logical financial management

Logical Thoughts

ONE OF THE SHARPEST BULL MARKETS IN 100 YEARS

Investment markets update

The latest forecasts for the global economic outlook are pointing to a gradual recovery, and growth assets have improved from their previous COVID-19 losses. Markets, however, have remained choppy as investors waver between optimism about eventual recovery and renewed concerns about the final cost of the COVID-19 outbreak, as well as impending uncertainties (including second wave infections). Investors will need to be realistic about the time it will take to get back to pre-outbreak conditions. On the plus side, monetary and fiscal policy everywhere is very supportive, and historic low-interest rates will help fixed interest (bonds) preserve portfolio capital. In Australia, as elsewhere, there are signs that the very worst is past, but strong recovery in corporate profitability is still some considerable distance away.

Australian share market update

Australian shares suffered a one in a hundred-year event (COVID-19) and two ‘black swan’ events (credit crunch and oil shock) and hit a market low on the 23rd March 2019. Since then we have now experienced one of the sharpest bull markets in Australian history, surpassing 30% from the March lows.

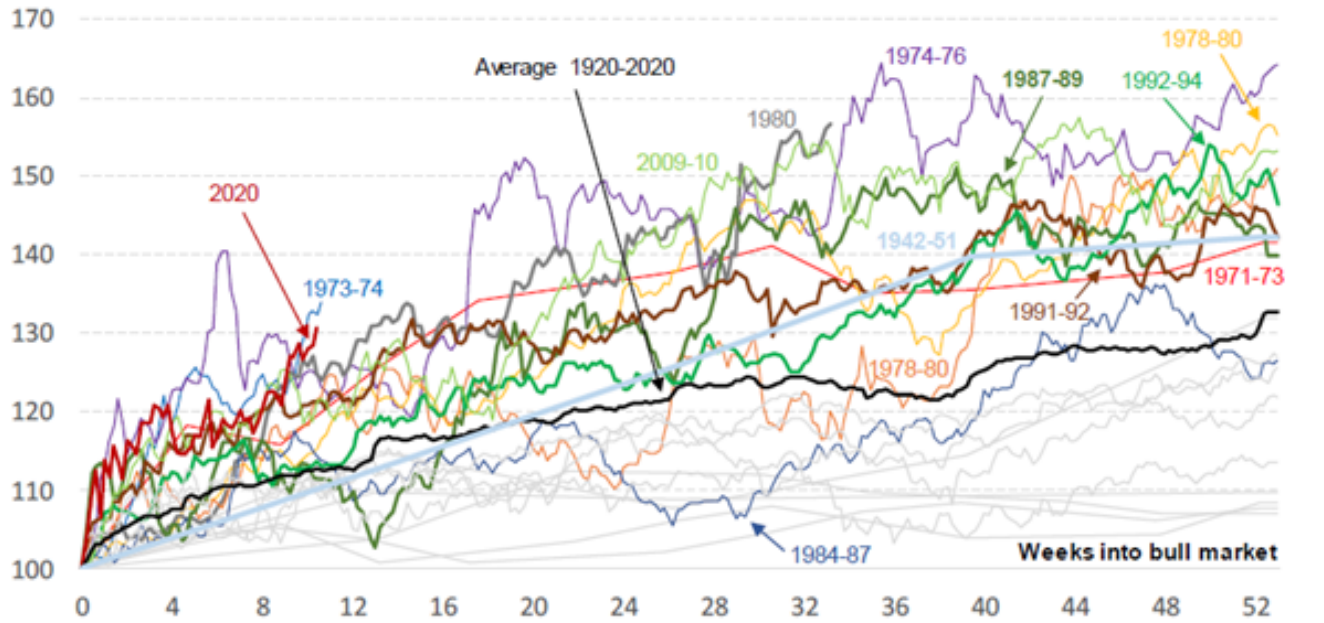
Typically, the median capital return over the first 12 months of a bull market has been just over 30%. The current bull market in the Australian share market (+31%) has achieved this in just 12 weeks. At this stage, the current bull market is the second sharpest in history (see diagram below).

While history is never a perfect guide for the future, we believe the current bull market has further to go. Of course there will be pull-backs (as recently proven), but we expect the trend in markets will be higher. Our positive view is based on still attractive company valuations, clearly accommodative monetary and fiscal policy and the relatively short-term nature of the profits decline.

But the bad news is that the economy, though just past the very worst, is still in weak shape and has a long way to go to return to pre-COVID-19 levels. National Australia Bank's May business survey, for example, found that "Business conditions saw a broad-based improvement in the month but remain deeply negative – at a level last seen coming out of the GFC. The services sectors remain weakest, but all sectors continue to see negative conditions. Business confidence increased further from its low point in March but remains weak with a current reading last seen around the trough in the 1990s recession".

Figure 1: This is one of the sharpest Aussie bull markets in 100 years

ASX 200, or equivalent, capital return during the first 52 weeks of a bull market



Source: RBA, Refinitiv, MST Marquee.

Global share market update

After their sharp fall in February through to mid-March, world share prices recovered steadily through April and May and into early June. In recent days, however, prices have struggled on a more downbeat assessment of the post-COVID-19 global economic outlook and new cases of COVID-19.

Just as Logical mentioned back in March, investors should try to ignore the market volatility and depressing economic data set and take a long-term view. History had shown that if you were patient you would be rewarded. As table 1 highlights, you have been rewarded with a substantial V bounce from the lows in March 2020.

Table 1: Equity markets index and returns 2020

Index	Pre virus 2020 Peak	23 March (Low)	Peak/Low (%)	16 June (Present)	Low/Present (%)
Dow Jones	29,551	18,591	-37.1%	26,290	41.4%
S&P 500	3,386	2,237	-33.9%	3,125	39.7%
Nasdaq	9,817	6,860	-30.1%	9,895	44.2%
DAX (Germany)	13,789	8,441	-38.8%	12,315	45.9%
Shanghai Comp (China)	3,072	2,660	-14.6%	2,920	9.8%
S&P/ASX 200	7,162	4,546	-36.5%	5,952	30.9%

The World Bank's baseline forecast is that the world economy will contract by 5.2% this year. The Bank said that "this would be the deepest global recession since World War II, and almost three times as steep as the 2009 global recession," with the developed economies suffering worst (a 7.0% drop in GDP compared with a 2.5% decline for emerging markets). The bank's forecast of 4.2% global GDP growth means that world GDP will still be lower at the end of next year than it was pre-COVID19.

The takeaway is that if all continues to go along the lines of the World Bank's base forecast or the OECD's "single hit" scenario, world business activity will have got back to pre-COVID-19 levels at the end of 2021. FactSet's latest (12 June) round up of share analysts' expectations for U.S. profits shows the same expected outcome: a 21.4% drop in profits at the S&P 500 companies this year, followed by a 28.6% rise in 2021, which means that profits at end of 2021 will be only slightly (1.1%) above levels at the end of 2019. At this point, a gradual 18 month return to where equity markets were before the virus outbreak is a plausible outlook. Investors will need to remain realistic about the speed and extent of corporate recovery.

Impact of COVID-19 on total performance -31st May 2020 - update

All major market indices finished the month of May in the black. The equity market continued to rebound strongly, though not with quite the same enthusiasm as had been the case in April, with the ASX200 Accumulation Index (capital and income) posting a 4.3% gain for the month. The response in fixed interest markets, though positive, was more muted, as all the major indices recorded slight gains. The exception to this was the AusBond Credit index, with a solid monthly annualised return figure of circ 8.8%.

It is pleasing to see that many of Logical's preferred "active" investment managers not only outperformed their benchmark during the lows of the market but continued to do so as the market bounced off their March lows.

Please note that the Plato Australian Shares Income Fund performance numbers do not include franking credits. The key objective of this specific strategy is to provide an annual gross yield (including high levels of franking credits) that exceeds the gross yield of the benchmark and since inception has generated a yield of 9.4% (including franking credits of 2.6% vs the market of 1.5%).

A key investment belief of Logical is that active managers can outperform index or passive investments (benchmark performance) over the long term by taking advantage of inefficiencies in the pricing of markets - particularly in the case of International and Australian shares.

Table 2: A sample of Australian shares/ETF and unlisted Australian wholesale managed funds: 1,3 months and 1 year (outperformance or underperformance) to 31st May 2020

Australian shares fund managers/ Direct Shares	1 month (%)	3 months (%)	1 year (%)
State Street Australian Equity Fund	4.53	-7.99	-4.80
Plato Australian Shares Income Fund	5.17	-13.50	-11.93
Hyperion Australian Growth Companies Fund	5.06	2.07	13.81
S&P/ASX Top 20 (ILC)	2.60	-12.38	-9.40
L1 Capital Long Short Fund	10.94	4.95	3.86
Westpac	5.77	-27.16	-36.07
NAB	6.78	-27.72	-29.23
CBA	1.69	-22.05	-13.77
Transurban Group	3.55	-3.77	8.57
ANZ	5.86	-27.95	-34.20
BHP Group	7.08	6.16	-4.08
S&P/ASX 200 Accumulation Index	**4.36**	**-9.92**	**-7.31**

Source: Morningstar Direct

Table 3: A sample of unlisted International wholesale managed funds: 1,3 months and 1 year (outperformance or underperformance) - to 31st May 2020

International shares fund manager	1 month (%)	3 months (%)	1 year (%)
Magellan Global Fund	1.78	-0.51	15.41
Magellan Global Fund (AUD hedged)	3.18	0.71	8.46
Walter Scott Global Equity Fund	3.31	0.86	13.83
Antipodes WS Global Fund	0.71	-5.37	2.48
Franklin Global Growth Fund	7.58	6.28	28.05
Munro Global Growth Fund	3.87	9.61	23.42
MSCI World ex Australia (nr) (benchmark)	**3.40**	**-1.77**	**10.69**

Source: Morningstar Direct

Table 4: A sample of direct property and infrastructure wholesale managed funds: 1,3 months and 1 year - to 31st May 2020

Direct property/infrastructure fund manager	1 month (%)	3 months (%)	1 year (%)
RARE Infrastructure Value Fund (unhedged)	2.83	-8.24	3.95
Charter Hall Direct Office Fund	0.27	-0.09	11.36
Charter Hall Direct PFA Fund	0.27	0.23	8.84
Charter Hall Direct Industrial Fund No.4	0.28	1.70	9.70

Source: Netwealth

Table 5: A sample of unlisted credit and fixed interest managed funds: 1,3 months and 1 year to 31st May 2020

Fixed interest/credit	1 month (%)	3 months (%)	1 year (%)
Bentham Global Income Fund	3.50	-3.62	-2.10
PMCO Global Bond Fund	1.01	-1.28	4.08
Macquarie Income Opportunities Fund	0.77	-2.77	0.18
Franklin Australian Absolute Return Bond Fund	0.75	-0.74	1.74
PIMCO Australian Bond Fund	0.80	-1.45	3.48

Source: Morningstar Direct

What's next

Volatility, uncertainty, complexity and ambiguity. These are the conditions investors face today. While investment professionals can speculate on where financial markets will go in 2020 and beyond, the simple truth is they don't know the answer. Risks are elevated. There could certainly be further downside movements over the short term.

However, clients at Logical with well and intelligently diversified investment portfolios containing multiple asset classes (including equities) and quality investments should maintain focus on their investment objectives and time horizon for investment. At Logical, we focus on investing rather than 'speculating'. It is during periods of sustained equity market stress where we expect asset classes such as fixed income, alternatives and unlisted real assets to come to the fore. It is also worth remembering that during periods of high investment market volatility, active investment managers thrive by adding to positions or buying new positions in companies that they wouldn't have whilst prices were higher.

It must also be clearly understood that any attempt to time entry or exit into these markets is fraught with risk. It is difficult even for the seasoned professional to do this successfully. Uncertainty is always going to exist in financial markets. Depending on your risk appetite, this can either be thrilling or daunting. There is always pressure to achieve superior returns and this can be even more prevalent during periods of volatility but over the long term this volatility is overstated.

Gavin Shepherd
Portfolio Construction & Investment Research Manager

Gavin brings with him a wealth of knowledge and experience, including:

- Head of Multi Manager Strategies ING
- Head of Australian Equities ING
- Research Manager
- Economic Research Manager

COMMONWEALTH SENIORS HEALTH CARD REMINDER

If you are of Age Pension Age but ineligible to receive any Age Pension, check whether you are eligible for the Commonwealth Seniors Health Card (CSHC). Whilst an application can be made at any time, the government's Economic Support Payment of $750 will be paid to those who have a card on 10th July.

There is no assets test for eligibility, but there is an income test, with current thresholds being:

Family Situation	Income threshold
Single	$55,808
Couple	$89,290

Other eligibility criteria apply, and full details can be found here:

https://www.servicesaustralia.gov.au/individuals/services/centrelink/commonwealth-seniors-health-card

Applications can be made online via myGov, or by completing a paper form. These details are also on the link above.

Kate Cramsie
Financial Adviser

Kate has been in the industry for over 20 years and is a senior adviser at Logical.

She holds a Bachelor of Business (University of Technology, Sydney), Diploma of Financial Planning (Deakin University) and is a Certified Financial Planner.

CYBER THREATS & CORONAVIRUS

Our clients have reported COVID-19 scams being transmitted via email and text messages. Some examples include fake COVID-19 apps which, when accepted, give access to the data on the victim's mobile devices &/or computer. Others, such as the Maze ransomware, relate to hackers stealing files from their victims before locking the devices with ransomware-based encryption. The stolen files are then used as leverage by the Maze hackers, who threaten to make the data public unless the victims pay the ransom.

Scamwatch, which is ran by Australian Competition and Consumer Commission (ACCC) has compiled a list of Current COVID-19 (coronavirus) scams. The site also provides tips on how to protect yourself from scams, which include:

- Changing passwords regularly.
- Do not open suspicious texts, pop-up windows or click on links or attachments without verifying the identity of the sender.
- Don't respond to phone calls which request remote access to your computer.
- Be alert to fake emails by checking for generic rather than personal greetings, poor grammar and spelling, and checking the sender's email address.

With greater staff numbers working from home, many businesses in Australia are looking for ways to protect their systems and staff from the increase in cybercriminal activity seen since the COVID-19 pandemic. Cybercriminals aren't just limiting their activities to people working from home, they are actively targeting all networks and email addresses, probing for weaknesses.

The Australian Signals Directorate's Australian Cyber Security Centre (ACSC) has produced some great advice to help businesses stay secure from cyber threats whilst managing a remote workforce, particularly their recently published threat update, COVID-19 Malicious Cyber Activity. ACSC's advice includes:

- where applicable, review your business continuity plans (BCP) and procedures;
- ensure that your systems, including Virtual Private Networks (VPN's) and firewalls, up to date with the most recent security patches;
- implement multi-factor authentication (MFA) for remote access systems and resources (including cloud services);
- ensure that you keep yourself informed and educated in safe cyber security practices, such as identifying socially engineered emails and messages;
- ensure your data is backed up daily and automatically;
- increase your cyber security measures;
- ensure all your devices, such as laptops and mobile phones, are secure;
- ensure that you are protected against Denial of Service (DoS) threats.

James Cotis
Director

James has been involved in the financial services industry for over 35 years and a financial planner for over 22 years.

James is a Certified Financial Planner, holds a Diploma in Law and Diploma in Financial Planning. James is also a Self-Managed Superannuation Fund specialist adviser (SSA).

Looking for Financial Advice?

In an ever increasingly complex financial and legislative world, our mission is to provide you with clear, concise and tailored strategic advice.

t 02 9328 3322
f 02 9328 3323
e team@lfma.com.au
w www.logicalfinancial.com.au

Suite 21, Level 2, 8 Hill Street,
Surry Hills NSW 2010
PO Box 103
Darlinghurst NSW 1300

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