Strategic Wealth Market Update

12th June 2020

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Strategic Wealth Investment Committee

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Volatility has returned to the equity markets with a significant fall overnight on the US market. For our latest commentary on the market, please click here for our Market Update Report.

Earlier this week, we conducted the third of our COVID-19 Strategic Wealth Market Update Webinars with guest presenters from JANA Investment Advisers and Alliance Bernstein Investment Management.

The Webinar, along with the other Webinars, has been loaded onto our Strategic Wealth website.

You can also access the Market Update reports that we have been issuing on our website in the Resources/Market Update section of the website.

If you have any problem accessing the Webinar recordings or you would like to discuss your personal situation, then please do not hesitate to contact us.

Our next Webinar will be conducted on July 7th and will feature a guest speaker from the Bond Sector who will provide an update on the Bond Market and how it views the future unfolding.

We hope that you have an enjoyable and relaxing weekend.

Kind regards,

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CEO & Principal Adviser
Strategic Wealth Pty Ltd
Authorised Representatives
Oreana Financial Services
Australian Financial Services Licensee

Market Update: June 2020

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Last night, the US equity market experienced a significant drop (7%) which has come after a strong rebound in the market from the lows in late March this year. The Australian market is down today, however, the fall is only 2% at the time of writing.

The rebound from March was driven by the reopening of economies in the major developed countries which has fueled expectations of a 'V'-shaped economic recovery along with unprecedented scale of monetary and fiscal stimulus in the US, Europe, the UK and Australia.

There is an expectation that interest rates will remain very low for a sustained period. The fall in interest rates provides support to the valuations of equities by reducing the discount rates used in cashflow-based valuation methods. Additionally, alternate investments options such as bonds are less attractive due to low yields thereby pushing investors towards equities.

In recent times, there has been a disconnect between the valuations of the equity market and the real economy.

The current valuations of equities are high relative to historical averages and appear optimistic given the 2021 growth expectations which seem to assume a 'V'-shaped recovery.

However, the global economy has many issues confronting its recovery including the longstanding economic damage resulting from the downturn; the likelihood of ongoing disruption from the coronavirus and the risk of a 'second wave'; and uncertainty regarding the duration and extent of ongoing policy support.

We are also cognisant of a deterioration in a number of other risks that present over the short to medium term, including the deterioration in US/China relations, the coming US Presidential election and the looming deadline for the UK to leave the EU free trade zone.

The valuations of Overseas Equities appear expensive, especially in developed markets. In particular, the US equity market, which comprises two-thirds of developed markets, is trading at very high levels despite the uncertainty regarding the impact to growth and corporate earnings.

The outlook for the Australian economy appears relatively better given the low incidence of community transmission of the coronavirus to date, the high level of government support to the economy and our economic linkages to China. While equity valuations seem stretched, Australian Equities have lagged overseas markets in the rebound and appear better relative value.

The Strategic Wealth Investment Committee believes that the recovery of the economy is more likely to be 'U' shaped than 'V' shaped. We also continue to hold the view that there will be a pullback in the equity markets as they realign their view with the real economy. It is unclear as to whether the falls seen last night are the start of the pullback and if so, how far the fall will be.

It is important that we do not panic- corrections are part of the market cycle. The equity market is forward looking and so it is likely to resume a growth trajectory at some stage. Any pullback may be an opportunity to increase exposure to growth assets such as equities. However, this issue will be further assessed at the time of a pullback along with other relevant information to determine whether a medium to long term buying opportunity presents itself.

We will keep you updated on the unfolding events via our written Market Reports and our Webinars.

General Advice Warning

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal financial and tax/or legal advice prior to acting on this information.