NEWSLETTER

Winter Edition

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What's happening in the markets

June experienced continual, albeit slower economic growth against the last 2 months of surprise positive news. While most countries appear to be relaxing restrictions, various second wave outbreaks indicate that this global pandemic is far from over. Black Lives Matter protests have played centre stage throughout the media, with less attention placed on the precarious pandemic related situation that the world remains in.

Market Update

Australia

The Westpac-Melbourne Institute Index of Consumer Sentiment continued increasing from last month's bounce back, rising +6.3% to 93.7 in June. This is the highest result of this index since February and represents a full recovery from the massive fall over March and April. Consumers are increasingly encouraged by the containment of COVID-19 and the lifting of restrictions. The index is still suggesting consumers are pessimistic but indicates that a recovery is likely to be underway. More good news has come this month as Treasury Secretary Steven Kennedy noted a revision to Treasury's unemployment rate forecast to peak at 8% instead of 10% as previously thought. However, the official unemployment rate will be realised in September, when various forms of support, including JobKeeper, are due to end. The ABS announced that total payroll jobs increased +1.00% between mid-May and mid-June.

Australia's fight against the coronavirus was put into question this month with the start of rapidly rising case numbers in Victoria. While all other states and territories have been continuing with their relaxation of restrictions, Victoria has been placed back into varying levels of lockdown. These new outbreaks come with the risks of additional restrictions being imposed as well as a longer economic contraction. Investors now appear to be reassessing the consensus for the shape and the timing of the recovery.

Consumer inflation expectations remain well anchored, edging down from an annual rate of 3.4% in May to 3.3% in June. Inflation is set to weaken considerably, reflecting a sharp drop in demand for goods and services. Consensus is that inflation is likely to turn negative over the second quarter. Moreover, this month's lending to investors fell -4.2%. This represents the fourth consecutive monthly fall in investor lending. Rising real estate vacancy rates and concerns on the impact of slower migration flows on population are likely factors weighing on investor demand. The CoreLogic home value index, covering the eight major capital cities, declined 0.8% in June, following on from a 0.5% fall in May.

The expected budget deficits for 2019/20 and 2020/21 have now been revised to $95bn (4.8% of GDP) and $240bn (12.2% of GDP) respectively. This significant increase from $80bn and $170bn can be attributed to cyclical deficit, the existing fiscal stimulus, $50bn of new spending and a new $15bn stimulus package expected to be announced on budget day.

Chart 1: Australia Unemployment Rate (%)

Source: BTIS/Bloomberg

COVID-19 and the global stock markets - is the worst behind us?

16 Jun 2020

Share markets have continued to recover from the losses we experienced in March, although we're yet to see certainty and confidence at pre COVID-19 levels return.
Investors may benefit from remaining patient with their medium to long-term investment strategies and ensure their portfolios are well-diversified to prepare for any future volatility.
As lockdown restrictions have eased, share markets have responded positively.

Sentiment has been boosted by the record amounts of monetary and fiscal policy stimulus provided by governments and central banks around the world, along with potential vaccine developments and opportunities arising from changing societal preferences.

Similarly, recent economic data in Australia has also been better than expected with the unemployment rate and GDP figures not as dire as initially anticipated.

Investors have taken this on board and appear to have discounted this year in terms of economic growth, instead focusing on a recovery in 2021.

The worst feels like it's behind us… for now.

While we as a country prepared for more significant falls in economic activity over the second half of 2020, the true impact of the economic shutdown is still to be revealed.

But over the medium term, financial markets tend to be driven by where we are in the economic cycle, but this isn't a normal cycle. The last cycle ended abruptly with global policymakers prioritising the protection of public health above immediate economic concerns. The huge spending programs can't carry on indefinitely and as they come to an end, it's hoped economies will pick up where they left off. However, the disruptions to supply chains and employment suggest there could be longer-lasting economic damage that will weigh on the growth potential of our, and other global economies.

What lies ahead?
Our longer-term views focus on the evolution of three key themes, which reinforce the case for maintaining a broadly diversified investment portfolio.

Slower potential nominal growth levels
COVID-19 brought about significant increases in the size and scale of government debt programmes.

The current support to Australia's economy is almost 10% of GDP, while in the US it will exceed 19% of GDP for 2020. This increase in government debt is a global phenomenon, with the deterioration in debt-to-GDP ratio most severe in Europe.

Substantial debt burdens impede governments' flexibility to provide long-term stimulus and support. So, how economies respond to the increased debt burdens will likely define the strength of future growth.

Low inflation and interest rates
Historical downturns have led to weak demand and high unemployment, and consequently lower inflation. It's difficult to quantify the full implications of the current pandemic on inflation, as we're likely to see impacts to both supply and demand.

In the short term, we see a trend towards deflation, given the substantial disruptions to consumer-led industries such as services and leisure, and the collapse in energy prices.

Longer term, much will depend on capacity as we're likely to see consolidation within the private sector, where weaker businesses won't survive. Wage pressures and employment mobility trends also have a role to play, potentially influenced by the attitude and behaviour towards 'saving' rather than 'spending' for both households and companies. Growth and income will remain scarce for investors.

Not dissimilar to the environment we faced after the GFC, the current low growth and interest rate outlook will support 'growth' companies with strong balance sheets and stable earnings. But we expect 'value' companies to struggle, as investors look for companies that can offer growth and income to deliver better investment returns.

It's anticipated large global conglomerates in the US and Europe, such as L'Oréal, GlaxoSmithKline and Nestle, will drive share markets forward. An emphasis on Environmental, Social and Governance (ESG) integration is also likely to favour those companies with flexibility in their balance sheet and technological capabilities, who are better able to operate in an environment of lower profit margins.

Portfolio implications
Focusing on the evolution of this pandemic can provide insights into the confidence levels of governments as they move to re-open their economies.

The risks and longer-term implications are challenging but not unwarranted. A return to business activity, falling global interest rates and enormous stimulus all provide necessary support.

Many of the challenges investors have faced since the GFC remain and highlight the need to continue to develop a well-diversified portfolio across asset classes and investment strategies.

Source: https://www.bt.com.au/insights/economy/2020/economic-impact-of-coronavirus.html

Am I eligible for the HomeBuilder grant?

13 Jul 2020

Available for a limited time, the HomeBuilder grant offers eligible owner-occupiers, including first-home buyers, a potential tax-free $25,000 boost to help fund the cost of building a new home or substantially renovating an existing home. It's intended to provide much-needed support to the struggling residential construction industry as it recovers from COVID-19.

The proposed new HomeBuilder scheme announced on 4 June 2020, will complement existing State and Territory First Home Owner Grant programs, stamp duty concessions and other grant schemes, as well as the Federal First Home Loan Deposit and First Home Super Saver Schemes.

Although not specifically targeted at first-home buyers, the Government expects the HomeBuilder grant will be popular with first-home buyers looking to buy a house and land package, as well as growing families upgrading to a bigger new home. It could also spark interest for retirees who might see this as a trigger to downsize their home, using the grant to help purchase a new smaller apartment or unit, and potentially the money saved to invest into their retirement fund.

As with any Government grant program, there are rules around who is eligible and the type of renovations or properties you can use the money for. To help you work out whether the HomeBuilder grant is for you, we've put together a simple checklist to makes things easier.

Deciding if you're eligible

The first and most simple criteria for the Homebuilder grant is that you must be an owner-occupier. If you tick that box, and you're someone looking to build or renovate your home, you must also meet the following criteria.

Be an Australian citizen aged 18 or over.
Have an annual income less than $125,000 for individuals or less than $200,000 for couples (based on your 2018/19 (or later) tax return).
Planning an appropriate renovation or new build
The Government has defined strict price caps for renovations and new builds to ensure the HomeBuilder scheme sits in-line with other programs already operating in Australia.

Substantial renovations – the planned cost of a renovation must be between $150,000 and $750,000, and the value of the property being renovated should be less than $1.5 million when work begins.
New builds – the purchase value of new homes (house and land combined) must not exceed $750,000. This also applies to new homes bought off-the-plan.
In addition, all building contracts must be entered into at arm's length. This means the builder you choose cannot be a relative for example, and you cannot be an owner-builder.

Types of property eligible for the HomeBuilder grant
Good news – this is the most flexible part of the HomeBuilder scheme. Whether you own a house or apartment, or you're buying a new house and land package or a property off-the-plan, all are eligible types of dwelling.

However, you must live in (or plan to live in) the property, ie you're an owner-occupier. The HomeBuilder grant is not available to investors looking to renovate or those wanting to build a new home to use as an investment property.

Defining 'substantial renovations'
In simple terms, the renovations you undertake must improve the liveability, accessibility or safety of your home. And the changes or additions must be connected to the main property.
While there isn't an exhaustive list of do's and don'ts, here are a few things that aren't considered improvements.

Tennis courts
Swimming pool
Spas and saunas
Sheds or garages not connected to the property

Given that the scale of required renovations far exceeds just painting walls and replacing carpets, the work must be carried out by a licensed or registered builder. Also, the terms of any contract should be commercially reasonable and the contract price should reflect fair market value and not be inflated to ensure it fits within the imposed price boundaries.

Dates to be aware of
The HomeBuilder grant is only available for a limited time, so if you're thinking of applying there's no time to lose. There are a couple of important dates you should be aware of.

You must enter into a building contract for the renovation or building works between 4 June 2020 and 31 December 2020.
Construction work must start within three months of the contract date.
The challenge for many people will be that planning for major renovations or building takes time. It's a process that involves several decision-makers, along with the time taken to produce the relevant architectural plans and seek council approval.

So, while potential homeowners are keen to take advantage of the scheme, the short time period associated with the HomeBuilder grant may make it difficult to access if you weren't already planning to build or renovate anyway.

Getting started
At this time, the HomeBuilder scheme has still to pass through Parliament. You'll be able to apply when the Government of the relevant State or Territory where your property is, signs the National Partnership Agreement with the Commonwealth Government.

The best way to keep up to date with when applications are open and how to apply is via your relevant State or Territory authority.

https://www.bt.com.au/insights/perspectives/2020/homebuilder-grant.html

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