Your Personal Wealth Newsletter – Summer 2020 Edition

WELCOME TO THE SUMMER EDITION OF YOUR PERSONAL WEALTH.

There is no doubt this year has been a year of disruption, uncertainty and for many, financial and emotional upheaval. Australia began the new year in the grip of bushfires, polluting the air and creating a sense of foreboding for what was to come.

The COVID-19 pandemic emerged, with the World Health Organisation announcing on January 9 that a deadly coronavirus had emerged in Wuhan, China. Very few could have predicted the pace and veracity of the spread of this virus worldwide.

We are still in the grips of COVID-19. Australia has had to retreat globally, closing the borders internationally as well as domestically. The US stock market crash on March 9 pre-empted the continued volatility of markets.

On a positive note, the pressure of 2020 has brought out the best in many. Lockdowns and restrictions have enhanced our appreciation of the importance of community and being connected with others.

The opportunity to slow down, and appreciate time spent with loved ones, has definitely been a positive outcome.

As we reach the close of 2020, it is important to reflect and appreciate the resilience and strength demonstrated this year, and look forward to the opportunity that 2021 offers all of us.

Thank you for your loyalty throughout 2020.

We wish you and your family wonderful festive season, and looking forward to working with you again in 2021.

ARTICLE 1: FUNDING CHRISTMAS

Due to COVID-19 not everyone will have enough savings to have a lavish Xmas. Here's how Aussies will be funding Christmas.

Source: finder.com.au

Source: finder.com.au

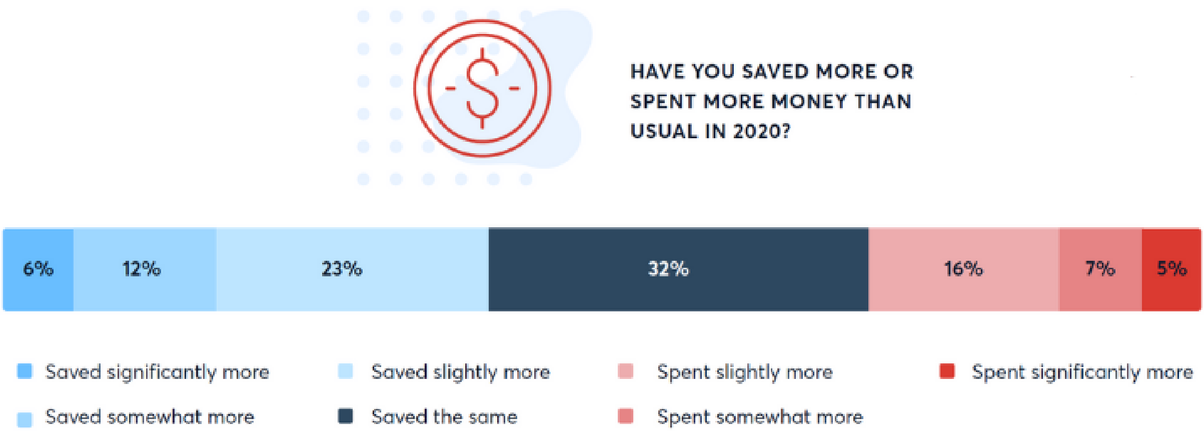
Source: finder.com.au

Source: finder.com.au

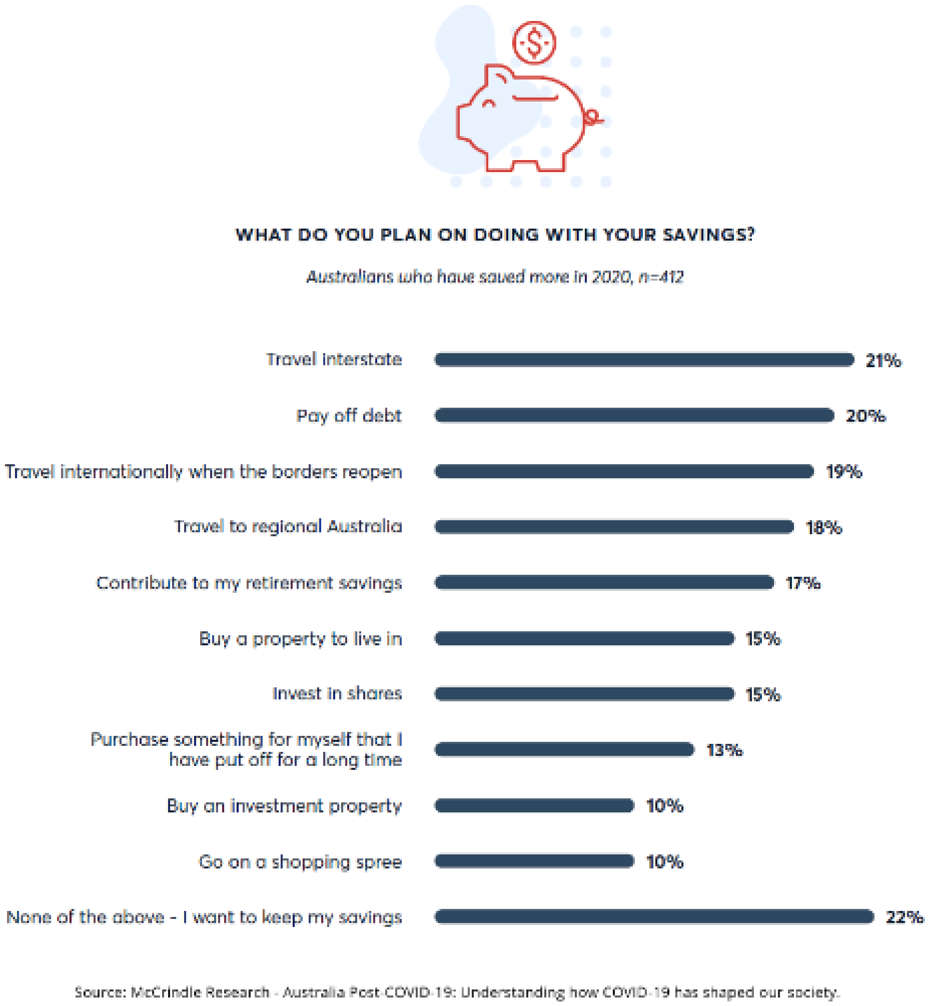
Source: finder.com.au

ARTICLE 2: LIFE AFTER COVID-19

McCrindle Research recently produced a report examining the impact of this year on savings capacity, and what Australians planned to do with those savings.



Source: McCrindle Research - Australia Post-COVID-19: Understanding how COVID-19 has shaped our society.



ARTICLE 3: SUPER BOOST IN 2021?

COVID-19 might put a spanner in the works for the ongoing super guarantee (SG) increase, which was slated to increase from 9.5% to 10% on 1 July 2021.

The super guarantee is the minimum amount of your earnings that your employer, or you if you are self-employed, has to contribute to your superannuation.

The idea is that this money will help you fund your retirement years, and it will take pressure off the aged pension system.

As Australia's baby-boomers age, the burden of the age pension and other income support schemes for seniors will continue to increase.

This financial year it has cost the federal budget more than $50 billion. You can understand why the government is still pushing hard to increase the super guarantee to 12% by 2025 (as per the legislated increases).

Date	Super Guarantee (%)
July 1, 2002 – June 30, 2013	9
July 1, 2013 – June 30, 2014	9.25
July 1, 2014 – June 30, 2021	9.5
July 1, 2021 – June 30, 2022	10
July 1, 2022 – June 30, 2023	10.5
July 1, 2023 – June 30, 2024	11
July 1, 2024 – June 30, 2025	11.5
July 1, 2025 – June 30, 2026	12

Source: https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?anchor=Superguaranteepercentage

Things don't always go to plan…

The Keating government back in 1992 intended that the super guarantee would reach 12% by 2001. Changes of government have resulted in the increase to the super guarantee stalling. The government went to last year's election with the policy of delivering the increase to 12% by 2025.

The impact of the increase on employers and employees

It is important to understand that this increase will have to come from somebody's pocket. In most cases, it will be taken from your pay packet, resulting in less "take-home" pay.

Early super withdrawals

The government allowed early withdrawal from super due to the Coronavirus recession. More than $34.8 billion has been withdrawn from super this year*.

We will have to wait and see whether the government continues to pursue its super increase plans, given the current economic environment.

We have conversations frequently with our clients about the importance of having a plan in place, to ensure that you live comfortably in retirement.

We encourage you to contact the office to discuss how we can help you get there.

*Source: https://www.apra.gov.au/covid-19-early-release-scheme-issue-28

ARTICLE 4: MARKETS RALLY ON POSITIVE VACCINE NEWS

Equity markets had been in a holding pattern but have rallied strongly in November on the back of good vaccine trial data. Both Pfizer and Moderna announced that their vaccines were around 95% effective in preventing COVID-19.

These results were well ahead of expectations and have fuelled equity market rallies.

The expectation is that these two candidates will be submitted to the US FDA for approval any day now and approval will come shortly thereafter. US Operation Warp Speed will then kick in and the vaccines should start being available for use within 24 hours. The expectation is that upwards of twenty million people in the US will be vaccinated before year end and roughly two billion doses (enough for one billion people) should be produced by these two firms in 2021, if both candidates are approved.

It is not all good news though as the number of COVID-19 cases has been rising in Europe and the US. The resultant shutdowns will impact short-term growth but the markets have so far been willing to look through this as there is now light at the end of the tunnel.

The other major development was the US Presidential election which appears to have been won by the Democratic candidate.

However, the Republicans look to have picked up around a dozen House seats. Of concern to markets though is that the Senate is still in play with two run-off elections in the state of Georgia on January 5, 2021.

Also, the RBA lowered its cash rate target to 0.1% from 0.25% and said it would remain there for three years. It also announced $100 billion of Quantitative Easing over the next six months.

Outlook and Markets

Massive fiscal and monetarystimulus as well as statements by Central Banks (US Fed and RBA for example), that interest rates will stay low for several years has helped lift all growth assets including shares.

The prospect of an effective vaccine has provided an extra kick to more cyclical sectors such as financials, energy and travel stocks. In fact, there has been a big rotation to cyclical or value stocks (or re-opening stocks) at the expense of “safe” technology stocks. This should be positive for Australian equities relative to global equities given the proportion of cyclical stocks in our market (banks, resources etc.).

Making forecasts in this environment is very difficult. However, what we are seeing in Australia is upgrades to both company earnings and to GDP growth estimates. According to JP Morgan (AFR, Nov 6) "If you look at it on a one-month basis, every single sector over the past month has seen positive earnings revisions, with the exception of utilities. The number of companies that are upgrading [earnings] is pretty much at all-time highs”.

National Australia Bank has just lifted its forecast for 3rd quarter GDP growth to 4%, up from a flat forecast in September.

A rebound in consumer spending as the economy reopens and an expected lower peak in the unemployment rate were cited.

Earlier in the year it was thought that the housing market would collapse and drag down the economy. ANZ has now replaced its forecast of a 10% fall in home prices in 2020, with a forecast 2% rise, and a 9% gain in 2021.

The biggest risk to markets (apart from equity valuations of over 20x price earnings) are the two run-off elections in the US state of Georgia on January 5. If Biden is declared the winner (on 14 Dec), and the Democrats win both seats, there will be no constraint on what legislation they could enact.

Markets have reacted well after the US election because divided government looked likely. As the leader of the Senate Democrats has said, "If we win Georgia, we will change America". Both Republicans finished ahead in the recent election, however anything is possible and markets would react very negatively to a Democratic clean sweep.

From our perspective, we would be wary of making any big bets before January 5. This is even though economies and markets look set for further gains as they eye a post COVID-19 world.

The issue is that many policy settings would likely be very different under one party rule and this provides a note of caution for the bulls.

Chart 1: Investment Returns to 31 October 2020 (% p.a.)

Asset Class	1 month	3 months	1 Year	3 Years	5 Years
Australian Shares	1.93	0.98	-8.15	4.09	6.08
Global Shares	-0.42	2.33	2.90	8.65	8.46
Listed Property	-0.37	5.88	-17.97	2.83	4.47
Fixed Interest	0.28	0.93	4.00	5.67	4.53

Source: Mercer

ARTICLE 5: MAKING YOUR HOME LOAN FIT YOU

When considering a home loan, the first and often only comparisons made by most borrowers are the interest rate and fees charged. Home loans come with so many options that it is worthwhile taking a look at the features of each loan to see which one suits your specific needs.

Offset account – the ability to save surplus funds within a separate bank account which can be used to offset the interest liability on your loan—saving you interest over the long term.

Additional repayments – the ability to pay additional funds off your loan without penalty. This will help reduce your debt quicker and also save you more on interest.

Split loan – the ability to split your loan balance to have a portion on a fixed rate and a portion on a variable rate. Sometimes you can have it both ways.

Repayment holiday – the ability to take a break from repayments or make reduced payments for a period of time to cover life events such as job redundancy or maternity leave.

Redraw facility – the ability to make additional repayments on your loan with the option of withdrawing the funds again at a later time if required.

Portable loan – the ability to apply your loan to a replacement home if you sell and move to another.

Top-up – the ability to increase your borrowing limit without the need to apply for a new loan.

Prior to making any big decision, always seek professional guidance. You could significantly reduce your fees, interest and stress. Ask us how.