

Newsletter January 2020

Welcome to the January Edition of the Axis Financial Advisers Newsletter.

I would like to take this opportunity to wish all our clients a happy new year and we look forward to working with you all in 2020.

Once again thank you to everyone who referred a friend, family member or colleague to my practice. Your continued support is always appreciated.

Economic News

Australia

In the final quarter of 2019 and into the new year, terrible bushfires have ravaged much of the country. The federal government (and also State governments) have recently announced a fairly comprehensive package to aid the recovery.

The economic impact is unknown at this point in time but it is likely to negatively impact tourism and agriculture.

The government aid package and donations should provide some sort of a boost to local communities and the broader economy as they rebuild.

Another interest rate cut is now more likely although the flow on effects from these interest rate cuts have become fairly muted.

Europe

With the landslide victory of Boris Johnson in the UK election, there should finally be enough impetus to proceed with Brexit. Eliminating this uncertainty should be good for markets. The impact on the UK economy is likely to be significant as well but it should have a muted effect on your portfolios.

China

A “Phase One” agreement was reached with the United States in regards to the ongoing trade dispute. The preliminary trade deal doesn’t achieve much except for winding back some recently introduced tariffs and also provide some guarantees around the purchase of US goods by China.

It is essentially a process to appease markets and put everything on hold for the time being.

This announcement has essentially taken the “trade war” out of the daily news cycle which has been positive for markets. There is a strong indication that “Phase Two” will not begin until after the US election in November.

United States

A slowdown (but not necessarily recession) is now expected in the United States after a number of strong years of economic growth. Unemployment remains low and employment growth remains strong so the slowdown is related to concerns stemming from the trade war and uncertainty surrounding the upcoming elections.

Markets

The general tone of markets remains relatively bullish. Most stock markets are trading at or close to all-time highs.

Falling cash rates around the world are forcing investors to seek out higher returns from growth assets such as shares and property. The easing of concerns with regards to the trade war and Brexit have also helped.

There is no doubt that new issues will arise which cause spikes in volatility, the latest such issue being Iran and the US currently engaged in a stand off after the assassination of an Iranian General.

The last time the Australian share market reached current levels (excluding dividends) was in November 2007.

Returns since the last peak in the Australian share market (**November 2007**) have been as follows:

	March 2009 (Generational Low)	August 2013 (Breakeven)	November 2019 (Current)
Cash	6.70% p.a.	4.70% p.a.	3.40% p.a.
Australian Bonds	10.20% p.a.	7.30% p.a.	6.30% p.a.
Australian Property	-53.00% p.a.	-7.90% p.a.	2.50% p.a.
International Shares	-21.40% p.a.	0.60% p.a.	7.60% p.a.
Australian Shares	-29.40% p.a.	0.00% p.a.	4.60% p.a.
US Shares	-18.40% p.a.	3.50% p.a.	11.20% p.a.

The above table highlights the importance of diversification (both Australian and Global shares) and the buffer that bonds can provide in a significant market sell off.

Asset Class Returns

The following table highlights returns from key asset classes to 31 December 2019*:

Asset Class	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Cash	0.58%	1.58%	1.75%	1.95%
Australian Fixed Interest	0.63%	7.26%	5.14%	4.18%
International Fixed Interest	1.56%	7.19%	4.15%	4.20%
Australian Listed Property	1.41%	19.57%	9.54%	11.21%
Australian Shares	3.75%	23.40%	10.26%	8.97%
International Shares (50% hedged and 50% unhedged)	9.05%	27.36%	12.91%	11.13%

*The above returns were compiled from various sources. More information on the source of the data or compilation can be obtained by contacting Axis Financial Advisers. Past returns should not be relied upon to make investment decisions. The above table does not in any way constitute financial advice and should not be interpreted as such.

Legislative Update

Transfer Balance Cap

The transfer balance cap reflects the total amount which can be held in a retirement income stream when the account is commenced. From July 2020, this figure will increase from \$1,600,000 to \$1,700,000.

Salary Sacrifice

Rules were recently introduced which mean that an employee's "salary sacrifice" contributions cannot reduce an employer's Superannuation Guarantee obligations. This rule will come into effect from the 1st January 2020. It is worth noting that it was extremely rare for an employer to do this.

Super Guarantee Opt-Out

For high income earners with multiple employees, there is now a form available which allows the employee to opt out of receiving SG contributions. This helps avoid the situation where an individual exceeds their concessional contribution cap.

If you have any questions about this report or any other matter, please don't hesitate to contact me.

The contents of this newsletter are general in nature and you should seek specific advice before acting on anything contained in herewith. Any component of this newsletter may not be reproduced without the express written consent of the Author.