NEWSLETTER
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Introduction

Australia's share market largely tracked sideways during August. This month, we thought it would be interesting to look back over the last five years to see what the dominant share markets of the world have been. We also discuss how the real state of residential property markets is not likely to be visible until Covid restrictions start to lift in our two main markets.

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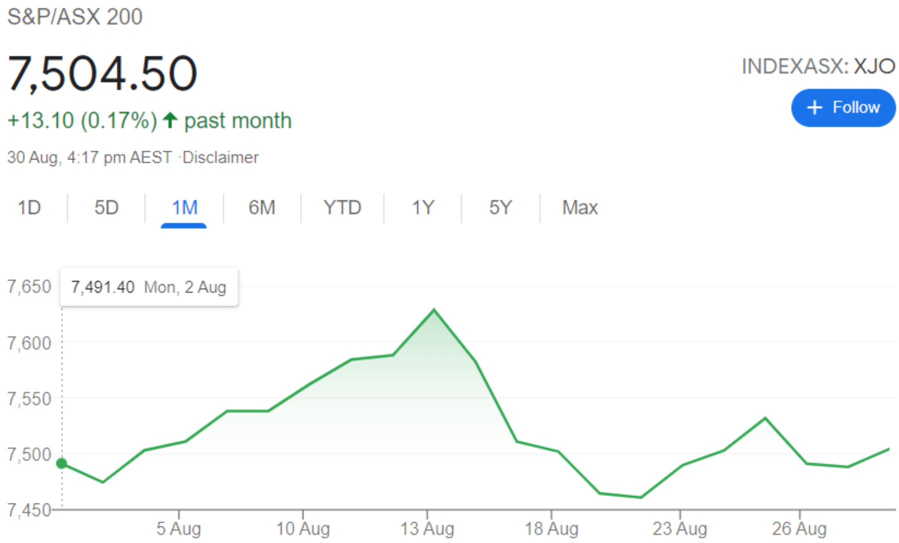
The Share Market

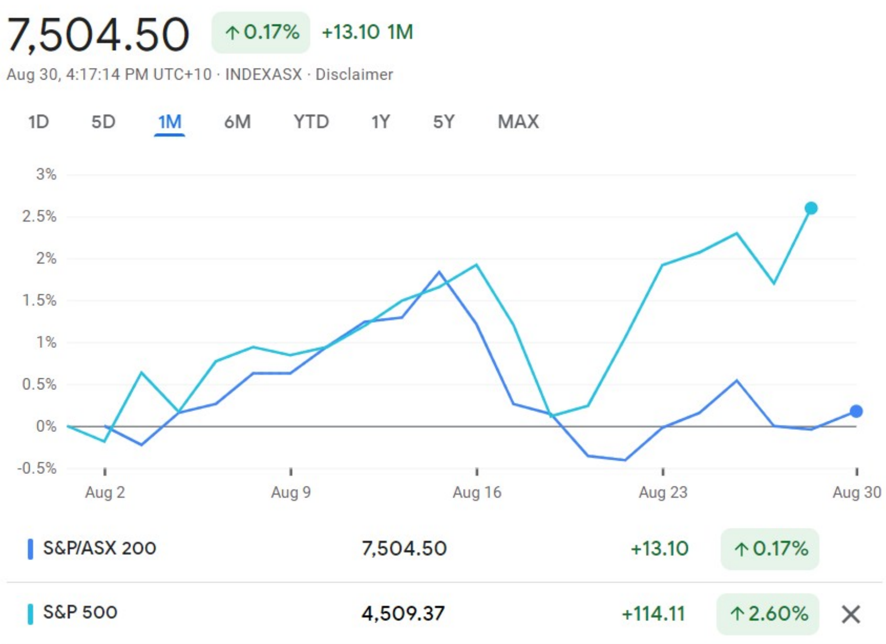
The Australian market barely moved during the month of August – as measured by the ASX 200, anyway. Here is the one month performance up to COB on August 30 (thanks to Google and the ASX):



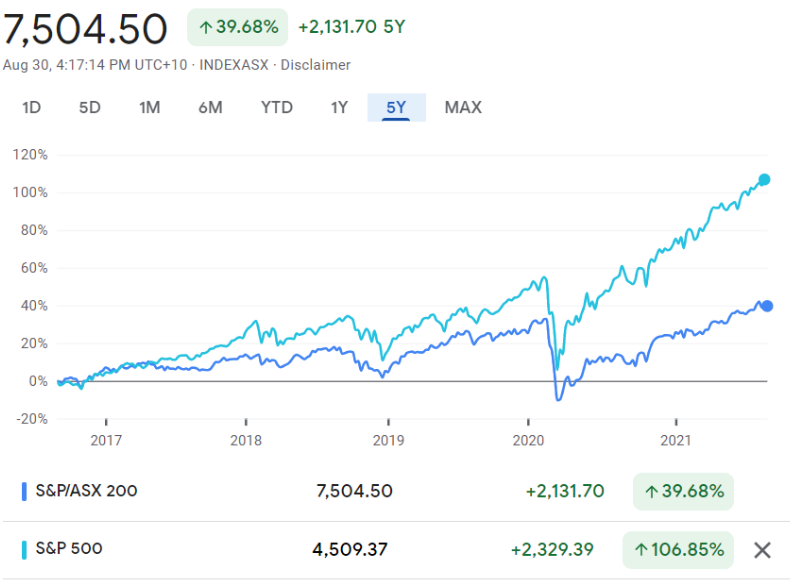
Sir Isaac Newton would have approved: what went up, went down.

We have written before about the influence that the US market can have on the Australian situation. This month, we thought we would broaden the comparison to see if other countries experience something similar with their main markets.

Starting with Australia, we can see that the first part of the month saw our market broadly follow the US market, which also rose, and then fell. However, in the second part of the month the US market rose again, whereas ours tracked sideways – presumably the result our two our largest population centres once again being in a hard lockdown. Here is how the US and Australian experience for August looks, side by side: (Again, thanks to Google and the ASX and also S&P):



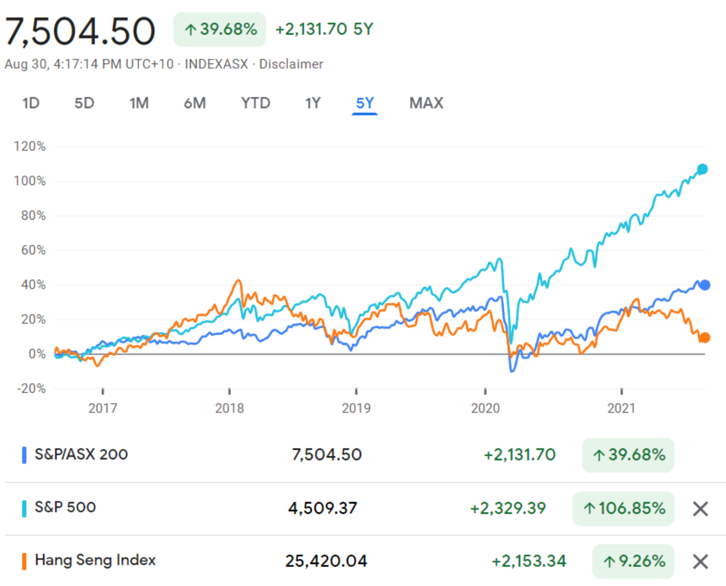
The tendency of the Australian market to move in the same direction as the US market but to a reduced extent has been very much at play over the last five years. Here is how the main index for the two markets performed over that time period:



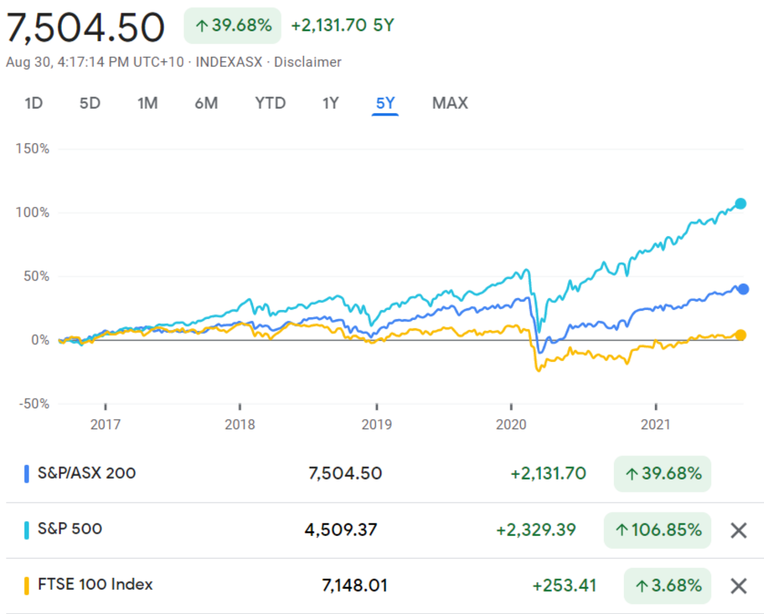
As you can see, it is a case of the US being 'the same, only bigger.' The shape of the line is largely the same, showing that the markets usually move in the same directions, but the US has been steadily growing by larger amounts, which becomes compounded over time as the rises keep coming.

Indeed, while the US market has risen by almost three times as much as ours in the five year period, it's annual rate of growth is only about twice ours (the US has averaged growth of around 14% compared to annual growth of around 7% for our market). As the Coronavirus infection rates keep telling us, a seemingly small difference in short term change can become a large difference over longer time periods.

However, we really suggest that you do not start regret the fact that you live (or at least invest) in Australia! Things could be worse. You could have invested into Hong Kong, whose market has only risen by 9.26% since 2016:

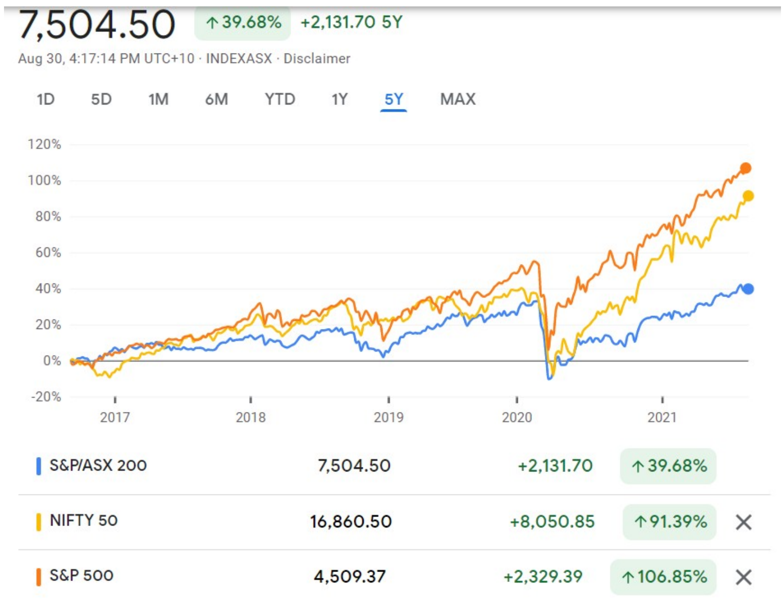


Or, worst of all, you could be an investor in England, whose market has risen a tiny 3.68% since 2016 – not enough to have even kept track with inflation in that country:



These comparisons are fun, but there can be a salient lesson to them as well. The US, Australian, Hong Kong and London stock exchanges are all sophisticated exchanges serving companies who mostly trade in well-developed economies. But shares on their exchanges have provided very different experiences for investors tracking their averages over the last five years. Investing is not simply a matter of things always rising.

Finally, and rather intriguingly, the main Indian index (whose name we love – the *Nifty Fifty*) almost kept pace with the US over the last five years:



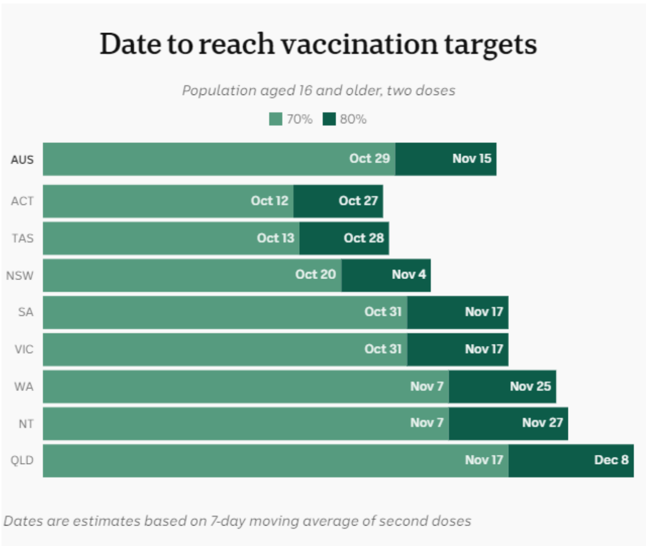
So, in order of share market performance over the last five years for the exchanges we have selected, the US has taken the gold, India the silver, Australia the bronze, with Hong Kong just missing out a medal and the UK market actually bombing out in the heats and actually going backwards in inflation-adjusted terms.

Residential Property (and Vaccination Targets!)

Would you buy a house unseen? That is, without being able to physically inspect it? That is the issue for the Australian property market in general as we come into spring, with the two largest residential property markets, Sydney and Melbourne, both being in highly restrictive lockdowns, probably for some time to come. This is preventing potential buyers from inspecting property in those markets, leading to large falls in listings and declining clearance rates. Put simply, fewer people are bothering trying to sell houses in those markets at the moment, and of those that are still trying, fewer are successfully selling.

The other states are not so affected by restrictions at present. But the two largest states are likely to remain in lockdown until state and national vaccination targets are met. South Australia and Queensland have both had recent lockdowns as well, so this month we thought we would go sideways a little bit and explore the likely future of lockdowns.

While no future can be predicted with absolute certainty, it seems that (at least in places where there are currently lockdowns), the agreement between state and Federal governments is that there will not be lockdowns once 80% of the target population is vaccinated. The target population is people aged 16 and over, and nationally this represents about 20.62 million people. 70% is therefore just over 14 million people fully vaccinated; 80% is just over 16 million. That said, the targets need to be met within each state and territory as well, meaning the national target might be met before one or more state or territory targets. Late last week, the ABC reported the following likely dates for reaching the targets in each state and territory:



Hopefully, these dates will prove to be conservative. We say that because the dates have been calculated simply by taking the current rates of weekly vaccination and assuming these rates continue into the future. As more supply of vaccination arrives in Australia (as it is scheduled to do – especially when we include the third Covid vaccine that we will be using, Moderna), vaccination rates may in fact increase. The evidence from Victoria supports this: last Wednesday (August 25), the Victorian state government announced 830,000 new appointments had been made available for people aged 16-39 to receive a vaccination. The booking website was receiving 50,000 hits per minute at one stage, and 1.3 million calls were made to the call centre on the first morning of availability. Clearly, there will be a very quick uptake, at least initially, as more vaccination doses become available. This should bring forward the date at which key targets are met.

Once each state and territory has met its target, we can expect that the conditions for Australia's residential property markets will revert to 'normal.' When that happens, we will be able to properly assess the state of those markets. For now, though, many of them remain somewhat hard to evaluate.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

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