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ECONOMIC UPDATE

INTRODUCTION

Covid-19 developments continued to dominate attention. There were spikes in the number of new infections in both Australia and overseas, suggesting an economic recovery may be delayed.

Share markets powered ahead, however, as investors remained convinced that governments and central banks will provide sufficient financial assistance through the crisis.

Fixed income markets also registered gains; government bond yields moved lower and credit spreads continued to tighten.

AUSTRALIA

Spiking virus numbers in Victoria, in particular, are a concern for the shape of the anticipated economic rebound. Border restrictions are expected to remain in place for an extended period, halting tourism and affecting the normal movement of goods and services.

Unemployment rose to 7.4% in June, a jump of more than 2% from pre-crisis levels. This has significant implications for the Treasury; the Jobkeeper program is costing more than \$10 billion per month.

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FURTHER INFORMATION

Julian Payne
Three Pillars Wealth Management
P: 02 4969 8402
E: julian@threepillarswealth.com.au
W: www.threepillarswealth.com.au

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ECONOMIC UPDATE

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Proposed changes to the scheme mean additional unemployment benefits could be paid until March 2021, although plans remain under review and subject to change.

At -0.3%, inflation turned negative in the June quarter; the first negative print since the late 1990s. Even if there is a rebound in the next few months, disinflationary forces are expected to persist.

It is extremely unlikely that inflation will return to the 2% to 3% target band any time soon, suggesting there is almost no chance of any interest rate increases for the foreseeable future.

UNITED STATES

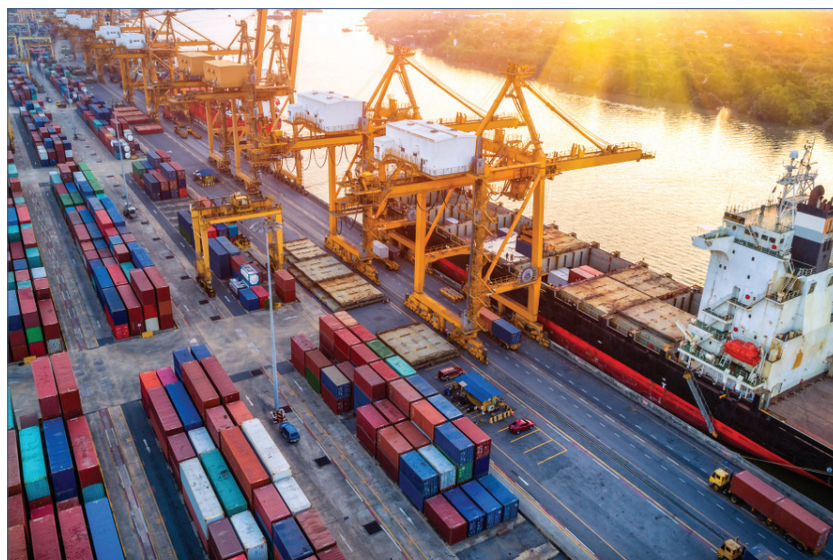
Federal Reserve officials reiterated that the central bank will do 'whatever it takes' to support the world's largest economy through the coronavirus pandemic. Fed Chair Powell described the economic downturn as the most severe "in our lifetime".

Politically, there was growing pressure on Congress to approve another stimulus plan, which would likely see unemployment assistance payments extended.

This was particularly topical, as the number of Americans filing for unemployment benefits started to rise again. This suggested the rebound in the world's largest economy is not progressing as rapidly as had been anticipated.

The latest data showed US GDP plunged -32.9% in the June quarter; comfortably the biggest decline on record. Consumer spending was very subdued as expected, which acted as a drag.

With factories closed, companies met demand by running down inventory levels. Economists suggested this could result in a sharp rebound in activity levels in the September quarter and beyond as firms look to restock inventories.



Business investment was also understandably low – many firms remain focused on staying in business, rather than committing to capital expenditure on new machinery and equipment.

NEW ZEALAND

The recovery in the economy continued to gather pace. Card spending in June was 19% above May's level, which itself was an 80% improvement from April.

Higher spending means inflationary pressures are persisting. Inflation has come down sharply from earlier in the year, but remains positive. CPI printed at 1.5% for the June quarter.

Despite these encouraging indicators, both consumer and business confidence dipped in July.

EUROPE

June quarter GDP data were dismal in Europe – the German and French economies contracted at an annual pace of -11% and -19% respectively, while Spanish data were worse still.

Unemployment numbers have increased across Europe, though

not quite as substantially as in other regions. In fact, the most recent indicators were more encouraging, with German employment data not deteriorating in July from June.

In the UK, there was increasing speculation that the Bank of England was considering moving interest rates into negative territory. The Bank's Governor suggested the policy is under "active review", prompting economists to call for more clarity on policymakers' current thinking.

ASIA

The Chinese economy grew at an annual pace of 3.2% in the June quarter, rebounding from a -6.8% year-on-year contraction in the March quarter.

While consumer spending remains subdued, exports are currently running above 2019 levels. This is expected to contribute to an acceleration in growth in the second half of 2020.

The Hong Kong economy shrank by -9.0% in the year ending 30 June 2020. This reflected the impact of civil protests as well as disruptions associated with Covid-19.



The longer-term outlook for Hong Kong remains concerning too; western companies are increasingly withdrawing from the region and there is a concern that a 'brain drain' could be seen as skilled locals and expatriates consider relocating.

AUSTRALIAN DOLLAR

The ongoing rally in risk assets continued to support the Australian dollar. The currency added more than 4% against the US dollar in July, closing the month at 71.7 US cents.

The 'Aussie' was similarly strong in other major foreign exchange markets, appreciating by more than 3% against a trade weighted basket of international currencies.

AUSTRALIAN EQUITIES

Encouraging results for possible coronavirus vaccines, combined with commitments from Australian government and central bank officials to extend respective support packages, helped push the S&P/ASX 100 Accumulation Index more than 4% higher into the middle of July.

Ongoing volatility saw gold prices hit all-time highs in both USD and AUD terms. Major iron ore miners were also among the top performers in the Materials sector (+5.9%) as the price of iron ore rose 12%

through July. The Energy sector (-6.6%) was the worst performer.

The S&P/ASX Small Ordinaries Index outperformed the large cap index, rallying 1.4% through the month.

LISTED PROPERTY

Listed property markets were relatively subdued in July. The best performing markets were Singapore (+3.9%), the US (+3.5%) and Germany (+3.2%). Laggards included Hong Kong (-6.3%), France (-4.8%) and Japan (-2.8%).

Locally, A-REITs gained +0.6%, marginally outperforming the broader local equity market.

The relatively insulated Industrial sub-sector (+13.6%) led the charge, while Office (-6.7%) and Retail (-5.5%) landlords weighed on the group.

GLOBAL EQUITIES

Despite the gloom and uncertainty from the continued pandemic, global equities continued to generate favourable returns for investors.

The vast amount of liquidity being pumped into financial markets by central banks worldwide continues to support sentiment towards risk assets. US equities fared particularly well, with the S&P 500 Index adding 5.6%.

Returns from European markets were more modest. The Spanish IBEX, French CAC and Italian MIB indices all closed the month lower, while the German DAX Index was little changed. In the UK, the FTSE 100 Index fell by 4.4% in local currency terms.

Asian markets were mixed. China's CSI 300 added 12.8%, while the Japanese Nikkei closed -2.6% lower, both in local currency.

Buoyant risk sentiment continued to support emerging markets. The MSCI Emerging Markets Index rose 8.4%. Developed markets were well behind, with the MSCI World Index rising 'only' 3.4% in local currency terms.

GLOBAL AND AUSTRALIAN FIXED INCOME

Downbeat economic indicators and central bank policy measures continued to exert downward pressure on government bond yields. In the US, 10-year Treasury yields dropped 13 bps to a new all-time low of 0.53%.

German yields plunged further into negative territory, closing the month 7 bps lower, at -0.52%. In the UK, 10-year gilt yields closed 7 bps lower, at 0.10%. Australian 10-year Commonwealth Government Bond yields closed July 6 bps lower, at 0.82%.

GLOBAL CREDIT

Corporate bonds continued to recover from March's sell-off, with credit spreads narrowing for a fourth consecutive month.

Investment grade spreads closed the month of July 19 bps lower, at 1.37%. High yield credit performed even better, with spreads 118 bps lower by month end.

Source: Colonial First State

MANAGING YOUR FINANCIAL HEALTH DURING THE COVID-19 PANDEMIC



The COVID-19 pandemic has certainly disrupted our daily lives, forcing us to close entire industries and change our behaviour overnight.

With the lockdown directly affecting jobs and the economy, many people's thoughts quickly turned to their finances. Whether or not your income has been affected, now is a good time to get your finances in order.

Create a spending plan

The first step to good financial health is understanding your spending. That's where a spending plan, or budget, comes in. Start by identifying how much you need or want to spend in different areas of your life, like household expenses, leisure, travel and savings.

If you already have a spending plan in place, review it now and check that your expenses actually match what's in your plan.

Make use of savings

Gym memberships, haircuts, travel, takeaway coffee and lunches - the list of expenses we've been asked to put 'on hold' is almost endless. With social distancing measures limiting our discretionary spending, many people will find a little more cash than usual building up in their accounts.

While there's not much we can do about the lockdown, it does create an opportunity to re-evaluate your spending habits.

So if you have to go without your daily flat white, think about ways you can redirect those savings to improve your financial health. Below are three areas to consider.

Build up your cash reserves

If there's one thing the pandemic has shown us, it's the importance of having an emergency fund to protect against the unexpected. If you don't have one already, set up a high-interest account or use an offset account to reduce the interest on your mortgage if you have one

You should aim to build up enough cash in your emergency account to cover six months of living expenses, including housing, to protect you in the event you lose your job, fall ill or can't work. Ideally the funds will be in cash, so that they're easily accessible and aren't subject to market fluctuations.

Pay down debt

We're pretty big on debt in Australia, using it to fund everything from housing to cars to travel. But falling behind on your loan repayments, or struggling to juggle debt and living expenses, can lead to serious financial stress.

So take anything extra you're saving and use it to pay off your credit card, personal, home or car loan. Every little bit counts, as it helps reduce the interest you'll pay on the balance going forward.

Supercharge your super

Once you've built up your cash reserves, and have your debt situation under control, you can look at putting any extra savings towards investments, like superannuation.

For those nearing retirement, or reliant on superannuation income, the recent market fluctuations can feel worrying. But now is not the time for sudden changes, or you could be undoing years of hard work.

Switching to cash can feel safe, but taking this course of action is almost certainly locking in the losses. Remember that markets are forward looking and will generally recover before the economy does.

While the COVID-19 pandemic won't be with us forever, good financial management will. By taking a few simple actions now, you can help protect your way of life far into the future.

Source: FPA Money and Life



Australians enjoy one of the highest life expectancies in the world, which means you can look forward to a long and comfortable retirement.

While that's fantastic news, it also makes saving for retirement more important than ever.

Indeed, the majority of Australians over age 40 who are yet to retire are concerned about not having enough money to live on, with many recognising they need professional assistance to reach their retirement goals.

But by getting good advice and planning ahead now, you can take control and enjoy the peace of mind that comes from knowing your future may be secure.

The first step is to figure out how much income you want to receive each year in retirement, and how much you may need to save in order to get there. It's also important to think about how your spending patterns may change during your retirement, and to plan ahead accordingly.

You may also want to keep your options open for the later years when you may need more intensive health support, including specialised accommodation.

Also don't forget to factor in lump sum spending on big ticket items, such as home renovations or a new car. Because, as retirements grow longer, our cars and appliances are increasingly likely to fade away before we do.

BOOST YOUR SUPER

When you crunch the numbers, you may find you're facing a super gap. An effective way to boost your super savings while potentially paying less tax may be via salary sacrifice.

MAKE YOUR SUPER LAST

When you crunch the numbers, you may find you're facing a super gap.

Even a small contribution can make a big difference over time, as you earn concessional tax returns on your contributions. When you invest pre-tax income through salary sacrifice, you may also benefit from the 15 per cent concessional tax rate on super contributions (rather than your marginal income tax rate), putting you even further ahead.

As of 1 July 2017, you can contribute up to \$25,000 in concessional super contributions before additional tax applies. Concessional contributions include compulsory super guarantee from your employer, other employer contributions such as salary sacrifice, and personal tax-deductible contributions.

Finally, if there is a large sum you would like to contribute to super, for example, if you plan to sell a non-super asset, such as an investment property, you can do this by making a non-concessional personal contributions of up to \$100,000 a year from your after-tax income.

You may also utilise the bring-forward rule which allows for members aged 64 or less to bring forward three years' worth of non-concessional contributions and contribute up to \$300,000 at any time over a three year period.

As of 1 July 2017, your total super balance (across all funds) may further limit your non-concessional cap – your cap is Nil if your total super balance is \$1.6 million or more, while the amount of bring forward cap you can use is reduced once your total super balance is \$1.4 million or more.

REVIEW YOUR INVESTMENT OPTIONS

Super is one of our most valuable assets, so it's not surprising many of us seek to protect it by investing in a low risk option.

But it's also important to remember that trying too hard to avoid risk today could expose you to a greater risk — running out of money tomorrow, when your savings don't produce the returns you need for a comfortable retirement.

So it's important to choose the right investment option for your goals and investment time-frame. That's where personalised advice from a professional financial adviser can make a difference.

Source: Colonial First State



INVESTING DURING A RECESSION

Don't let emotion get in the way of sensible decision making.

In times of uncertainty, when share markets and interest rates are falling, along with declines in consumer and business confidence, investors often question if their money is safe and if it's still going to meet their long-term investment goals.

It's almost thirty years since Australia last experienced a recession, so for many investors where to put money during a recession isn't something they've had to think about before.

We understand you're probably concerned about your investments and wondering what to invest in if Australia does enter a recession. Volatility isn't something investors enjoy. The pain of losing is significantly more powerful than the pleasure of gaining, which makes us more likely to overreact during market downturns than when the market is booming.

To help your investments continue to work hard for you, we've outlined four simple strategies you could consider.

Invest for the long term

If you're a long-term investor (with a time horizon of 10+ years), don't let emotion get in the way of sensible decision making. Selling out of your investments and moving to cash may seem like a safe option, but you'll potentially be crystallising your losses and missing out on any opportunities that could arise when the market rebounds.

Try to invest regularly

Volatility doesn't necessarily result in poor investment outcomes. It can present opportunities. The principle of investing regularly, regardless of whether the market is rising or falling, allows you to buy more of an asset when prices are low and buy less when prices are high.

Known as "dollar cost averaging", not only will this average out over the long term, resulting in a better average price for the assets, but you'll also potentially hold more of an asset, which will be beneficial when prices rise again.

Be sensible and leave the decisions to the professionals

Market timing is an investment strategy used to try and 'beat' the share market by predicting its movements and buying and selling accordingly. It's the exact opposite of the long term 'buy-and-hold' strategy, where an investor buys shares or assets and holds them for a long time, designed to ride out periods of market volatility.

According to Morningstar, investors would need to be correct 70% of the time to get any benefit from an active market timing strategy. This is almost impossible to achieve, even for market professionals. You're more likely to miss some of the best days of the market rather than picking them correctly.

Allow diversification to spread your risk

Not only is it difficult to time the market correctly, but it's also hard to predict which asset class will perform best in any given year. Last year's best performing asset class can easily become next year's worst, or vice versa.

Many investors choose to manage this by diversifying their investments across different asset classes (shares, bonds, cash etc.) and create a portfolio that's based on their risk tolerance, time horizon and investment goals.

However, it's important to understand that diversification doesn't mean you'll avoid market volatility completely. Even with a well-diversified portfolio, your investments could still potentially experience periods of what you'd probably deem underperformance.

Staying positive during market downturns

The most important thing you can do during market downturns is not panic. Stay emotionally strong and ensure your investments remain aligned to your investment goals.

Source: BT.



HOW HAS COVID-19 CHANGED AUSTRALIAN CONSUMER SPENDING HABITS?

Australian spending habits have changed markedly in the last few months.

Consumers continue to worry about the strength of the economy, the duration of the pandemic and overall public wellbeing. But while Australian consumer spending remains slow, we're seeing signs of recovery across most categories and grocery spending, in particular, is finally stabilising.

With restrictions easing in some states, some Australians can spend more time outside their homes. The rapid increase in online spending has slowed, and, for those in states with eased restrictions, a return to more 'normal' consumption habits are resuming. However, it's likely the increased appetite for spending via online channels will stay with us beyond the pandemic.

ECONOMIC IMPACT OF CONSUMER SPENDING

Governments face a constant dilemma when managing key economic indicators and the impact of the current pandemic has been no different.

- Should a government stimulate spending to delay or avoid a recession?
- Or should a government cut business taxes to create jobs and increase wages?

The problem is, without spending, businesses will eventually stop trading and be forced to lay off workers, leaving the government with less tax revenue. If the economy is left to rely on exports, which as we've seen isn't sustainable during the global pandemic, this could cause supply chains to grind to a halt.

The only way to support businesses long term is then to rely on borrowing, which creates debt-laden balance sheets and potentially hampers future recovery and growth. To a degree, that's why we have seen our own reserve bank cut rates to historical lows.

Consumer spending is a more significant influencer on the economy than many people realise. Even a small reduction in Australian spending habits has a dramatic impact.

DIGITAL DISRUPTION FOR RETAILERS

For the retail sector, it's a story of mixed fortunes. Shops forced to close face the difficult decision about whether it's still financially viable for them to re-open. But on the positive side, online sales have accelerated rapidly with some digitally-agile businesses recording exceptional uplifts in sales figures and profits.

While retail sales have bounced back since restrictions were initially eased at the beginning of May, online shopping remains the potential saviour for retailers, with many analysts predicting consumer behaviour may have changed permanently. And as we face into a second wave of the pandemic, online sales may prove even more important.

But it won't be a solution that works for all retailers. The impact and success of individual companies will depend on the types of products they offer online and how much they had invested in the brand's digital presence before the pandemic.

New consumer spending patterns reveal how important the stimulus measures, being primarily JobKeeper and JobSeeker, have been and still are. On July 21, the government announced proposed changes to JobKeeper, including an extension through to 28 March 2021. These changes do not impact JobKeeper payments until after 28 September 2020.

With 56% of households believing their financial situation to be vulnerable or worse because of the pandemic, they are likely to struggle to meet all their financial commitments unless they either reduce spending, draw down on savings or access credit.

Australian consumers have some important decisions to make about both their short-term spending habits and their long-term wealth accumulation and retirement savings.

The temptation to focus purely on immediate needs will be strong but seeking good advice about how to prepare and invest for the future is equally as important.

Source BT.