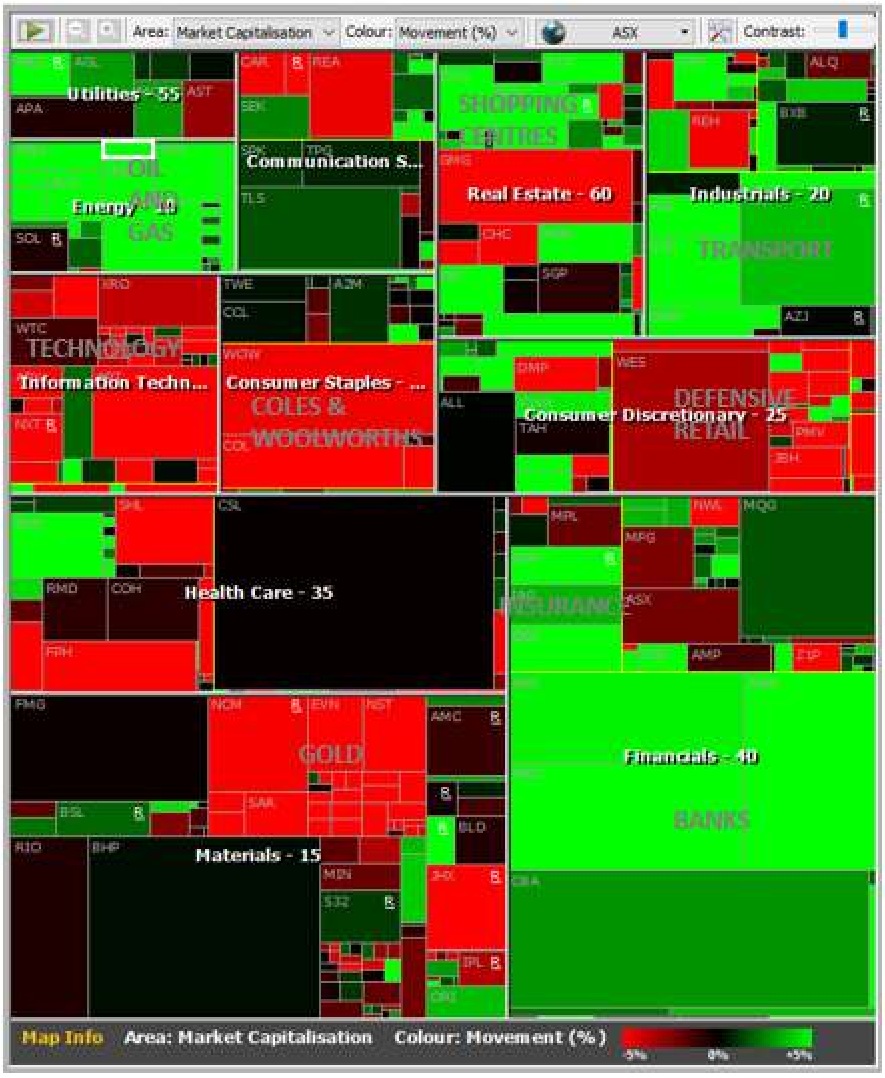
October 2020 — Over the Horizon Market Commentary by David Offer

10 November 2020 is likely to be a key inflection point for share markets globally.

The preceding evening the Pfizer COVID-19 vaccine delivered interim Phase 3 trial results from 43,538 participants with no safety issues reported and over 90% efficacy. This outstanding result was far above consensus expectations and is comparable with other highly effective vaccines. Pfizer is already manufacturing the vaccine with 50 million doses due in 2020 and 1.3b in 2021. They are also working on ways to expand their production capacity further.

Australia has already secured 10 million doses of the Pfizer vaccine and, subject to the Therapeutic Goods Administration approval for use in Australia, these are expected to be received in the first half of next year. With two doses required, this initial quantity will immunise 5 million of Australia's most vulnerable.

While an approved vaccine was expected in the forseeable future, the expectation was for initial vaccine(s) to be only partially effective; the prior benchmark for a COVID-19 vaccine to be deemed successful was just 50% efficacy. The stunning Pfizer results suggests a high probability that COVID-19 will be largely a memory by the end of next calendar year. As a result, while the Australian share market finished up only 28 points, there were very strong moves within our market during 10 November to start to factor in a future world free of COVID-19. This was reflected in the 'heat map' of the Australian share market on the day; the winners reflected in green and losers in red.



With an upcoming successful vaccine, the losers included gold, supermarkets, defensive retail, technolocy and industrial property trusts. Conversely, the winners included the banks, insurance companies, building and engineering, oil and gas, shopping centres and transport.

We have steadily been positioning for a COVID-19 recovery. As such, over the last few weeks and especially today, portfolios have fared particularly well. This will be reflected in next month's portfolio summaries. While many shares recently purchased have enjoyed strong gains, our view is that there is substantial upside to come in many of these companies. This is off the back of record low interest rates, record government stimulas and substantial savings accumulated by the public over the COVID-19 period due to lack of spending options. This all points to a sustained economic recovery that has the potential to morph into an economic boom; early signs of which are already clearly evident within Western Australia and other States that emerged early from COVID-19 lockdowns.

The current share market reminds me of a period 20 years ago. Back then the dot com bubble was reaching a cresendo. The headline share market index continued to surge to new heights but was highly influenced by just a few shares. In particlar Newscorp, which at the time was the largest Company by market capitalisation in Australia. At the time, we didn't hold any dot com shares and likewise (back then) we didn't hold Newscorp. As such, our portfolios lagged the market and looked uninspiring. However, in the subsequent years Australia experienced a sustained economic recovery that lasted right through to 2007 and only ended with the onset of the Global Financial Crisis. Over that period, value oriented industrial shares excelled and, in turn, so did our portfolios. It was a prolonged period of pain for the technology loaded Nasdaq index, which from its highs in 2000 of 5,200 points, subsequently fell nearly 80% and thereafter took 16 years to recover.

Once again, world share markets are in the grip of a technology oriented share boom. This is in part off the back of historically low 'once in a lifetime' interest rates. With interest rates being artificially depressed by Central Banks around the world, shares that offer growth can theoretically be valued at any price up to Infinity. This is reflected in Australia in companies like Afterpay, which is now the 16th largest share on the Australian share market in terms of market capitalisation. While an exciting company, it is yet to turn a profit. Conversely, industrial shares are trading at historically low levels because of the current 'clouded' economic outlook due to COVID 19.

With Australia experiencing practically no COVID-19 community transmission at this time and a highly effective vaccine on the horizon, the COVID-19 clouds may soon evaporate with a strong economic recovery the likely outcome. Shares that face the real economy stand to fair extremely well. Our portfolios are positioned to capture this upside. Should a strong economic recovery occur, in time it is likely some level of inflation will develop and higher interest rates will follow. This will help some sectors like banking and insurance but present additional headwinds for technology shares and other sectors such as listed property and infrastructure that have benefited from low interest rates. As such, it is unlikely that headline indices will move as much as underlying shares exposed to an economic recovery; and where our portfolios are focused.

While this calendar year has been trying, we look forward to the next few years being particularly rewarding for our clients.

David Offer
Investment & Financial Advisor
phone: 08 9791 9188
fax: 08 9791 9187
email: david.offer@horizonis.com.au
website: www.horizoninvestmentsolutions.com.au

HORIZON INVESTMENT SOLUTIONS
UNIT 4, 2-4 JETTY ROAD,
BUNBURY WA 6230