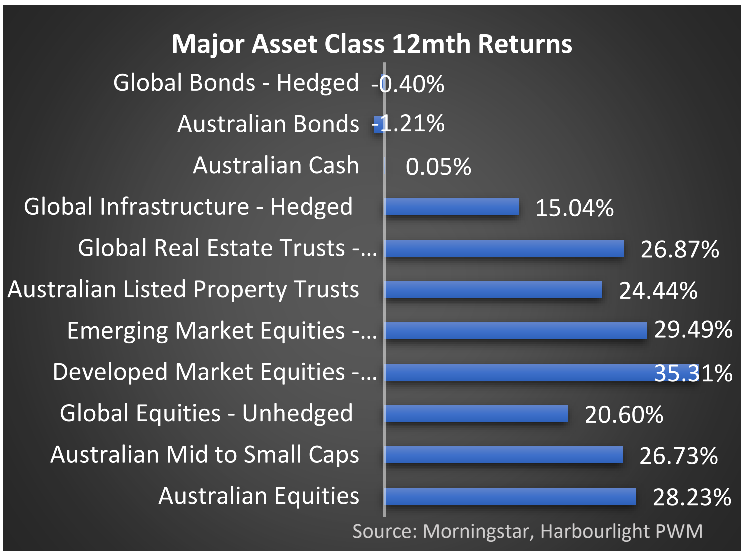
Harbourlight PWM Investment Review and Outlook.

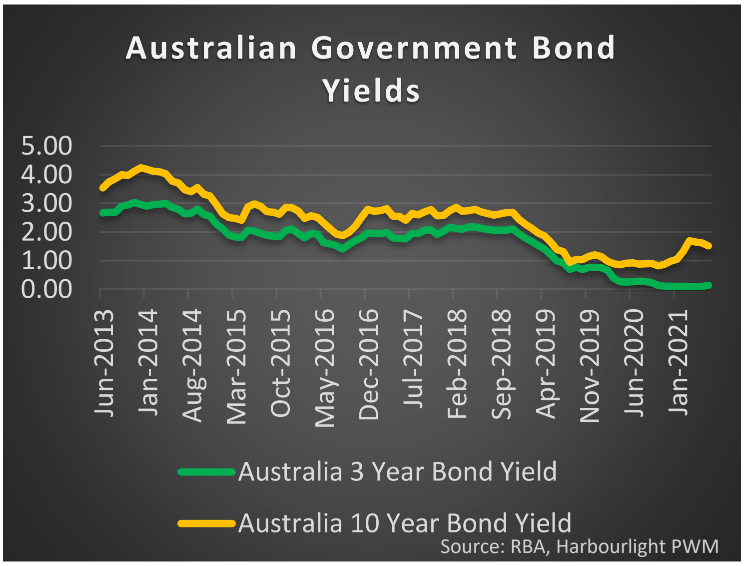
A brief review of investment markets and broader factors affecting clients. **July 2021**

Mid 2021 - Better than most expected

With the start of the 2021/2022 financial year comes global economic and asset price growth that is much stronger than most expected. Whilst the media focusses on Covid 19 and ongoing vaccine rollouts, globally many of the usually discussed economic and financial risks have been pushed into the background.



These risks include further difficulties managing the Covid 19 pandemic, an increasingly authoritarian stance in certain parts of the world (most noticeably in China), continued difficulties presented to those seeking to earn a return on safer investment portfolios and the temporary / longer term effects of government stimulus, including currently rising inflation rates across developed market economies.

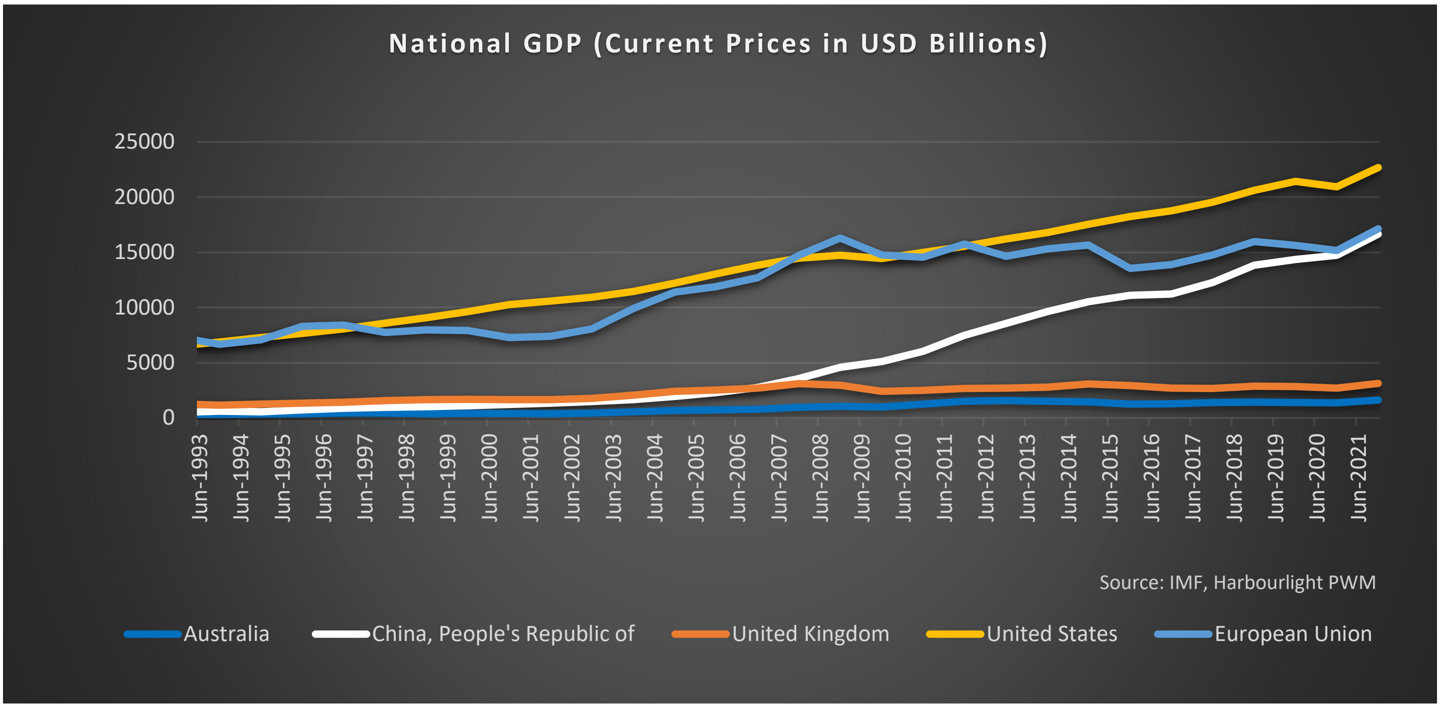


Policies aimed at reducing interest rates have lowered short term borrowing cost (the RBA target cash rate now sits at just 0.1%), whilst inflationary fears have pushed up longer term interest rates. Growth asset valuations have increased sharply, whilst the lives of deposit focussed investors have become more complicated.

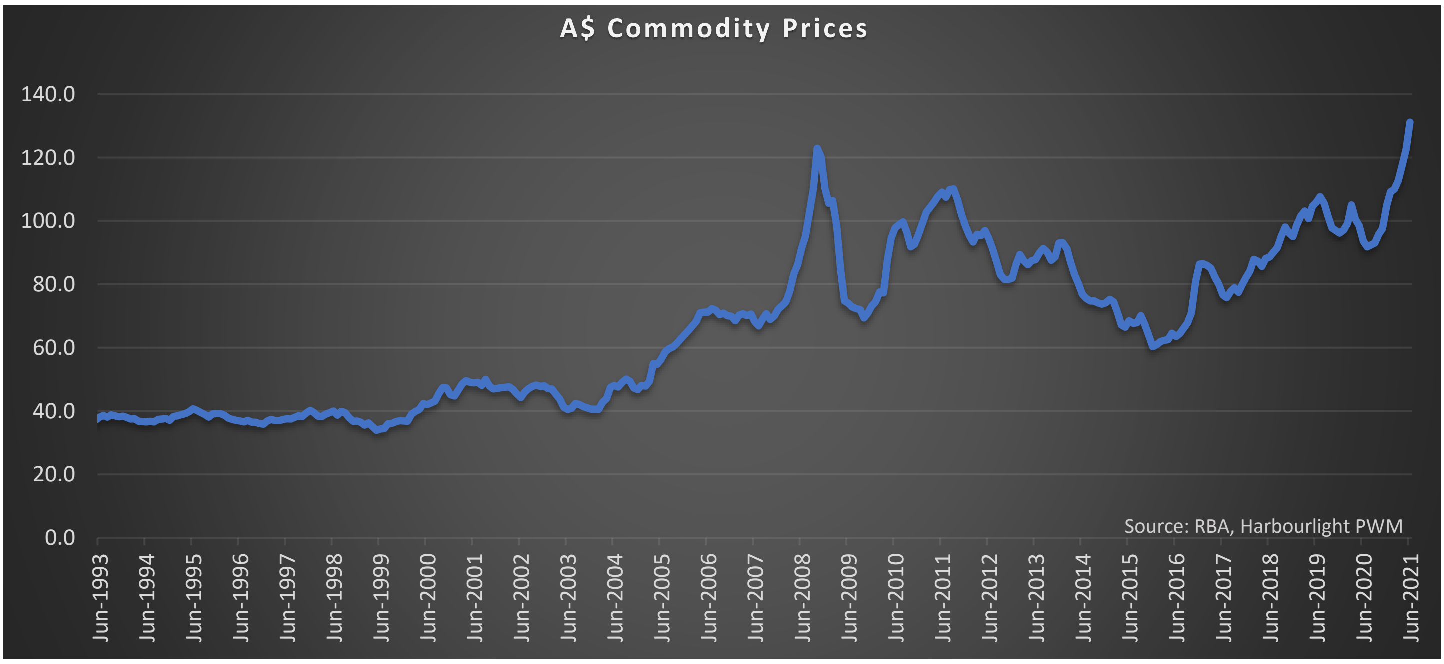
In these conditions we see it prudent to continue bringing portfolios further towards more neutral asset allocations, whilst being mindful that many safer investments could continue to provide low to negative returns as global bonds and deposit products have in the current financial year.

Economic Background and Developments

Reflecting on 2021 thus far, we have seen a very strong recovery in global GDP growth as the full effects of government stimulus become more apparent. Looking at IMF data for nominal GDP (below) we can see most economies have grown past the levels they were at pre the start of Covid 19. Inflation has jumped particularly in the US and Europe though remains less present in other economies including Australia.

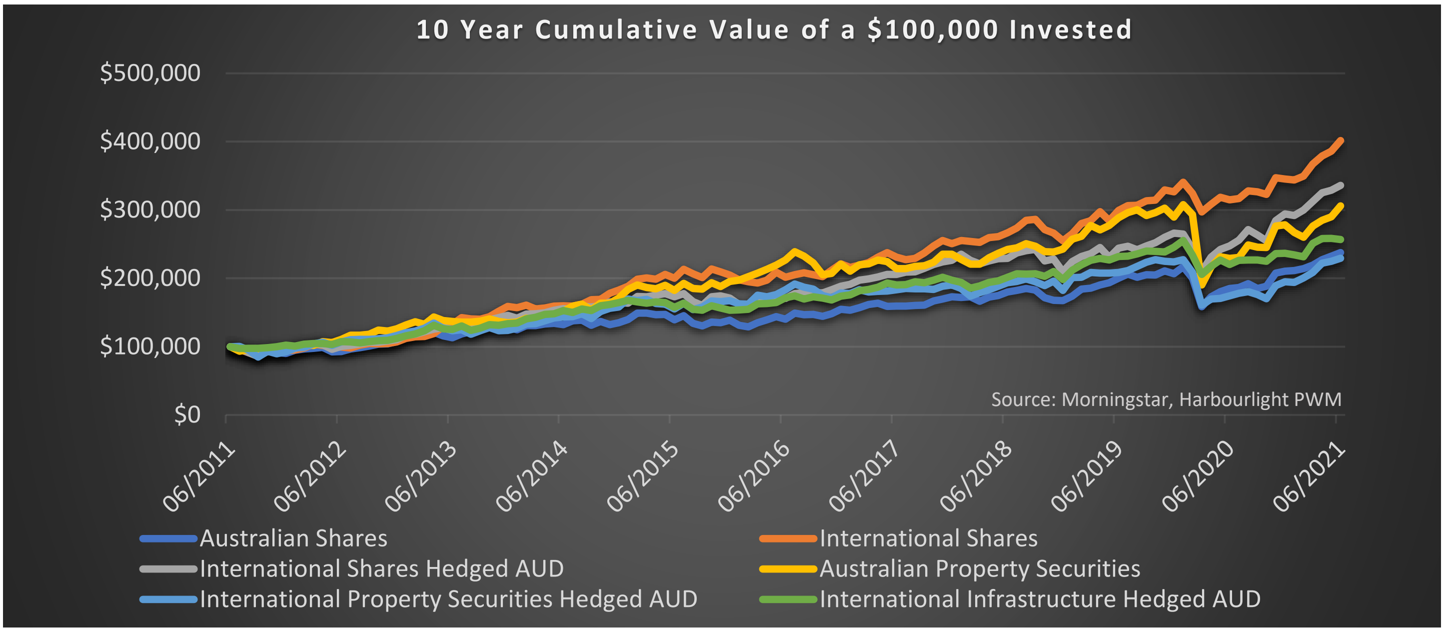


In AUD terms commodity prices have also recovered to levels not seen since the last commodity boom (2008). Whilst there is commentary of this having linkages to the start of the next commodity bull super cycle, we believe careful consideration needs to be given to the short term effects resulting from recent government stimulus.



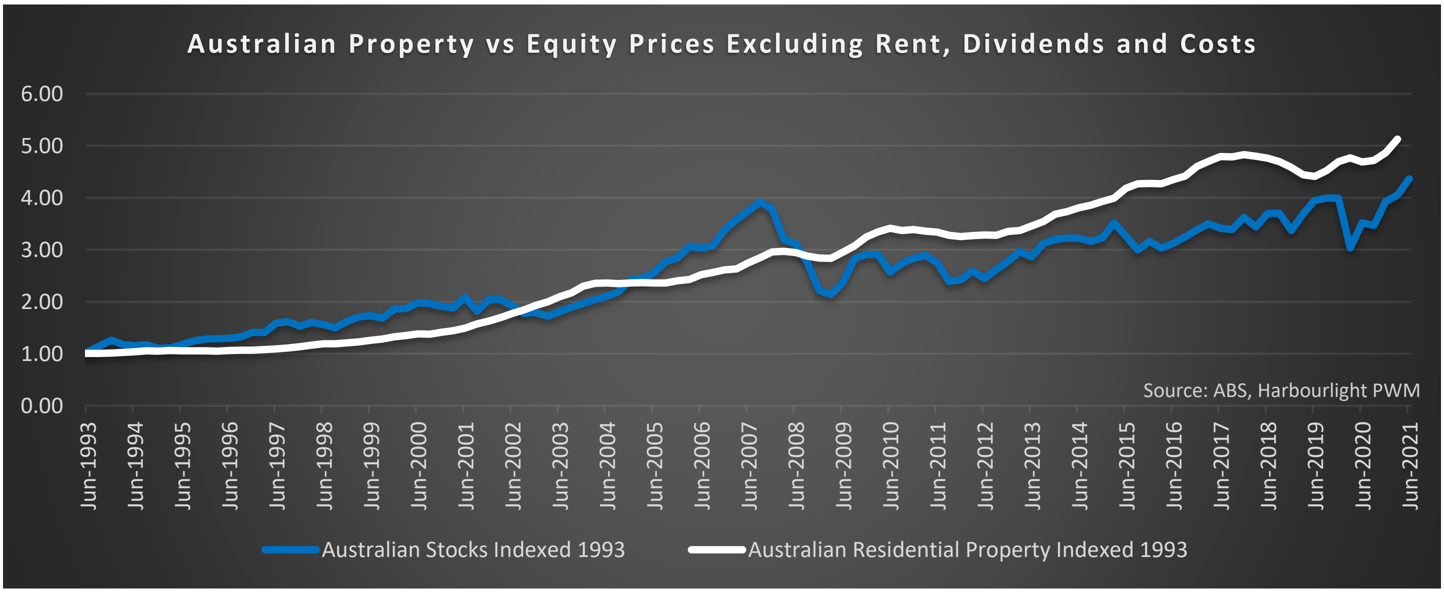
Asset class overview

Nearly all the major asset classes are now trading near or above their Covid highs, with the expectation that corporate earnings and rents will return to pre Covid levels. We've discussed the split in sectoral returns before but both hedged and unhedged international equities continued to outperform, fueled largely by growth in technology and value stocks.



Locally we prefer to own value based stocks as franking credits continue to provide a benefit to investors. Dividends are recovering and we expect portfolio incomes to continue to rise over the course of 2021. Takeover and acquisition activity has also increased in our direct equity portfolios with Boral, Sydney Airports, Coca Cola Amatil & Challenger all receiving positive acquisition interest over the year.

In commercial property markets, rents have been falling as leases renew with additional incentives and vacancy rates rise. Investor rental yield expectations seem to be steady to a slightly higher in various sectors. With listed property having returned 24-27% for the year depending on domicile, we no longer see the need to be overweight listed vs unlisted property, liquidity needs excluded. Residential property markets continue to be chased by a what seems to be an intense fear of missing out fuelled by additional savings from citizens not capable of spending money on holidays and entertainment. This is not a trend unique to Australia, residential property prices have also been rising in other developed market economies such as the UK, US, Canada and Germany.



Our views for the next 12 months.

We expect the next 12 months and the longer term to provide steady growth in asset prices with the smaller but not to be forgotten risk of a sharp shock. Investors accepted rates of return across asset classes have fallen and remain lower than historical levels, largely due to low interest rates. We continue to believe the best source of longer term returns to be in equities, though reducing risk to a more neutral position seems prudent. We retain a half currency hedged approach to global equities.

Other Regulative Matters

- Compulsory Superannuation Guarantee payments were increased to 10% from the 1st of July 2021.
- Superannuation contribution caps were raised to $27,500 for concessional contributions and $110,000 for non-concessional contributions from the 1st of July 2021.
- Eligibility for the non concessional contribution bring forward rule has been extended for those aged 65 and 66.
- The number of members allowed in a Self Managed Superannuation fund was lifted from 4 to 6 from the 1st of July 2021.
- Current Covid-19 legislation relating to a reduction in minimum payments was extended to expire on the 30th of June 2022.
- The transfer balance cap applying to commencing retirement income streams has been increased to $1.7m from the 1st of July 2021.
- Incentives continue to be provided for those who have had less time to contribute to super, with the largest being a $300,000 non-concessional allowance for those aged over 65 who are downsizing their home if held for over 10 years.

Please feel free to contact us if you wish to discuss any of these matters.

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