

Your Life Quarterly Update



Your Life
Financial Services

Spring Edition September 2020

Invest In Your Life

Welcome to the Spring edition of Your Life Quarterly Update. In this edition we outline:

- The Benefits of Trauma Cover
- Share Market Update
- Holiday Adventures : Berry
- Super Foods : Stress Management



The Benefits of Trauma Cover

Trauma insurance cover or critical illness insurance provides a lump sum of money to cover immediate medical expenses and other financial needs when a critical illness or injury occurs. Trauma cover pays a tax free lump sum agreed amount to cover you for many medical issues.

The conditions that you can insure yourself for will vary from policy to policy, however will typically include cover for various cancers, heart disease and/or heart attack, and stroke.

Trauma insurance Cover may be used to:

- Provide a lump sum for immediate medical needs involved in treatment and recovery,
- there are many doctors medical bills that private health cover does not cover.
- Provide a cash buffer for lifestyle expenses.

Source : [Canstar.com.au/trauma insurance](https://canstar.com.au/trauma-insurance)

Global Market Update

We have outlined below the major market indices as at 1st of September 2020 and their movement over the past 12 months

| Country | Index | Index 1/9/2020 | % change in 12 months |
|-----------|-----------|-------------------|--------------------------|
| Australia | ASX 200 | 5953.4 | -6.71% |
| USA | Dow Jones | 28645.66 | 8.49% |
| USA | Nasdaq | 11939.67 | 51.63% |
| UK | FTSE100 | 5862.10 | -18.66% |
| Hong Kong | Hang Seng | 25184.85 | -2.10% |
| Japan | Nikkei | 23138.07 | 11.75% |

The USA NASDAQ was the best performing index over the past 12 months.

Topical Market Outlook Questions

In light of the current market volatility and uncertainty surrounding the Covid 19 we have highlighted a few common questions and answers you may find interesting.

Have markets disconnected from the real economy?

Share markets invariably lead the economic cycle. Shares led the coronavirus hit to the global economy when they plunged 35% into March. The rebound since then reflects the combination of government measures to minimise the economic damage, ultra-low interest rates which have made shares cheap, some slowing in new cases, positive signs for coronavirus treatments and vaccines, and a rebound in a range of economic indicators (eg US GDP looks on track to rebound by around 7% this quarter). So, share markets are anticipating better conditions ahead and that economies may be able to withstand an eventual tapering of government support.

USA shares are at all-time highs, what is the probability of a big move down versus a continuing rising trend?

Our base case (with around 70% probability) allows for a short term pullback in the next month or so. Then rotation away from US shares (relatively expensive technology and health care stocks) into non-US shares and cyclical stocks. Markets are often at all-time highs (as shares rise over time) so record levels do not necessarily mean a sharp fall is imminent.

Are technology/growth shares vulnerable to a crash?

The coronavirus shock has given US tech stocks – particularly mega cap names like Facebook, Apple, Amazon, Microsoft, Netflix and Google – and health care stocks a further boost. The tech heavy Nasdaq is up over 30% year to date and nearly 50% over 12 months. Not only have tech stocks been direct beneficiaries of the crises (due to stronger demand), but growth stocks with their long earnings streams benefit more from lower interest rates. This is different to the 1999/2000 tech boom as Nasdaq's forward PE is now much lower at 32 times.



Will Australian shares continue to lag global shares?

The main reason for the underperformance of Australian versus global shares in recent years is the strong outperformance by US shares. They have outperformed global and Australian shares this year and over the last few years. Eg over the last five years US shares returned 14.5%pa versus 7.5%pa for Australian shares. The US share market has a relatively higher exposure to growth stocks whereas non-US and Australian shares have a higher exposure to cyclicals (like industrials, resources & retailers) & financials. As the global economy recovers and interest rates bottom, this will likely benefit cyclical sectors and financials and hence see non-US, including Australian shares, outperform.

How close is a vaccine? What is the market pricing?

We have seen positive news regarding vaccines (that they are safe at least initially and generate immune responses) and various treatments (eg, antivirals like Remdesivir and therapies like Dexamethasone which is a low-cost steroid). The University of Oxford/ AstraZeneca vaccine appears to be most advanced and some are already in production ahead of the completion of Phase 3 tests. However, mass deployment of a vaccine is unlikely until next year and they may not provide complete protection (more like a flu vaccine than a measles vaccine) and so may have to be combined with other treatments. The deployment of vaccines is partly but not fully factored into shares (eg, travel stocks are yet to recover much).

Topical Market Outlook Questions

Are bonds still a defensive asset to shares?

Yes. While bond yields are ultra-low and so offer very low medium-term returns, they are still a good diversifier to shares. For example, while Australian shares have lost about 8% year to date, bonds have returned around 4% and so having them in a portfolio has helped smooth out overall returns.

What tangible benefit is RBA quantitative easing?

The RBA's use of printed money to boost liquidity in the economy by providing cheap loans to banks and buying bonds is keeping credit flowing and borrowing costs and the \$A lower than otherwise. This helps indebted Australian households continue reasonable levels of consumer spending and helps businesses service their loans and employ people.

What is the risk of inflation v deflation?

Depleted inventories of some products (eg home goods & some foods) due to lockdowns and a switch in demand (from holidays & services to home goods) could boost inflation in some areas. The main risk in the short term is low inflation or deflation due to spare capacity evident in factories and unemployment keeping a lid on wages growth. This could be the case for one to three years. However, on a medium term view higher inflation is a bigger risk as the extra money being printed by central banks could at some stage be spent.

What does a falling \$US mean for other assets?

A falling \$US is a sign that global deflation is working and the global outlook is on the mend. This is positive for: commodity prices because they benefit from stronger global growth and are priced in US dollars; non-US share markets including Australian shares because they are more cyclical; and currencies like the \$A. We expect the trend to remain up in the \$A towards \$US0.80 on a 6-12 month view helped by rising commodities and a return to a positive interest rate differential versus the US.

What is the outlook for commercial property?

The hit to economic activity (specifically traditional bricks and mortar and decline in office space demand following more people working from home) will weigh heavily on near term returns from retail and office property. Industrial property is a big beneficiary though. The property sector will benefit from the continuation of low interest rates & the search for yield beyond the short term.



What impact might the US election have?

Shares tend to prefer incumbents and so with 87% accuracy since 1928 a rise in US shares in the 3 months prior to the election would point to a victory by Trump; but a fall would point to Biden. Trump's low tax policies & antagonistic policies to China and to a lesser degree Europe and Japan would favour US over non-US shares and vice versa for a Biden victory.

What is the risk of increased tensions with China?

Trump is trying to appear strong on China for political reasons ahead of the election, as he knows there are votes in it. He does not want to go so far as to threaten the US economic recovery with more tariffs and China is biding its time. What happens next year will depend on who wins the US election. Trump will potentially ramp conflict up in a way that could impact markets (although direct military conflict is unlikely) with trade, Taiwan and the South China Sea being the key issues to watch. Biden would likely take a more diplomatic approach.

When will the Australian economy recover?

Australia's economy fell by -7% in the June quarter, or -6.3% over the year to June which is the biggest annual fall since the Great Depression. However, the June quarter fall was less than seen in most other comparable countries (eg, the US fell -9.1%, Japan -7.8%, Europe -12.1% and the UK -20.4%) thanks to better virus control, better policy stimulus & exposure to China.

Most of Australia is already slowly recovering, but Victoria has been hard hit by its second virus wave which will likely delay a national recovery out to the December quarter.

Source : Shane Oliver Market outlook Q&A – disconnect to real economy, growth v value, vaccines, property, gold, inflation and other issues (3rd September 2020)

Holiday Adventures: Australian Destinations - Berry

What does your dream holiday look like?

Berry

Location

The stylish village of Berry in the Shoalhaven Region of the NSW South Coast oozes charm and is a favourite for Sydneysiders seeking a quick country escape.

Activities

Amble along Queen Street, Albert Street and Old Creamery Lane, and browse for locally made gourmet products, sweet treats, regional wines and collectables. Stop by Milkwood Bakery for pastries, cakes, organic sourdough and coffee. At the Treat Factory see how they make chocolates and confectionery.

Food

Enjoy quality restaurants such as South on Albany and Silos Restaurant, which is on the Silos Estate vineyard. From Berry, join a cellar door tour of the local wine region.

Must See Attractions

For antiques and handmade goods, Berry Country Fair is held on the first Sunday of the month at Berry Showground.

Pick up delicious cinnamon doughnuts from the Berry Donut Van, a local institution found on Queen Street. In December, head along to the fairgrounds Festival for two days of artisan food, markets and music.



Stress Management

The relationship between stress and ill health is well documented but stress can vary from person to person. Good stress management, relaxation, meditation and open air exercise combined with small dietary changes can alleviate many symptoms of common nervous system disorders.

Foods that have a calming effect on the nervous system are those that are rich in vitamin B, Folic Acid, Magnesium, potassium, zinc, selenium and manganese.

Food Sources to help reduce stress

Like rest and relaxation, good nutrition can reduce the effects of stress in our lives.

Try to eat plenty of fish, green vegetables, nuts, potatoes, banana, sesame seeds, and unrefined cereals. Increase your intake of proteins and cut down on alcohol, coffee and tea.

If possible, drink infusions of chamomile, lemon verbena, lemon balm, limeflower, olive-tree leaf, orange blossom or valerian.

Prevention and management

The best way to prevent or manage stress is through detoxification and following a diet rich in foods that enhance resistance to disease and support immune function. To boost the immune system drink plenty of water and eat a variety of fresh fruit and vegetables.

Source : The complete Guide to Nutritional Health. Pierre cousin 2000 page 234.



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