upside recently but is expected to take a hit from the growing number of virus cases in the southern states. Estimates for US growth are for a double-digit rebound in the second half after a second-quarter contraction of over 30%.

China appears to be on track to return to growth quicker than expected. China's GDP expanded 3.2% between April and June compared with a year earlier, beating forecasts of around 2.4%. This rebound followed a 6.8% fall in the first quarter. Overall, first-half GDP contracted by 1.6%. China has had the advantage of emerging from lockdowns months ahead of Europe with Germany for example indicating it will not start to grow until the 3rd quarter of 2020.

Australia

The recent shutdown in Victoria shows how difficult it is to make forecasts. Before the stage 4 lockdown, we were expecting the Australian economy to grow in the 3rd quarter. Now the national economy is likely to remain in recession to the end of September and shrink for a 3rd consecutive quarter for the first time since the early 1980s recession. According to the Prime Minister, Victorian restrictions will cost the national economy between $10 billion and $12 billion and push unemployment towards 10% by year's end. This amounts to a 2.5% reduction in 3rd quarter GDP. Also, the debt is piling up with the cost of the JobKeeper scheme now at $101.3 billion.

Outlook and Markets

We see a continuation of effectively zero interest rates (negative real rates) and massive government support to get individuals and companies through the pandemic shutdowns. The RBA has said that the 3-year Australian Government bond yield will be kept at 0.25% for 3 years. We expect rates will stay much lower and for longer than they would have without this shock. What this means is that growth assets will likely be the only way to get any reasonable yield or return.

For the moment equity markets are willing to look through the pandemic dip but at some stage will turn to the outlook for company earnings. The US reporting season has so far exceeded (lowered) expectations and is just underway in Australia.

Since the market views current earnings as temporarily depressed, and there are high hopes for a vaccine in the short term, PE multiples are high by historical standards.

One thing we need to keep an eye on is the rise of far-left ideology in the US. The movement against capitalism and US-China tensions have the potential to severely disrupt markets. In the case of China, at a minimum, we believe they will be cut out of a lot of the global supply chains which has implications for emerging markets and the Australian economy.

> "WHAT THIS MEANS IS THAT GROWTH ASSETS WILL LIKELY BE THE ONLY WAY TO GET ANY REASONABLE YIELD OR RETURN."

There are several treatments for the virus that appear promising, but ultimately markets are pinning their hopes on a vaccine. The leading candidates seem to be well ahead of the initial 12 to 18-month time frame. However, the 30% plus bounce off the low for equity markets would quickly evaporate if they were disappointed on this front. The difficulty in controlling this virus has been demonstrated by major virus outbreaks in Australia, Singapore, and Israel. These were all places that had very low case numbers recently and seemed to have the virus under control.

The lesson appears to be that life, and the economy, cannot return to normal without a cure for this virus.

DROP IN PENSION PAYMENTS

If you are receiving an income stream or annuity you might have noticed, or been advised recently by our office, that your pension has been reduced because of the change in minimum withdrawal amounts set by the federal government.
With the volatility brought by Covid-19, the government introduced a stimulus package back in March which enabled income stream and annuity holders to not have to withdraw as much pension. The minimum pension withdrawal amount for the last financial year (2019/20) and this year (2020/21) has been halved. If you receive your payments quarterly or annually, you have probably only just noticed this reduction.

This reduction means that you do not have to withdraw as much money as previously, however you can continue to withdraw the same amount if you choose. By withdrawing less, you are able to better preserve your balance, and you will not have to crystalise any losses brought by market volatility

Age	Minimum % of account balance you must withdraw each year	
	Reduced rates for 2020/21	From 2021/22 onwards
Under 65	**2%**	4%
65 to 74	**2.5%**	5%
75 to 79	**3%**	6%
80 to 84	**3.5%**	7%
85 to 89	**4.5%**	9%
90 to 94	**5.5%**	11%
95 or more	**7%**	14%

"BY WITHDRAWING LESS YOU CAN BETTER PRESERVE YOUR BALANCE AND AVOID CRYSTALLISING ANY LOSSES."

BEWARE - COVID-19 SCAMS

Scamwatch, an ACCC government website, is a great resource if you are unsure if you have been scammed or have seen a scam.

Amount lost

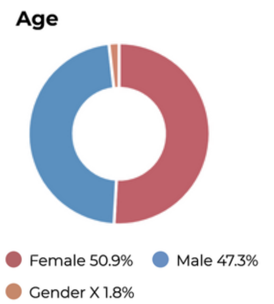
$12 263 998

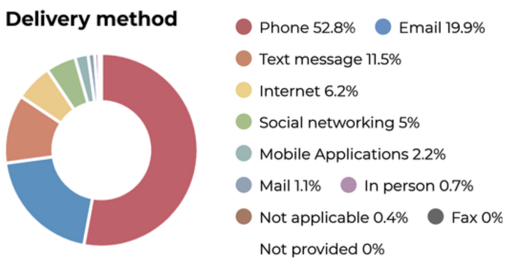
Number of reports

18 579

Reports with financial losses

10.8%





Source: www.scamwatch.gov.au

You can make a report on the Scamwatch website, and find more information about where to get help.

Be cautious and remain alert to coronavirus-related scams. Scammers are hoping that you have let your guard down.

Do not provide your personal, banking or superannuation details to strangers who have approached you. Scammers may pretend to have a connection with you.

So it's important to stop and check, even when you are approached by what you think is a trusted organisation.

www.scamwatch.gov.au

IT IS TIME TO PRIORITISE YOUR HEALTH AND WELLBEING

With all of the change and upheaval over the past few months, it has never been so important to put your health and wellbeing as a number one priority.

It is important to ask for help when you are feeling overwhelmed. It also is important to not neglect your health by avoiding appointments and check-ins with medical professionals.

20%

of people are happy with their diets since the start of 2020

51%

of people engaged in physical activity report improved mental wellbeing and decreased feelings of stress

156%

more people reported stress linked to social life or lack of social contact

Source: AIA Vitality COVID-19 Insights members Feb-April 2020

FOUR TIPS TO HELP

1. **Set up a daily routine**

   Plan fun activities that give you a sense of achievement.

2. **Stay active**

   Create exercise that is fun and reduces stress.

3. **Eat well**

   Plan your food for the day and keep it varied.

4. **Stay connected with family and friends**

   Explore a variety of ways to stay in touch - Zoom, phone, group messaging.

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