COVID-19 INVESTMENT UPDATE – THE EMERGING TRENDS

PERPETUAL PRIVATE INSIGHTS
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THE GOVERNMENT RESPONSE TO COVID-19

The effect of COVID-19 saw Australia fall into recession in June, ending a record 29 year run of continual economic growth. The far-reaching impact of the economic shutdown has prompted record government and central bank support and equity markets have responded with a strong rally from March lows.

This support means that the government has taken on more debt than they ever have. While there are obviously challenges from this, there are also opportunities for changes to how the government taxes its citizens. Will the government make taxes more productive and efficient? Will our taxation system, which has historically focused on income taxes and stamp duty, move more towards asset or wealth-based taxes? We'll find out more in the October Federal Budget but now, more than ever, it's important to get advice to prepare for changes ahead.

THE MARKET RESPONSE TO COVID-19

COVID-19 has affected different sectors in different ways and there are both winners and losers from the lockdown. The aviation, travel and energy sectors have been sold off, while technology and healthcare, telecommunications and consumer staples such as the supermarkets have performed better – or even benefited from the crisis.

What trends will continue?
The trend of increasing allocations to international equities by Australian investors will continue, while there has been a move into different forms of credit as banks have withdrawn from parts of the market. Investing with a focus on Ethical, Social and Governance (ESG) factors will accelerate as governments provide stimulus with 'green strings' attached.

An active approach to investing can take advantage of opportunities as they emerge. Seeking professional advice on your portfolio is critical in navigating the changing investment landscape whilst maintaining a diversified approach.

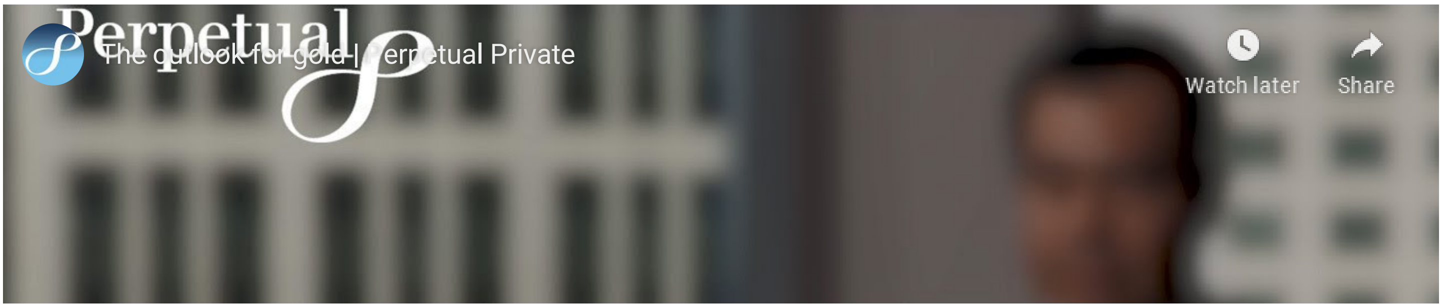
MANAGING MARKET VOLATILITY

Current market volatility reflects increased uncertainty. As economies and governments react to the crisis, trying to determine a fair price for assets becomes increasingly difficult. Volatility is not all bad, it can create opportunities as sentiment drives prices away from fundamental values. As active investors we see our managers moving out of some securities into others at more attractive prices. With a long-term mindset, it's possible to look through the volatility and be able to see these assets realise their value over time.

What should retirees and pre-retirees do?
Pay attention to the risk in your portfolio and your ability to withstand market volatility. You can act not just from a portfolio context; also consider delaying spending and maintaining other income such as delaying retirement.

The lesser-known value of advice can be coaching clients to overcome the emotion of volatile markets and helping investors stay the course through difficult markets.

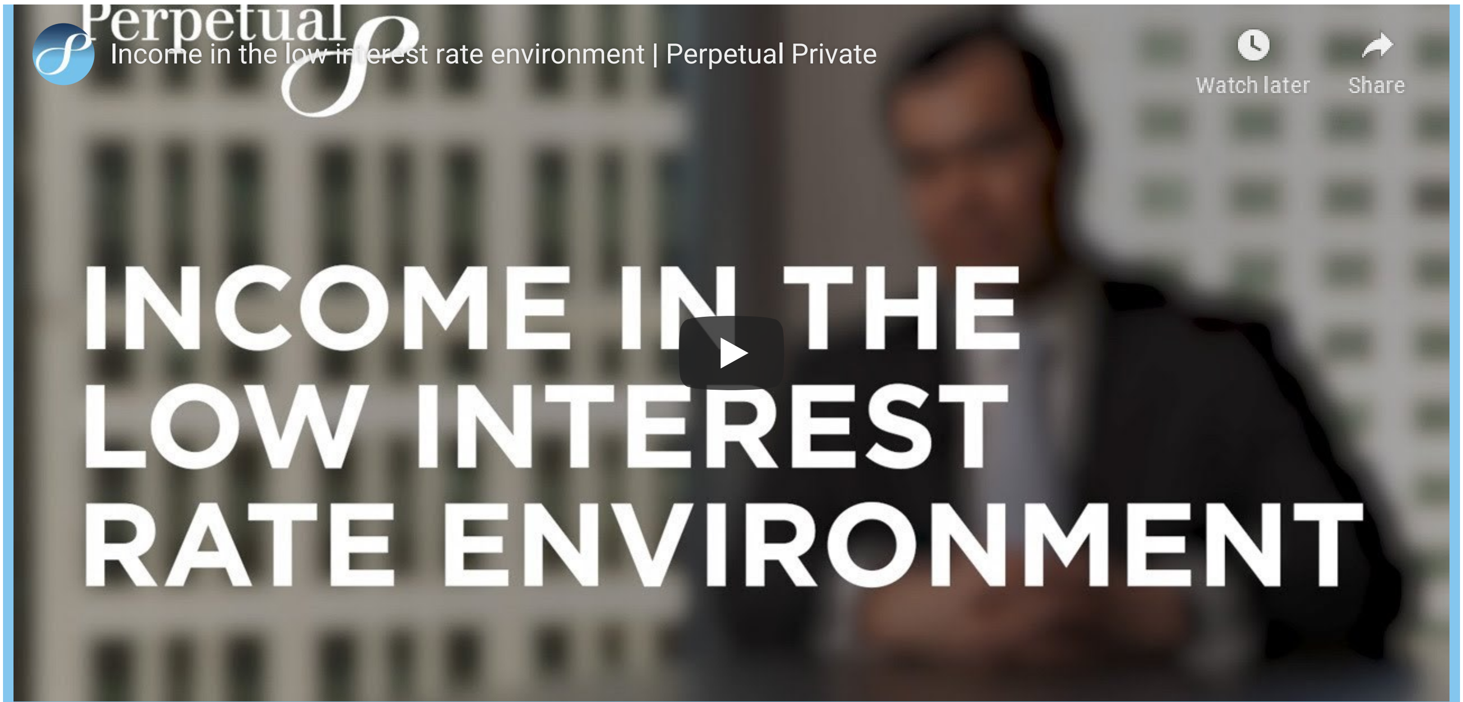
THE OUTLOOK FOR GOLD



The gold price has jumped around 30% this year to the end of August. Gold is booming, partially due to low interest rates, which reduces the opportunity cost of holding the precious metal versus earning interest in the bank. Combined with the so-called 'money printing' from central banks and the 'risk-off' mood in markets, it's created a 'perfect storm' for the gold price.

What is the future for gold?
It can be difficult to predict, however history has shown that even just a small change in economic prospects – such as a successful vaccine – can result in a very sharp impact on the gold price.

INCOME IN THE LOW INTEREST RATE ENVIRONMENT



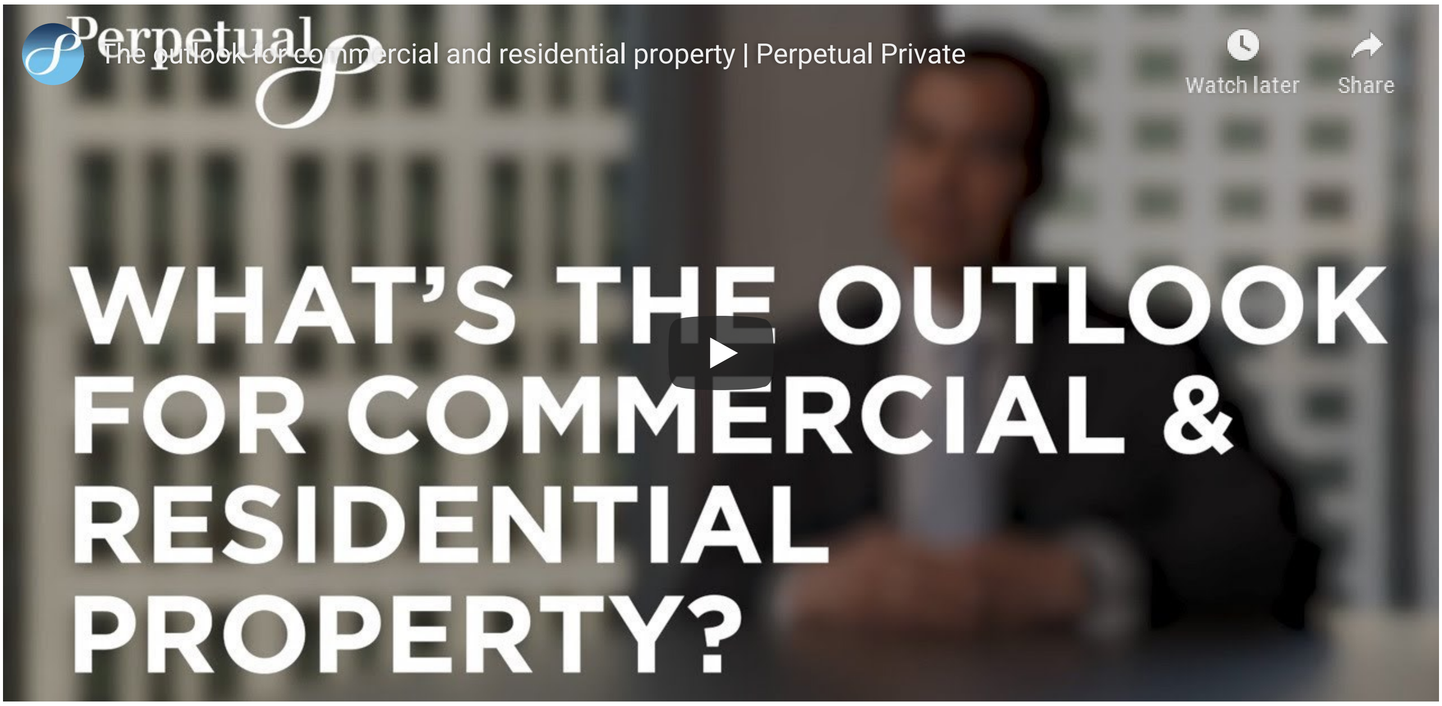
The long-term trend for cash and interest rates has been downwards. As a result of COVID-19 the central banks have generally moved towards a zero-interest rate policy - and a substantial part of the bond universe now trading on negative yields. Holding money in cash, earning interest below the rate of inflation means cash is going backwards in real terms.

Nonetheless, cash and fixed interest investments still have an important role to play in a portfolio, as they are an effective risk hedge and diversify equity market risk.

What can investors do increase the yield of their fixed income investments?
Investors need to be aware that higher yields generally involves moving up the risk spectrum. This can be reflected in longer 'duration' portfolios, i.e. buying longer dated bonds at a higher rate of interest, however this also increases the risk of negative returns if interest rates rise. On the other side of things, increasing credit risk in your fixed portfolio can also increase yield, however this also increases the risk of negative returns as well as reduces diversification relative to equities.

Chasing yields indiscriminately increases the risk of your portfolio – investors need to be aware how this can increase the potential downside if equity markets sell off.

THE OUTLOOK FOR COMMERCIAL AND RESIDENTIAL PROPERTY



The real estate sector has not been immune to the volatility in markets. An acceleration of the 'Amazon effect' due to COVID-19 has reduced valuations for bricks and mortar retailers, while remote working has also had an effect on commercial property. On the other hand, industrial property such as warehouses and logistics hubs, as well as data centres have not just been resilient, but performing very well through the crisis.

With such low mortgage rates, investors are looking at potential opportunities in residential property. We've already seen a trend of buyers shifting from inner city apartments to the outer suburbs and beyond as people spend less time in the city and have more flexibility around where and how they work.

Regardless of how low interest rates go, investors should always pay attention to fundamentals – cheap financing doesn't make buying real estate a 'sure thing'.

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