November 2020 — Over the Horizon Market Commentary by David Offer

November was a stellar month for the Australian share market. The All-Ordinaries Index gained 609 points to finish the month at 6,742 points, a gain of 10%. This was our best month for the share market since the depths of the pandemic in March, and our best November in 30 years. The positive momentum has continued into December, with our market up a further 144 points or 2.1% at this time.

Since the lows of March, when the All Ordinaries index hit 4,429 points, our share market has appreciated 55%. For Australian investors, investing domestically has been as good as anywhere to enjoy the COVID-19 investment recovery. For example, while the US share market has recovered 58% from March lows, the appreciation of the Australian dollar against the Greenback by 29% (to presently buy 0.7535 US dollars - a 2.5 year high) has muted a lot of the benefit in investing off-shore over the last 8 months.

While late to join the recovery party, it is pleasing to see 'value' oriented shares that face the real economy finally start to see some positive momentum. This is an area in which our investment portfolios are overweight. Many of these investments have the potential to continue to provide significant upside from current prices.

As I reflect back on 2020, re-reading our monthly letters to clients from earlier in the year (all of which are available on the Horizon website under the tab 'monthly newsletter'), shows just what an extraordinary year we have all experienced from an investment perspective. Pleasingly, our views over the period have largely pre-empted what subsequently transpired. For example, in our letter dated 10 March 2020 we took the view that, *off the back of record government stimulus, we consider it likely that the downturn, while probably sharp in nature, will be relatively short lived and that a 'V-shaped' recession is most likely*. We get a 'tick' for that one. In our letter dated 6th April 2020 we were writing about our new working from home arrangements! Our letter dated 14 May discussed the importance of participating in capital raisings and while these were less frequent than what was experienced in the GFC, the raisings that did transpire were beneficial to participate in.

As we turn to 2021, we will progressively take a more cautious stance as share markets appreciate and companies we own become fairly valued. However, we continue to view the risk to investment markets as being skewed to the upside. This is based on;

- Record monetary stimulus – the RBA has set interest rates at just 0.1%;
- Record fiscal stimulus – one has to revisit World War 2 to last see a Federal Government deficit of the current magnitude; and
- Record pent up consumer demand – thanks to government handouts and early access to superannuation, Australians are more 'cashed up' than ever before.

As we approach the end of 2020, there is one more 'investment first' to highlight. Last week the Australian government sold a portion of 3-month Treasury notes at a yield of negative 0.01%. In doing so, Australia has entered the world of negative interest rates, with investors opting to pay the Australian government to take their money! From an investment perspective, this is definitely not a space for us or any of our clients. However, Australia's record low interest rates highlight the limited investment alternatives available and help validate the rationale that there is scope for further significant further upside in our share market.

Within our office, congratulations are in order for Graham Oates and Christa Powlowski, who have both recently joined me in passing the FASEA industry exam. This 3.5-hour exam is required to be passed by any Financial Advisor wishing to remain in the industry post 2021. Given the consequences of not passing, it is a stressful exam to sit and a big relief to have it behind us. So far only 10,460 of Australia's 22,334 registered Financial Advisors have passed the exam. Current indications are that, come the end of next year, the Financial Advice industry will shrink by a third. However, going forward, the quality of advice provided should be at an overall higher standard from those that remain. This will be a win for consumers.

Finally, for the week beginning 14th of December, I will be doing the WA version of an overseas holiday and taking a much-needed break at Rottnest with the family.

Have a safe and enjoyable festive season and may 2021 be a much less adventurous year!

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