December 2022 Update & Newsletter

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. 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, at 3.45% in November and annual wages growth was 3.1% in the September quarter, the fastest pace in a decade.

Returns for the half Financial Year (6 months) are:
All Ordinaries: 7221, up 474 points or +7.02%;
Listed Property Accumulation Index 55477, up 2136 or 4.00%;
90 Day Bank Bills 3.26%, up 1.45%;
AUD vs U.S. Dollar 67.47c, down 1.67c or down 2.42%;
UK FTSE 100, 7451 points, up 281 points or 3.92%;
Dow Jones Industrial Avg, 33147 points, up 2372 points or 7.71%

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2022 YEAR IN REVIEW

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

TECH TIPS
to get more hours in your day

Life just seems to get ever busier as the years roll by and our most precious commodity is often our time. We could all do with a few more hours in the day and technology continues to play a vital role in bringing efficiencies into our daily lives.

In fact, research indicates that technology saves the average person around two weeks a year – or almost two and a half years of our lifetimes.[i] The main time savers are the things most of us are generally already using – self-service checkouts, online banking and shopping, and mobile traffic updates. It's certainly worth ensuring you are making the most of these time savers and spending the least amount of time on mundane tasks by setting up online shopping lists and automating bill paying.

Then to take your time saving efforts even further, there are a myriad of applications that have sprung up to help you create efficiencies in your professional and personal life. Let's look at the best ways to stop wasting your precious time and then look at specific applications that may be of benefit.

Taming the email beast

Email is certainly nothing new. Once prized as a valuable communication tool, email is now singled out as a black hole for lost time. What is relatively new is the number of email management applications you can turn to for help. Such applications are indispensable if you use multiple inboxes, or if you have so many unread emails that you can't organise them on your own.

A good example is *Clean Email* which deletes thousands of old emails and organises new incoming messages automatically. It's also becoming more common to only check and respond to email a few times a day rather than on a continual basis as it can be a constant distraction.

Avoid distractions and stay focussed

When it comes to distractions it can be hard to stay on target 100 per cent of the time, however if you find that you are spending too much time on online diversions, apps like *Freedom* and the aptly named *Selfcontrol* block irrelevant content.

There is also a growing trend away from multi-tasking that suggests it's more effective to focus on one thing at a time, giving each task your undivided attention before moving on to the next. If that's an approach that you find challenging, there are a number of apps that have sprung up to help you keep focussed. If you find you jump from one thing to another and end up with a stack of half-finished tasks, apps like *Focuskeeper* provide discipline and the motivation to complete tasks.

Save time by being aware of time

One way of saving time is to become more aware of where your time is being spent so you can reduce wasted time. While it can be a little disturbing to find out how much time you spend checking your social feeds, apps like *RescueTime* are great for keeping you on target. *RescueTime* tracks what you're working on and suggests the best times for uninterrupted work and when you're losing focus and trying to tackle too many tasks the prompts help you to prioritise.

Get organised and outsource

Making the most of your time is all about getting organised. Apps that help you to break down your hectic life into tasks and 'to-do' lists also help you to prioritise and make sure nothing gets dropped. *Remember the milk* allows users to manage tasks, share lists and allocate them to others so it's a useful tool to keep your whole household or team at work organised.

It's important to put a value on your precious time and sometimes that means getting a hand with all the low-value tasks in your life that get in the way of what you really need to do. There are heaps of apps like *Fivver* or *Airtasker* that can help you to outsource all sorts of annoying, time-consuming jobs.

Is it time to start exploring how technology can help you to be more efficient and reclaim some of those lost hours? The challenge will then be deciding what to do with all that extra time on your hands!

i https://www.thelondoneconomic.com/tech-auto/modern-technology-saves-brits-the-equivalent-of-two-weeks-every-year-111552/