

2020 -21 saw investment returns rebound
expect modest but good returns this year



Introduction

The past financial year saw a spectacular rebound in returns for investors as the focus shifted from the recession to recovery against a backdrop of policy stimulus and vaccines.

The big developments of the last financial year

- The global and Australian economies were confirmed to have seen deep recessions in the first half of 2020.
- There have been several waves of coronavirus globally, propelled over the last six months by new and more virulent strains. This in turn drove numerous returns to lockdowns.
- Budget deficits and public debt - relative to GDP - blew out in many countries to levels not seen since the end of WW2.
- The US saw a divisive election that turned violent with an invasion of the Capitol by Trump supporters.
- Tensions between Australia and other Western democracies with China have increased with more talk of a cold war.
- Bond yields rose sharply early this year on inflation fears and talk of an early exit from easy money, notably by the Fed.

However for investors in well-diversified portfolios, the bad news was dominated by the good. In particular:

- Despite various coronavirus-related setbacks, global growth has seen an almost Deep V rebound and is on track for 6% growth this year and 4% next, after last year's 3% slump.
- Australian GDP has rebounded faster than expected to be one of the few developed countries to see GDP back above pre-coronavirus levels, despite numerous snap lockdowns. This in turn has driven a sharp rebound in company profits.
- Good news on vaccines and their deployment in developed countries has provided confidence in continued recovery.
- This has been reinforced by key central banks - notably the Fed and RBA - shifting to a focus on actual inflation being sustained at target levels before tightening.
- The election of Joe Biden in the US has reduced global policy uncertainty and led to much more US fiscal stimulus.
- Australian fiscal stimulus continued, dulling any "fiscal cliff".

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Strong returns more than making up for a poor 2019-20

With the recession and profit slump associated with coronavirus already factored in and giving way to recovery, and vaccines and stimulus providing confidence that it would continue, the past financial year has been very strong for growth assets.

Global shares returned 37% in local currency terms. A rebound in the growth-sensitive Australian dollar saw this reduced to a still very strong 28% in Australian dollar terms.

Australian shares returned 28%, helped by a sharper rebound in the Australian economy, a surge in profits, and numerous companies reinstating or increasing their dividends. Of course, this followed a 7.7% loss the previous financial year.

Reflecting the growth rebound, listed property rebounded and unlisted property and infrastructure also saw a good recovery. Bonds performed poorly as bond yields rose and cash had a near zero return, reflecting the near zero cash rate.

This drove very strong returns from balanced growth super funds of around 19% (after fees and taxes). Over the last five years, super fund returns averaged around 8.5% pa which is not bad given sub 2% bank deposit rates and inflation.

Australian residential property prices also surged on the back of ultra-low rates, various incentives and economic recovery resulting in their strongest 12-month gain since 2004.

What about the return outlook?

While there is a risk of a short-term correction in shares, and returns are likely to slow from the pace of the last year, overall returns from well-diversified portfolios are still likely to be reasonable over the next 12 months.

- Shares are expected to see okay returns helped by strong economic and earnings growth and still low interest rates.
- Cash and bank deposit returns are likely to remain poor as the RBA is expected to keep the cash rate at 0.1%.
- Low starting point yields and a capital loss from gradually rising yields are likely to result in low returns from bonds.
- Unlisted commercial property may still see some weakness in retail and office returns but industrial is likely to be strong. Unlisted infrastructure is expected to be solid.
- Home prices are expected to rise 20% this year but slow to 5% next year as poor affordability, rising fixed rates, tighter lending standards and reduced population growth impact.
- The \$A is likely to trend up in line with global recovery and strong commodity prices.

Things to keep an eye on

The key things to keep an eye on are: covid hospitalisations and deaths in more vaccinated countries; inflation; central banks; growth momentum; and tensions with China.

Further information

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