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financiallyspeaking

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Economic outlook

The world began 2020 much as it ended in 2019. There was growing optimism in the global economy with expectations that the US and China had 'buried the hatchet' on trade disputes and the United Kingdom (UK) would be exiting the European Union (EU) in a less disruptive fashion. This optimism lasted until February.

The global economy

During February a growing virus outbreak in China known as the Coronavirus or Covid-19 started to feature as a major concern. As of mid-May, there have been over 4.3 million confirmed cases and over 300,000 deaths globally.

Governments all over the world were compelled to impose lockdown measures that shut down businesses and restricted citizens' freedom of movement. International travel has almost entirely shutdown as countries have closed their borders. The economic damage caused by these measures has been stark, with millions of United States (US) workers filing for unemployment. Economists now

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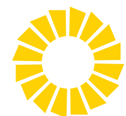

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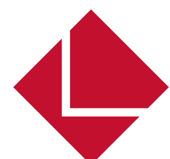

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expect a global recession to be caused by this shock. An economic recovery is expected towards the end of 2020. Substantial government spending and monetary policy, for example, interest rate cuts, will help with the economic recovery but it will take time for businesses to restart and jobs to return.

A second shock to the economy has been an oil price war that started in early March. Saudi Arabia sparked this price war by increasing production and discounting prices in a bid to punish Russia and other marginal producers. This was their chosen response when talks between global oil cartel, The Organisation of the Petroleum Exporting Countries (OPEC) and other producers failed after Russia refused to impose additional production cuts to increase oil prices. This, in addition to weak demand due to the global Coronavirus shutdowns, has caused oil prices to crash substantially. This is good for consumers due to cheaper petrol prices. However, for oil producing countries and regions in the US, this is expected to compound the economic damage the Coronavirus shutdowns were already inflicting.

Australia

Australia was not immune to the Coronavirus outbreak. The shutdown efforts appear to have been successful in limiting the human cost. As of late May, there have been a total of **102 deaths** with only **948 active cases** and over **5,700 people who have recovered**. However, the economic cost has been substantial with expectations that the unemployment rate will rise to over 10%. Australia is expected to mark its first recession since the early 1990s over the June 1990 and September 1990 quarters.

This quarter saw the Reserve Bank of Australia (RBA) cut interest rates to a record low of **0.25%** and actively buy Government bonds to keep long-term borrowing costs low. The Federal Government also intervened with substantial increases to unemployment benefits, for example the JobSeeker Payment, as well as a wage subsidy program called JobKeeper which aims to help keep businesses connected to their employees through this economic downturn. It is expected that lockdown measures will be gradually lifted during the June 2020 quarter following recent announcements by the Prime Minister. The economic recovery is expected to take some time, particularly as authorities want to limit any chance of a new wave of infections.

Shares

During the March quarter, the Australian share market fell **(-23.1%)**. At a sector level, health care **(+1.5%)** and consumer staples **(-4.3%)** were the strongest relative performers but could not offset the negative performance in energy **(-48.9%)** or the financials **(-28.7%)** and property sectors **(-34.8%)**.

The energy sector fall was due to two factors. First, the global shutdowns to control Coronavirus cases and second, the oil price war during March. These saw oil prices fall 65.6% during the quarter and had a similar impact on the share prices of companies with energy exposure.

Weakness in the property sector was triggered by the pressure of the shutdown on both retail and commercial tenants with landlords compelled to offer rental relief, which is hurting the earnings of the sector substantially in the short-term.

Fixed income and currencies

Bond prices rose, driving bond yields lower both here and overseas. In Australia, the RBA cut interest rates to a record low of **0.25%** by 31 March 2020 and signalled its intervention in the bond market to keep the three-year bond yield at **0.25%**. These measures supported bond returns as did rate cuts overseas. However, riskier bonds, such as business debt, lost value as investors were concerned about rising bankruptcies due to the economic impact of the Coronavirus. This saw negative returns for corporate bond investments.

The Australian dollar acted as a buffer for overseas investors, falling 12.7% during the quarter. Investors sold Australian dollars because they expect global economic weakness to reduced demand for commodities. This fall in the Australian dollar helps investors with unhedged overseas investments but raises the cost of imported goods.

Source: IOOF

Staying on track

As human beings, we have a natural preference for things to stay as they are. It's a tendency psychologists refer to as status quo bias. But in a world where change is a daily reality, sticking to the status quo could mean getting left behind.

Regularly checking in on your retirement plan is always a sensible strategy. Keeping track of your finances becomes even more important in times of economic uncertainty. Given the changes we've seen due to Coronavirus, now is a good time to take a look at your retirement income plan with fresh eyes. We've put together a list of resources to help you.

Put your assumptions to the test

Making sure your retirement income is secure is an essential ingredient to a comfortable retirement. But many Australians rely on incorrect assumptions when making decisions about their money.

Are you 100% sure you've got the facts?

Learn how to protect your income from poor share market performance

Recent events in global markets have put money in the spotlight for many retirees. According to the ABC's Covid-19 Monitor [1], over half of the Australians surveyed are 'very' or 'extremely' concerned about the economic impact of the Coronavirus. In fact, they're more worried about the economic impact than their own personal health risk.

The first quarter of 2020 has seen significant falls in both domestic and global share markets, which may have left you feeling concerned about the impact on your retirement income. The good news is, there are steps you can take to feel more confident about your money.

We explain the risk of poor share market performance in retirement and explore options to help you protect your retirement income.

Flex your budgeting muscles and keep spending on track

Chances are your spending patterns have changed since 2020 began. Research[2] for the first quarter of 2020 showed that overall, household spending behaviours were more conservative as significantly more consumers cut back on non-essentials. While many Australians are spending more on items like food and groceries, spending on eating out, holidays and travel has obviously fallen.

With less temptations for spending, now could be a good time to revisit your budget. Have any of your expenses gone down recently? Have you found there are things you can do without? What things have been essential to your lifestyle and wellbeing?

Staying on top of your budget is key to spending confidently in retirement.

Find out if your retirement income will last for your lifetime

With longer lifespans and less certainty in world markets, making sure your money goes the distance is more important than ever. It's no wonder that 84% of older Australians rated the desire for regular and constant income as very important[3]. But how do you make that happen?

Put your retirement income to the test and get results that show:

- how long your retirement savings will last;
- whether you're eligible for the Age Pension or an increase in payments; and
- how much annual income you could guarantee for life by adding a lifetime income stream to your retirement income plan.

Get help from the experts if you're feeling uncertain

At times like this, it can be hard not to worry. In fact, we're hard wired to pay greater attention to bad news[4] which can create anxiety for even the most confident investors. Talking to a financial planning professional can ensure you're following a strategy to achieve your goals for your retirement income.

1 https://www.abc.net.au/news/2020-04-28/coronavirus-data-feelings-opinions-covid-survey-numbers/12188608

2 https://business.nab.com.au/nab-consumer-anxiety-survey-q1-2020-39188/

3 https://nationalseniors.com.au/uploads/09172675CRP_ChallengerReport_RetirementIncome_FN_0.pdf

4 https://www.psychologytoday.com/au/articles/200306/our-brains-negative-bias

Source: Challenger

Embracing the fear

Sharemarkets are the most volatile they've been in the past 20 years. Increased uncertainty, fear, forced and panic selling, as well as reduced liquidity, are all contributing factors to currently elevated levels of volatility.

A simple measure using intraday price fluctuations can be used to understand the extent of the current volatility in the market. The graph below charts intraday volatility since 2000, with the average being 2.8%. In March 2020, the intraday volatility however, was greater than at any other time and significantly exceeded the peaks during the period of the Global Financial Crisis (GFC) between 2007 and 2009.

In March this year there were nine trading days with volatility above 10%, seven of them consecutive. During the GFC there were only four days in total with greater than 10% intraday volatility and no consecutive trading days. Recent volatility has far exceeded other extreme world events which are represented by the peaks in the chart below, including the September 2001 terrorist attacks, the collapse of Lehman Brothers during the GFC, Black Monday on 8 August 2011 (which followed the credit rating downgrade of US sovereign debt), the US and Chinese flash market crashes of 24 August 2015 and news on Donald Trump's likely election victory on 9 November 2015.

Despite having fallen from its peaks, volatility currently remains about twice the average.

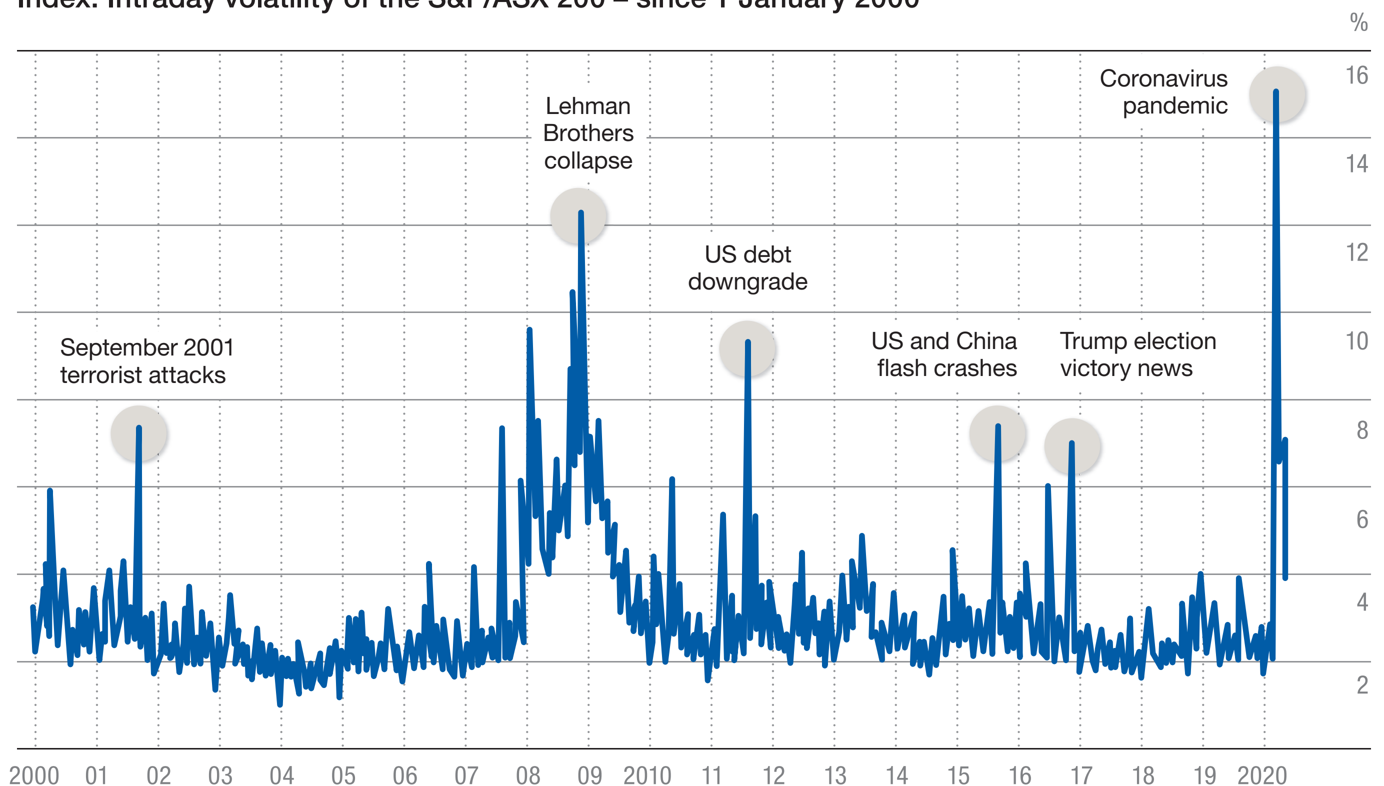
Don't fear volatility. Embrace it

With elevated volatility, you could be forgiven for looking at this graph and wanting to run for the hills. But the reality is that volatility is your friend when investing for the long term – with the at times extreme fluctuations in price presenting excellent (long-term) buying opportunities.

The causes of the current bout of volatility are certainly different and it is unclear if they warrant the elevated levels of volatility we've seen relative to other cycles. But in each of the previous bouts of market volatility, significant opportunities were presented to long–term, patient investors. It is hard to believe that this will be any different today.

Source: Allan Gray

Index: Intraday volatility of the S&P/ASX 200 – since 1 January 2000



Fight the flight

We all know the old saying 'buy low, sell high' – right?

As fundamental as this may seem, when the reality of a market crash sets in, we see behaviour move from rational to irrational as investors abandon their accumulated wisdom and succumb to the prevailing panic of the day. However, as is often the case with old sayings, they are fundamental truths, which are supported by theoretical study. In this case, panic-selling at the bottom of the market engages both sequencing risk and longevity risk.

In time to come, books will be written about the investment markets we have all witnessed in the past few months, and scholars will complete PHDs on the underlying psychologies at play.

But what should we do in the moment?

It is absolutely important that investors avoid emotional, panicked decision making. Investors who panic sell run the risk of selling low and crystallising losses in their portfolios. Even now, as local and international markets have fallen precipitously, the fundamental tenets of good investment remain unchanged: Quality assets, quality structures and quality management.

Ask yourself the following questions:

- Are the assets in my investment portfolio of high quality?
- Will the assets in my investment portfolio survive this period of economic uncertainty?
- Does my portfolio earn sufficient income without having to crystallise losses?
- Have I assembled a trusted cohort of professionals: financial advisers, estate planners, insurance brokers and fund managers?
- Do I have confidence they will act as conservative stewards of my wealth?

As we emerge from the coronavirus, the pace of economic rebound cannot be guaranteed. What we do know is that investors who take a measured, calm and rational approach to their investments throughout this period will likely fare much better than those who allow panic to drive their decision making.

As mentioned, one of the largest risks that face investor portfolios of retirees or those leading up to retirement is sequencing risk. In short, this refers to the risk that you incur capital losses at the point of retirement or during retirement. At that stage, you simply won't have time to wait for long-time market trends to recover your losses. Further, your losses are likely to be exacerbated by the need to sell assets at their reduced value to meet living expenses.

Failure to manage sequencing risk ultimately leads to elevated longevity risk, which is the risk of running out of funds in your retirement, or out-living your savings. This is a fundamental issue as we live longer, and particularly in the face of the market upheaval we are currently experiencing.

Of course, you can expect significant pressure to rebalance portfolios right now. The tumult in markets recently will undoubtedly have affected your portfolios and shifted the goalposts you had set in your retirement planning. Your financial adviser will be working to establish the best means of generating your portfolio objectives without significantly increasing risk or sacrificing capital values.

Indeed, keep assessing your portfolio: Ensure you have a trusted team around you to navigate this period; align yourself with fund managers and assets that have strong track records across multiple cycles; and ensure your portfolio aligns with your risk appetite.

Most importantly, take care not to make fundamental mistakes that may have a negative impact on your portfolio, or your lifestyle, for years to come.

Source: Latrobe Financial

Market volatility and how it is affecting your super

In recent weeks, investment markets around the world have continued to experience significant volatility as investors try to assess the impact of the coronavirus (COVID-19) outbreak – an event that no-one anticipated for 2020. If your super is invested in the Australian and/or international share markets, it's likely you would have been affected by this.

How much of your super is invested in shares is also important. For example, if you're invested in a high growth strategy, or are in a lifestage fund and not looking to retire any time soon, it's likely you'll have more of your super invested in shares.

If you're invested in a lifestage fund and are closer to retiring, or have selected defensive strategies, your exposure to the share market and any risks associated with it may be lower than a high growth strategy.

What this means for you

Our message at this time is to stay calm and don't panic.

Super is a long-term investment, so while investment markets can be unpredictable over the shorter term, they typically recover over the longer term.

If you're approaching or are in retirement, it's still important to stay focused on your long-term investment strategy and consider all your options before making any significant changes.

You should consider keeping the following things in mind when looking at your super and what's happening in global markets:

Stay calm

Over time, the value of your super investment can fluctuate, depending on a range of factors, including market conditions. Reacting to short-term market conditions may mean you're missing out on subsequent market improvements.

Diversification

Most members in super funds (including MySuper) are invested in a variety of asset classes, not just the share market. Different asset classes perform differently over time which helps to even out the highs and lows of market volatility in a particular asset class.

Long-term investing

Super is a long-term investment so many investment objectives focus on a 10-year period. It is expected that there will be periods of volatility, but over the longer term, markets may recover from short-term movements.

Stick to your plan

Understand how much risk you're comfortable with taking when it comes to how your super is invested and build this into your financial plan. You may want to consider regularly reviewing your financial plan to make sure it still reflects your current needs. For instance, if you're moving towards retirement and your super is invested in a high-growth investment strategy, your level of risk may be too high.

Seek advice

If you need assistance with determining the level of risk you're comfortable with taking on, or if your financial plan is still meeting your needs, you may wish to consider seeking the advice of a qualified financial planner. With a well-formulated plan, you may be better placed to withstand periods of volatility.

Below, you'll find some insights about the market and what is happening right now. This may help you learn about the impact markets may have on your super.

Common Questions and Answers

What does it mean for my super?

The value of your super can change daily depending on how your super is invested. The value and performance of each investment option is linked to the underlying asset classes (types of investments e.g. shares, property, fixed interest etc) it invests in and these fluctuate in line with the performance of these assets and the market.

As your super may be invested in the Australian and/or international share markets, you may have experienced a fall in your super balance.

What does it mean for my investments?

Depending on where your super is invested and whether it's in a high growth strategy, your super is typically invested into one or more asset classes (typically Australian and international shares, property, bonds and cash). You may have experienced a fluctuation in your investment value which reflects the performance of the assets your super is invested in. Long term growth assets such as shares and property tend to fluctuate and are more volatile in the short term, but over the long term generally produce higher returns than other asset classes.

What should I do?

Super is a long-term investment. Changing your asset allocation as a reaction to short term market fluctuations is an important decision and depends on a number of factors including your age, life stage and risk appetite. You should seek advice before changing your long term investment strategy.

Accumulating super

If you're still accumulating super and not intending to retire for a number of years you might want to consider staying with your current investment strategy instead of trying to 'time the market'. It's important to remember that the performance of your super often depends on your time in the market which can be disrupted if you try and 'time the market' e.g. by switching out of a growth asset class when its performance is falling and switching back in again when markets and unit prices are rising. It's difficult to pick the top of the market and the bottom, but sticking to your strategy over the long term will likely mean you are better placed to capitalise on growth and minimise losses.

Approaching / or are in retirement

Alternatively, if you're approaching, or are in, retirement it's important to stay focused on your long-term investment strategy.

Important to diversify

It's also important to remember the importance of diversification (investing in different asset classes) when determining an appropriate investment strategy. Diversification helps to manage risk and soften the impact in the event of a significant market fall.

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Source: BT

Transitioning to retirement

If you are over 55 (and have reached your preservation age) 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 having to reduce your take-home pay.

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

Super booster

Save more super without 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.

Features and Benefits

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 favourable rates than your salary:

Tax concessions

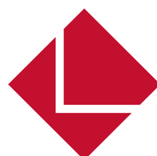
If you're between preservation age and 59, the taxable amount of your TTR pension income is eligible for a 15% tax offset.

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 20219/20 and 2020/21 financial years)
- you cannot withdraw a lump sum from a TTR pension.



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