Your PERSONAL WEALTH

Summer 2023/24

Welcome

As highlighted in the Spring edition, uncertainty leads to market volatility, and also opportunity, and it certainly has been a volatile time for investment returns.

Fears of a US recession have increased as advanced economies have experienced a pronounced slowdown in growth. Yet the US economy has been surprisingly resilient.

Join us as we take a look at the paradox of Australian financial markets, and ponder balancing enjoying today while investing for tomorrow, together with timely strategies for surviving the post-Christmas sales.

We wish you and your loved ones all the joy of a fabulous festive season!

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An uncertain economic and geopolitical era

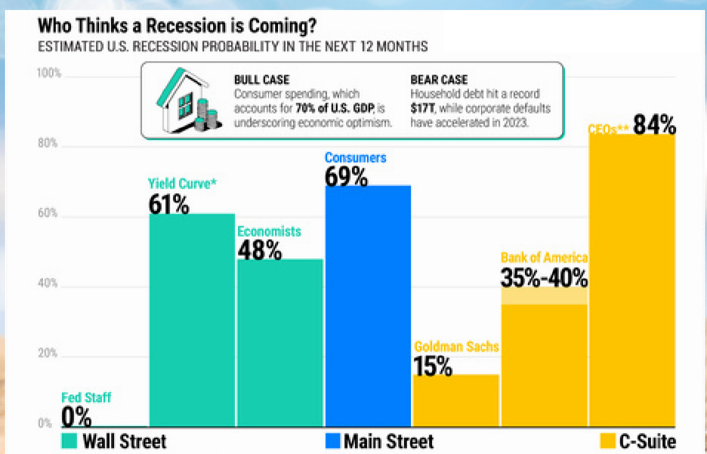
It has been a volatile time for investment returns over the last 6 months. October 2023 continued the downward return trend following the September quarter. Over 3 months, all asset classes had negative returns. The only positive 6-month figures in the asset class returns table were US and Global equities in AUD, which benefitted from the fall in the Australian dollar.

It should be noted that the growth in US share prices has been predominately due to the technology sector, 'the Mega 7,' which now makes up 30% of the market capitalisation of the S&P 500.

Related to the volatility in equities is the gradual increase in both US and Australian long-term bond yields to close to 5% levels, which makes bonds attractively priced compared to equities.

What has happened?

Fears of a US recession (with most of Europe and the UK now in recession) have steadily increased, especially since February 2022, as the conflict between Ukraine and Russia escalated, on top of ongoing US–China tension over Taiwan. The IMF reported that advanced economies, especially, have experienced a pronounced slowdown in



Source: www.visualcapitalist.com

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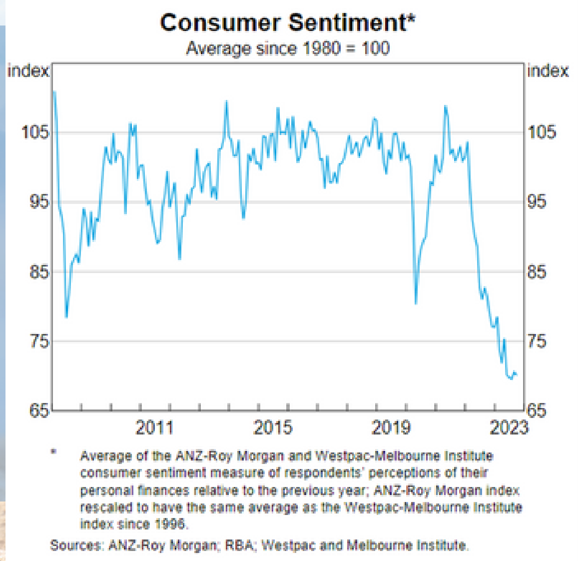
growth, from 2.7 % in 2022 to 1.3 % in 2023. This was prior to the current crisis in the Middle East.

The US economy has been surprisingly resilient. However, another factor that has been worrying investors is that despite US core inflation falling from 6.28% in October 2022 to 4.15% at the end of September 2023, so-called sticky inflation has been increasing since July 2023 and is now 4.5%. The US Fed is determined to reduce core inflation to between 2-3%. The fear is that the Fed will keep interest rates higher for longer, which adds to the possibility of a recession.

Australian shares have been volatile and have underperformed global equities (of which US equities comprise 70% of the global share market), due to the absence of a technology sector in Australia, and subdued global growth, especially in relation to China, which is our biggest trading partner.

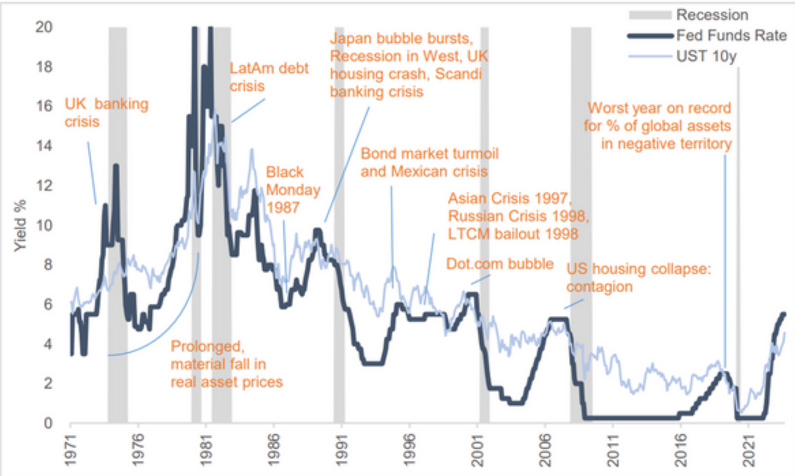


Changes in values by asset classes (to end Oct 2023)

Asset Class (Return %)	1 month	3 month	6 month	1 year	Ann. 2 year	Ann. 3 year
MSCI World TR in USD	-2.7	-8.0	-0.1	10.0	-3.5	8.9
MSCI World TR in AU	-1.1	-3.7	2.6	12.2	2.9	11.0
S&P 500 TR in AU	-0.2	-2.4	5.8	11.2	5.7	14.2
MSCI Emerging Markets TR AU	-2.0	-6.4	-0.4	12.3	-4.2	0.1
S&P ASX 200 TR in AU	-3.8	-7.2	-5.3	3.0	0.1	8.9
S&P ASX Small Ordinaries TR	-5.50	-10.5	-10.3	-5.1	-12.4	0.6
S&P ASX 200 A-REIT (Sector) TR	-5.8	-12.0	-10.2	-3.6	-9.3	2.7
Bloomberg AusBond 0+ years	-1.9	-2.6	-5.2	-1.2	-4.8	-4.6

Federal Funds Rate & UST 10y (plus key events)

Source: JCB



Recession or soft landing?

The major concern in the financial markets is whether there will be a US recession or a "soft landing". It seems that while economists are divided, fund managers are more optimistic.

On balance, we believe there is a high chance of a mild recession at some stage in 2024. This is usually the case after a period of interest rate tightening.

High interest rates have made life difficult for Australian consumers and businesses, especially those who rent or have mortgages. Banks continue to tighten their lending criteria, making obtaining finance more difficult.

While overseas central banks are forecast to hold and reduce rates, Australia's inflation at 5.4% is well above the RBA target rate of 2-3%, making further rate rises probable. The IMF has forecast Australia's growth to slow to 1.25% in 2024.

Values (mid November 2023)

US 10-year Treasury Bond Yield	4.8%
Aust 10-year Bond Yield	4.9%
Aust official cash rate	4.35%
AUD/USD	63.7 cents

We do not believe the recession will be as severe as 2008 when US stocks fell by 54% and took 4 years to recover. Rather, we think there may be a sharp correction of around 20% in the share market. We also anticipate that long dated bonds will provide equity-like returns. Historically, markets have posted strong long-term gains following declines.

What this could mean for your investment portfolio

Economies move through cycles of growth and contraction that are hard to predict. Investment markets invariably respond to these cycles. Fortunately, there are many different investment asset classes and investment styles to choose from, and these do well in different economic conditions. For example, shares generally do well in boom times, and bonds do well in down markets. Likewise, speculative stocks and sub-investment grade credit often do well in boom times, but quality stocks and investment grade credit are better to hold in periods of stress.

This unpredictability is why we, as advisers, construct your investment portfolio both in accordance with your risk profile and life stage objectives and diversify your portfolio using a range of different asset classes. This helps smooth returns over time.

Getting all you can from your money and your life

You may have heard about a book with the tantalising title, **Die With Zero – Getting all you can from your money and your life** by Bill Perkins. In his book, Perkins suggests that we are products of our journey through life, where experiences, choices, and life lessons shape who we are. His message is simple: if you die with zero dollars left, you've lived the richest, most fulfilled life you possibly can.

This resonated with me as a financial planner, thinking about how we can help our clients enjoy their lives today – because financial wellbeing, like life, is a journey – not simply a destination. I'm not suggesting we live entirely in the moment, letting the future take care of itself. It's about remembering to balance all stages of our lives and engaging with what brings us joy, our priorities, and our financial goals as they evolve during our lifetime.

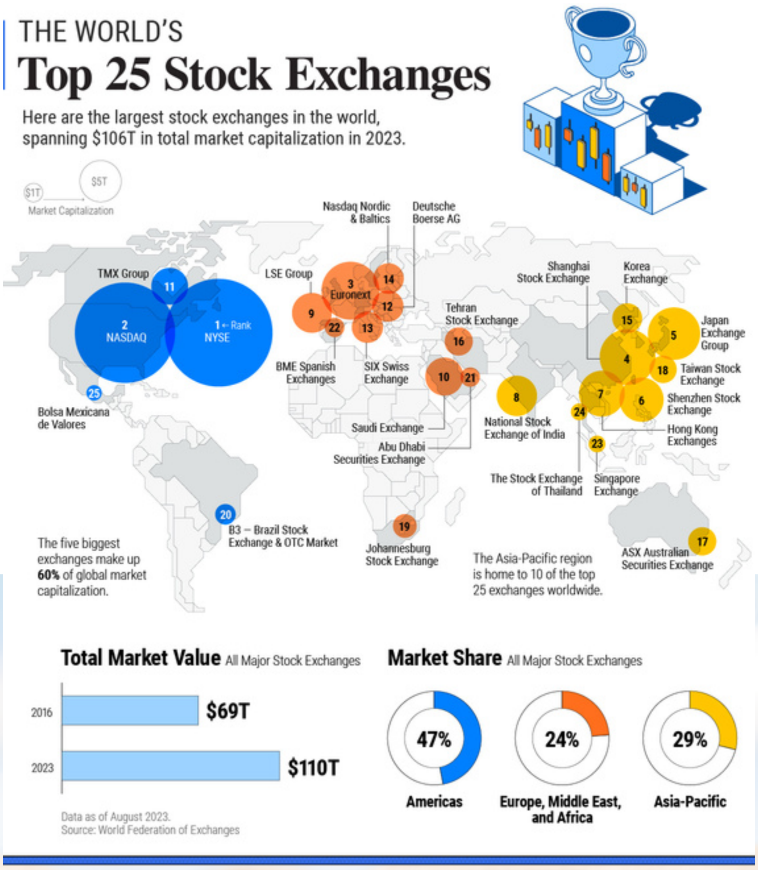
Bill Perkins' wisdom reminds us that the memories we accumulate become the fabric of our lives. Providing for your retirement is vital, but investing in life experiences adds depth, joy, and enrichment to each day.

As your adviser, I can help you create a strategy that enables you to retire with a sense of purpose, financial security, and a hoard of cherished memories.

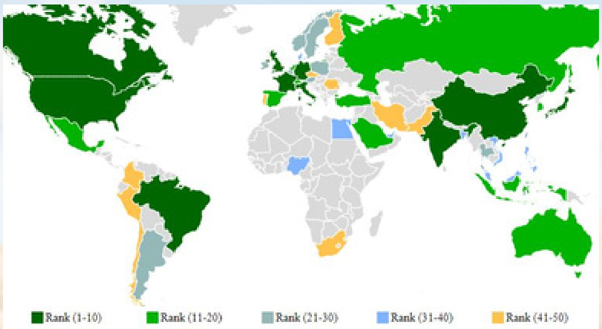
The paradox of Australian financial markets

On the one hand, owing to Australia's geographic position as the largest economy in Southeast Asia, Sydney joins Singapore as one of the only two major financial centres in this region of almost 700 million people. As a result, a relatively high number of non-Australian companies are listed on the Australian Securities Exchange (ASX).

However, the Australian Securities Exchange (ASX) is only the 17th largest stock market operator worldwide[1], much lower than one might expect given that the Australian dollar/U.S. dollar is the sixth most traded currency pair in the world[2], and that Australia is the 14th largest economy in the world by GDP (Nominal)[3].



Projected GDP (Nominal) Ranking 2023



[1] https://www.visualcapitalist.com/largest-stock-exchanges-in-the-world/
[2] https://statisticstimes.com/economy/projected-world-gdp-ranking.php
[3] https://www.statista.com/topics/8705/financial-markets-in-australia/#topicOverview

Surviving post-Xmas sales - what's your strategy?

We've all experienced it... the undeniable allure of post-Christmas sales.

No sooner has Christmas wrapped up for the year than the frenzy of Boxing Day sales descends upon us. Every store window beckons, and our inboxes overflow with promises of unbeatable discounts.

Before you indulge in some festive leftovers and make a beeline for the air-conditioned wonderland of sales, let's take a moment to pause and ponder...

- Is that shiny gadget truly a necessity?
- Do those new outfits genuinely add value to your wardrobe?
- Or might there be a wiser way to allocate your hard-earned money?

The allure and reality of post-Christmas sales

The holiday season often leaves our wallets feeling lighter than usual. Australia's festive spending reached an eye-watering $74.5 billion in 2022, marking an 8.6% increase from the previous year, according to the Australian Retailers Association. And Boxing Day? A whopping $1.23 billion was spent in just 24 hours[1]!

These figures aren't just numbers; they paint a picture of our collective weakness for a good holiday sale. But here's the other side of the coin: while sales can offer genuine bargains, they also come with pitfalls. The risk of accumulating more debt is a very real reality for many shoppers, especially with credit cards groaning from holiday shopping on top of budgets already stretched from increased cost of living.

And let's face it, impulse purchases often lead to buyer's remorse and an overstuffed home.

The merits of post-Christmas sales

While the post-Christmas sales period often comes with warnings of overspending, it's not all doom and gloom. When approached with a well-thought-out strategy, these sales can be an excellent opportunity to secure essential items—electronics, clothing, or household goods—at a fraction of their original prices.

How can one truly benefit without falling into the common traps? The key lies in being mindful and discerning.

- Make sure you have a clear idea of what you genuinely need versus what just catches your eye.
- Do your homework by comparing prices, reading reviews, and setting a budget.
- Be on guard against those all-too-tempting impulse buys.

With a bit of planning and restraint, the post-Christmas sales can be both enjoyable and economically rewarding.

Smart money moves beyond sales

It's easy to forget about your longer-term goals when there are neon signs screaming discounts of 50% OFF or more! But remember, every dollar spent puts you further away from achieving those longer-term goals. Before you fall prey to the post-Christmas sales, consider these alternatives:

- **Save for a rainy day:** Life is unpredictable. Having a safety net can make all the difference.
- **Debt reduction:** Free yourself from the burden of debt by paying down your credit cards and/or any loans.
- **Invest:** Think stocks, bonds, or other avenues to grow your wealth.
- **Financial goals:** Would you rather have a new outfit or be one step closer to that dream holiday, new car, or first home?

Post-Christmas sales can be both a treasure trove and a minefield. The choice is yours. This festive season don't succumb blindly to the allure of holiday sale discounts. Instead, either purchase your "need to have" items (remember, be mindful) or skip the sales entirely and opt to put the money towards achieving your financial goals sooner.

Here's to spending wisely and enjoying a financially savvy new year!

[1]www.retail.org.au "Unprecedented growth on Boxing Day as pre-Christmas retail spend hits record $74.5 billion", ARA (30 Dec 2022)

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