

NEWSLETTER

November 2021



BRETT GEAPPEN
FINANCIAL SERVICES

Introduction

Welcome to our November newsletter, where we can calmly and generally report that share and property markets have gone back to normal – maybe a different type of 'covid-normal.'



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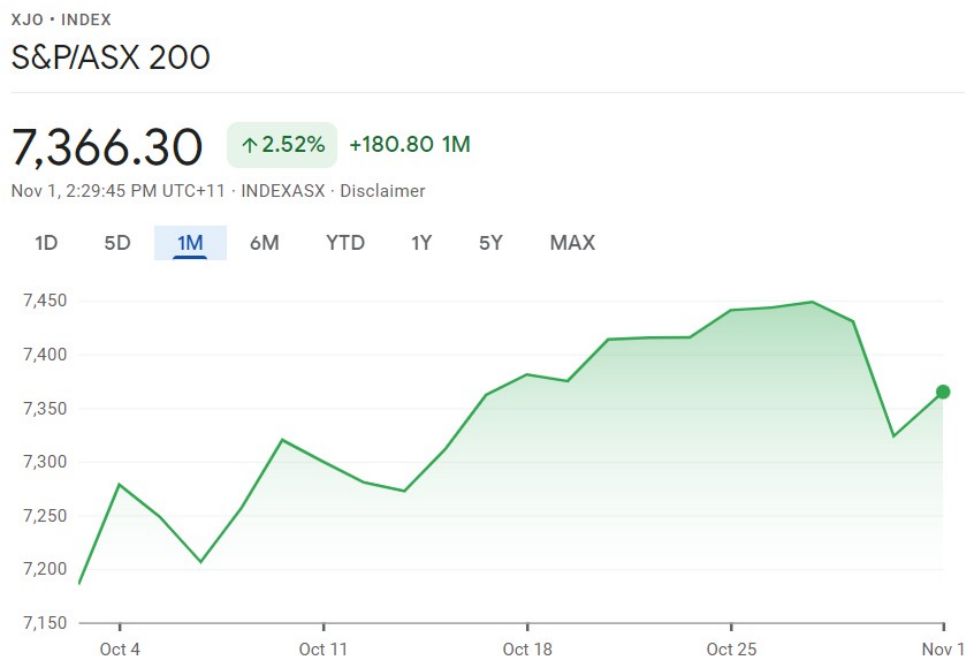
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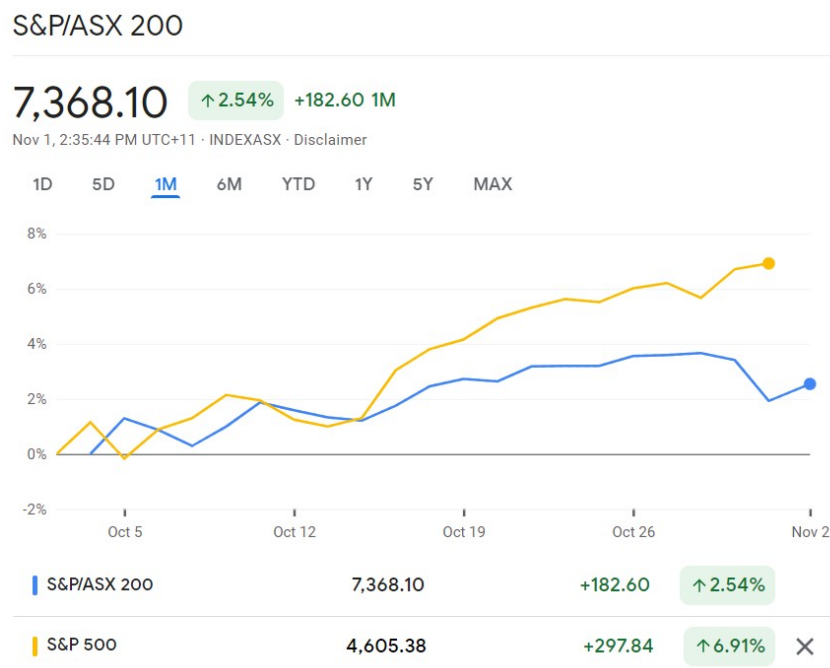
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The Share Market

The Australian share market, as measured by the ASX 200, rose by around 2.5% during the month of October. The following graph shows the daily movements (thanks to Google):



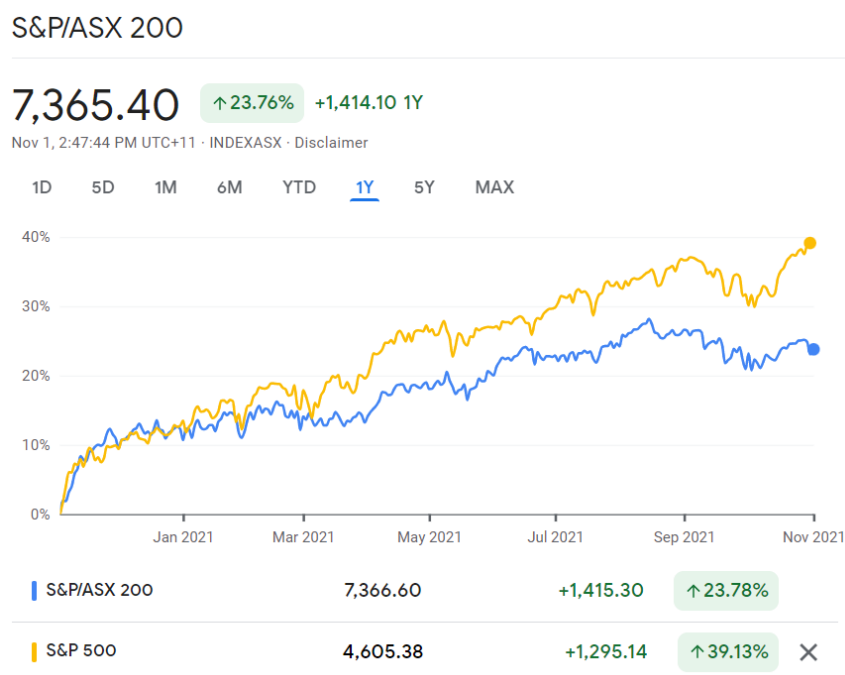
As you can see, the market's rise was quite steady and it was actually limited a little by some falls late in the month. 2.5% is a substantial rise in just one month, but it pales when compared to the performance of the US market for the same month. This graph shows the two markets side by side:



The monthly rise in the US was the largest monthly rise of 2021. This raises the prospect of an increasingly volatile US market, as the month of September saw the largest monthly drop in the S&P 500 index for 2021 (a little under 5%). Taken together, the two months have almost cancelled each other out (the US market is up just 2% since the end of August).

Since our last newsletter, we have written a weekly blog about inflation. Fears of inflation had dampened the US market in October but those fears were somewhat allayed in October as the rate at which US inflation is increasing did not rise. That is to say, the annualised inflation rate for the 12 months to the start of September 2021, which had been a sharp rise, did not rise again during September.

It is now 12 months since the US decided to change President. In what must be galling news for the chap who did not win, the US market has really gone gangbusters since then. The S&P 500 is up almost 40% over that time (in fact, if you factor in the average dividend yield for the S&P 500 of 1.31%, the total return to an investor who bought the market in October 2020 was comfortably more than 40%):



The annual US dividend yield of 1.31% is very low by normal standards. For the 12 months to October 2020, the figure was 1.79%. Dividend yield is calculated by simply dividing the dividend a company is paying into the share price for shares in that company. So, as share prices rise, unless the company also starts paying an increased dividend, the dividend yield falls. The dividend yield in the US has fallen by 26% (from 1.79% to 1.31%), which tells us that dividends did not rise anywhere near as well as share prices did.

The Australian market is not quite as well-researched as the US one, and so we do not have direct data on average dividend yields for the ASX 200, updated each month. However, we can look at the performance of index-tracking ETFs, such as Vanguard Australian Shares ETF (ASX code = VAS), as a close approximation. As of the end of October 2021, VAS had an annual dividend yield of 3.35%.

So, the dividend yield in the Australian market is more than twice the yield in the US market. Again, when we look at the one year performance of the US and Australian markets, it makes sense that Australia, where share prices have risen by less, would have a higher dividend yield. What it essentially tells us is that companies in both the US and Australia have kept paying relatively stable dividends even while market prices have soared over the last 12 months.

Residential Property Markets

Australian residential property continued its inexorable rise in October 2021. According to [researcher Corelogic](#), prices rose by an average of 1.5% across the country for the month. Here is how each state and territory capital 'performed,' in order of the monthly rise, for the month of October:

City	Monthly Rise	Annual Rise (Nov 20 – Oct 21)	Median Value
Brisbane	2.54%	22.30%	\$642,000
Hobart	2%	28.6%	\$678,000
Adelaide	2%	20.7%	\$543,000
Canberra	1.94%	25.52%	\$865,000
Sydney	1.5%	25.23%	\$1,070,000
Melbourne	0.99%	16.37%	\$780,303
Darwin	0.42%	19.28%	\$490,000
Perth	-0.11%	16.37%	\$526,000

Comparisons like these always throw up some really interesting facts. Perth is the only city to have recorded a fall in monthly house prices at any stage this year, with prices falling by just over 0.1% during October. Notwithstanding the data for October, 2021 in general has seen Hobart overtake Brisbane in terms of median house prices to now be Australia's fourth most expensive city. It seems clear that being an island nation helped Australia avoid much of the Covid heartache seen in other parts of the world. Presumably being an island state within an island nation magnified this impact even further! In times of pandemic, having oceans on every side is clearly an advantage.

Nationally, the median dwelling price (remember, 'dwelling' includes both houses and apartments/units) is now a tick over \$770,000. Obviously, this average figure is heavily influenced by the state of the Sydney market, which is Australia's largest, and the Melbourne market, which is the second largest.

As we have written many times before, house prices are a function of demand and supply. There was evidence of increased supply to the market during October, with [Corelogic also reporting](#) that the last week of October saw the largest number of dwellings listed for sale for the year. If this trend continues, it can be expected to have a downward effect on prices as buyers do not need to compete quite as ferociously for housing as they have been.

In addition, [some commentators](#) are observing signs that might indicate that interest rates are likely to start rising earlier than the RBA has been stating. Unfortunately, this newsletter goes to press before the Tuesday of the week we publish it in, so we do not know at the time of writing what the RBA decided in its cup day meeting, but if there is anything of importance for house prices, we will let you know in coming articles.

The Legal Stuff

General Advice Warning

The above information is general in nature and does not take into account your personal situation. You should consider whether the information is appropriate to your needs, and where necessary, seek professional advice from a financial adviser.

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