Your PERSONAL WEALTH

Winter 2024

Welcome

We hope you are enjoying settling in to the cooler months of the year.

Those of you with an eye on the share markets will have seen its recovery to all-time highs by mid-May after a short dip in April. As always, any market uncertainty highlights the importance of diversifying your investments.

This edition we take a look at what is included in a ‘comfortable retirement’ and what it costs (according to the Association of Superannuation Funds of Australia). We bust some retirement spending myths and look at what steps you can take if you think you may have been scammed.

Happy reading!

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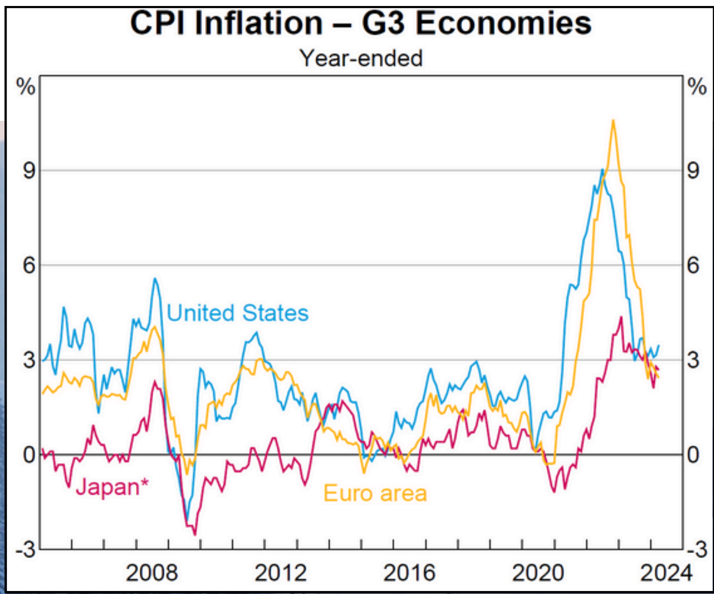
Positive but more volatile share market; increased importance of diversification

Investment market performance

It was another good period for investors in the January to March 2024 quarter, continuing a good run for share market investors, as the share price accumulation indices showed. This measures the movement of share price plus dividends being reinvested and compounded. However, this was followed by a short and shallow fall in April, and markets recovered to their all-time highs by mid-May.

The overall positive performance this year has been driven largely by the ongoing resilience of the US economy, falling inflation in the US and advanced economies, (increasing slightly in the last few months), and the peaking of the interest rate tightening cycle combined with hopes of interest rate cuts, which are now uncertain in their timing.



Source: LSEG, RBA *Excludes the effects of the 2014 consumption tax increase

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Tech and Artificial Intelligence

The Artificial Intelligence theme led by Nvidia had a significant impact on the US market, which itself represents 70% of the global equity index. The 1-year return of Nvidia to 7 May 2024 was 216% compared to the US S&P500 return of 26%. The top 20 listed technology companies combined make up over 30% of the US S&P500 index.

Returns of major asset classes to 30 April 2024

Asset Class %	3 month	6 month	1 year	Ann. 3 year	Ann.5 year	Ann. 10 year
Global Equities in USD	4.16	20.05	18.02	4.76	9.97	8.75
Global Equities in AU	5.61	17.58	21.07	12.46	12.81	13.41
S&P 500 TR in AU	6.17	17.96	24.83	14.50	15.03	16.48
Nasdaq Composite USD	3.44	22.31	29.08	4.71	15.07	15.44
S&P ASX 200 TR in AU	1.04	15.17	9.07	7.30	8.00	7.76
S&P ASX Small Ordinaries TR	3.33	19.66	7.36	0.02	3.93	6.49
Australian Listed Property	6.27	33.26	19.61	7.43	5.28	9.02
Australian Bonds	-1.18	4.71	-0.73	-2.13	-0.29	2.29
US 10-year Treasury Bond Yield	4.7%					
Aust 10- year Bond Yield	4.50%					
Aust official cash rate	4.35%					
AUD/USD	66 cents					

The returns reflect the market dip in April, which has since been reversed following a marginally softer US inflation result. This broke a three-month run of higher-than-expected inflation data. Nevertheless, the table shows the ongoing strong share market returns, especially over a 6- and 12-month period. The fall in the Australian dollar (AUD) boosted global share market returns in AUD terms.

With signs that the Australian economy is weakening, this year continues the relative underperformance of Australian large cap stocks. However, small cap stocks and Australian Listed Property have performed well over the last 6 months.

10-year bonds in Australia and the US continue to have good yields, and the cash rate remained unchanged in the last quarter.

Outlook for economies and markets

The outlook for the next few months is mostly positive, with most market commentators expecting a “soft landing”. This is when an economy comes out of a strong growth cycle with a slowdown without entering a recession. However, several important issues may result in equity returns being lower and more volatile than the unusually strong returns over the last year.

Liquidity will be the biggest driver of the share market in the short term, and the key issue is when and by how much Central Banks will begin to cut rates. The markets are focused on the US economy as developed markets outside the US, including Australia, are significantly weaker. A major issue is that inflation is well above the US Federal Reserve’s (US Fed) 2% target. Added to this is the strength of the US jobs market and a significant rise in manufacturing input costs. The US Fed has made it clear that persistently high inflation is likely to delay any US rate cuts. The market now does not expect any interest rate cuts until late 2024 at the earliest. A related issue is the high levels of ongoing inflationary budget deficits and the record high level of US government debt, which represents 126% of US Gross Domestic Product (GDP).

The prospect of US inflation continuing to increase when the economy is slowing has led to an increasing number of market commentators fearing a return to stagflation (where inflation is high, economic growth slows, and employment remains high) or a US recession. Consequently, we expect inflation and bond yields to be higher than in the recent past.

The Australian economy is slowing down, with economic growth forecasts recently revised down to 1.3% p.a. for the June 2024 quarter. Recent data has shown inflation above forecasts, with the Reserve Bank of Australia indicating that rates will remain higher for longer.

The relatively high valuation of shares in both the US and Australia also limits the upside in share market returns. Valuations have risen to a level where the dividend yield on shares is less attractive than bonds. The returns on government bonds (and investment grade credit and cash) are potentially quite good, with longer dated fixed term bonds also having the ability to deliver significant capital gains when interest rates eventually fall.

Conclusion

Given the factors discussed above, we are cautious about the outlook for markets for the rest of the year. Conditions support diversification because, while we think growth assets overall may remain positive, they will likely be volatile, and defensive components of portfolios provide both good yields and an opportunity for capital growth in the case of bonds. Investors should also remember that significant geopolitical tensions in many parts of the globe can negatively affect portfolios.

How much does a ‘comfortable retirement’ cost?

The Association of Superannuation Funds of Australia (ASFA) have been calculating the cost of a ‘comfortable’ and ‘modest’ retirement since 2004. Here’s what is included in a ‘comfortable retirement’ and what it costs.
https://www.superannuation.asn.au/resources/retirement-standard/

Busting some retirement spending myths

Whilst the increasing cost of living may be making retirement more expensive than ever, the Retirement Income Review [1] highlighted that most Australians pass away with the bulk of wealth they had at retirement intact.

This may sound like something to celebrate, however, it means many retirees live in a ‘lifestyle deficit’, going without goods and experiences that could make them happier and more comfortable. That lifestyle deficit rests on three myths about retirement spending.

MYTH #1. Retirees should live off their income, not draw on their capital.

MYTH #2. Retirement spending follows a ‘smile’ pattern – high in early, healthy retirement, dipping in the middle years and rising sharply with health and aged care costs later in life.

MYTH #3. Most ordinary Australians face a real risk of running out of money.

[1] Retirement Income Review. Australian Treasury. July 2020

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Feel free to enjoy yourself

The evidence suggests spending declines over the full arc of retirement[2]. The Australian Treasury agrees that spending "tends to fall or remain flat as people age". This is true across generations and even among higher-wealth retirees, "suggesting falls in spending are due to preferences, not budget constraints." However, it is still important to consider the potential cost of care as we age. Most people prefer to remain in the family home as long as possible. Being able to self-fund home care services until a government package becomes available (waitlists can be around 6-18 months) helps ensure retirees can stay in control of their care as they age.

The implications in the Treasury's Retirement Income Report are clear – most retirees can afford to spend more, especially early on when health and medical conditions are less likely to slow them down[3]. The evidence indicates that retirees tend to hold on to their assets and leave significant bequests, even though surveys suggest people do not prioritise leaving a bequest. If people drew down more on their assets, they could have a higher standard of living in retirement[4].

[2] Exploring the Retirement Consumption Puzzle, David Blanchett, 2019
[3] The Retirement Income Review suggests many people overestimate the impact of health costs in late retirement. Health spending remains a relatively small share of total expenses in retirement. This is largely due to public expenditure on health absorbing much of the cost of ageing
[4] Retirement Income Review. Australian Treasury. July 2020
Based on article from North

What to do if you think you've been scammed

You're not alone if you've lost money or personal information to a scammer. Unfortunately, hundreds of thousands of Australians are scammed every year. However, you can act immediately to limit the damage and protect yourself from further loss. Here are a few important things you should do straight away:

1. Act fast to prevent further losses

Contact your bank or card provider immediately to report the scam. Ask them to stop any transactions. If you're unsure whether you're being scammed, **stop sending money**. Scammers will keep asking for more money until you stop.

2. Get help to recover

IDCARE is Australia and New Zealand's national identity and cyber support service. They can help you make a plan (for free) to limit the damage. Call them on 1800 595 160 or visit their website at www.idcare.org.

3. Warn others and report the scam

Once you have secured your details, you can help try to stop the scam or warn others by reporting it to Scamwatch at scamwatch.gov.au/report-a-scam.

You can warn people around you. You can also make an official report to the police online at cyber.gov.au/report-and-recover/report.

4. Watch out for follow-up scams

If scammers have stolen money from you, they often come back for more. Unfortunately, 1 in 3 victims of a scam have been scammed more than once. If you've lost money to a scam, look out for new scams – **especially someone offering to help you get your money back.**

5. Get support

Being scammed is a horrible experience, and it can happen to anyone. If you need someone to talk to, reach out to family and friends or contact Lifeline on 13 11 14 or Beyond Blue on 1300 22 4636 to speak to someone online or over the phone. If a scam is causing you problems with debt, you can talk to a financial counsellor at moneysmart.gov.au/managing-debt/financial-counselling. This is a confidential and free service to help you get your finances back on track.

scamwatch.gov.au/protect-yourself/what-to-do-if-youve-been-scammed

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