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VanEck launches Income ETF Model Portfolio, with rates to fall further

Sydney, 15 January 2020 – VanEck has released an Income ETF Model Portfolio which aims to generate income of at least 2% per annum more than the consumer price index (CPI), drawing on Lonsec's research and portfolio construction expertise to provide recommended strategic asset allocations to yield income in an era of prolonged low interest rates.

Major differences to the existing VanEck Model Portfolios are a greater skew to Australian equities versus global equities given historically higher dividend yields and franking credits. Within the global equities allocation, there is a greater weighting to higher yielding stocks. The portfolio also features a greater weighting to higher yielding corporate bonds.

Arian Neiron, VanEck Managing Director and Head of Asia Pacific, said investors are struggling to reap income from their investments as interest rates tumble to historic lows and are likely to stay lower for longer in Australia, with another rate cut expected by the Reserve Bank of Australia in the first half of 2020.

"Asset allocation will be key in helping investors to achieve a decent income return, because it is no longer going to come from cash. With interest rates at historic lows, Australia has caught up to the rest of the world in having ultra-low interest rates. That situation is not likely to reverse anytime soon, with another official rate cut expected in the next few months, so investors seeking income will need to allocate more to income producing equities and fixed income securities to achieve a decent return," said Neiron.

"Simply speaking, cash and government bonds will not yield the income that retirees need for retirement in this new decade, which will force them to move up the risk curve," said Neiron.

"We believe the RBA will cut interest rates to a historic low of 50 basis points in the first half of this year."

Several factors are combining to hold back economic activity and keep rates low in Australia. Both household-debt-to-income and house-prices-to-income ratios are very high. Other than Switzerland, Australia has the highest level of household debt as a percentage of gross domestic product (GDP) in the developed world.

"Business investment too has dropped off since the end of the commodity boom, taking away an essential ingredient for economic growth. We are also likely to see low interest rates persist in Australia given household consumption will remain subdued. Household income per capita is not increasing and wages growth remains very low, reflecting lackluster household spending," said Neiron.

"Combining all of these factors, we are likely to see below trend economic growth and interest rates remain at historical low levels for an extended period of time in Australia, which will force investors looking for income to assess new investment opportunities outside of term deposits and cash products. VanEck's new Income ETF Model Portfolio supports financial advisers in creating a simple portfolio of ETFs targeting income for retiree clients."

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ABOUT VANECK

VanEck is one of the world's largest issuers of ETFs (Exchange Traded Funds), managing in excess of $50 billion globally for individual and institutional investors. Founded in New York in 1955, VanEck is a pioneer in international investing and in gold funds, launching the first gold equities fund and the first gold ETF in the US.

In Australia, VanEck is the fastest growing ETF provider in the country and a leader in 'smart beta' investment strategies. We have 19 ETFs on ASX that focus on delivering superior performance through beyond-the-usual approaches and providing access to asset classes typically unavailable to Australian investors.

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