

# Transcript

## Investment outlook 2021

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### COVID-19 overshadows everything

It almost goes without saying that we continue to live in a period defined by the COVID-19 pandemic.

It was the restrictions imposed on people movements and business activity to contain the pandemic that sent shock waves through global share markets in March last year.

Remarkably, share markets then staged a dramatic recovery driven by massive central bank intervention that injected liquidity into the financial system. This was complemented by massive government spending to support workers and businesses.

By the end of 2020, it meant that many investors' portfolios, including super fund portfolios, finished with better returns than would have seemed possible during the worst of March's share market upheaval.

### President Biden may super-charge US economy

This brings us to the current situation in share markets and economies where there are grounds for optimism on both fronts.

The new US administration of President Joe Biden is expected to deliver a boost to the American economy through big spending programs.

President Biden has already detailed a US\$1.9 trillion coronavirus rescue package

During the campaign Mr Biden also proposed more than US\$5 trillion over 10 years in new spending, with much of it front-end loaded into the first few years.

Of course, all of this must be negotiated through Congress where his party only holds a thin majority, but it does signal that a lot of money is going to be injected into the American economy.

This would also seep into the global economy and be positive for share markets.

There's also some encouraging news on COVID-19 front, as three vaccines are beginning to be rolled out.

The challenge will be to manufacture enough vaccines so that most of the world's population can be inoculated.

The virus doesn't respect borders and we will need to, in effect, inoculate everyone if we are truly to return to a normal life everywhere.

### **Higher inflation ahead?**

Against this generally good news are some clouds in the sky.

New more contagious COVID-19 strains have been detected and more studies are needed to understand how they may impact the virus.

On the economic front, it's possible that the US economy may end up growing a bit too fast and that could cause inflation to go higher than has been the case for the past decade.

Investors have become so used to unusually low inflation that there's some risk that they may be unprepared for higher than expected inflation.

### **How we're positioning portfolios**

The way we manage money looks out for multiple risks as well as opportunities, not just a narrow set of investment themes.

We don't want to be wrong-footed by markets and so rather than exclusively preparing your investments for inflation, we're equally aware that the current low inflation environment may stretch a little further.

With that in mind, we have, for instance, increased exposure to infrastructure companies providing essential services such as water, power, and transport because they generally deliver reliable income streams in higher inflation as well as low inflation environments.

At the same time, we've been adding to investments in emerging markets (those are share markets outside the developed country share markets of North America, Western Europe, Japan and Australia) as they should do well if the US economy does go into a strong growth period.

At the end of the day, the future is always uncertain, and we think the best way of dealing with uncertainty is through diversification by which we invest across many types of industries, companies, managers and investment styles in different countries.

The more you diversify, the less impact any one investment, or type of investment, can have on the return from your overall portfolio.

Diversification is what MLC has stood for since we began managing Australians' money in 1985.

Sticking by diversification has enabled us to get clients' portfolios through many investment markets shocks.

For most investors, particularly super fund members, investing is a multi-year, even multi-decade commitment.

There will be some bumps along the way, but by sticking by diversification, as you did during last year's events, you kept your eyes on the longer-term endgame.

We take the responsibility of managing clients' money very seriously and we will continue to apply all our skill, knowledge and experience to preserving and growing your investments.

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