Investment Update

FY20 in review

"a wild ride"

July 2020

Preda

First, a note!...

Concepts discussed herein are of a general nature.

You should ***not*** *act on the material provided without obtaining advice specific to your own needs, objectives and circumstances*.

In summary…

- An amazing and historic 6 months
- Corona Virus (Covid19) and it’s effects on the economy has been the focus of markets
- The health statistics are still good in Australia while USA cases increase, but the fatality rate may be decreasing
- Markets have rebounded well, but we are not yet sure when the economy returns to “normal”
- Different economies are at various stages of opening up; Australia not yet there
- Central banks & governments are on watch and will provide the stimulus that is needed
- Market volatility is to remain

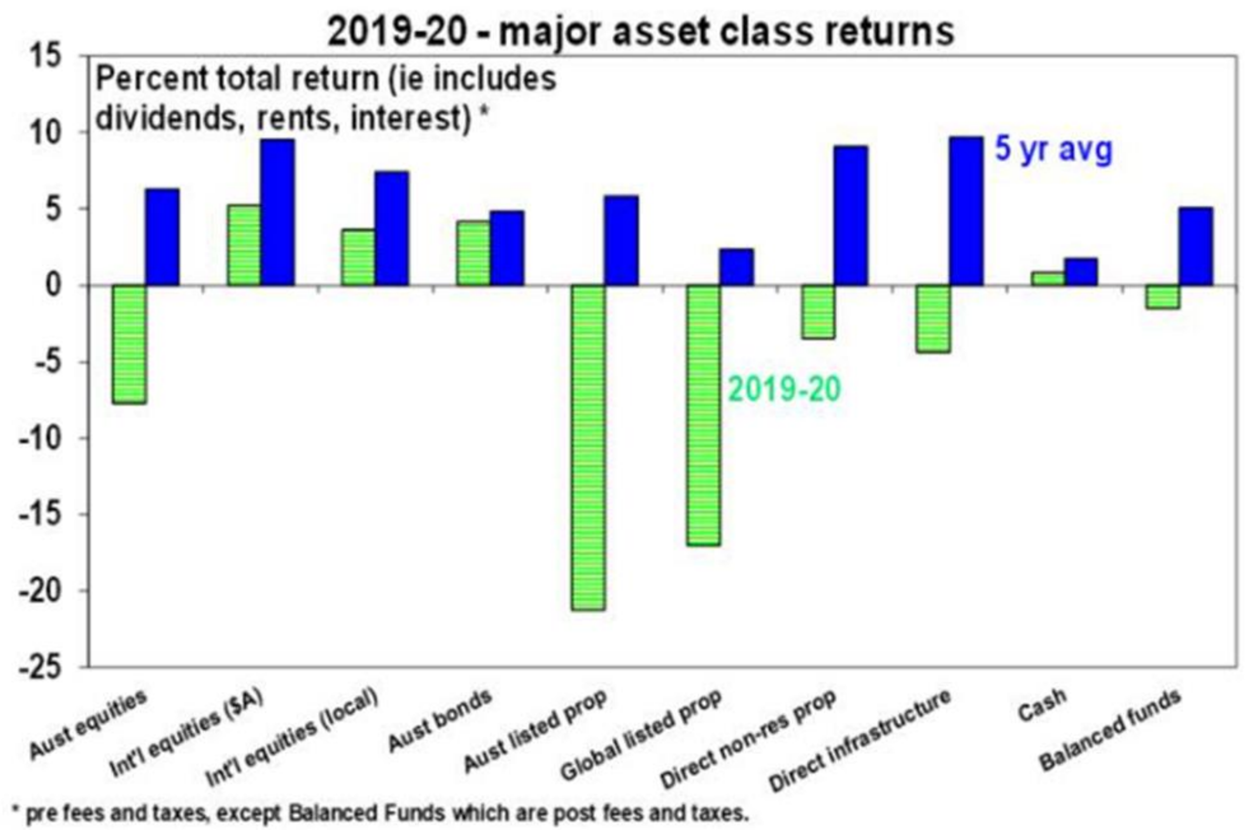
March seems so far away – A reminder

Mar 31, 2020		
Index Name	**MTD**	**QTD**
ALL ORDINARIES (TR)	-20.94%	-23.92%
S&P/ASX 100 (TR)	-20.65%	-23.01%
S&P/ASX 100 A-REIT (Industry) (TR)	-36.70%	-36.32%
S&P/ASX 100 Communication Services (TR)	-13.10%	-14.28%
S&P/ASX 100 Consumer Discretionary (TR)	-24.06%	-26.83%
S&P/ASX 100 Consumer Staples (TR)	-4.64%	-4.13%
S&P/ASX 100 Energy (Sector) (TR)	-38.32%	-48.61%
S&P/ASX 100 Equal Weight Index (TR)	-22.97%	-27.93%
S&P/ASX 100 Financial-x-A-REIT (TR)	-27.46%	-27.65%
S&P/ASX 100 Health Care (Sector) (TR)	-5.24%	2.73%
S&P/ASX 100 Industrials (Sector) (TR)	-22.39%	-27.18%
S&P/ASX 100 Information Technology(TR)	-22.53%	-29.34%
S&P/ASX 100 Materials (Sector) (TR)	-12.47%	-21.79%
S&P/ASX 100 Utilities (Sector) (TR)	-6.22%	-9.08%
S&P/ASX 200 A-REIT (Sector) (TR)	-35.14%	-34.37%
S&P/ASX 200 A-REIT Equal Weight TR	-33.06%	-31.62%

One-year numbers better…

Index Name	YTD	1 Year	3 Years	5 Years
ALL ORDINARIES (TR)	-10.42%	-7.21%	5.43%	6.22%
S&P/ASX 300 (TR)	-10.55%	-7.61%	5.24%	6.00%
S&P/ASX 300 A-REIT (Industry) (TR)	-21.02%	-20.71%	2.33%	4.73%
S&P/ASX 300 Communication Services (Sector) (TR)	-5.74%	-8.96%	-4.27%	-7.24%
S&P/ASX 300 Consumer Discretionary (Sector) (TR)	-8.43%	2.20%	6.90%	9.81%
S&P/ASX 300 Consumer Staples (Sector) (TR)	2.97%	12.03%	14.52%	12.01%
S&P/ASX 300 Energy (Sector) (TR)	-33.52%	-29.40%	-2.02%	-4.73%
S&P/ASX 300 Financial-x-A-REIT (Sector) (TR)	-18.57%	-21.18%	-4.64%	-0.98%
S&P/ASX 300 Health Care (Sector) (TR)	4.45%	27.26%	22.43%	20.79%
S&P/ASX 300 Industrials (Sector) (TR)	-17.19%	-13.58%	3.65%	8.59%
S&P/ASX 300 Information Technology (Sector) (TR)	9.82%	19.69%	23.98%	17.79%
S&P/ASX 300 Materials (Sector) (TR)	-1.39%	-0.59%	15.11%	13.05%
S&P/ASX 300 RESOURCES (TR)	-7.89%	-6.96%	14.49%	10.27%
S&P/ASX 300 Utilities (Sector) (TR)	-2.98%	0.00%	1.73%	9.42%
S&P/ASX Emerging Companies Index (TR)	-10.76%	-1.90%	5.49%	8.17%
S&P/ASX Infrastructure Index TR	-10.37%	-7.56%	2.51%	6.65%

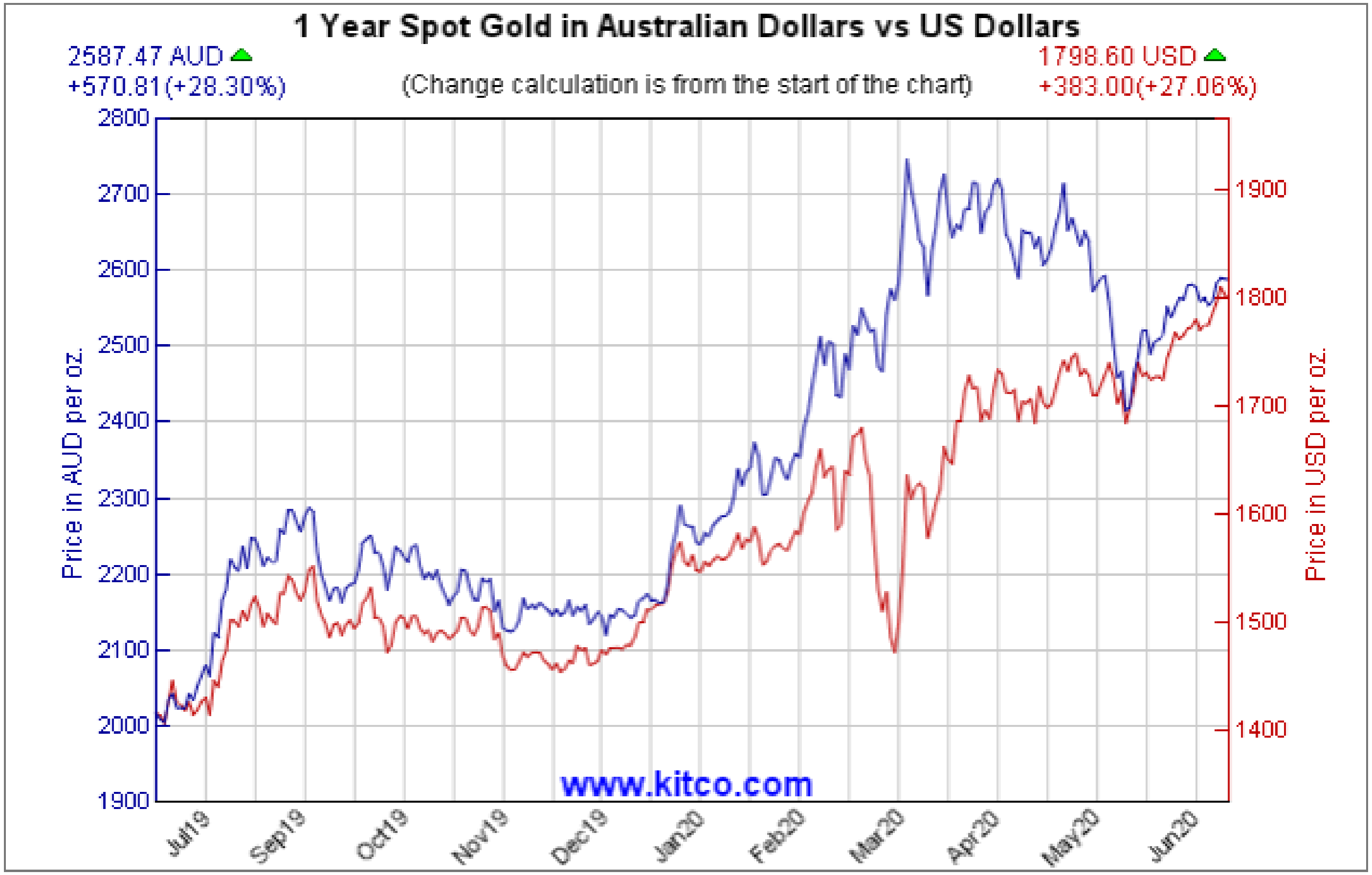
Returns for FY20 below 5-year average



Source: Thomson Reuters, AMP Capital

Gold has worked…

Given the stimulus (government and monetary) that needs to be provided…gold plays an important role



International worked also, thanks to weak AUD

Where to from here?

The world has a large debt problem

We’ve been here before (the 1940s)

Low rates are to remain for some time

We expect government stimulus to be large in 2021

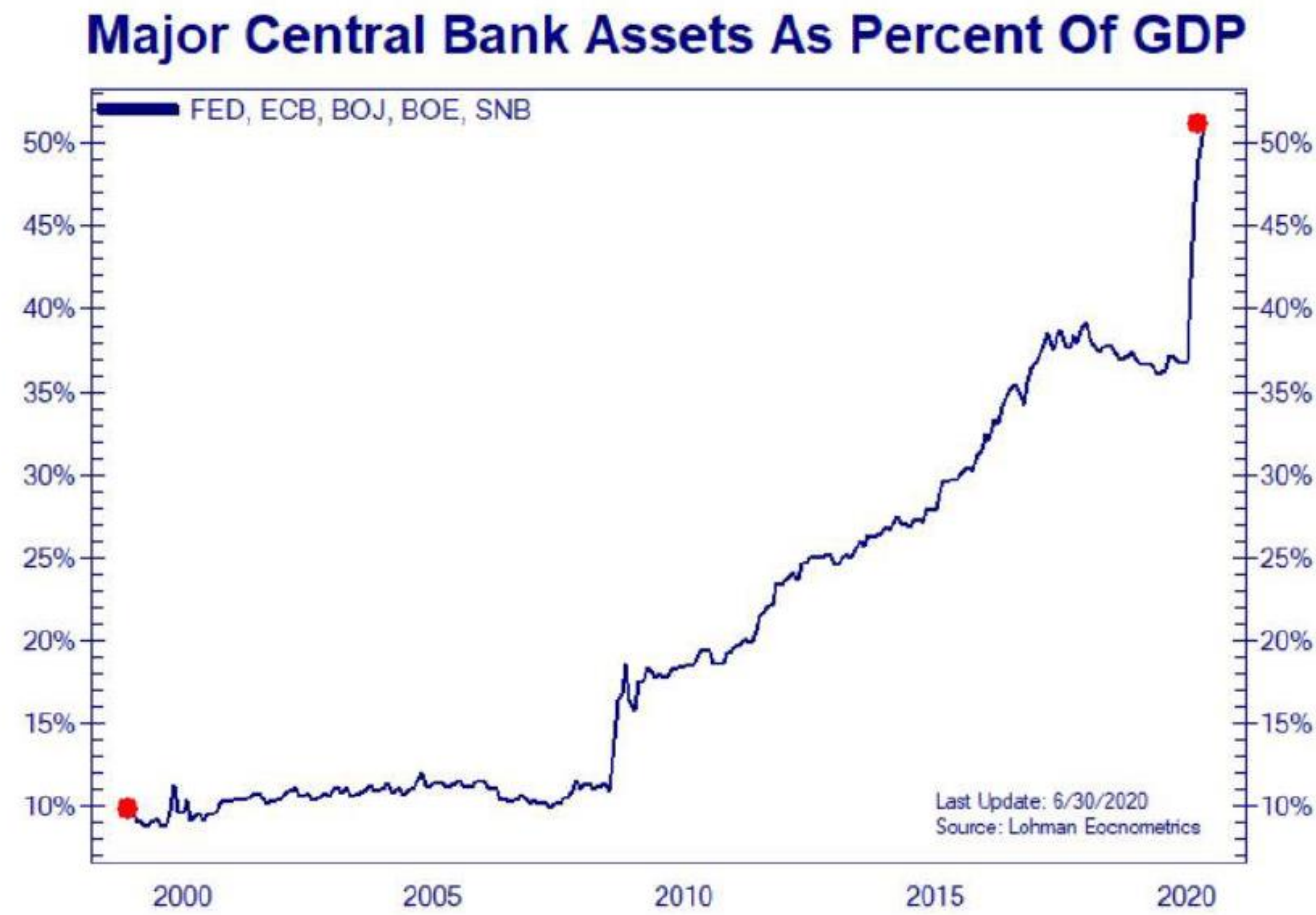
We may even get some inflation after a year or two

Aussie dollar has fallen, providing a positive for overseas assets;

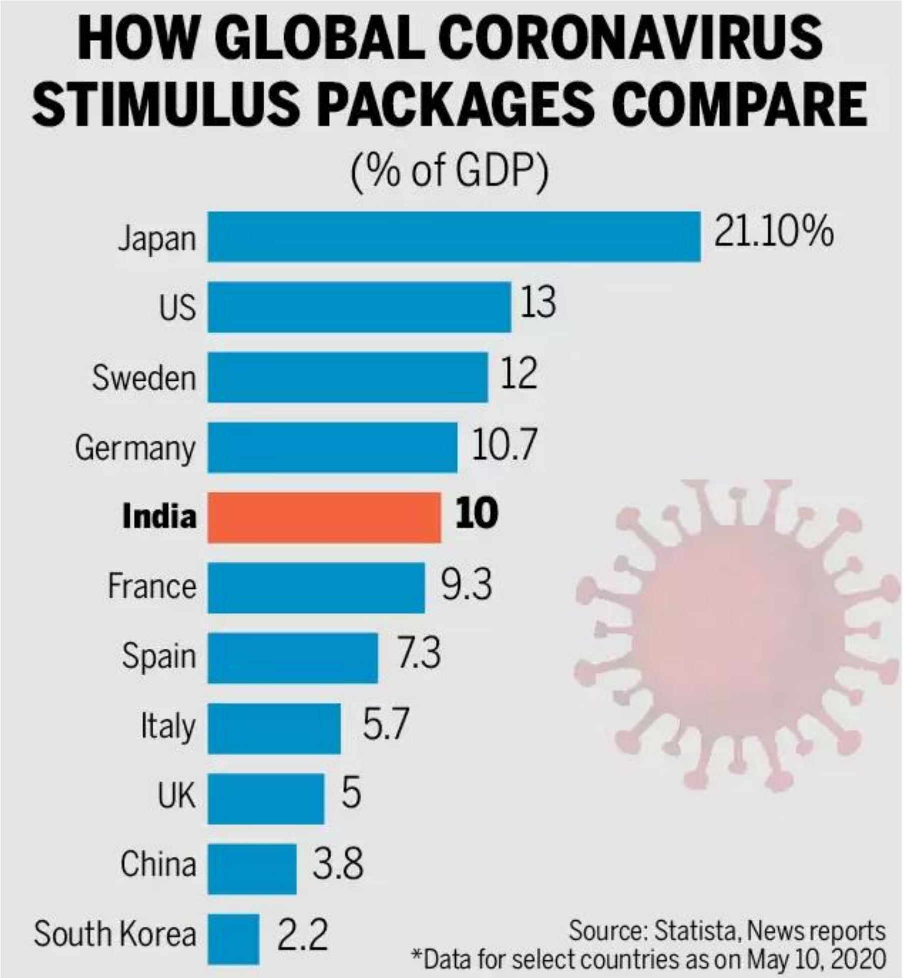
Watch the USD. If it falls, it is a +ve for commodities which may benefit from the stimulus spending into infrastructure

The All Ordinaries index first hit this level in March 2007!

Central banks have added money to system



We need to "grow" out of a debt problem so governments will step up their spending



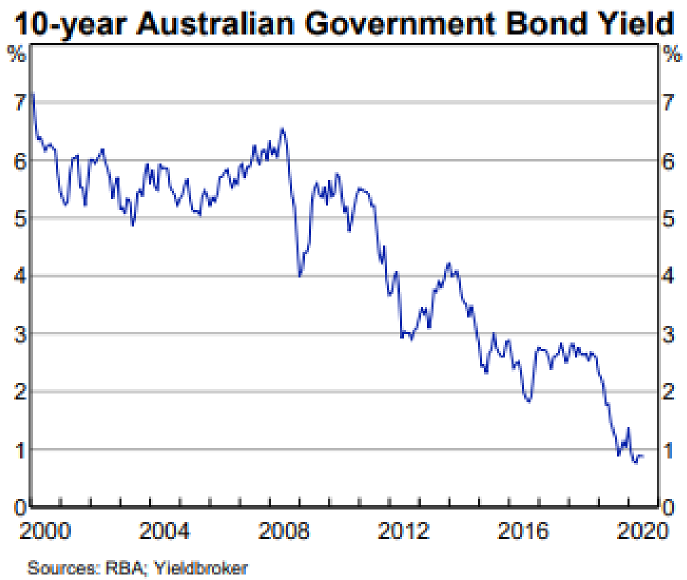
Another word for this is "reflation"

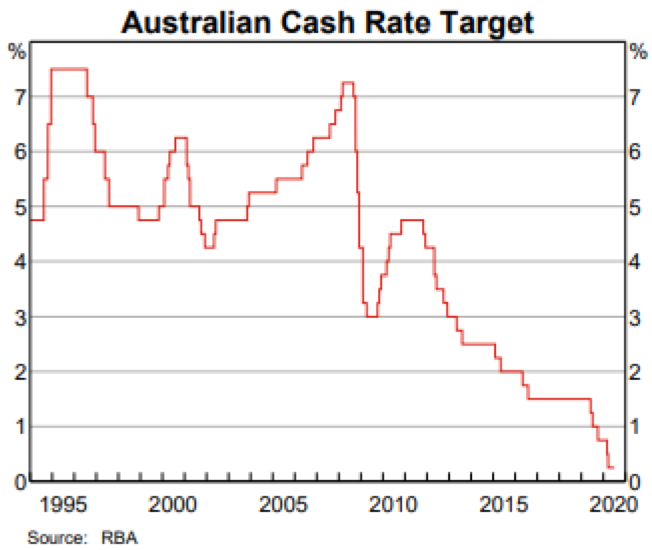
Debt to GDP is reaching 1940s levels

In the 1940s debt began to decrease…how?

Rates are low – they must remain so

If debts are high, the central banks must keep rates low…





The return from "safe" assets has evaporated…must consider investment risk more carefully

Reduced earnings means shares are not cheap

Earnings need to grow next year…

Australian Equities PE 12 Month Forward

Source: Credit Suisse, Data Stream

What risks are there?

- Investment markets may remain volatile
- USA and China tensions will remain
- Cash returns are likely to be poor
- If you need income then need to consider the alternatives with some risk
- Bonds are priced to deliver low returns
- Commercial property and infrastructure may benefit a resumption of the search for yield but we need to see how quickly the economy recovers
- Residential property market may ease over the next 12 months
- Overall returns may be constrained

Our **focus** is on what we can control

- Keep safe
- Retain enough cash for your short-term needs (12 to 18 months) and be patient with longer term assets
- Diversify adequately, relevant to your situation/needs
- We have been reviewing managers performance over this period and will make changes where needed
- If your time horizon is long - look for opportunities
- We'd rather invest when there's uncertainty, than when everything is rosy
- Don't react to headlines/social media – the market will look ahead before the headlines improve
- Discuss any changes or concerns

If you have any concerns or questions, please contact the ***Preda Wealth*** *team to ensure your strategy is still appropriate.*

We look forward to being of service.

"Client Referrals are very important to us.

If you know of anyone who could benefit from our services, please do not hesitate to contact us".

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