Summer 2021

Quarterly Economic Review - September

Global economy

The COVID-19 pandemic remains a major feature on the global stage, although with growing vaccination rates and declining cases, the focus has shifted to China and inflation.

Inflation has been at the forefront of global news, driven by issues in supply chains. During the pandemic we had substantial government stimulus driving demand for goods with many services shut down. In addition to rising demand, we had issues with supply as COVID-19 outbreaks shut down ports and delayed transport from major manufacturing countries such as China. These factors have combined to drive up inflation for certain goods. A combination of weather and other issues has triggered a shortfall in energy commodities such as oil and natural gas. This has seen energy prices surge in recent weeks leading to concerns about inflation spikes and the derailing of economic recovery in the likes of Europe, China and India.

In China, news of the expected collapse of major property developer Evergrande Group sparked concerns of a weaker Chinese property market and slower economic growth in the near term. This was exacerbated by a reluctance from Chinese authorities to bail out the company given its excessive risk-taking behaviour including substantial amounts of leverage. These fears drove a decline in prices of commodities linked to the Chinese construction industry such as iron ore (used for steel production).

Australia

Through the September quarter, the Australian economy struggled under the weight of east coast lockdowns as cases escalated in both NSW and Victoria. Importantly though, more vaccine supplies have been made available and new vaccines approved which has seen vaccination rates grow at a rapid pace. This should lower the worst-case potential of the pandemic in terms of hospitalisations and fatalities. At the end of the quarter, Australia was on track to have over 70% of eligible persons fully vaccinated by late October and, 80% by early November[1]. Pleasantly, both targets were hit earlier than anticipated.

In addition, both consumer confidence, as indicated in the Westpac-MI Consumer Sentiment survey, and business confidence, as indicated in the NAB Monthly business confidence survey, have held up well in this period. This is in sharp contrast to the March/April experience last year in the first wave of the pandemic. This bodes well for a bounce back in economic activity during the December quarter.

Fixed income and currencies

Global central banks such as the US Federal Reserve maintained a commitment to keeping interest rates low in the near term.

Both the US Federal Reserve and the European Central Bank flagged the commencement of tapering later this year. Tapering, also known as quantitative tightening, refers to central banks reducing the amount of bonds they are buying.

Bond purchases were increased last year at the height of the pandemic to reduce long-term interest rates and to keep them low to make borrowing costs cheaper for debtors and allow those savings to be spent elsewhere in the economy. Buying fewer bonds reduces the demand for bonds which may see yields rise in the months ahead to levels attractive enough for other buyers.

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Concerns of inflation, sparked by an energy crunch and supply chain disruption, and tapering by central banks saw bond yields climb during September. Despite this, both global bonds (up 0.1%) and Australian bonds (up 0.3%) performed positively overall. This is because investor expectations of weaker long term growth saw heightened levels of bond purchases that offset the loss experienced in September.

The Australian Dollar struggled, falling 3.6% against the US Dollar and down 3% against a broad basket of trading partner currencies. Some key drivers were:

- the decline in iron ore prices driven by production curbs within China and fears for their property sector. This is maily due to the potential collapse of Evergrande, impacting a major source of iron ore demand, our largest export.
- The impact of lockdowns restricting economic activity with other countries looking comparably more attractive.

Shares

The Australian market continued to climb higher, finishing the September quarter up 1.7%. It was a case of vastly differing fortunes with energy stocks rising 9.3% on global energy supply fears. In contrast, the mining sector was down 9.9% as investor concerns about China saw a crash in iron ore prices (down 44.2%) with investors lowering profit expectations for these businesses as a result.

Global share markets also performed strongly, rising 4%. However much of this gain was due to the fall in the Australian dollar (down 3.6% against the US dollar) which increased the value of foreign shares. If we remove the impact of the Australian dollar, global markets were only up 0.6%. Optimism was an initial feature of the quarter as strong vaccination rates supported the economic reopening of Europe while US growth continued to track positively. However this sentiment reversed in September as investors grew increasingly concerned with a looming energy crunch and Chinese growth due to the potential collapse of Evergrande.

If you have any questions, or would like to discuss this further, please speak to your Financial Adviser.

Source: IOOF Research

[1] SMH Covid-19 Vaccine Tracker accessed 11 October 2021

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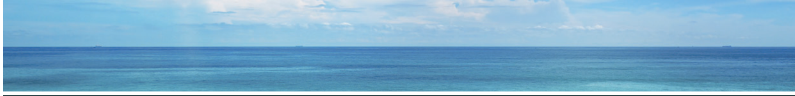

Its our business to know your business

If you are a small business owner you would know the importance of having a good team behind you. That includes a team that can help look after your finances, talk to you about appropriate business insurance and discuss succession planning for when you decide to wind up the business, or you are forced out due to ill health or death.

A professional Financial Adviser is ideally placed to have these discussions with you, and with any other business partners or family members, who may be impacted by the decisions you make.

In a time when many businesses, particularly small to medium businesses, have taken a hit with the COVID lockdowns and restrictions, now is the time to get your business plans and finances in order so you can move forward with growing your business and servicing your clients.

Contingency plans to protect you and those you love

When you are busy running your business and things are going relatively smoothly it's easy not to think about what would happen if you hit a rough patch. This could be a downturn in business, illness, injury or death of yourself or your business partner. There are many unexpected things that could stand between you and a successful transition of ownership once you are ready or forced into removing yourself from your business.

A Financial Adviser can talk you through some of the unexpected events that may occur, and the plans you can put in place to deal with them.

The importance of business insurance

There are a few different types of business insurance policies every business owner should consider – key person insurance, buy/sell insurance, business continuance insurance, professional and public liability insurance. A Financial Adviser can discuss the type of cover you may need, the different insurers on the market and any possible tax implications that you can further discuss with your accountant so you get appropriate insurance cover in place.

Tax implications

Fully understanding the tax implications of a business and business insurance policies is complex and requires specialist tax advice to ensure you end up with the optimum structure for your business ownership and policy ownership. It's critical to get professional assistance so that you understand the benefits and the tax implications now, and for future successors in your business.

Your business is not your superannuation plan

We live in a time of unprecedented change when businesses that were thriving yesterday find themselves in difficulty today – struggling to keep up with technology, superseded by more agile newcomers, impacted by recent business shutdown periods or they just plain run out of steam.

If that happens to your business, or simply your business does not yield enough profit at sale to fund your retirement, you'll need something substantial to fall back on. That's why your business and your superannuation should be separate. This may be a standalone superannuation policy in your name, or a self-managed super fund. There are pros and cons with both that a Financial Adviser can discuss with you.

With a proper superannuation policy in place for your retirement, you can rest easy that no matter what happens with your business, your hard work, the long hours, the stress and the strain on your family will all be worth it because you can retire with sufficient funds to keep living your life to the fullest.

Life beyond work – your transition plan

When the time comes for your succession to happen – and this may not be in your control – who's going to take on the day-to-day running of your business, potentially at short notice, until the transition to the new owner is complete? Having a solid transition plan in place and ensuring all the key parties who will have a role to play are across the plan is critical to ensure the smooth transition of your business and minimal disruption to your clients. Having a third party professional, such as your Financial Adviser, to assist in these discussions and the formulation of the plan can help everyone to feel comfortable that business will continue, even if you are not around.

Talk to us about your business

If you do not have a solid business insurance policy, superannuation fund and transition plan then it's time to book a meeting with a Financial Adviser and get one. We can guide you through the process – the planning and the implementation – safely and successfully.

Financial tips that anyone can use

There are lots of tips when it comes to getting ahead, financial speaking. Most of them are really simple - if you're struggling to get on top of your finances take a look at our suggestions and make a commitment to just start with one. If that works, maybe you will want to tackle a few more.

Seek advice

The importance of a good Financial Adviser

Sometimes we try and take on everything ourselves. Whilst it's great to have a can-do attitude, we cannot expect ourselves to be experts in everything, so luckily there are people who are experts in money who can help you on your financial journey. Financial Advisers understand money, they know how it works and they have the skills, tools and technology to make the complicated world of financial planning work for their clients – no matter what their age, income or financial goals.

If you want to get your finances into an achievable financial plan that helps you reach your financial goals sooner, talk to an expert, listen to their ideas, and commit to doing something about it.

Spend smart, save smarter

The importance of having a budget

What if your finances take a sudden hit, are you prepared? Events such as losing your job, being asked to take a pay cut, taking time off work to be a stay-at-home parent or suffering an illness or injury can take you out of the workforce and reduce your income – which can be a shock if you are not good at budgeting.

A Financial Adviser can work on a realistic financial budget with you and discuss personal insurance options that may provide financial protection if you become ill or injured.

And remember, a budget is not just about telling you what you can and can't spend money on, it's a way of tracking your spending, understanding what you can cut back on, compare prices and learn what you are willing to forego in ordser to reach a more desirable, long-term financial goal.

Financial planning is about exploring options

Diversifying your wealth creation strategies

There are many ways you can increase your wealth, and it's worth exploring all of them and considering whether or not they suit your individual situation, needs, values and goals. A Financial Adviser can help you look at different options such as shares, managed funds, bonds, superannuation and property, whilst keeping in mind your risk tolerance level and need for a certain level of income to pay your bills and put food on the table.

Take the lead and stay in control

Don't leave the important financial decisions to someone else, get involved

If you share finances with a partner it's a good idea to make sure you are both informed and that you discuss any major financial decisions before making them. If the relationship breaks down, or one partner becomes ill or injured, then it's good to know the other partner in the relationship has a clear understanding of your financial position, goals and expenses. If you have any questions, please speak to your Financial Adviser.

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