The Year in Review
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THE YEAR IN REVIEW JUNE 2021

SUMMARY:

- ❖ 2020-21 saw investment returns rebound after the coronavirus hit depressed 2019-20 returns.
- ❖ Key lessons for investors from 2020-21 were to: allow that share markets look ahead; timing markets is hard; do not fight central banks; and turn down the noise.
- ❖ Over the next 12 months returns from a well-diversified portfolio are likely to be slower but still solid.

Introduction

The past financial year saw a spectacular rebound in returns for investors. This note reviews the last financial year and takes a look at the outlook.

After an interesting year of ups and downs we seemed to end up with a market that just kept getting higher, a bit like our Covid waistlines! Sure there were some negatives:

- A big flop in the market when Covid emerged in Australia.
- There have been several waves of coronavirus globally.
- The US saw a divisive election that turned violent with an invasion of the Capitol by Trump supporters.

But on the UPSIDE:

- ✓ Despite various coronavirus-related setbacks, global growth has seen an almost Deep V rebound and is on track for 6% growth this year and forecast 4% next year.
- ✓ Australian GDP has rebounded faster than expected to be one of the few developed countries to see GDP back above pre-coronavirus levels, despite numerous snap lockdowns - this in turn has driven a sharp rebound in company profits.
- ✓ Good news on vaccines and their deployment in developed countries has provided confidence in continued recovery.
- ✓ The election of Joe Biden in the US has reduced global policy uncertainty and led to much more US fiscal stimulus.
- ✓ Australian fiscal stimulus continued, dulling any “fiscal cliff”.

Strong returns more than making up for a poor 2019-20

Key lessons for investors from the last financial year

- Timing markets is hard – staying fully invested as markets rebounded despite the recession and ongoing coronavirus scares would have been very hard at times.

- **Turn down the noise – the noise around investing is now at fever pitch making it very hard to stay focused on long term investing, so the best thing is to turn it down.**

Nuisance issues that may affect the markets looking forward:

Share markets have had strong gains from last year's lows (US shares are up 94%, global shares are up 83% and Australian shares are up 60%) and are no longer unambiguously cheap so the easy gains are likely behind us.

- First, coronavirus is continuing to cause havoc with the global trend in new daily cases starting to head up again.
- Second, inflationary pressures have increased globally with reopening, and this is most evident in the US.
- Third, at the same time central banks are starting to back away from ultra-easy monetary policy, e.g, the Fed dots flagging an earlier start to rate hikes than previously and the RBA starting to taper its bond buying from September.

The positives are likely to ultimately dominate.

The negatives above have the potential to cause a correction in share markets. However, there are a bunch of positives that are ultimately likely to dominate in terms of investment markets.

- First, while coronavirus cases may be on the rise again the vaccines are keeping a light shining at the end of the tunnel.

- Second, while inflation pressures have picked up this is mainly evident in the US and largely reflects pandemic related distortions. Other countries including Europe, Japan and Australia are seeing far less of an inflation spike.

- Third, this in turn will likely keep central banks gradual in removing ultra-easy monetary policy with rates likely to remain low for a long while yet. We don't expect the first rate hikes in the US and Australia till 2023

VERY IMPORTANTLY: What about the return/income outlook?

While there is a risk of a short-term correction in shares and returns are likely to slow from the pace of the last year, overall returns from well diversified portfolios are still likely to be reasonable over the next 12 months.

- Shares are expected to see okay returns helped by strong economic and earnings growth and still low interest rates.

- Cash and bank deposit returns are likely to remain poor as the RBA is expected to keep the cash rate at 0.1%.

- Home prices are expected to rise 20% this year but slow to 5% next year as poor affordability, rising fixed rates, tighter lending standards and reduced population growth impact.