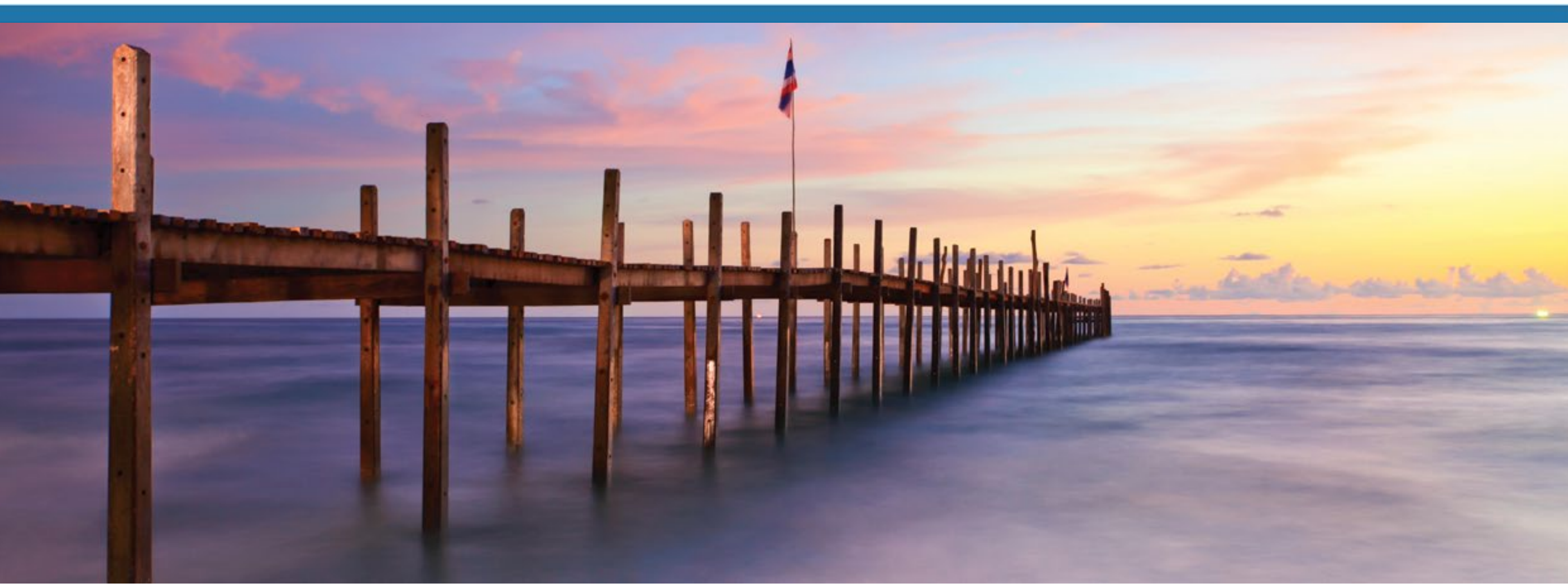
Our latest update



January 2023

As a new year begins, we wish everyone a happy, healthy and prosperous 2023. Many families will be glad to put 2022 behind them and although challenges remain, we look forward to better times ahead.

As 2022 drew to a close, investors remained focused on inflation, interest rates and recession worries. Inflation is running at around 7% to 11% in most advanced economies, including Australia (7.3%). The Reserve Bank of Australia (RBA) lifted its target cash rate by another 25 basis points to 3.1% in December, the eighth monthly rise in a row, up from 0.1% in May. The RBA noted that "inflation is expected to take several years to return to target range (2-3%)", and most economists expect at least one more rate increase.

High inflation and borrowing costs continued to weigh on consumers in December. The ANZ-Roy Morgan consumer price index was steady at 82.5 points in the run-up to Christmas, 26 points below the same period the year before. Slowing consumer demand and rising costs also dragged the NAB business confidence index into negative territory for the first time in 2022, down to -4.4 points in November.

But it's not all bad news. Australian company profits rose 18.6% in the year to September, the fastest pace in five years. Unemployment remains low, despite edging up to 3.45% in November and annual wages growth was 3.1% in the September quarter, the fastest pace in a decade. The Aussie dollar lifted slightly to US68.13c in December, down 6% for the year. Iron ore prices lifted 8% over the month but were down 1% for the year, while oil prices (Brent Crude) eased slightly but were up 11.4% in 2022 as war in Ukraine disrupted supply.

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INFLATION DOMINATED THE ECONOMIC LANDSCAPE

The year began optimistically, as we finally began to emerge from Covid restrictions. Russia threw a curve ball that reverberated around the world and suddenly people who hadn't given a thought to the Reserve Bank were eagerly waiting for its monthly interest rate announcements.

2022 was the year of rising interest rates, surging inflation, war in Ukraine and recession fears. These factors created cost-of-living pressures for households and a downturn in share and bond markets.

Super funds suffered their first calendar year loss since 2011. Ratings group Chant West estimates the median growth fund fell about 4 per cent last year.[i]

The big picture

Even though investors have come to expect unpredictable markets, nobody could have predicted what unfolded in 2022.

Russia's invasion of Ukraine in February led to a global economy and investment markets shake up. It disrupted energy and food supplies, pushing up prices and inflation.

Inflation sits around 7 per cent in Australia and the US, with the Euro area around 11 per cent.[ii]

As a result, central banks began aggressively lifting interest rates.

Rising inflation and interest rates

The Reserve Bank of Australia (RBA) lifted the cash rate from 0.1 per cent in May to 3.1 per cent in December,[iii] quickly flowing through to mortgage interest rates.

Australia remains in a better position than most, with unemployment below 3.5 per cent and wages growth of 3.1 per cent running well behind inflation.[iv]

Australia's economic growth increased to 5.9% in the September quarter[v] before contracting to an estimated 3 per cent by year's end.[vi]

Volatile share markets

Investors endured a nail-biting year.

Global shares plunged in October only to snap back late in the year on hopes that interest rates may be near their peak. The US market finished 19 per cent lower, due to exposure to high-tech stocks and the Federal Reserve's aggressive interest rate hikes. Chinese shares were down 15 per cent as strict Covid lockdowns shut down much of its economy.

Australian shares performed well by comparison, down just 7 per cent.

Energy and utilities stocks were strong due to the impact of the war in Ukraine on oil and gas prices. The worst performers were information technology, real estate and consumer discretionary stocks due to cost-of-living pressures.

Property slowdown

After peaking in May, national home values fell sharply as the Reserve Bank began increasing interest rates. The CoreLogic home value index fell 5.3% in 2022, the first calendar year decline since the global financial crisis of 2008.

Sydney (-12 per cent), and Melbourne (-8 per cent) led the downturn. Bucking the trend, prices edged higher in Adelaide (up 10 per cent), Perth (3.6 per cent), Darwin (4.3 per cent).

Rental returns outpaced home prices, as interest rates, demographic shifts and low vacancy rates pushed rents up 10.2 per cent in 2022. Gross yields recovered to pre-Covid levels, rising to 3.78 per cent in December due to strong rental growth and falling housing values.

Despite the downturn, CoreLogic reports housing values generally remain above pre-COVID levels. At year end, capital cities combined were still 11.7 per cent above March 2020 levels, while regional markets were 32.2 per cent higher.

Looking ahead

While the outlook for 2023 remains challenging, there are signs that central banks are nearing the end of their rate hikes.

Issues for investors to watch out for in the year ahead are:

- A protracted conflict in Ukraine
- A new COVID wave in China disrupting supply chains further, and
- Steeper than expected falls in Australian housing prices which could lead to forced sales and dampen consumer spending.

If you would like to discuss your investment strategy in the light of prevailing economic conditions, please get in touch.

Note: all share market figures are live prices as at 31 December 2022 sourced from: https://tradingeconomics.com/stocks.

All property figures are sourced from: https://www.corelogic.com.au/news-research/news/2022/corelogic-home-value-index-australian-housing-values-down-5.3-over-2022

i https://www.chantwest.com.au/resources/another-strong-month-for-super-funds-as-recovery-continues/

ii https://tradingeconomics.com/country-list/inflation-rate

iii https://www.rba.gov.au/statistics/cash-rate/

iv https://www.rba.gov.au/snapshots/economy-indicators-snapshot/

v https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release

vi https://www.rba.gov.au/publications/smp/2022/nov/economic-outlook.html

Keeping yourself *accountable*

"At the end of the day, we are accountable to ourselves - our success is a result of what we do" – Catherine Pulsifer

It can be both empowering and a little uncomfortable to think that we are responsible for our successes – and failures. Being willing to accept the consequences of our actions, choices or behaviours is not always easy.

We've all at some time or another played the "blame game". It's so easy to look outward and blame others for our problems, hardships or the obstacles that are getting in the way of us achieving our goals and dreams. For example, it's the company's fault that I keep getting passed over for that promotion, my team at work is holding me back, my partner is not being supportive enough of me.

The reality is there are always external forces at play that impact our lives and focussing on these external forces takes away our personal accountability.

What does it mean to be accountable?

Being personally accountable means taking responsibility for one's own actions (or in some cases - lack of action!). It's maintaining an ongoing commitment to yourself and what is important to you.

Here are a few ways you can become more accountable.

1. Remove the roadblocks

It all starts with your mindset. Choose to consciously embrace an accountable approach and recognise that you are the architect of your destiny.

That means letting go of the excuses and recognising them for what they are - roadblocks that are holding you back from taking responsibility for your own actions.

2. Set goals

It helps to know what you are trying to achieve - whether that be in your career, relationships or personal life. Take the time to set concrete goals, jot them down, and have a plan of how you will achieve them and in what timeframe.

Start by setting yourself smaller goals as they will be easier to achieve in the beginning. Setting goals (even if they are small ones) and achieving them allows you to prove to yourself and others that you can and will hold yourself accountable.

3. Create your own opportunities

Accountability empowers you to be in control of your actions in your personal life and career. You can create your own opportunities rather than passively allowing life to happen to you.

Being accountable is about fulfilling your obligations to yourself as well as to others, so when you achieve what you've been aiming for, take time to recognize these milestones and celebrate them.

4. Take responsibility for your decisions

Embrace the 'good, the bad - and the ugly' and accept the consequences of your actions, choices and behaviours, be they positive or negative.

Revel in the positives, but don't be afraid to admit and own up to your mistakes.

One of the most powerful ways we learn is through making mistakes and taking responsibility for them. That means acknowledging that there is a problem, identifying your role in it and proposing a solution to minimise or eliminate the chances of it happening again.

5. Learn from your mistakes

To reach your potential it's necessary keep extending what you are capable of and taking risks and that means making mistakes. Don't beat yourself up but think of what you would have done differently and what you've learned from the experience.

6. Ask for help

The road to success does not have to be a lonely one. While you are responsible for your own successes, that doesn't mean you can't ask for a hand or even better, work with another, or others to get the support and encouragement you need.

An accountability partner can be someone who shares your goals and supports you to keep your commitments or maintain progress on a desired goal.

Having an accountability partner has been proven to increase your chances of success to an astonishing 95% if you have a specific accountability appointment with a person you've committed to.[i]

So, if you are wanting to be more accountable to your own success this year don't go it alone – make a time for a chat with us and we can work with you to help you achieve your goals and dreams.

i https://www.afcpe.org/news-and-publications/the-standard/2018-3/the-power-of-accountability/

How to plan a gap year for grown ups

It's not just school leavers who dream of a gap year. Those of us who've been working for a decade or two (or more) may also long for a real break from career and commitments.

It does not even need to be a year – just enough of an extended break to reset and to take stock of what's important to you. There's the opportunity to learn new skills or another language, explore different cultures or do a road trip around Australia.

By planning ahead and making sure your break is not going to derail future financial goals, taking an extended period off work can be achievable.

Dare to dream

Start by finding an idea that might work for you. There are a host of websites that can help you to plan your adult gap year. They will provide tips and tricks for travel and where to find work (paid or volunteer).

You might consider:

- **Setting off around Australia.** Taking off on an extended trip you can take the time along the way to really get to know parts of the country you've never seen. You could camp, caravan or stay in quirky country motels along the way.
- **Chasing the sun.** Research affordable countries in warmer climates and set up in a beach shack. You will need to check rules on tourist visas.
- **Becoming a backpacker.** There are plenty of cheap but comfortable accommodation options around the world to allow you to prolong your time away.
- **Taking a long walk.** You can find much-loved and ancient tracks in Australia and around the world to expand your horizons. From the Great Himalayan Trail in Nepal – to Spain's Camino De Santiago, or one of Australia's iconic walks such as the Heysen Trail in South Australia.

The importance of planning

Once you have established what your break will involve, work out a budget that takes account of the costs you will continue to incur (such as mortgage or loan repayments, insurance, utilities, car registration and rates) as well as your best estimates for accommodation, food, travel and spending money for your destination.

Don't be daunted by an amount that may appear unachievable at first glance.

Work out how to save on costs when travelling. Some ideas include:

- **Living like a local.** Try swapping your house with someone in another part of the world. House swap websites match up homeowners looking to live in different places for varying periods of time. Alternatively, you could rent out your home while you are away and/or sign up to a housesitting website.
- **Working differently.** Your gap year might be more about doing something different than taking it easy. Find organisations and websites – such as *workaway.info* and *wwoof.com.au* – that cater for working travellers. You could choose to work on farms around the world in return for food and board for example.
- **Becoming a digital nomad.** If manual labour isn't your thing, you could pack your computer and hook up to one of the many digital work websites – such as *digitalnomadsworld.com*, *upwork.com* or *fiverr.com*. Many countries now encourage this trend by offering digital nomad visas.

Then, with your costs under control, and a clear goal in mind, it's time for a savings plan.

You will want to reduce your current living expenses as much as possible to maximise savings and think about setting up a direct debit to a high interest savings account. Check the *MoneySmart Savings Goal calculator* to see how much you will need to save every month.

If you have more than a few years to plan your gap year, you could look into some longer term savings and investment options such as shares, exchange-traded funds (ETFs), or term deposits.

While a gap year is exciting, planning ahead financially is essential to ensure you don't fall into debt.

You also need to carefully consider how this could affect your long-term financial goals. You probably won't be making super contributions, so this may impact your super balance and retirement plans.

If you'd like to take time off in the future, contact us today to ensure that taking a break from earning an income won't impact your future financial security.