AD WEALTH REGULAR NEWSLETTER
MAY 2021

GENERAL UPDATE

Dear Clients,

Welcome back to the latest edition of the AD Wealth Regular Update. As we leave Autumn and head into a chilly Melbourne Winter, we are excited to be closing in on the end of the financial year and are looking forward to new developments within our team and projects.

We welcome two new staff members: Miranda Hill in Marketing & Administration and Kurt Tonzing as a Financial Adviser. Kurt comes from a strong finance background with a Bachelor of Accounting & Finance as well as a Master's in Financial Planning. We are excited for both Kurt & Miranda to join the AD Wealth team and are confident of the high-quality service they will offer our clients.

Unfortunately, here in Melbourne COVID restrictions are still in place and continue to fluctuate. Due to the current snap lockdown, some staff members have returned to working from home. However, we are still operating under normal office hours and are looking forward to all staff returning to the office full-time and it hopefully remaining that way.

We thank you for your ongoing support and trust in the AD Wealth team, and we look forward to providing further updates throughout 2021.

SPECIALISED PROPERTY INVESTMENTS

MAY 15TH

HAYFIELD UPDATE

The Hayfield master-planned, 900 lot community in Ripley Queensland, continues to progress with some major milestones being achieved recently including;

- Over 200 lots have now settled, 95 of these occurring in the past 6 months generating over $45 million in sales revenue
- 17 new contracts signed in Stage 5 in the month of May
- Stage 5 has achieved practical completion in April with titles expected to be received in early June

SPECIALISED PROPERTY INVESTMENTS CONT'D

MAY 21ST

STAWELL UPDATE

Construction of the 4 lot sub-division and United service station featuring a Pie Face drive-through is almost finished with construction expected to be completed by mid-June. Pleasingly, the Directors of RFG Stawell have received and accepted an offer (subject to due diligence) to purchase the fuel & food site for a very competitive price.

MAY 26TH

VICTORIAN STATE BUDGET ANNOUNCEMENTS

The recent Victorian State budget announced a raft of proposed changes to the property sector, some of which include;

- A new 50% windfall gains tax applied to re-zoned land above $500,000, phased in from $100,000
- New premium land transfer duty (stamp duty) for sales above $2million, increasing stamp duty payable to $110,000 plus 6.5% of the dutiable value in excess of $2 million
- The land tax rates for high-value landholdings will increase; for taxable landholdings exceeding $1.8 million — the land tax rate will rise by 0.25%, and for taxable landholdings exceeding $3 million — the land tax rate will rise by 0.30%

TRADITIONAL INVESTMENTS

ECONOMIC OUTLOOK & PORTFOLIO POSITIONING

The stimulatory mindset of policymakers persists unabated, which continues to underwrite asset price growth and strong consumer spending around the globe. In the absence of tangible evidence of sustained higher inflation, there appears no immediate constraint on a continuation of this pattern. As such, asset prices - shares and property – could continue to march higher. Therefore, any winding back of growth asset exposure due to escalating valuations creates a risk of significant underperformance for benchmark-sensitive investors.

TRADITIONAL INVESTMENTS CONT'D

At some point though, policy will be tightened and investors looking to make tactical decisions around portfolio positioning should be increasingly focused on the deliberations of central banks and the disparities that will emerge between the policy requirement of different economies and regions. The COVID crisis meant that there was a high level of synchronization in the economic collapse and policy response across the globe. However, the same degree of synchronization should not be expected from this point forward.

From an Australian perspective, the probability that policy here will be tightened earlier than in developed Northern Hemisphere economies appears to be building. Although there has been no change in the tone of the carefully chosen wording of the Reserve Bank, the economic outlook today is very different from that prevailing 6 months ago when the central bank last changed its policy settings. Most notably, the problem of unemployment, which the RBA has a primary focus to address, is looking more and more like a frictional and structural problem, rather than a cyclical problem. This is evidenced by ballooning job vacancies, which are substantially higher than they were prior to the COVID crisis. The NAB / SEEK Vacancy Index suggested job ads rose 11.9% in April, which was potentially the month of most concern to policymakers given the unknown impact of the end of the Job Keeper program. As measured by this Index, vacancies are now 38.8% above pre-pandemic February 2020 levels. This sits in stark contrast to the recently released April employment data in the United States, where unemployment rose unexpectantly by 0.1% to 6.1%.

If policy is tightened here earlier than most other developed economies, there will be a risk of relative underperformance from both Australian bonds and equities. Given the strength of equity markets, it is likely that the upside to earnings from our current strong economic growth trajectory has already been assumed into share prices. However, a rise in interest rates is likely to be negative for the domestic share market, if it occurs earlier than expected or earlier than in other jurisdictions. Higher domestic interest rates are also likely to place upward pressure on the Australian Dollar, something that the RBA would be keen to avoid but may be inevitable unless commodity prices shift lower from current record highs.

Given all of this, to help protect portfolios, the investment committee has slightly reduced allocations to growth assets and increased exposure to alternative investments (infrastructure, private equity, commodities) to help preserve capital values should growth assets give up some of the large gains experienced over the past 12 months.

Matt Morley
Director