YOUR PERSONAL WEALTH

AUTUMN 2023

WELCOME TO AUTUMN

Quality financial advice will give you confidence that your investments are well looked after, despite a potentially bumpy road ahead.

In addition to our investment market outlook, we look at why the Reserve Bank is obsessed with inflation, and the impact of the rising cost of living and market uncertainty on retirement expectations. To wrap up, we look at seven productivity tips from billionaires, to help you work smarter.

We hope you find this edition valuable!

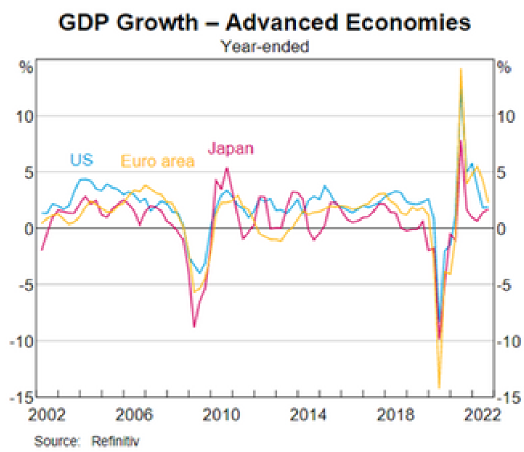
OUTLOOK 2023 CAUTIOUS WITH SOME OPTIMISM

We anticipate a difficult and volatile year ahead in investment markets.

At a time of record government and consumer debt levels, 2022 saw the return of persistent inflation for the first time in 40 years, with central banks pushing up rates to levels that deliberately slowed economic activity. This was exacerbated by geopolitical factors that significantly disrupted supply chains and sent energy prices soaring. The UK debt crisis also showed that investors are concerned about the management of the massive levels of global debt.

The result was the biggest market storm in decades. Global stocks finished the year down 18% in US dollar terms (down 12.5% in AUD terms) and making things worse, for the first time in decades, bonds also fell as they were unable to offer either income or diversification benefits, with global bonds (hedged) ending the year down 12%.

We entered 2023 with global growth and money supply falling rapidly in developed markets and key leading indicators of economic growth in recessionary territory.



While stock markets have had a good start this year, we envisage a US lead global recession in 2023. However, we believe the chances of the recession being a deep one, such as in 2008 as low to moderate. That recession lasted for 16 months and global GDP and stock markets fell heavily. Our base case envisages an average recession in the US where GDP growth is negative 1-2%; earnings fall by another 5-15% from current levels and

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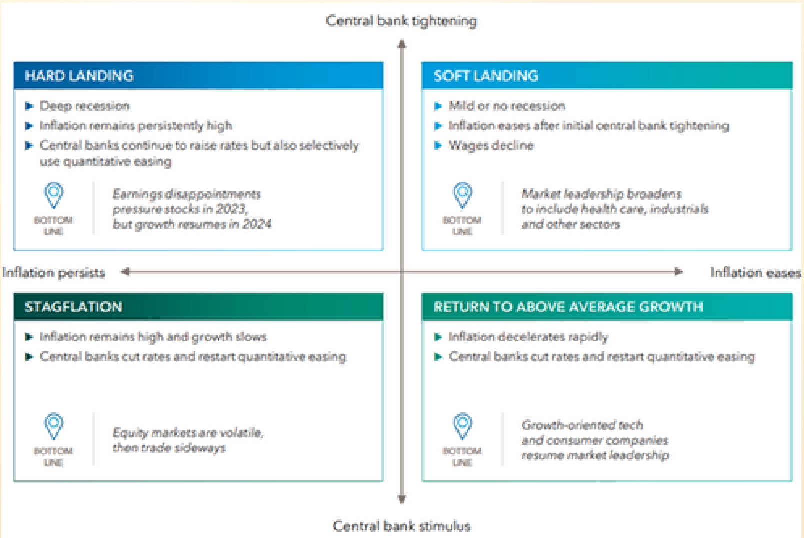
the S&P500 falls by 15-25% from current levels. Further, we expect most economies to follow the US into recession, with varying degrees of severity and timings. On a positive note, we anticipate a recovery in the markets likely to at least have started in the second half of 2023, which may result in the markets producing a moderately positive or negative return this calendar year.

The actions of the US Federal Reserve in a recession will determine how quickly any recovery occurs. In Australia, unlike in the US, inflation continues to rise, meaning that interest rates here are likely to rise and be held at high levels, even if the US Fed reduces interest rates earlier than expected. The recovery in the Chinese economy is however a positive for the global economy, especially for commodity producers like Australia.

Preparing for a range of possible outcomes

The chart below from Capital Group shows the complexities of investing in 2023. As can be seen, it boils down to two questions: **How persistent will inflation be?** and **Where are interest rates headed?** Added to this, central banks around the world are following different paths, leading to a wide range of outcomes.



We see a US recession and associated fall in stock prices around the world for the following reasons:

- inflation remains elevated in Australia and the US, partly due to record labour shortages, especially in the US, and although goods costs are falling, services inflation remains high;
- the Fed is unlikely to cut interest rates until at least late 2023 as they will want to avoid inflation returning in 2024;
- global money supply is at low levels at present, which does not support financial assets in the near term;
- global central banks are actively tightening monetary conditions;
- investor, business, and consumer confidence are at near record lows;
- a recession is not fully reflected in current stock prices and valuations, particularly for an average or deep one.

Market recovery and upside potential

In this environment, we do not expect the Australian Stock Exchange (ASX) to outperform significantly (as it did in 2022), because the value stocks that dominate the ASX, especially materials and banks, do not traditionally perform well in global recessions. While the Fed may be considering reducing rates, the RBA is holding rates at a relatively high level, making conditions difficult for home owners and borrowers. However, the recovery in China is positive for Australia.

Analysis shows that since 1950, recessions are not very long, averaging 10 months. Importantly, while stock markets typically lead the economy into downturns, history shows that they rebound about 6 months before the economy recovers. This may occur in mid to late 2023. In the second half of 2023, markets may begin to factor in a recovery in company earnings. Depending on forward PE assumptions, the upside potential for the S&P 500 could be around 4150 after the recessionary impact.

Managing your portfolio

Flexibility is paramount. Until last year, portfolio construction could be largely set and forget, as both stocks and bonds did well due to fiscal stimulus and interest rate falls. We believe that going forward, stock market and listed property returns will be lower and more volatile. On the positive side, we see opportunities in defensive asset classes, such as bonds and investment grade corporate debt. Overall, the construction of portfolios in each asset class needs to be flexible. As this cycle plays out, opportunities will emerge and disappear relatively quickly.

Conclusion

The economic conditions ahead over the next few years and the implications for investment markets will be challenging. Greater market volatility means we will be working hard to assess market conditions, make appropriate portfolio changes, and seek to capture opportunities. Our role as your professional financial adviser is to continue to educate and inform you with respect to market conditions and ensure that your portfolio continues to meet your investment needs, objectives, and circumstances. Quality financial advice will give you confidence that your investments are well looked after, despite a potentially bumpy road ahead.

WHY IS THE RBA OBSESSED WITH INFLATION?

Headlines and opinions are flying left right and center following the Reserve Bank of Australia (RBA)'s ninth rate hike in a row in February, and its governor, Phillip Lowe, asked to front a recent parliamentary committee hearing with a "please explain!". We thought it a good time to dive into why it is that the Reserve Bank are so keen to tame inflation.

To understand why the RBA is obsessed with inflation, it's important to understand that **inflation is a permanent tax on everyone and everything**. It impacts lower income earners hardest.

Whilst the cost of money, including mortgages and other loans, gets bumped up every time there is a cash rate rise announced by the RBA, despite this negative and uneven impact, importantly, it is a **reversible and temporary impact**.

The Reserve Bank uses an inflation target (Consumer Price Index of 2-3% on average over time) to help achieve its goals of price stability, full employment, prosperity, and the welfare of Australians[1]. Price stability, with low and stable inflation, contributes to sustainable economic growth. **Inflation erodes the purchasing power of your income and wealth.** If inflation is too high for too long, the value of real money is reduced, higher wage growth leads to ever-increasing prices, and higher unemployment, and spending and investment decisions may be distorted. Higher inflation can also lead to greater market uncertainty, with lower returns on investment and reduced international competitiveness.

When the inflation rate accelerates and stays high, it can create a wage-price spiral. If, for example, the underlying inflation rate were to rise to 5% every year for 4 years, this would require an increase in salary of 22% over that time, just to keep up. Current enterprise bargaining agreement (EBA) wage negotiations are based on a 3-year average underlying inflation rate. If the inflation rate spirals upwards, the average underlying rate also increases. If this happens, when future EBA agreements are negotiated, this puts upward pressure on wages that impact broad sections of the economy, such as transport and minimum wages. We saw this happen in the 1970's when inflation got ahead of the Reserve Bank's efforts to curb it, we experienced **stagflation**, a period of stagnant economic growth accompanied by persistently high inflation and a sharp rise in unemployment, and we were playing catch-up for a decade to try and get inflation back under control.

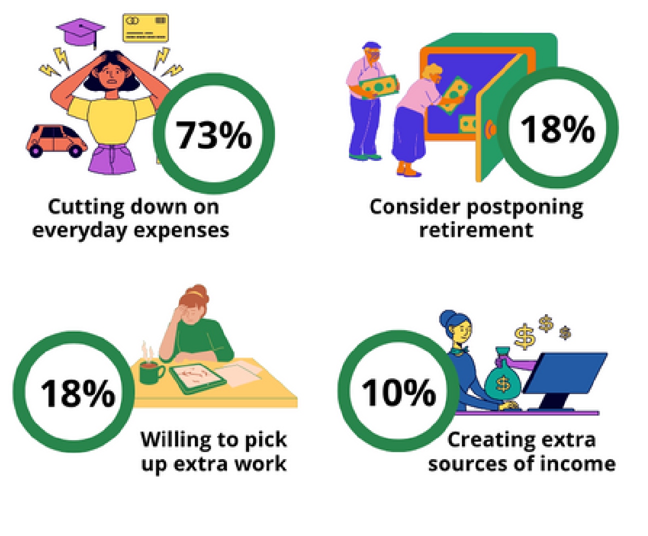
This is the situation the RBA is trying to avoid.

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

RETIREMENT, RECESSION AND THE COST OF LIVING

As the cost of living and market uncertainty continues to rise, it's no wonder less than 15% of pre-retirees expect their retirement lifestyle to be an improvement on their current lifestyle.

The Super Savvy Report 2023[1] by CoreData and Australian Seniors, explores what matters most to our senior community. Surveying over 5,000 Australians over the age of 50, the report found the rising cost of living is the number one financial concern for older Australians. It's clear our ageing community is concerned about staying afloat, with many of those surveyed considering or making lifestyle changes. These changes include:



Source: Super Savvy Report 2023 by CoreData and Australian Seniors

Almost 8 in 10 are concerned about the impact a major recession and market downturn could impact their retirement savings, with close to 3 in 4 concerned about recovering from a recession when they have minimal time to recoup these potential losses. Interestingly only 1 in 5 feel they have a strong understanding of the impact a major recession may have on their super and retirement preparation.

There's no doubt that super plays a pivotal role in our financial plans. After all, the higher your super balance, the more money you could have for retirement. However, it's clear that the rising cost of living and the threat of a recession are front of mind for many as they approach their retirement.

As your financial planner, we can help you be better prepared to weather the potential impact of rising costs of living and to better understand the opportunities and threats of economic cycles.

[1] https://www.seniors.com.au/news-insights/australian-seniors-series-super-savvy-report

SEVEN PRODUCTIVITY TIPS FROM BILLIONAIRES

There's one thing for certain, we all have the same amount of time each day. How is it then that some people seem to accomplish more, sometimes even while doing less, in their lives? You need to focus on working smarter.

Here are some productivity tips from billionaires like Bill Gates, Jeff Bezos, Warren Buffet, and Richard Branson to help you work smarter:

- **Block your time for maximum effectiveness.** Schedule time based on your calendar (not a 'to-do' list). Bill Gates & Elon Musk schedule into 5-minute increments. According to Parkinson's law, work expands (and contracts!) to fill the time allotted to it. Keep track of your time, work out how long it takes to do activities in your 'natural state', to enable you to have accurate time allocated to complete a task – and aim to beat it. Avoid the temptation to over schedule your day. Schedule 'reactionary' time to enable you to complete any unexpected issues.

- **Include some time to think by yourself.** Andrew Carnegie sent Napoleon Hill of 'Think and grow rich' fame to interview 'billionaires' of the time. He discovered one of the keys to success was 'sitting for ideas', ensuring that you remove distractions. Jeff Weiner, CEO of LinkedIn, schedules 'do nothing' time on his calendar. He creates a 90-minute and a two-hour buffer in his day where he keeps no meetings, no calls and no one can even disturb him during this time. This gives him enough time to think and do his job well. You could use an app like Freedom to help block out other distractions.

- **Find your peak performance schedule.** What is your genetic 'sleep chronotype?' Take the Power of sleep quiz, to work out whether you are a Wolf, Lion, Bear, or Dolphin. Research the ideal schedule for your chronotype. This can help you work out when your body likes to sleep, eat and operate. Jeff Bezos spends his mornings 'pottering,' as this suits his chronotype.

- Whatever your chronotype, you'll need to get a **good night's sleep**. Working overtime will make you tired and stressed, and negatively impact your productivity. Getting enough sleep will help you to ensure good physical and mental health. Bill Gates said that he needs seven, Jeff Bezos nine, and Elon Musk between six to seven hours of sleep every night.

- **Make decisions quickly, including correcting bad decisions**. As Jeff Bezos told his shareholders, "Most decisions should probably be made with somewhere around 70 percent of the information you wish you had. If you wait for 90 percent, in most cases, you're probably being slow". Making the right decision can sometimes be less important than making a quick decision. The Amazon founder bases this assumption on the fact that "most decisions are reversible". To ensure optimal levels of productivity, one needs to also be quick about correcting bad decisions. Mistakes are inevitable in life, and to grow, we need to not only seek mistakes but also learn from them as quickly as possible.

- **Have a place to store your ideas.** Our minds are best for processing information, rather than remembering. Richard Branson, the Virgin Group founder notes down everything - from ideas, suggestions, feedback, and contact details. He feels it helps to increase productivity levels.

- **Know when to say no.** Throughout their careers, Warren Buffet and Steve Jobs followed the principle of knowing when to say no. Steve Jobs famously said, "Focus means saying 'no' to the hundred other good ideas". Warren Buffet agreed saying, "Really successful people say 'no' to almost everything."

Working hard is important, but what's more important is how we can optimise our potential by working smarter.

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