PORT PHILLIP FINANCIAL

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Update from Isolation No. 2

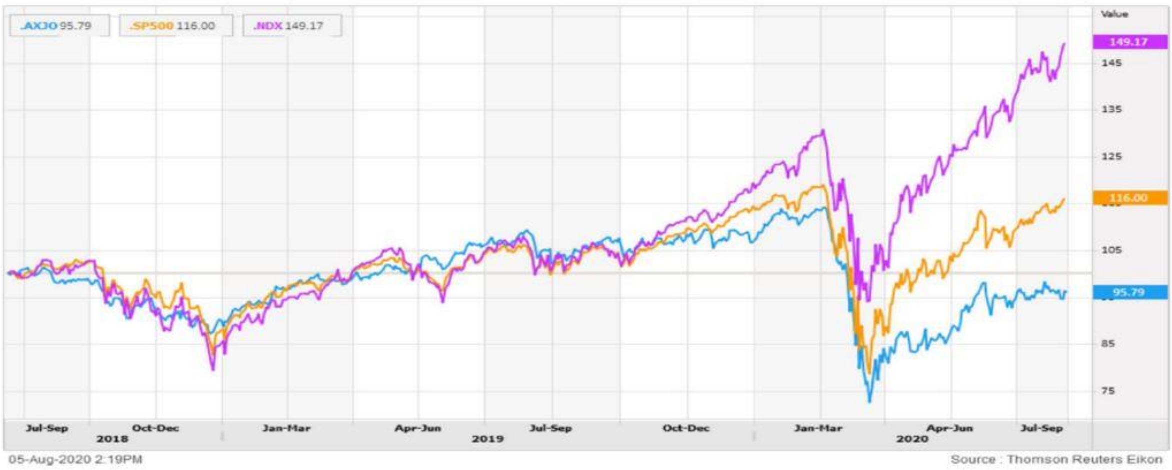
Earlier in the year we were calling for a market correction in the latter part of the 2020. We, along with many other economists still feel that this is the most likely outcome. For those clients with capital sums set aside awaiting investment, hold tight, our opportunities will arise. For clients that feel that they would like to review their market exposure, by all means please contact us to make a time for a phone or online chat. Although our focus is on the USA share market along with the ASX their performance drives the investment arena unless you are in conservative investments like cash and fixed interest.

Now for the update . . .

Equity markets have rallied strongly off the March lows fuelled by massive government and central bank stimulus. Interest rates have fallen to record levels and the take-up of online solutions (during lockdown) has seen US stocks, particularly technology stocks, stage a sharp rally.

Below we show the performance of the Nasdaq (Purple) vs the S&P500 (Gold) and the Australian market (Blue). Trend view don't worry so much with the numbers.

US markets vs Australian market - 2-year chart



As you can see there has been a very strong rally in the technology sector (purple line), so much so that the Nasdaq is at new record highs.

Technology stocks make up around 38% of the S&P500 and the ten largest tech stocks (Apple, Amazon, Microsoft, Google, Facebook, Visa, Mastercard, Netflix and Adobe) have propelled the majority of the gains in the index.

Our point is that we think the US markets look overvalued at current levels. While we acknowledge that technology stocks should benefit from a change in consumer behaviour, during and post COVID-19, we think market valuations have already become stretched.

While the rally in the Australian market has been much more subdued (due to a low technology weighting <3%), the local market still takes its lead from the US market every day. And it is the US market that worries us!

We believe it is prudent to wait for the Australian FY20 reporting season (begins this month) and potential weakness in the US market before investing in Australian Equities. There are some stocks we believe to be well priced at present however in general we believe the best action is to sit on the sidelines.

Historically, the period ahead (August, September and October) can be quite volatile due to the reporting season and there should be better opportunities ahead.

Looking to our medium term market view:

Monetary and fiscal stimulus has sparked a market rally, but we worry about the disconnect between 'Wall Street' and 'Main Street'. We expect a Japan-style low growth and low inflation economic environment to seep in, post COVID-19, and it will become harder for companies to grow. After an initial market rally, we expect bearish conditions over the next few years. That said, we believe we can sustain an expected return of 8-9% p.a. by investing in quality companies, with sustainable earnings and low gearing.

Any Questions?   We love a chat, just contact us on:

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Kind Regards

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