YOUR PERSONAL WEALTH

WINTER 2023

WELCOME TO WINTER

After a brief respite on interest rate rises, May saw the Reserve Bank (RBA) lift one more time. With only one of the four big banks predicting the RBAs move correctly, this again highlights the folly of trying to second guess the markets instead of steering a course and staying the course when it comes to financial planning.

This quarter we discuss the **Uncertain economic times** we are in, look at how you can travel the **High confidence road to retirement**, and **Teach your kids about money**.

We hope you find this edition valuable!

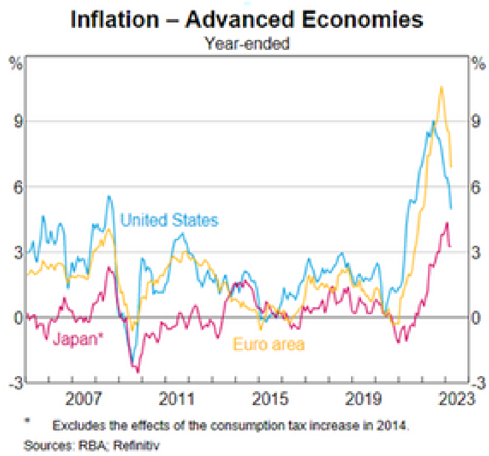
UNCERTAIN TIMES, BUT WE REMAIN CAUTIOUSLY OPTIMISTIC

Market performance

The volatility that characterised the first few months of the year in equity and bond markets subsided in April. Expectations of a peak in central bank rate rises and better than expected earnings results helped push equity markets higher, despite the risks of recession. **Global markets rose again in April taking the fiscal year to date gain to 9.8% in USD and the annual gain to 3.3% in USD.** The turmoil in the global bank sector that occurred in March was put aside by markets. This was despite by the end of April, First Republic Bank having been taken over by JPMorgan, representing the 2nd largest bank failure in US history.

The Australian equity market did not do as well as global markets. While it rose in April, the return fiscal year to date is 5.4% and only 2.8% over 12 months. This resulted from investors turning to growth stocks and becoming cautious about domestic banks in light of concerns over the highly indebted household sector and as China's post-Covid recovery proved underwhelming.

Uncertainty around ongoing negotiations on the US Debt Ceiling together with hawkish comments from the US Fed however caused falls in major equity markets in May.



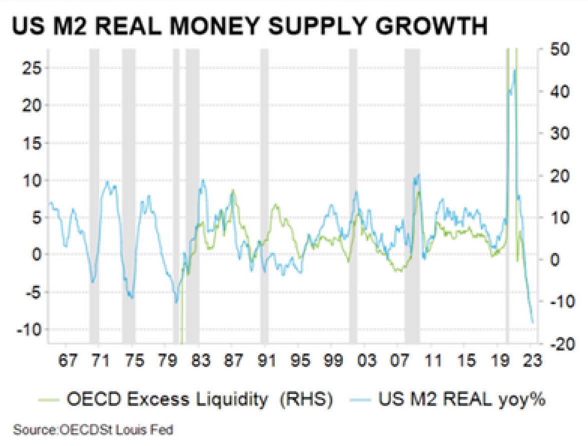
Economic conditions - recession evidence

The data is mixed, and despite good news on inflation, it remains high, and there is growing evidence of recession. In the US after the failure of several banks, credit conditions are tightening, demand for loans is declining, business capital expenditure intentions are weak, consumer sentiment remains low and CEO and small business sentiment is at its lowest level since 2013.

CONTINUED ON PAGE 2

CONTINUED FROM PAGE 1

The chart below shows the supply of money in the US is at recessionary levels.



An area of concern in the US is that the regional/community banking sector which continues to be under pressure is by far the largest lender to the commercial property sector in the US. Many market commentators expect a significant correction in the commercial property sector that may have global ramifications. This is also the case in Europe and to a lesser extent in Australia due to very low occupancy rates in commercial buildings post COVID-19.

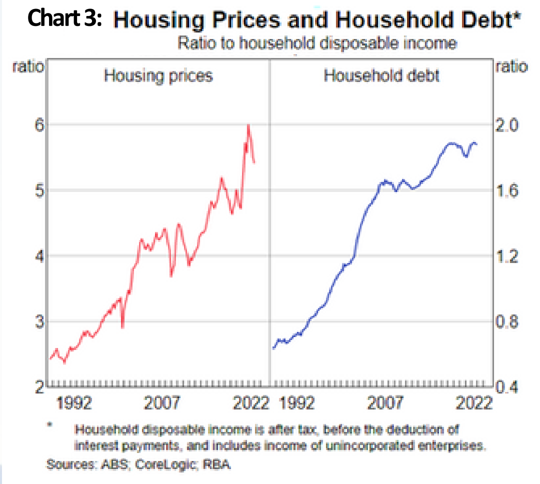
On the positive side, Australia's business conditions while slowing, remain solid overall, and cost and price pressures, although elevated, are easing. Business confidence is languishing, however, as is consumer confidence, as evidenced by declining retail sales (the largest 6-month decline since the 1980's). A positive for Australia is that our banking system is fundamentally robust and very well capitalised.

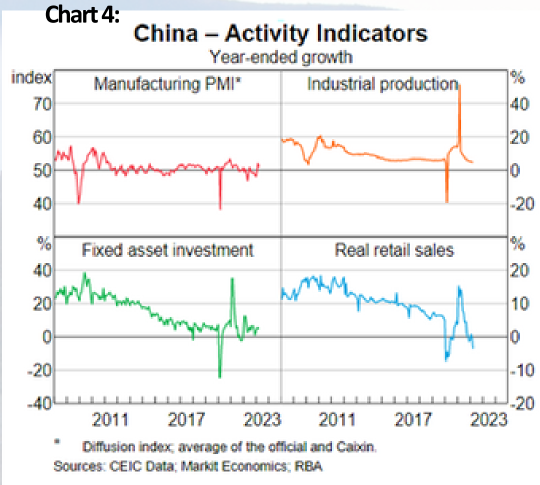
According to the 2023-24 Budget forecasts, Australia's real GDP growth is expected to slow to 1.5% in 2023-24 and remain below trend the following year. This is a significant slowdown when we bear in mind that GDP expanded by more than 20% in the previous 2 years.

Our view on the rest of 2023

From the above, you would understand that at the end of May, we still maintain our core view that there will be a global recession in the second half of 2023 led by the US, that will result in significant ongoing volatility in global financial markets. The Fed, the Bank of England and the Reserve Bank of New Zealand have all said they expect some sort of mild recession. We also believe that chances are the recession will not be a deep one and that Australia may not be impacted as much as Europe and the US. Australia, with very high levels of household debt (Chart 3) is dependent to a large extent on the China recovery improving (Chart 4) and on energy exports, which may slow in a global recession.

We find ourselves with falling inflation, which is good news, however, it is not falling to levels desired by central banks due to 'sticky inflation' in the service sector and wage growth from low unemployment. This is likely to reduce the appetite of central banks to reduce interest rates as quickly as markets would like.





Other factors that will trigger ongoing market volatility are global governments seeking to reduce fiscal deficits and central banks wanting to reduce their balance sheets (known as quantitative tightening).

What does this all mean for portfolios?

When it comes to portfolio construction in an environment like this, we believe that the most prudent approach is to err on the side of caution. We have seen many difficult periods in the markets over the last 25 years. In uncertain times there is benefit in holding a portfolio that is well diversified by asset classes, invested in quality assets with quality fund managers and avoiding speculative and high yielding securities in the portfolio.

For investors sensitive to volatility, this can also be managed by being underweight equities and overweight high-quality bonds.

Your adviser is here not simply to manage your investments, but more importantly to work closely with you to meet your goals and objectives. If your circumstances have changed, or if you would like to touch base to discuss your investments, please contact your adviser to arrange a suitable time.

THE HIGH CONFIDENCE ROAD TO RETIREMENT

As clients of a financial planner, according to the inaugural **How Australia Retires**[1] report by Vanguard, you're already well on your way to achieving a high confidence retirement.

Overarchingly, the study found that Australians tend to take one of two journeys towards retirement: low confidence or high confidence. Those who are highly confident have actively prepared for retirement, and those on the low confidence journey are more likely to feel negatively towards retirement, such as worry or anxiety.

High confidence or low confidence

Having surveyed more than 1,800 working and retired Australians, over half of those surveyed who use a financial adviser also engage with their super fund and are twice as likely to have a detailed plan as those who do not use a financial adviser.

The professional financial advice difference

75%

of those unadvised are not confident in being able to fund their retirement.

44%

of those advised are extremely or very confident in funding their retirement.

Almost two in three working-age Australians have never engaged a financial adviser to help map out their retirement strategy.

Whilst younger working Australians are generally relatively confident about their retirement, this confidence wanes as they age, and the longer they go without developing a retirement plan.

[1] https://www.rba.gov.au/education/resources/explainers/australias-inflation-target.html

When and how much

The study also uncovered significant variance between working-age and already retired Australians on the ideal retirement age and how much income will be required to fund their ideal retirement lifestyle.

59.5

Average age 18-34 year olds hope to retire.

61.5

Average age 35-54 year olds hope to retire

64.9

Average age over 55 year olds hope to retire.

This represented a significant gap in the ideal retirement age between younger and older Australians.

When contemplating their desired yearly income during retirement, working-age Australians (yet to retire) expressed they would like to have an income of on average $99,000 per annum (current dollar value). This was significantly higher than those who have already retired, who desire on average $68,000 (current dollar value) as annual income.

The planned advantage

Younger Australians are also more likely to want to disrupt the traditional pathway to retirement by taking some form of an extended break from work between their twenties to fifties, with half of Australians under 35 years old expecting to take parental leave. For these younger Australians particularly, having a financial plan in place is paramount. This will help enable them to accumulate enough superannuation and invest for their retirement sufficiently, to achieve their ideals of earlier retirement on higher incomes, despite these anticipated pauses in paid work.

MONEY LESSONS FOR KIDS

A survey by the University of Melbourne 'How Australians feel about their finances and financial services providers'[1] asked respondents about their biggest financial regrets. Top of the list was 'not saving enough', followed by 'not investing enough', 'not planning enough', 'not learning about money', and 'spending beyond my means'.

When teaching your children to manage their money, you are helping your kids grow into financially savvy adults. Keep it simple - explain where your money comes from and how it is spent. Remember, children learn best from experience so they will probably follow your own example.

Starting out:

- Set up a bank account in your child's name and explain that if they want to buy something, they must first save the money.
- Explain how interest works and talk about their savings goals. If, for example, they want to buy a new bike, discuss how much it will cost and how much they will need to save each week.
- Encourage them to do jobs to earn their pocket money. This also teaches them responsibility (which is handy when they start talking about their rights!).
- Help them understand that the money that comes 'out of the wall' was first put in there through your work. Children of all ages often assume that ATMs supply unlimited cash. When making deposits or withdrawals, show them the receipt and explain how the balance has changed.

As they get a bit older:

- If they have a mobile phone, let them pay for the plan or any excess calls over the monthly prepaid limit from their own money.
- Part-time jobs are a standard way for teenagers to earn money and choose how to spend it. A debit card on their bank account will give your kids an early introduction to how 'plastic' works – particularly when it's so cool to 'tap and go'. Except with a debit card, when there's no more left, there's no more left. Resist the temptation to top up their account if it hits empty.
- Explain how credit cards work and teach them what happens when the full balance isn't paid off every month. This is a great lesson in how debt quickly gets out of control.
- Explain the 'magic' of compound interest and investing. Show them how to make better money choices by putting aside money for spending and allocating the remainder for saving and investing.
- Allow kids to make their own spending decisions so they learn from their mistakes.

Teaching the basic money facts to your children when they are young will go a long way to setting them on the right path to financial success in later life.

[1] https://www.unimelb.edu.au/finfuture?a=3145613

HIGHLIGHTS OF THE 2023-24

Federal Budget

It's important to note that these are currently budget announcements only. Implementation of many of these initiatives will require their successful negotiation through the Parliament. Consequently, the final version of some of these measures may differ from these current announcements.

LOW-INCOME ASSISTANCE

Job Seeker boosted by $40 a fortnight, greater rent assistance and energy subsidies to low-income households.

COST-OF-LIVING MEASURES

Wage increases for those in the Aged Care sector and increased childcare subsidies.

MEDICAL COST REDUCTIONS

Proposed lower medicine costs and cheaper doctor visits for eligible Australians.

SINGLE PARENT WELFARE BOOST

Government proposed lifting eligibility age for Single Parent welfare payment for the youngest child in the family from 8 to 14 years. Estimated extra 57,000 single parents eligible.

CONCESSIONS FOR HOUSING (BUILD TO RENT DEVELOPMENTS)

Lowering witholding tax rate on eligible fund payments from managed investment trusts from 30% to 15%.

GREEN ENERGY PROGRAMS

$4 billion to encourage new green energy programs, including $2 billion for large-scale hydrogen production and $1.3 billion to help households upgrade their existing homes through the Household Energy Upgrades Fund.

Lifespan FINANCIAL PLANNING

AFSL 229892 ABN 23 065 921 735 lifespanfp.com.au
Level 24, 1 Market Street, Sydney, NSW, 2000
Tel. 02 9252 2000 Email: advice@lifespanfp.com.au
Your financial planner is an Authorised or Corporate Authorised Representative of Lifespan Financial Planning Pty Ltd