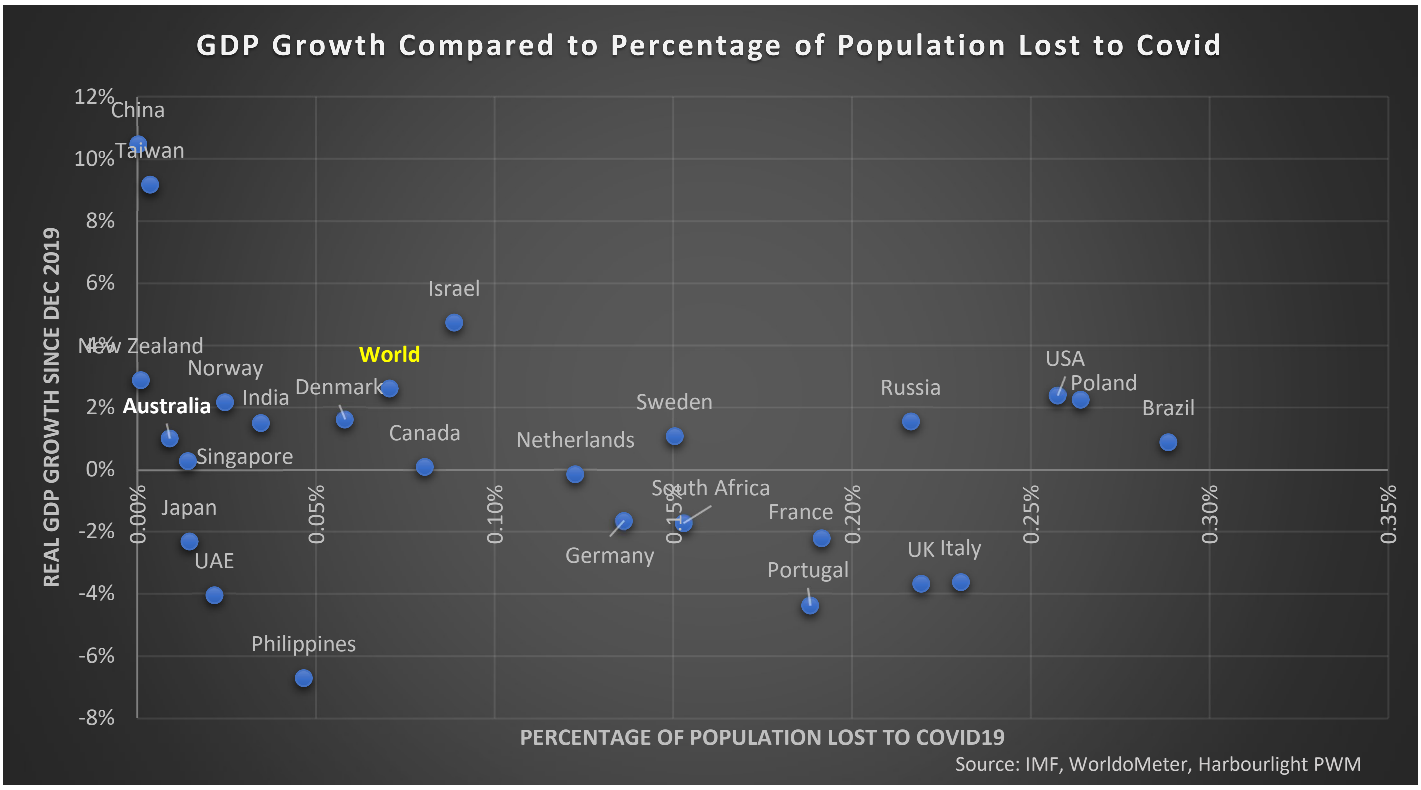
Harbourlight PWM Investment Review and Outlook.

A brief review of investment markets and broader factors affecting clients. **January 2022**

Vaccines have changed the world, time to look forward and be prepared.

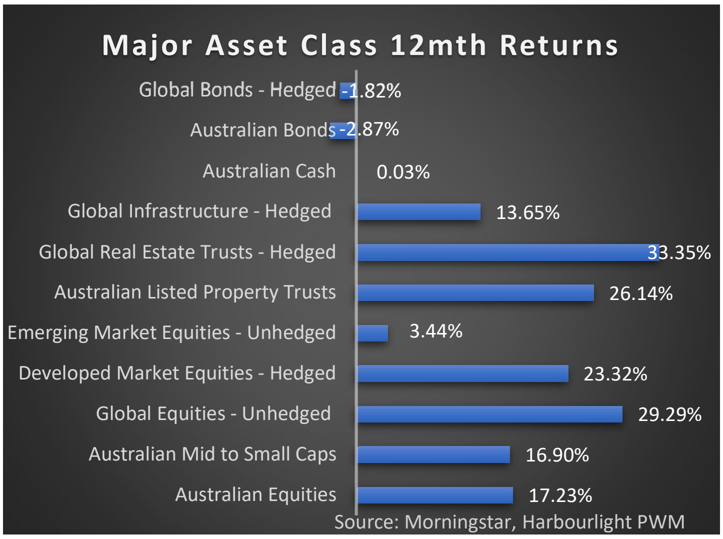
As we start 2022 and reflect back on 2021, the change modern medicine has made to humanity this year is clear, as are the subsequent effects on wealth and investment markets. In the course of the last 2 years, statisticians have recorded approximately 300 million Covid19 infections and 5.5 million lost lives. In the context of a global population of 7.9 billion, this represents a death rate of 0.07%. Whilst these statistics may be understated, vaccines have provided a way for us to get back on with an altered life. Some immunologists suggest they have saved more lives than any other invention in the course of history.

Over the same period of time, the global economy contacted sharply and rebounded to a net expansion of 2.6% on a real basis. Governments were given the incredibly difficult job of balancing human lives and human prosperity. Whilst slightly simplistic, difficult and a sensitive topic to discuss, we now have the capacity to review how various nations managed to protect their citizens and economies. All stones thrown aside, Australia and its government managed this process very well, as did other countries such as Taiwan, China, New Zealand and parts of Scandinavia.

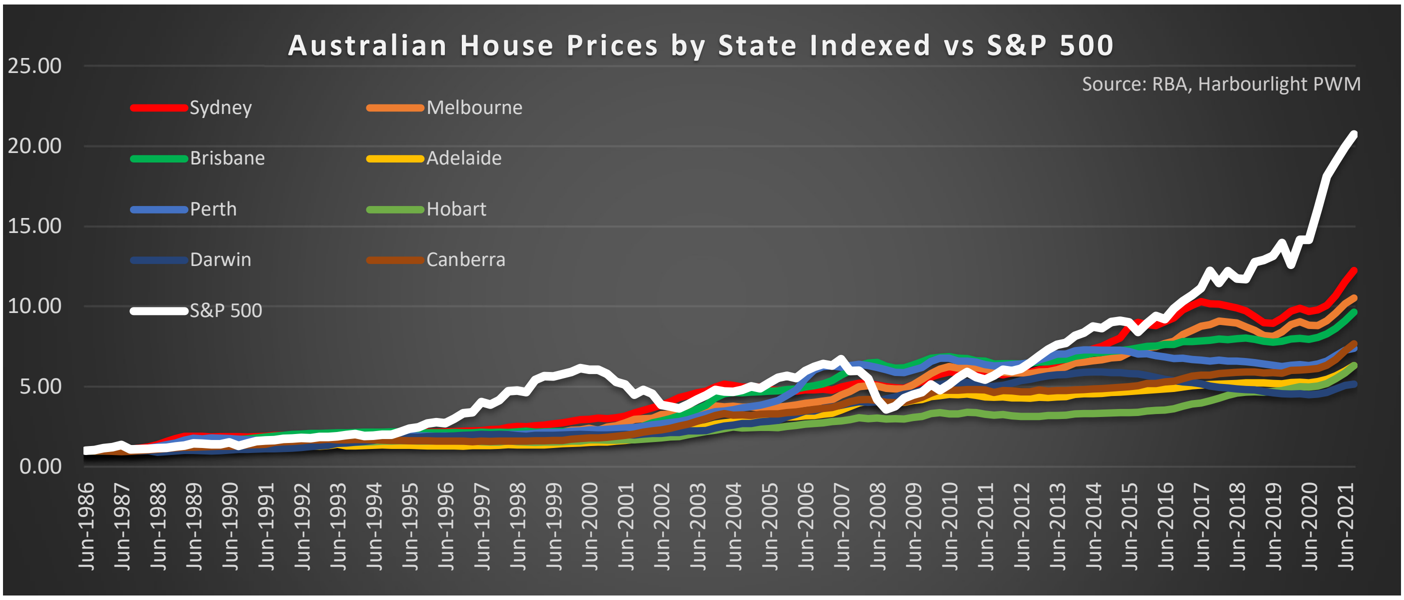


Investment markets continued their strong returns in most sectors, with the exception of Emerging Market Equities, which were negatively affected by rising US interest rates and political/economic developments in China. These rising interest rates also caused negative price returns in fixed income.

Australian home prices rocketed, along with most growth assets. If we look just at US Equities for reference, the cumulative 5 year gain in the S&P 500 is over 100%, incorporating 4 above average return in the last 5 years fuelled by lower interest rates over that period, investor demand and annual earnings growth of over 8% annually.



Broadly speaking most asset classes look fairly valued and likely to deliver good, albeit more moderate returns with the exception of certain residential property markets and fixed income which face affordability and interest rate pressures though rising inflation does look to cause some concern.



S&P 500 Annualised Price Return Distribution 1928 to 2020

Source: Macrotrends, Harbourlight PWM

-50% to -40%	-40% to -30%	-30% to -20%	-20% to -10%	-10% to 0%	0% to +10%	+10% to +20%	+20% to +30%	+30% to +40%	+40% to +50%
						2020			
						2017			
						2014			
						2012			
						2010			
						2006			
						1999	**2021**		
						1988	**2019**		
						1986	2013		
					2016	1983	2009		
			2001		2007	1982	2003		
			2000		2005	1979	1998		
			1977		2004	1976	1996		
			1973	**2018**	1993	1972	1991		
			1969	2015	1992	1971	1989		
			1966	1994	1987	1964	1985		
			1962	1990	1984	1963	1980		
			1957	1981	1978	1952	1967	1997	
			1946	1960	1970	1951	1961	1995	
			1941	1953	1968	1949	1955	1975	
		2002	1940	1948	1965	1944	1950	1958	1954
	2008	1974	1932	1939	1959	1943	1938	1945	1935
1931	1937	1930	1929	1934	1956	1942	1936	1928	1933

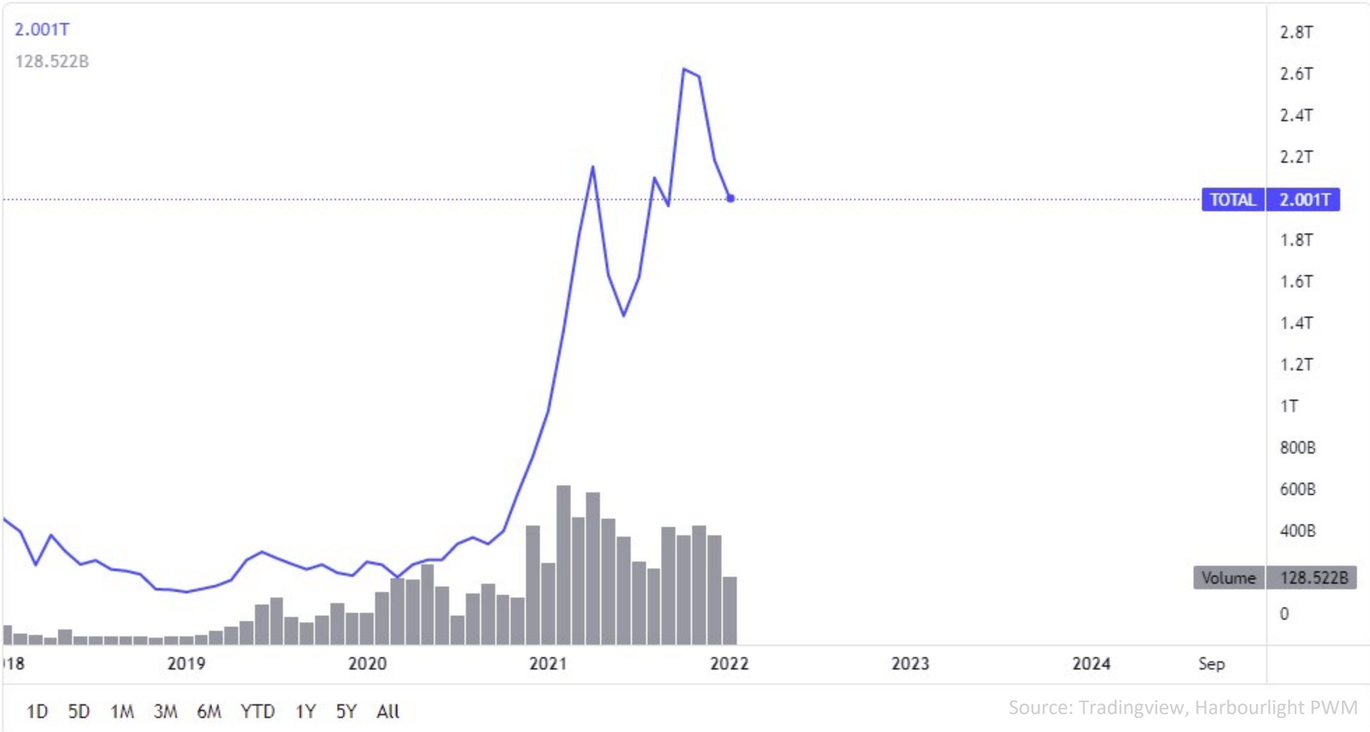
Whilst unpredictability remains the most predictable thing and rising interest rates and inflation will have an effect, we continue to recommend portfolios in line with their strategic asset allocations. Gently rising interest rates are broadly seen as a healthy occurrence, making it somewhat easier to make the conservative investments. For example an Australian corporate bond portfolio now offers a yield of near 2.00%, whilst not high, this represents a significant improvement from the low levels of near 1% we saw in recent years.

In terms of ongoing themes to be aware of:

- We continue to see China and the US wrestling each other, as well as their respective political and economic challenges.
- Technology and Financial System regulation remains a theme. The US debates on privacy and market power regulation, while China applies authoritarian regulation aimed at wealth equality and social balance. The rest of the world looks to deal with their own legislative issues and recapture tax revenue globalisation has taken from them.
- The continued management of Covid-19 and its variants, again with China being the largest nation to continue trying to maintain a zero covid strategy ahead of the Beijing Winter Olympics in February 2022.
- The evolving landscape of working arrangements and adapting to our new world continues.
- The evolution of the Metaverse and Cryptocurrency.

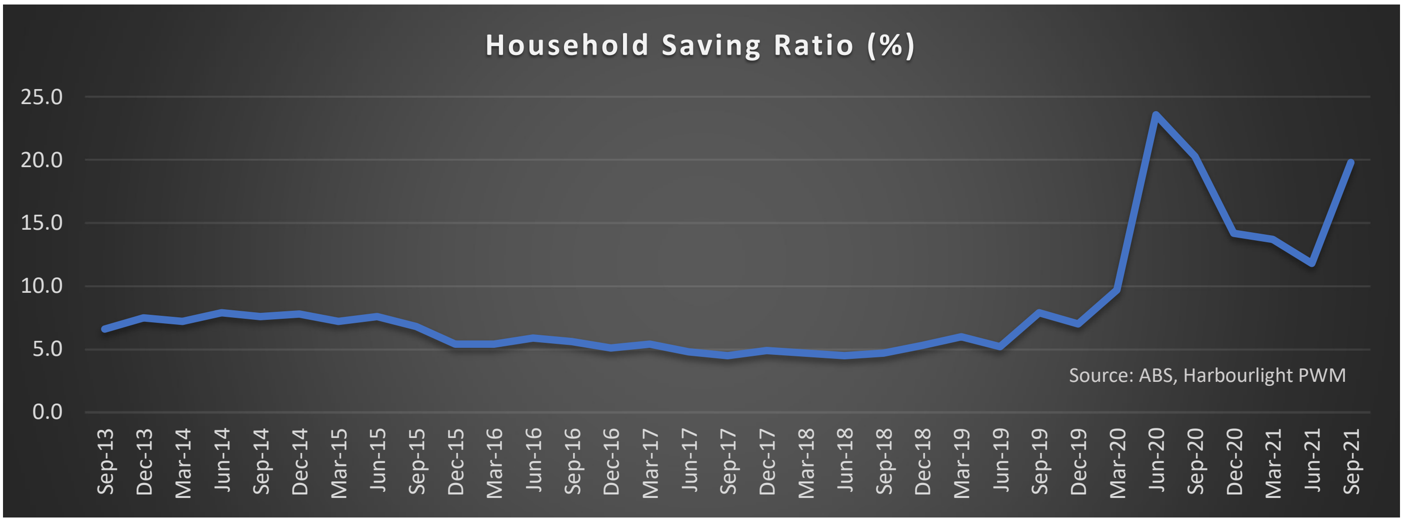
  As decentralised financial service and technology providers look to further participate in the financial system alongside traditional and technology orientated participants, the market capitalisation of Cryptocurrency products climbs to over 2 trillion USD. Regulators have also turned their eyes to this sector, which broadly sits outside of securities law. We believe the investment thesis around store of value in these products remains weak, however there are interesting subsectors which involve participation in the growth of various ecosystem and applications. On investigating and trying to use these applications, we have had difficulty in practically accessing and using them thus far.

Cryptocurrency Market Capitalisation USD

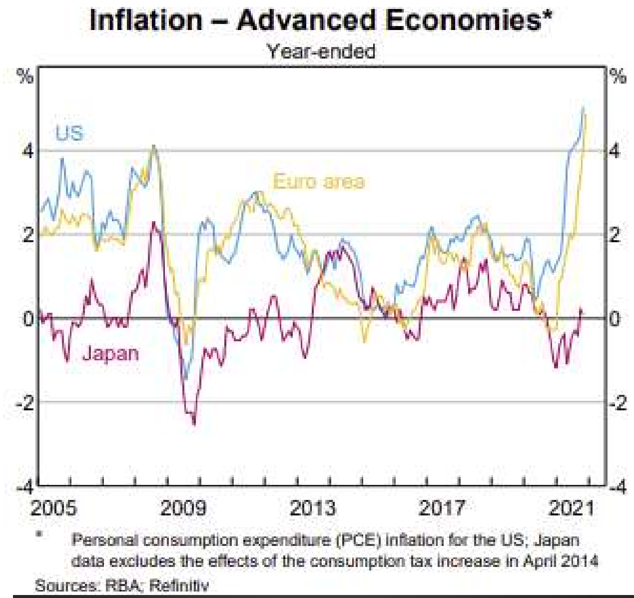


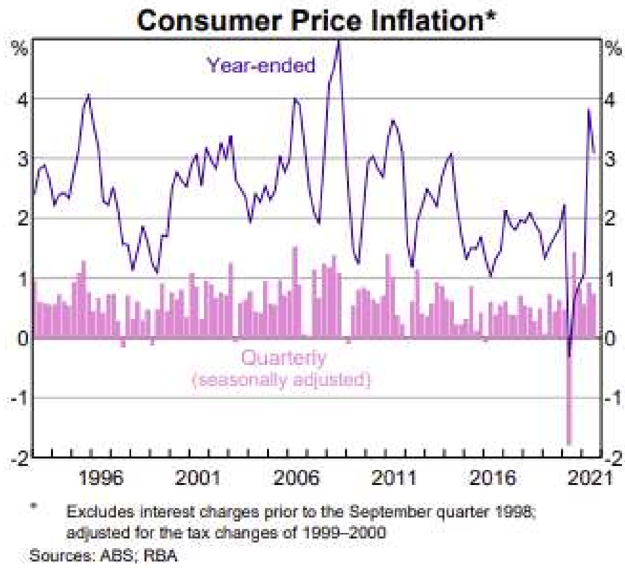
Source: Tradingview, Harbourlight PWM

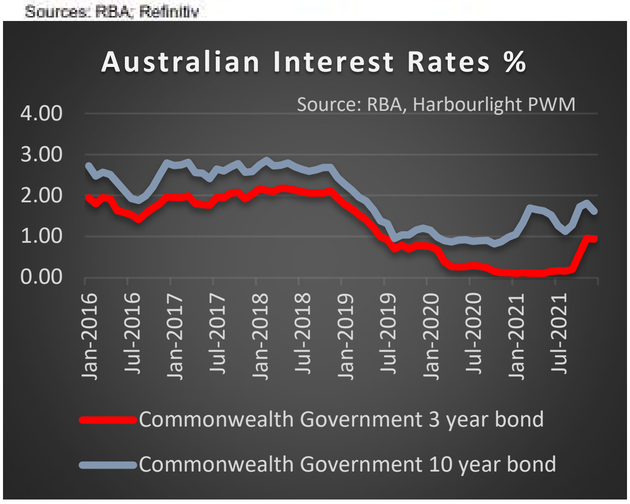
Coming back to broader economics, above that of stabilising growth that tapers back towards more normal over the coming years, we can see the effect lockdown, limitations in travel and government stimulus have had on households and savings. In Australia, we have seen some of the strongest levels of household saving in over 30 years and likely longer.

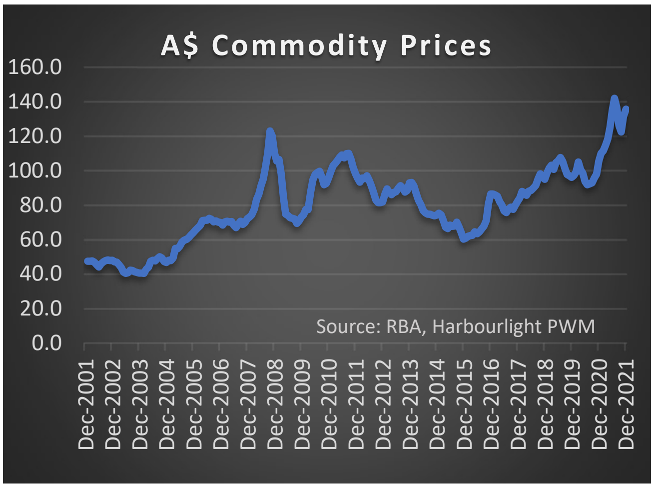


Combined with supply chain issues, this has led to high levels of inflation across the world, rising interest rates and easing of government benefits and stimulatory activities such as quantitative easing. Commodity also continue to strengthen beyond the levels of our last resource boom (2008).









Our views for the next 12 months.

We maintain our view that current asset prices support portfolios to be invested in line with long term strategic asset allocations.

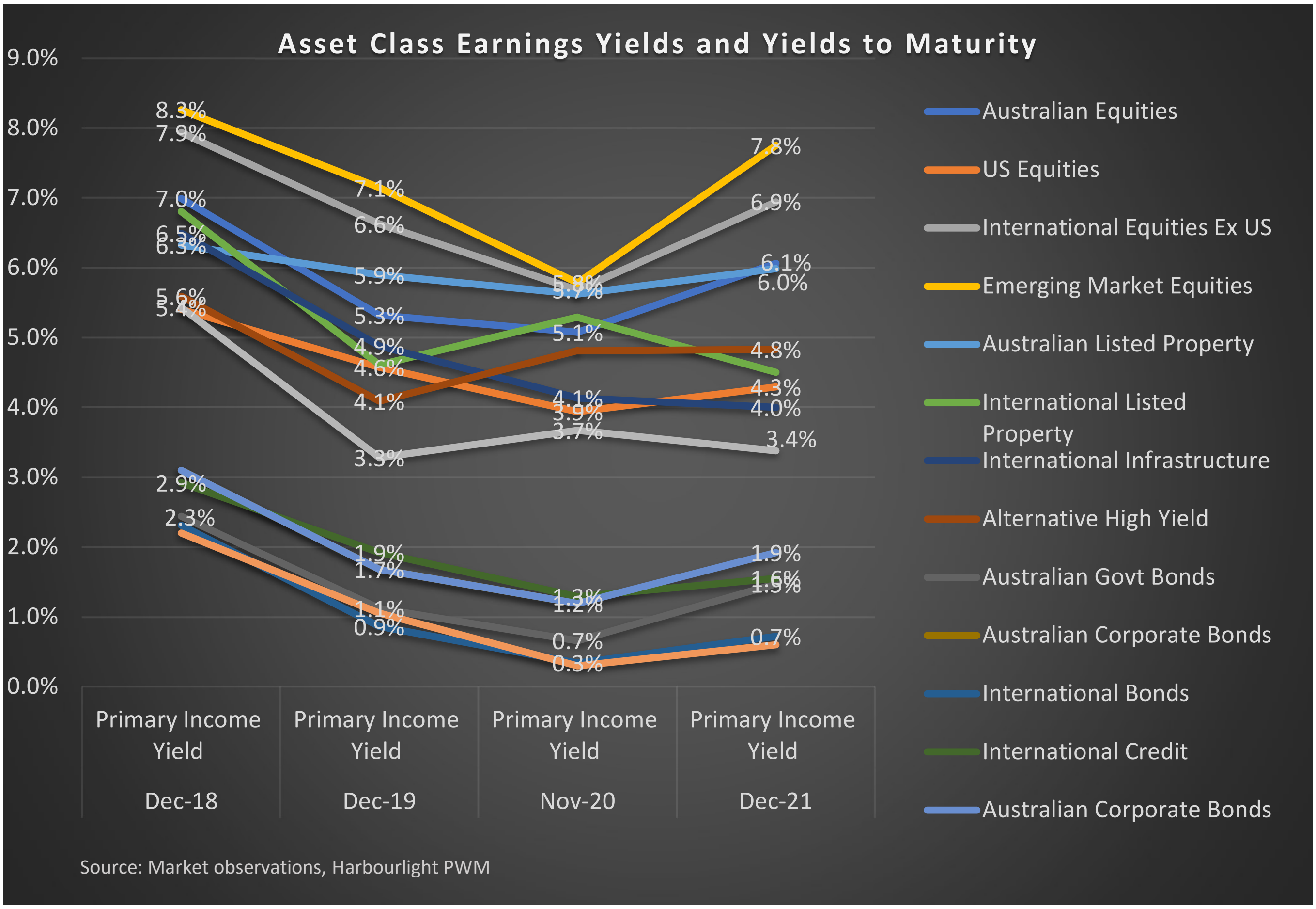
On balance, we believe most asset classes are running at acceptable long term returns as demonstrated in the below chart. These estimated current running yields need careful interpretation and do not incorporate future growth or decline.

As markets historically rise more than they fall, we believe the risk of being too conservative carries greater risk to long term returns than being appropriately invested to clients chosen risk profiles.

Emerging Markets look to remain volatile though have lagged and remain an interesting investment as do technology assets with fundamental tailwinds in sectors like such as cybersecurity and economic digitisation. Dividends and franking credits continue to encourage value and dividend orientated investments in Australian shares.

Rising inflation remains a point to watch.

Interest rates rises are easing the difficulty of investing more conservative assets. We look to cautiously increase client exposure to shorter dated bonds with an overall focus towards having a plan in place in the case more attractive asset prices arise and retain a half currency hedged approach to global assets.



Other Regulative Matters

- Legislation waits to be passed to;
  - Remove the work test for non-concession contributions for those aged between 67 and 75 from July 2022. This will go beyond the current raising of qualifying age from 65 to 67.
  - Allow access to the bring forward provisions for those aged 67-75.
  - Reduce the age restrictions for downsizer contributions to 60+.
- Superannuation contribution caps remain at $27,500 for concessional contributions and $110,000 for non-concessional contributions.
- Current Covid-19 legislation relating to a reduction in minimum payments continues to the 30th of June 2022.
- The transfer balance cap applying to commencing retirement income streams remains at $1.7m.
- 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.

Harbourlight Private Wealth Management

hlcs@harbourlight.com.au

https://harbourlightwealth.com.au