



March 2023 – Update & Newsletter

Share markets in Australia and overseas have rallied to end the month in a better position as the global banking system steadies itself and there are expectations of a tempering in rate rises. The ASX200 finished the month at about the same point it started after suffering a slump mid-month. In Australia, the gains have come largely from the mining sector and the strength of US markets.

Employment remains the economy's good news story with the jobless rate still at a low 3.5% in February and job vacancies almost double what they were three years ago before the start of the pandemic. Inflation is slowly coming down from its peak of 8.4% in December 22. The consumer price index (CPI) recorded a fall to 7.4% in January then 6.8% in February. The most significant contributors to rising prices remain housing, food and non-alcoholic beverages and fuel prices.

Falling residential property prices have caused a drop in household wealth, which decreased for the third consecutive quarter. Household wealth is now \$14.4 trillion, as at the December quarter 2022, that's 3% lower than a year ago. The delayed and full effect of interest rate rises should continue to impact household wealth for some months to come.

Returns for the 9 months of this financial year 2023 are:

All Ordinaries: 7373, up 626 points or +9.28%

Listed Property Accumulation Index 55767, up 2426 or 4.55%;

90 Day Bank Bills 3.71%, up 1.90%;

AUD vs U.S. Dollar 66.89c, down 2.25 cents or down 3.25%;

UK FTSE 100, 7631 points, up 461 points or 6.42%;

Dow Jones Industrial Avg, 33273 points, up 2498 points or 8.17%

Morningstar Moderate Index returned 4.19%;

Morningstar Balanced Index returned 5.75% and

Morningstar Growth Index returned 7.69%

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How do interest rates affect your investments?

Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change in the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the Reserve Bank of Australia (RBA) has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 3.5 per cent since June last year.

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. Clearly, that benchmark has been sharply breached and now the consumer price index is well over 7 per cent a year.

Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant

proportion of your portfolio, then rate rises may be welcome. On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

Shares take a hit

Higher interest rates tend to have a negative impact on sharemarkets. While it may take time for the effect of higher rates to filter through to the economy, the sharemarket often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this environment.ⁱ Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the sharemarket particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve, which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.ⁱⁱ

What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.ⁱⁱⁱ

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

ⁱ <https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705>

ⁱⁱ <https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.>

ⁱⁱⁱ <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release>

Think you'll never fall for a scam?

Think again!

It's no secret that scammers are getting more sophisticated. As this is an ever-evolving space, scammers are constantly developing new ways to part you with your hard-earned cash - and they cast their net wide.

While it's easy to think "it will never happen to me", people who never expected to be victims of scams are actually among the most vulnerable to being taken advantage of. While the stereotype is that older people are the most likely to be scammed, Gen Xers, Millennials, and Gen Zs are actually more likely than seniors to report losing money to fraud.ⁱ

The reality is scammers don't discriminate and people of any age or demographic who believe they are too smart to be tricked may be less careful and more likely to suffer a loss.ⁱⁱ And the losses are considerable. Australians were expected to lose around \$4 billion to scams in 2022.ⁱⁱⁱ

Here are some scams to be aware of that are doing the rounds:

Texts or calls from a trusted brand

One of the most common scams at the moment is where a criminal pretends to be a trusted brand or government agency getting in touch to collect personal information or demand a payment. You may be contacted by email, social media, phone call, or text message and they will often direct you to an official looking website.

It's easy to be taken in via text message as it can appear to be from a legitimate sender as the scammer uses 'alpha tag' technology to register a mobile number

with a word or acronym – the ATO (Australian Tax Office) for example.

Beware of clicking on links and if you get a text message or call that doesn't seem right, you can find the official contact details on the company's website and call them to verify the scam.

Buying and selling

Scammers prey on consumers and businesses that are buying or selling products and services.

As a buyer you may pay the money and never receive the goods you have paid for. To protect yourself be on the alert for scams - if the advertised price looks too good to be true, it probably is. For rental properties or holiday accommodation, only use reputable online booking agents.

As a seller, you may be tricked into believing the buyer has paid in full or even paid over your advertised amount, including sending falsified payment receipts to support their claim. The buyer may then request a refund for overpayment. To protect yourself, don't accept a mobile payment from someone you don't know and never accept or refund a deposit for more than the selling price.

False billing scams request you or your business to pay invoices for services or supplies you did not order so always double check and query demands for payment if in doubt.

Tugging on the heart strings

Dating and romance scammers often make their approaches on social media or dating sites and will go to great lengths to gain trust. Protect yourself by never giving money or goods of value to someone you have never met in real life.

Scammers also appeal to our emotions by impersonating genuine charities to ask for donations after natural disasters or major events. To avoid being scammed approach charity organisations directly and check an organisation's credentials on the Australian Charities and Not-for-Profits Commission (ACNC) website to see if they are a genuine charity.^{iv}

Attempts to gain personal information

These include when a scammer gains access to your personal information by using technology.

Consider using multifactor authentication, a security measure that requires one or more proofs of identity to grant you access to any applications you use regularly and change passwords regularly, making sure to choose secure passwords.

Taking a little extra care to be aware and alert to the possibility of being scammed could save you a lot of heartache. Of course, we are here to help if you think something may be a little suspect.

ⁱ <https://consumer.ftc.gov/consumer-alerts/2022/11/fraud-reports-and-losses-not-just-grandparents-story>

ⁱⁱ https://www.finrafoundation.org/sites/finrafoundation/files/exposed-to-scams-what-separates-victims-from-non-victims_0_0.pdf

ⁱⁱⁱ <https://www.news.com.au/finance/money/costs/australia-to-cop-4-billion-scam-loss-in-2022-according-to-scamwatch/news-story/890e469b4b05a6c950e3cb6b4f83f56c>

^{iv} <https://www.acnc.gov.au/charity/charities>