Your PERSONAL WEALTH

Summer 2024-25

Welcome

We hope you are looking forward to enjoying the delights of Summer and the holiday season.

The International Monetary Fund described global growth as stable but underwhelming for 2024 and 2025. Whilst commentators expect that the Trump presidency will be pro-growth within the US, the impact on global growth may be negative. Against a background of low growth and uncertainty, diversification and the ability for portfolios to react quickly to changing conditions remain important.

This edition we take a look at how you can help fight the real impact of inflation, and whether retirement confidence is the greatest gift you can give.

Wishing you and yours happy holidays and happy reading!

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Positive US share market follows rate cuts and the election. Market volatility likely remaining high.

Milder inflation and US and European Central Bank interest rate cuts saw solid global share market returns for the July to September quarter. With the notable exception of Australia, falling inflation has resulted in interest rate cuts in all major economies.

In October, technology stocks led US and Australian share market indexes to brief record highs. However, these gains were reversed with concerns over rising government bond yields, unexpected high inflation and employment, the US Presidential elections and escalating global conflict. Global shares ex-Australia returned -1.9% (in USD), while Australian shares (ASX 200) had a negative return of -1.3%. Lacklustre economic data from China, the ongoing cost of living crisis and uncertainty surrounding the timing of interest rate cuts impacted Australian markets.

US election result

In the US, all three major US stock indexes hit record highs on 6 November after Republican Donald Trump won the 2024 US presidential election, with the Dow and S&P 500 experiencing their biggest one-day % gains since November 2022. Shares of small-cap companies also soared.

Central Banks interest rates and projections

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While commentators expect that the Trump presidency will be pro-growth within the US, the impact on global growth may be negative. US business and the US economy will benefit from the platform of extended tax cuts, reshoring of business back to the US, and deregulation, together with rising US budget deficits and government debt. Expansionist policies, together with the proposed tariff increase, are likely to be inflationary, resulting in both higher bond yields and the US Fed keeping short-term interest rates higher for longer.

It is uncertain what the impact on Australia will be as Trump is likely to be more combative with China. Even if we avoid direct tariff increases, this could undermine our exports to China and other Emerging Markets. The other possibility is that this may prompt the Chinese Government to implement significant fiscal stimulus which would be positive for Australia.

Overall returns show that it has been an exceptional year for global share markets, however returns have decreased and become very volatile since April.

The ongoing weakness in the Australian economy combined with the RBA deferring interest rate cuts to 2025 (along with the strengthening of the Australian dollar) explains the relative underperformance of Australian shares to Global shares over the last year. There has been considerable dispersion in the returns of the components of the Australian share market since January 2024. Banks, Australian Real Estate Investment Trusts (A-REITs), and small companies performed well, while industrials and resources (in particular) did poorly.

The positive move in bond prices (with declining bond yields) reflected optimism that inflation will fall in Australia and globally.

Outlook for economies and markets

Post-election, most commentators have a positive US market outlook, “a soft landing” in the short term with a very low risk of recession. There is also confidence that inflation is gradually falling worldwide, allowing central banks to cut interest rates. A lower interest rate environment should support corporate profits and share prices within the US.

In its October 2024 update, the International Monetary Fund described global growth as stable but underwhelming at 3.2% for 2024 and forecasted for 2025. Upgrades to the forecast for the United States offset downgrades to those for other advanced economies, with the largest European countries showing signs of recession. The relatively high valuation of shares in both the US and Australia may limit the upside in share market returns. The US 10-year government bond yield has increased from about 3.6% in September to just under 4.5% on 14 November, which will further constrain the share market as rising bond yields have probably not been factored into share prices.

Australia’s economic outlook is uninspiring. However, some believe the economy will ease in 2025, offering grounds for modest improvement. Meanwhile, the cost-of-living crisis and low productivity mean the outlook for earnings growth is subdued.

Returns of major asset classes at 31 October 2024

Asset Class %	3 months	6 months	1 year	Ann.3 year	Ann. 5 Year	Ann.10 year
Global Shares in USD	2.57	10.87	32.79	5.51	11.08	9.06
Global Shares in AU	2.25	9.91	28.36	10.43	12.21	12.32
S&P 500 TR in AU	3.24	12.86	32.84	13.65	15.88	15.74
Emerging Markets in AU	3.26	7.66	21.13	3.17	4.99	6.52
S&P ASX 200 TR in AU	2.10	8.44	24.89	8.01	8.17	8.32
S&P ASX Small Ordinaries TR	3.77	5.84	26.65	-0.61	4.65	7.11
S&P ASX 200 A-REIT (Sector) TR	4.46	14.20	52.18	8.02	6.24	9.27
S&P ASX 200 Industrial TR	1.97	12.66	34.67	7.25	7.85	8.20
S&P ASX 200 Resources TR	5.09	2.68	-4.10	-0.09	11.72	9.63
Australian Bonds	-0.39	2.26	7.08	-0.62	-0.68	2.11
Global Bonds	0.31	4.00	5.89	0.40	-0.64	3.22

Conclusion

Despite the low growth and uncertainty, active managers can find good opportunities in Europe and the Emerging Markets. Other opportunities include interest rate sensitive stocks such as Smaller Companies as well as Global Listed Infrastructure and Global Real Estate Investment Trusts (G-REITs), which are inflation hedges provided real yields do not rise above certain levels.

Fixed Income will continue to play an important role in portfolios, with fund managers able to position parameters such as the fixed rate term, known as the duration, credit quality, issue selection, etc., to suit the investment and economic environment and provide good yields as well as opportunity for capital gains.

Against this background, diversification and the ability of portfolios to react quickly to changing conditions remain very important for portfolio performance going forward.

How you can help fight the real impact of inflation

Inflation is a slow force working against your financial goals. It can quietly erode the purchasing power of your money over time. While it's tempting to see cash as a safe haven, failing to factor in inflation could mean your savings are worth less when you need them most. So, let's explore strategies to fight back!

Inflation erodes cash returns

The Reserve Bank of Australia (RBA) defines inflation as "an increase in the level of prices of the goods and services that households typically buy".

When inflation goes up, the value of each dollar you own decreases, meaning you can buy less with the same amount of money. This becomes a real concern for investors who rely on cash or low-risk investments like term deposits, where returns may not keep up with the rate of inflation. For instance, if you've placed your money in a term deposit earning 5% interest, but inflation is running at 6%, you're effectively losing 1% of purchasing power. This is what's known as the real return - the return on your investment after adjusting for inflation. A return of 5% may look good on paper, but in real terms, it means you're going backwards.

How could you prevent inflation from chipping away at your savings?

One effective approach is to adopt a diversified investment strategy. Diversification involves spreading your investments across various asset classes, such as shares, property, bonds, and international assets, rather than keeping all your money in cash or low-risk products.

Equities (shares), for example, have historically outpaced inflation over the long term. While shares can be volatile in the short run, their potential for higher returns helps them beat inflation over time. Property investments also have a history of delivering inflation-beating returns, as the value of real estate typically rises along with inflation. Exchange Traded Funds (ETF) may be another simple and low-cost way to diversify.

A well-diversified portfolio ensures you're not overexposed to any single asset class. Instead, you benefit from the potential growth of various sectors, reducing your overall risk and improving your chances of keeping pace with or even outpacing inflation.

Practical advice for investors

Investing during inflationary times can feel overwhelming, but there are several steps you can take to safeguard your wealth:

- **Stay informed:** Keep an eye on inflation rates and the broader economic environment. This may help you understand how inflation impacts your investments' real value.

- **Consider inflation-protected assets:** such as inflation-protected bonds, resource shares and commodities.

- **Review your cash holdings:** While cash can serve as a safety net, holding too much in low-interest savings accounts can hurt you in the long run. Consider maintaining an emergency fund (of 3 – 6 months of expenses) but limit excess cash holdings in favour of higher-return investments.

- **Embrace diversification:** A diversified portfolio with a mix of assets can help you spread risk while still allowing for growth that beats inflation.

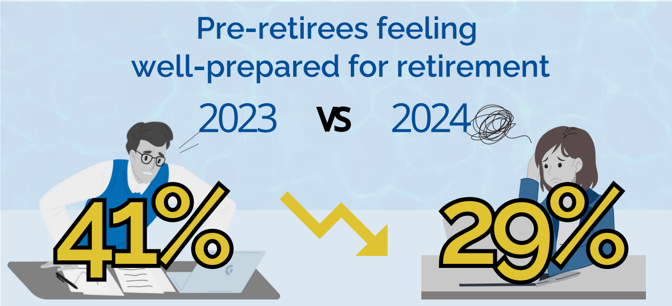
- **Seek professional advice:** Financial advisers can provide tailored advice based on your risk tolerance, financial goals, and the current economic environment.

The bottom line

Inflation can negatively impact the value of your savings, particularly if you rely on cash or low-risk investments. Over time, even a modest inflation rate can significantly reduce your purchasing power. By diversifying your investments, staying focused and informed, and seeking professional advice, you can set yourself up to win the battle with inflation.

Is retirement confidence the greatest gift of all?

Are you, or perhaps your parents, looking forward to retirement but uncertain about the future? You're not alone. Recent research for the 2024 Investment Trends Retirement Income Report shows that many Australian pre-retirees are concerned that they are not feeling well-prepared for retirement.

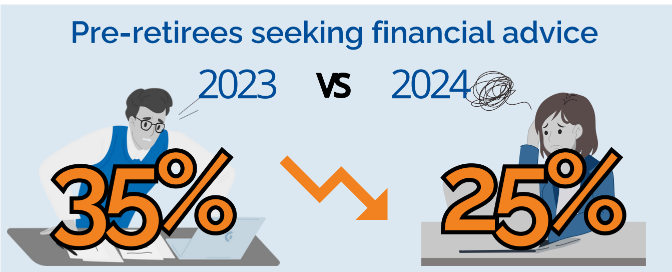


Understanding your situation

The landscape of retirement planning is changing. While many of us dream of a comfortable retirement, recent studies show that fewer Australians feel prepared for this important life stage. The good news? Understanding where you stand is the first step toward building confidence in your retirement future.

The importance of seeking professional advice

Despite 15.8 million adults wanting some form of financial advice, according to Investment Trends, the number seeking advice has significantly reduced. Australians are typically delaying their retirement plans and contributing more to superannuation, rather than consulting a financial adviser.



Taking action positively correlates with a greater feeling of preparedness and confidence

While many Australians are choosing to go it alone, those who seek professional advice often report feeling more confident about their retirement. Financial advice can play an essential role in helping Australians transition from full-time work to retirement, navigating the complexities of superannuation, tax, and social security systems. These strategic advantages can make a substantial difference in the financial wellbeing of retirees.

Think of a financial adviser as your personal retirement coach – someone who can help turn uncertainty into clarity and concerns into confidence. This confidence is not just a matter of perception, but it is backed by data. The CFS Empowered Australian Report 2023 found that 65% of advised Australians feel confident they will have enough money to retire, compared to just 44% of those without advice.

Your next step

Do you have any family or friends approaching retirement who may be uncertain about their retirement readiness? We'd love the opportunity to be of real value to them as they approach retirement. After all, retirement confidence could be the greatest gift of all.

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