Summer 2020

Economic Outlook – Looking Ahead to 2021

How we get past the Coronavirus pandemic will be a defining moment of 2021. The direction of the United States under its new President, Joe Biden*, will also be watched closely around the world.

Coronavirus pandemic and solutions on offer

The Coronavirus pandemic remains a concern as we see new waves emerge, particularly in Europe and the United States. In Australia, thankfully, the case growth is currently well-contained and the emphasis is now firmly on economic recovery.

Without a vaccine we are likely to see new lockdowns and restrictions on people's movement as a backdrop of 2021. These remain one of the few options to counteract new surges, but we also expect Governments will moderate how far they go to reduce the economic cost.

On the vaccine front, we could see some good news by the end of 2020 with several large-scale trials expected to be finalised. The belief, based on promising initial results, is that one or more of these options will meet the US Federal Drug Administration (FDA) approval, setting the stage for a broader roll out in 2021.

How might the world be shifting politically in 2021?

The victory of Democrat challenger Joe Biden over President Trump in the recent Presidential election is likely to see a range of changes in how the United States is led going forward.

Domestically, it is likely he will push for a more coordinated response against the pandemic. He is also likely to push for additional US Government stimulus to offset a new surge in Coronavirus cases. He cannot implement his more radical campaign promises, such as higher corporate taxes, without a Democrat Senate. This may still happen if the Democrat party wins runoff elections next January. Although we will see vote recounts in some states, given Biden's lead at the time of writing, this is unlikely to change the outcome. Likewise, we expect legal challenges to ultimately falter given the limited legal grounds to contest the result.

Internationally, we believe a Biden Administration will focus on rebuilding relations following years of unilateral action under the Trump Administration. This could see a softer approach on China relations although, given the China concerns within the US, we think a return to a pre-Trump era is unlikely.

Elsewhere, we expect to see more attention pivot towards China as the country celebrates the centenary of the founding of the Communist Party. The country's efforts to climb up the technology value chain will be a source of further tension given the long US dominance. The rise of China has implications for Australia, with diplomatic relations strained following Australian support for an inquiry into the Coronavirus pandemic and inflammatory rhetoric by Coalition MPs. It is an area that has had investment impacts already with Penfolds producer Treasury Wine Estates one of the latest companies targeted. This behaviour by Chinese authorities may continue as they look to prioritise their interests in the broader world.

Global economic outlook

March 2020 likely marked the short-term bottom in terms of the market impacts of the recession. It will take economies some time to recover and we expect this to continue into 2021 as countries recover from Coronavirus at their own pace. Risk looms, including surges of new infections that raise the chance of continued lockdown restrictions. Another is the expiration of temporary mortgage payment deferrals and bankruptcy proceeding suspensions. In 2021 we could see an increase in business closures (and potentially

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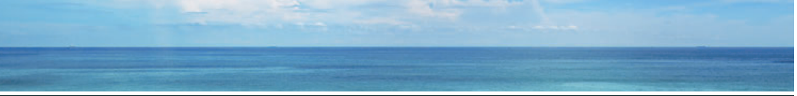


rising job losses) with temporary Government stimulus set to taper off. Importantly, across most major economies the growth momentum is strong with the JP Morgan Global Composite PMI (a good proxy for global economic health) at a 28-month high in October, even with weakness in Europe.

The Chinese economy looks set to continue growing at a solid pace with an emphasis on investment spending benefitting Australian exports - particularly iron ore. In Europe the new wave of the pandemic will take time to overcome and could see negative growth during the December quarter. Unlike the global financial crisis, we believe European authorities have learned from their mistakes and will maintain Government spending, lowering the risk of cutting it off before the economy has sufficiently recovered. The European Recovery Fund (a giant fundraising exercise across the continent) will also support spending next year, offering some cause for eventual optimism.

Australian economic outlook

We will have confirmation that the recession is over with the economy moving back into growth from the September quarter. However, it will not feel like a recovery until all the jobs lost are clawed back. The Government's 2021 Budget is attempting to promote a "business-led" recovery with investment spending and hiring incentives. However, that must be balanced against its removal of sizeable direct injections into the economy, such as JobKeeper, while limited immigration will be a headwind (fewer customers for businesses and less spending in the economy in general).

The gradual lifting of Victoria's restrictions, and the resumption of trans-Tasman travel with New Zealand, will be notable tailwinds over the next year. We expect further Government support will be forthcoming, if required by another emergency. On balance, 2021 will be a year of improvement and recovery.

**At the time of publishing this article Joe Biden is the President-elect and there are continuing discussions that President Trump may contest the outcome.*

Source: IOOF Research

Which are you – a saver or investor?

Whether you are a saver or investor could make a major difference to your lifestyle in the long run. To determine if you are a saver or investor let's look at the characteristics of the two categories.

What does a saver look like?

- Almost by definition the money you put in bank accounts, Cash Management Trusts or Term Deposits are **short-term savings**. You may use these to save for a short-term goal like a holiday or home deposit.
- Your savings are **accessible**. You can go to the bank (or your laptop) and get your money back pretty much immediately.
- The **returns are low**. Low interest rates and low deposit rates have become the order of the day, and it doesn't seem as though things are going to change any time soon. In fact, the Reserve Bank of Australia Governor Philip Lowe has said that interest rates are likely to stay low for an extended period.[1]

Why be a saver?

As you can see from the above, there are a range of reasons we save. Sometimes it's to accumulate cash towards a bigger purchase (like a holiday). That's often a sensible alternative to credit card borrowing.

Sometimes it's for security. Financial experts suggest having a rainy-day fund equivalent to around six months of your salary.[2]

So, what does an investor look like?

- Investing is more typically a **long-term pursuit**. It can last for decades – think superannuation or investing in shares or residential property.
- Invested money is **less accessible**. Lots of investment choices either lock your money away (such as super) or take months or even years to turn into a profit (such as a house).
- **Historically, returns have been higher**. In general terms, longer-term investments like shares and property generate better returns than cash savings.
- Sometimes but not always, investment assets can be more tax effective, depending on your tax circumstances.

Good news – you're already an investor

As you can see, saving is important for security and to start you towards being an investor.

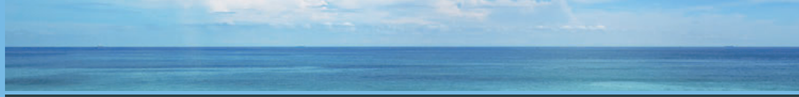
Investing – putting money into potentially higher-returning, long-term investment products – is what could eventually enable you to replace your work income with investment income.

The good news is you're already doing it. Almost all working Australians are investors thanks to compulsory super. For more information contact your Financial Adviser.

Source: MLC Asset Management

1 *Interest rates to stay low but unlikely to go 'negative'*, Philip Lowe, Governor, RBA. By business reporter Nassim Khadem, 26 November 2019. https://www.abc.net.au/news/2019-11-26/interest-rates-to-stay-low-but-unlikely-to-go-negative-says-rba/11739728. Accessed 14 August 2020.

2 *How to protect your rainy-day fund when it rains a lot. If you have a rainy-day fund but it always seems to be raining, here's how you can save for a more secure financial future.* Tim Falk, 27 April 2020. https://www.finder.com.au/how-to-protect-your-rainy-day-fund-when-it-rains-a-lot. Accessed 25 September 2020.



Transitioning to retirement

If you have reached preservation age, currently 58, the Australian Government has made it possible for you to access your super as a non-commutable income stream while you are still working.

This is called a Transition to Retirement (TTR) pension. It's designed to help you ease into retirement, but it may also be used in a TTR strategy to increase your super balance in your final working years.

Quite simply, a TTR strategy changes the way you receive your income. Instead of receiving your income from one source (your employer), you receive income from two sources (your employer and your superannuation savings).

Three ways to use a transition to retirement strategy

Lifestyle booster

Ease into retirement by reducing working hours, without have to reduce your take-home pay.

- reduce your working hours
- maintain your current take-home pay
- save on tax

Super booster

Save more super wihtout reducing your take-home pay.

- reduce your working hours
- maintain your current take-home pay
- save on tax

Income booster

Access your super to top-up your current income. But be careful, this could eat into your savings.

- top-up your current income

The tax benefits of a TTR strategy

To access a TTR strategy you need to move some or all of your super into a TTR pension. In most instances, the income you receive from your TTR pension is taxed at more favourably than your salary:

Tax concessions

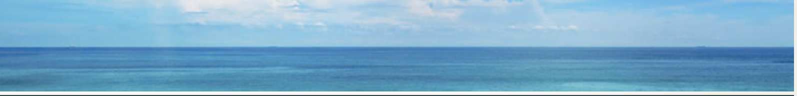
If you're between preservation age and 59, the taxable amount of your TTR pension income is eligible for a 15% tax offset.

Tax-free income

If you're aged 60 or over, your income from your TTR pension is tax free.

Quick tips about TTR:

- you must have met your preservation age
- tax breaks are great, and become even better once you reach age 60
- your pension payments can be up to 10% of your TTR balance each year
- you must receive a minimum pension payment of 2% of your TTR pension balance each year (in 2019/20 and 2020/21 financial years)
- you cannot withdraw a lump sum from a TTR pension unless you meet a condition of release



How to seek out positivity and improve your wellbeing

In April 2020, online searches for "good news" spiked to a five year high.[1] Amid all the uncertainty in the world right now, people are actively searching for uplifting stories to act as a counterbalance to all the negative news we're hearing.

It's normal to feel anxious about what the future might look like for you, your loved ones and your community. However, if you feel like it's impacting your emotional wellbeing, it may be a good idea to take active steps to add some more positivity to your life. By putting your own wellbeing first, you'll be better able to help those around you during this challenging period.

How to manage worry

While it's important to stay informed about what's happening in the world, if you're constantly glued to the news cycle it's easy to feel overwhelmed. It can be helpful to take breaks from watching, reading, or listening to news stories – including social media.

Instead, you could allocate a specific time of the day to keep up with the news, and then switch off your news feeds and alerts for the rest of the day. You could also schedule time in your daily routine to step away from your screen altogether and do something to unwind and de-stress, such as reading, gardening or going for a walk.

During times of crisis, we often get bogged down in what's happening at the moment and forget that this period will eventually pass. Try to focus on the future and make plans for six months or a year from now.

Adding positivity to your life

There are small steps you can take to improve your wellbeing and make a difference in your daily life.

Here are some helpful tips to consider:

- Create a daily routine that schedules in time for physical exercise, activities you enjoy and plenty of sleep.
- Set a purpose for each day so you don't feel like you're filling in time until life returns to normal.
- Write a to-do list and celebrate your accomplishments as you tick things off, no matter how large or small they may be.
- Do good deeds for others, such as a friend, relative or neighbour who needs help. Or, you could support a charity you believe in by making a donation or volunteering your time.

  There are countless social issues and causes vying for our attention right now. Rather than investing your energy in every issue, decide how you can make a difference in one area and focus your attention there.

The importance of connection

Social distancing and Government lockdowns – while necessary to prevent the spread of the virus – have increased feelings of loneliness for many people. That's why it is essential to stay connected with your friends, families and communities, so your physical isolation doesn't have to make you emotionally isolated as well.

Now that these restrictions are gradually being lifted, it is a great opportunity to reconnect with loved ones that you may not have seen for some time. It helps to open up to others about how you're feeling. Discussing your fears with people you trust may help you to work through them, rather than having them play over and over in your own head. There are also a number of organisations that can provide you with support; see the link below for further information.[2]

Source: Colonial First State

1 Wunderman Thompson Intelligence,The Future 100, May 2020
2 https://www3.colonialfirststate.com.au/personal/news-and-updates/latest-from-cfs/wellbeing-and-support-in-uncertain-times.html

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