Autumn 2021

Economic update

Coronavirus vaccinations

Since December 2020, the world has embarked upon a mass effort to vaccinate against the Coronavirus pandemic. The leading solutions have been produced by joint ventures led by Pfizer, Moderna and AstraZeneca respectively. Israel and the UAE are amongst the leaders on a per-person basis with Israel reportedly beginning to see a decline in severity and mortality rates amongst its elderly citizens.

Australia is employing a mix of both the Pfizer and AstraZeneca vaccine, with priority going to frontline staff and vulnerable groups such as the elderly. The vaccine rollout will reduce the risk of further lockdowns and allow the world to get closer to a "pre-Coronavirus" state.

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Whilst many countries are adhering to restrictions considerably worse than our own experience, unwinding these will be integral for many businesses to function well again, particularly in the services industries that are much more reliant on "in-person" experiences such as restaurants and tourism.

However, downside risks remain including:

- Coronavirus mutations weaken vaccine effectiveness: the South African variant does not appear to be adequately countered by Astra-Zeneca's solution as an example.
- Vaccine rollouts are slower than expected due to production or administrative bottlenecks.

US elections

We recently saw the end of the Trump Presidency succeeded by Democrat nominee Joe Biden. The Biden Administration has issued several Executive Orders to reverse changes implemented under President Trump with a firmer commitment to climate change evident. In addition, there is a strong focus on further fiscal stimulus to support the US economy.

The Administration's 2021 goals are likely to be informed by:

- Progress in moving past the Coronavirus pandemic.
- Getting another large emergency fiscal package passed to support US households and States.

Beyond these there are loftier goals to make climate change policy reform and combat inequality through tax reform. There will be challenges here to do more in Congress because, although the Democrats hold a majority, there are procedural tools that the Republicans can use to block legislation.

Australian outlook

Businesses

Australian businesses were major beneficiaries of Government stimulus programs since the Coronavirus pandemic began. JobKeeper has been a major backstop covering the bulk of employee costs and programs targeting the construction industry (HomeBuilder grants) have also supported spending.

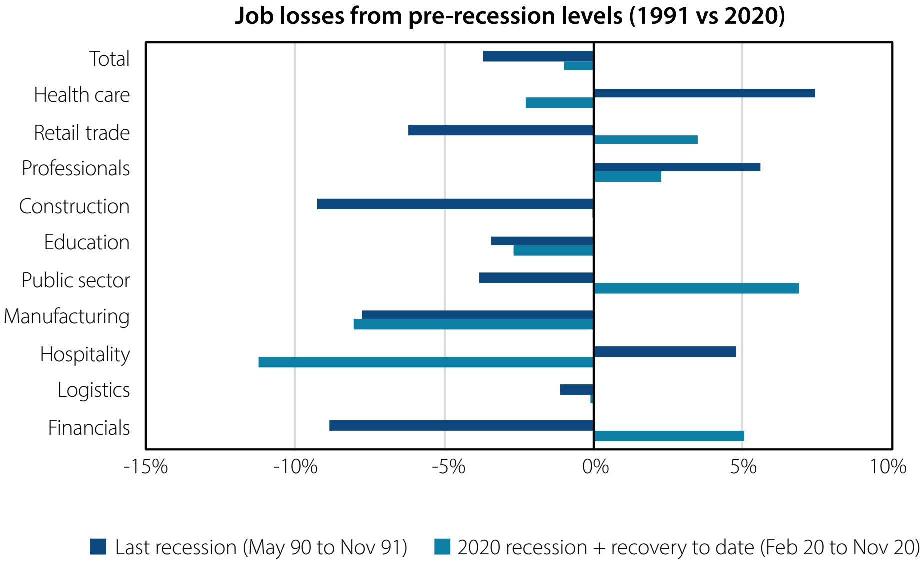
Other measures targeting business insolvency expired at the end of 2020. These protected small businesses by delaying bankruptcy proceedings for firms going into administration (an initial step before insolvency). 2021 may see these numbers start to climb to more normal levels, with weakness concentrated in areas such as hospitality.

It is important to note that business failures are a normal part of our economy. For a variety of reasons, e.g. poor planning or poor market fit, it is difficult to build a functioning business easily.

Could business struggles be even worse than this? Whilst it is possible, we would argue the broad recovery shown in economic data to-date suggests business insolvency is unlikely to be worse at a broader level. The scale of Government stimulus, such as JobKeeper, has played an important role here. In addition, as vaccinations begin to be administered more broadly, and economic activity returns "to normal", we will likely see a bounce in demand as households gain the confidence to reduce a high savings rate of 18.9%, as of September 2020, which is down from its record high of 22.1% in June 2020.

Households

This has been an unusual recession experience, particularly compared to our last one almost 30 years ago. The following graph highlights some notable contrasts. For example, as of November 2020, the hospitality sector has 10% fewer jobs than it did in February 2020. By contrast, the public sector has gained almost 7% more jobs. This compares to hospitality gaining jobs in the last recession and the public sector losing them. The graph suggests the unwinding of Government stimulus such as JobKeeper is going to be more firmly felt in regions with greater reliance on tourism such as coastal Queensland. Conversely, however, the gains in other sectors, and falling unemployment, suggest an economic recovery is on track. That should see more jobs created overall.



If you have any further questions, please speak to your Financial Adviser.

Source: IOOF Research

Do you need to review your insurance?

When a family experiences financial difficulty due to loss of income when an immediate family member becomes seriously injured or ill, it's an extra stress at an already difficult, busy and emotional time. This is why appropriate insurance cover is a key consideration in any financial plan.

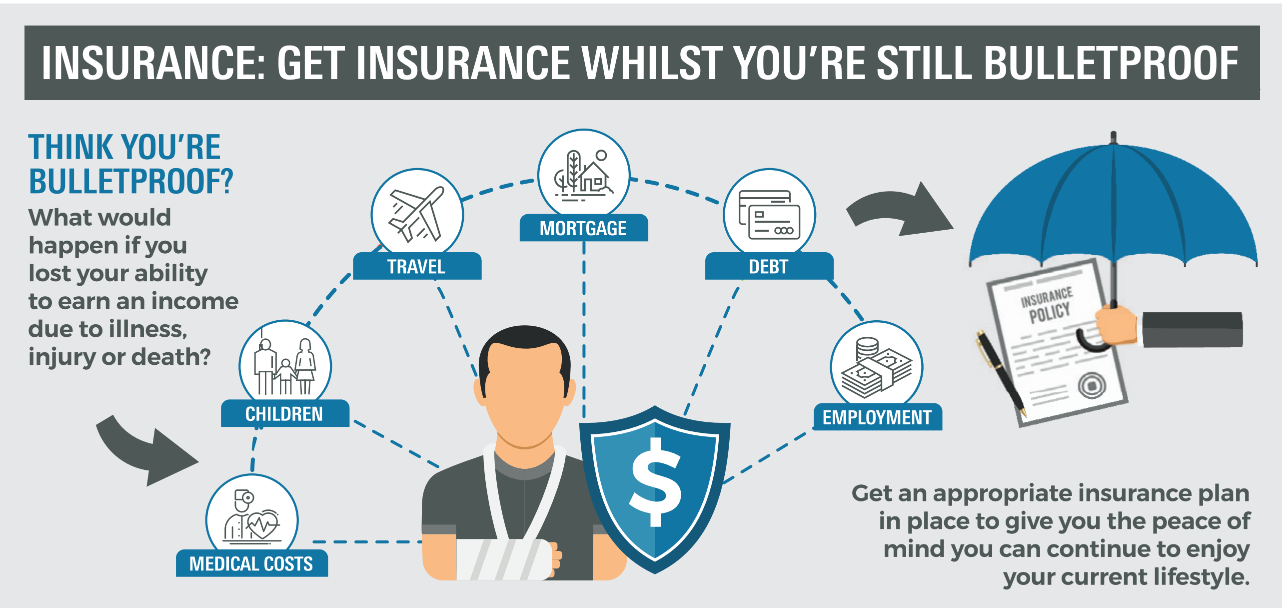
Some types of insurance cover can be held within your superannuation fund, and some must be standalone insurance. Holding insurance within super may allow you to fund your insurance premiums tax effectively, reducing the effective cost of your insurance premiums.

Some people also like the convenience of using their superannuation to fund their premiums rather than affecting their own cashflow. However, you need to remember that this will reduce your superannuation benefit and consider how this impacts your retirement plan, and overall financial plan.

What insurance can be held within super?

Not all types of insurance can be held within your superannuation fund. Generally, you can pay premiums for life, any occupation total and permanent disability (TPD) and income protection insurance through your superannuation fund.

Whilst this can be an effective way to manage your cashflow, you need to check the type of cover is appropriate



for you and will provide you with enough cover for life events that you may need to claim for. You also need to be aware of any super balance and contribution requirements by legislation, to keep your insurance within super active.

Some insurance within super will expire when you turn 65 or 70, depending on the cover.

Income protection changes effective 1 July 2021

Australian Prudential Regulation Authority (APRA) is the regulator of Life companies in Australia. APRA has determined that the Income Protection polices currently available via Financial Advisers are too generous in their terms and conditions, with claims paid far exceeding the insurance premiums received over the past decade.

For this reason, the way that policies are offered to clients will change in the future. APRA will force insurers to stop offering these types of policies to new clients after 30 June 2021.

Act now and seek professional advice

A Financial Adviser can determine whether holding insurance inside super is appropriate for you. They can work out what you need, what it will cost, and the most appropriate way to pay the premiums. There is also window of opportunity right now to get a superior income protection policy that won't exist for new clients after 1 July 2021. If you are currently working and don't have Income Protection cover, a Financial Adviser can help you to review your current situation to determine how much cover you need and discuss with you the reasons why Income Protection might be right for you.

Source: IOOF

Three trends driving real estate investments in a post-pandemic economy

Office real estate is undergoing a fundamental shift, while Coronavirus has accelerated a number of global real estate investment trends, including the continued growth of e-commerce and falling home ownership.

However, new trends have also emerged, in particular, the decentralisation of work. Since the pandemic proved the viability of remote working, we are seeing a shift from dense urban to more city-fringe and suburban locations. It's part of a new emerging paradigm of living, working and playing locally.

A tale of two cities: fringe vs centre

We believe the office sector will experience a bifurcation between heavily disrupted sky rise office towers, in favour of modern "A" grade city fringe and suburban office buildings.

Serviced-based businesses are well-suited to the adoption of remote working practices, and this brings into the question the need for high-rise office space which tends to be expensive, inflexible, congested and inefficient. In many instances, the difference in rent can be as high as 50%.

As a result, we believe these traditional CBD buildings will be heavily disrupted, experiencing higher natural levels of vacancy and falling market rents and valuations. Concurrently, low-rise, city fringe and suburban offices will see increased demand.

E-tailers creating tailwinds

Another trend we have observed is that while physical retail assets are under pressure, e-commerce is creating supportive conditions for the logistics sector.

Unprecedented levels of price transparency have changed the game for retailers, who can only compete on price and availability. Wholesalers, omni-channel retailers and e-tailers are investing very large amounts of money into their supply chains, and the total capital inflow is immense.

The key for them is to efficiently manage inventory: who can get the goods from the manufacturer or wholesaler to the customer door or store front the fastest? This requires very modern logistical warehousing. New facilities, in countries such as Japan, are being purpose-built up to five levels high, with high-tech robotic systems to move goods around, making modern logistical centres very valuable.

Residential rentals: reinvented

Another strong thematic in the current market is residential-for-rent, including apartments, detached housing and manufactured housing. We see a long-term trend in the fall of home ownership, younger generations don't always value home ownership and are

attracted to purpose-built apartments with high amenity. The affordability and offering can be very compelling versus home ownership.

A positive outlook for real estate

Overall, cash flows for Real Estate Investment Trusts (REITs) have remained fairly stable over the pandemic, and the long-term outlook for the sector is positive.

Rent collections have all remained well above +90% levels this year for logistical centres, office buildings, apartments and detached housing, data centres, self-storage centres and health care assets such as hospitals and medical office buildings. The notable exception is shopping malls, which have been materially impacted.

In the main, real estate is set to be a material beneficiary from the expected reallocation of capital across global economies and this will create significant opportunities that will likely cross decades.

Source: First Sentier Investors (Australia)

Cyber security

Did you know that cybercrime is one of the most prevalent threats in Australia, and the most significant threat in terms of overall volume and impact to individuals and businesses?

According to the Australian Cyber Security Centre, Australians lost over $634 million to scams in 2019.

We know cybercrime is a real threat to Australian businesses, which is why we are doing what we can to keep our data, systems and devices safe.

We ask you to please check the sender address on all correspondence you receive, and never click on a link you are unsure of. If you see something from us you think may be spam, give us a call before you do anything else.

Here are a few simple steps we recommend, to keep you cyber-safe.

Source: ACSC Annual Cyber Threat Report July 2019 to June 2020.

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