

NEWSLETTER

November 2020



EVEREST PARTNERS
PRIVATE WEALTH MANAGEMENT

Introduction

Welcome to the November newsletter. This month we look at how Australian shares performed for the month of October, and also take a look at some really surprising news from the residential property markets. Oh, and there was this thing last month called the Budget. We have a good look at that, as well. Enjoy!



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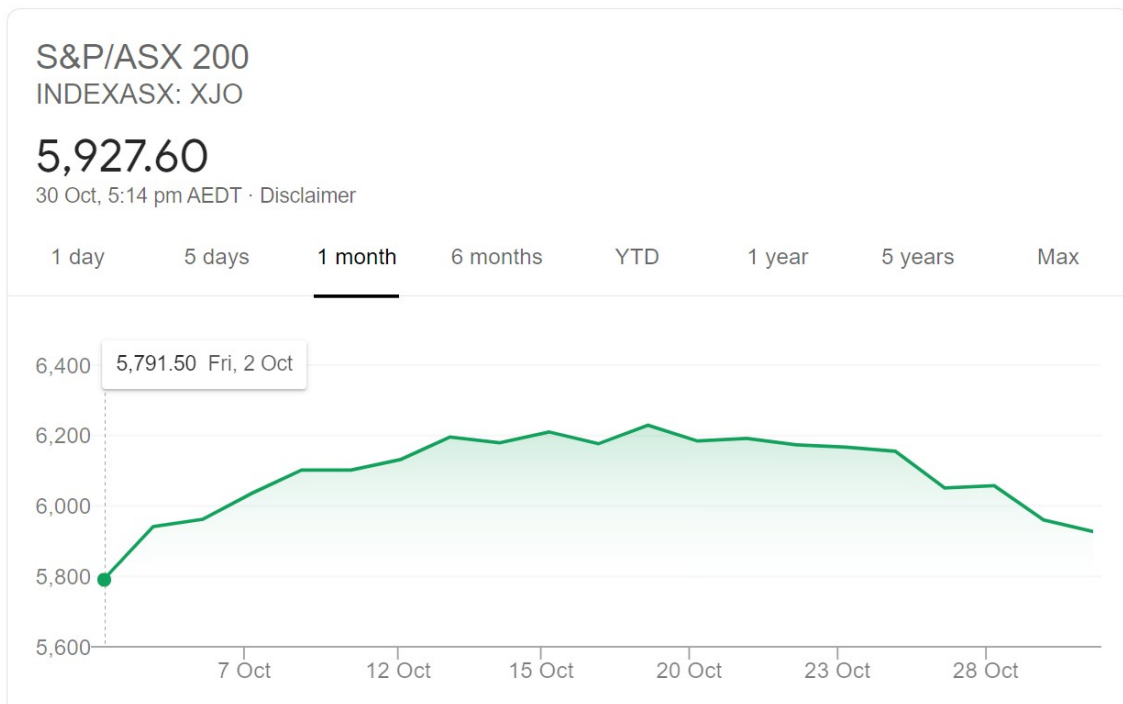
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The Share Market

The Australian share market resembled the rolling Adelaide Hills during October. Here is how its performance looked, thanks to Google and the ASX:



The total change in the market, as measured by the ASX 200, was a positive 2.3% for the month. However, as you can see, it was really a month of two halves. Mid-month, the market had risen by almost 7% before 'retreating' in the second half. That advance and then retreat matched the momentum on the US market, which (amongst other things – see below) seemed to develop jitters as their Presidential election came closer (again, thanks to Google and S&P):



The US market was actually down 3.2% for the month. Again, it was the second half of the month that saw the market falling. To October 12 the market had risen to 3,534 points, a rise of 4.5% for the month to date. From there, it fell 7.5% to the end of October.

So, while the Australian market mirrored the US experience, the US experience was more extreme. This seems fair enough: after all, it is their election that is causing all the kerfuffle!

Australia's Federal Budget was delivered on October 6. It's impact on the Australian market is a little hard to gauge: while our market rose immediately following the Budget, the US market was rising even faster. This makes it difficult to 'tease out' the specific effect of these two influences. What we can certainly say is that the reaction to our Budget was not particularly negative. Which, right now, might actually be high praise – who would want to be the Treasurer right now?!

Donut Days

You will almost certainly have seen the news last weekend that Australia recorded it's first national day without a new case of community-transmitted Covid-19 since June 2020. As well as just being a wonderful thing, this number reflects a level of control of Covid-19 that is almost unrivalled around the world (OK, New Zealand is still slightly ahead!). This control, and the potential freedom of movement within Australia that it makes possible, should mean good things for our national economy.

Unfortunately, our success is not being replicated elsewhere: our national 'donut day' was immediately followed by the US recording the highest single day total of new cases anywhere in the world. The US is the world's largest economy and its share market is also the world's largest. As we have pointed out in our newsletters for many months now, the US market usually has a direct impact on our market. And as we point out above, the US market took quite a tumble in the second half of October. Undoubtedly the pending election had something to do with that – but so too did the fact that the incidence of Covid-19 is rising so substantially in the US. As the US moves into winter, things could become particularly bleak for them – which is likely to impact on our market as well.

On the same theme of global sadness, our donut day also coincided with the announcement that the UK has recommenced a national lockdown for at least the next four weeks. The UK market does not impact on our market as directly as the more prominent US market. But the fact that we are seeing such bad news in major northern hemisphere economies as they move into winter is sobering. The global economy remains in uncharted waters.

There is some good news from around the world. The world's second largest country by population, India, is reporting that its rate of infection is slowing. We wish that other parts of the world could soon report similar things. For now, can we say again: if you have loved ones living overseas, our thoughts are with you and them.

Federal Budget 2020

We have written two comprehensive articles on our website discussing the changes announced in last month's Federal Budget. While the changes were not too numerous, the size of some of them was, and the Budget therefore announced the largest deficit in Australian history, in dollar terms. (For all things Budget-related, you can check out: www.budget.gov.au). In summary, the major changes are as follows:

Tax Cuts for Households

The 2019 Budget (that is, last year's Budget) detailed a series of tax cuts that were going to be rolled out between then and 2024. This year's Budget has brought some of these changes forward.

The 'stage two' cuts discussed in the 2019 Budget have been brought forward by two years and will actually take effect from 1 July 2020. These cuts involve changes to the income points at which higher rates of tax kick in (typically known as tax brackets). The new brackets for the 2020/2021 year are as follows (source: ATO):

Income thresholds	Rate	Tax payable on this income
\$0 – \$18,200	0%	Nil
\$18,201 – \$45,000	19%	19c for each \$1 over \$18,200
\$45,001 – \$120,000	32.5%	\$5,092 plus 32.5% of amounts over \$45,000
\$120,001 – \$180,000	37%	\$29,467 plus 37% of amounts over \$120,000
\$180,001 and over	45%	\$51,667 plus 45% of amounts over \$180,000

According to the ABS, the average Australian working full-time earns just a tick under \$90,000 per year (as of May 2020).

Tax Cuts for Businesses

Tax cuts were not just the order of the day for households. There were two main forms of tax cut for businesses.

Cuts in Corporate Tax Rates

Once again, tax cuts for companies had been announced in previous Budgets. These cuts were continued. The rate of corporate tax payable by companies with turnover of less than \$50 million (subject to a few more criteria) will now be:

Financial year	Base Rate Entity <i>(Turnover less than \$50m)</i>	All other companies
2018-19 and 2019-20	27.5%	30%
2020-21	26%	30%
2021-22	25%	30%

Instant Asset Write-Off

The Budget's big 'new' change was essentially designed to encourage businesses to increase investment in plant and equipment. Once the Budget has been passed, any business with turnover of less than \$5 billion can instantly write-off the full purchase value of any new (that is, not second-hand) asset that was acquired between 7:30pm 6th October 2020 to 30 June 2022.

Businesses with turnover of less than \$50 million can also apply this write-off to all assets that they acquire (which includes second-hand purchases).

Businesses with turnover between \$50 million and \$500 million can only claim an instant write off for second-hand assets purchased up to a value of \$150,000. These assets must be purchased before the end of 2020.

So, businesses with turnover of up to \$500 million can instantly write off at least some second-hand assets. Larger businesses can only instantly write off new assets.

This change is expected to assist business in at least two ways: firstly, it encourages businesses to buy new assets, which should make them more productive. Secondly, the change creates a larger market for those businesses that need to sell assets they already own.

JobMaker Scheme

Undoubtedly the largest impact of the pandemic has been felt through the impact on employment. To that end, the 2020 Budget announced a substantial incentive for employers to increase employment, especially amongst groups thought to have been hit the hardest by the economic impact of the pandemic. The JobMaker scheme is central to the Budget's efforts regarding unemployment.

Where employers expand their staff by taking on an eligible employee aged between 16 and 29, they will receive a credit of \$200 per week for the new staff member. If they take on an eligible employee aged between 30 and 34, they will receive a credit of \$100 per week.

The new job must be for at least 20 hours a week. It must also be demonstrably a new job – this will be assessed by the employer needing to show either that the number of employees employed within their business is higher than it was on September 30 or that their total payroll is greater than it was during the September 2020 quarter.

The credit is not available to companies who are also claiming Jobkeeper. The new employee must have been receiving Jobseeker payments in at least one of the three months preceding their commencement with their new employer.

This scheme will last until October 6 2021. The new Jobmaker credit is similar to the Restart Wage Subsidy, which is paid to employers who take on a staff member aged over 50 and who has been on income support for at least six months. This benefit remains in place and, again, is obviously targeted at moving people over 50 off income support.

The Property Market

Australia's residential property markets continue to surprise. Market analyst [CoreLogic](#) reported the following changes in prices for the month of October in Australia's capital cities:

City	October Change	12 Month Change
Sydney	0.15%	6.09%
Melbourne	-0.16%	0.7%
Brisbane/Gold Coast	0.58%	4.15%
Perth	0.58%	0.04%
Adelaide	1.17%	4.44%
Hobart	1%	6.45%
Canberra	1.01%	6.76%
Darwin	1.21%	2.78%

These figures are quite extraordinary when you stop to think about them. People who purchased a 'representative' property (that is, one that performed in concert with the city average) in any of Australia's capital cities in November 2019 have seen the value of their property either hold up (Perth and Melbourne) or rise in excess of the rate of inflation in all the other capitals. (The inflation rate for the 12 months to the end of September 2020 was just 0.7% - ABS). Sure, in Melbourne and Perth the annual change is only slightly positive, but in a year like this sometimes the most important thing is simply to *not lose* money. Of the two markets that did not 'charge' ahead, Melbourne's will be particularly interesting to watch. The rate of new cases in that city has fallen markedly, indeed, there had been no new cases at all for four consecutive days to Tuesday November 3. Unfortunately, Melburnians were still not able to enjoy their day off by going to the Cup.

Some interesting commentary and opinion is being offered as to what is buoying some markets. Just this week the Fairfax/Nine press published two articles suggesting that people fleeing the pandemic hotspot of Melbourne (and to a lesser extent Sydney) were driving prices up in south-east Queensland and Adelaide. In many ways it makes sense for Australia's population to de-centralise away from it's two largest cities. What's more, Covid-19 has led many people to reflect on how they have organised their life around work – with at least some people probably realising that it might be possible to live a long way from the 'place' where they work. That said, we hope that people have not made long-term decisions to emigrate from one state to another on the basis of a short-term event such as the recent lockdowns. If there is to be another lockdown (and we hope beyond hope that there isn't), that lockdown could of course occur in any of our capital cities. There is no reason to think that any next lockdown is more likely to be in Melbourne or Sydney and so we really hope that people have not moved away from those places solely to escape lockdowns that are now over.

Of course, every Australian knows about Melbourne's weather, so a bunch of people moving to Queensland during the Melbourne winter does not really surprise – it might just be an outbreak of common sense!

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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