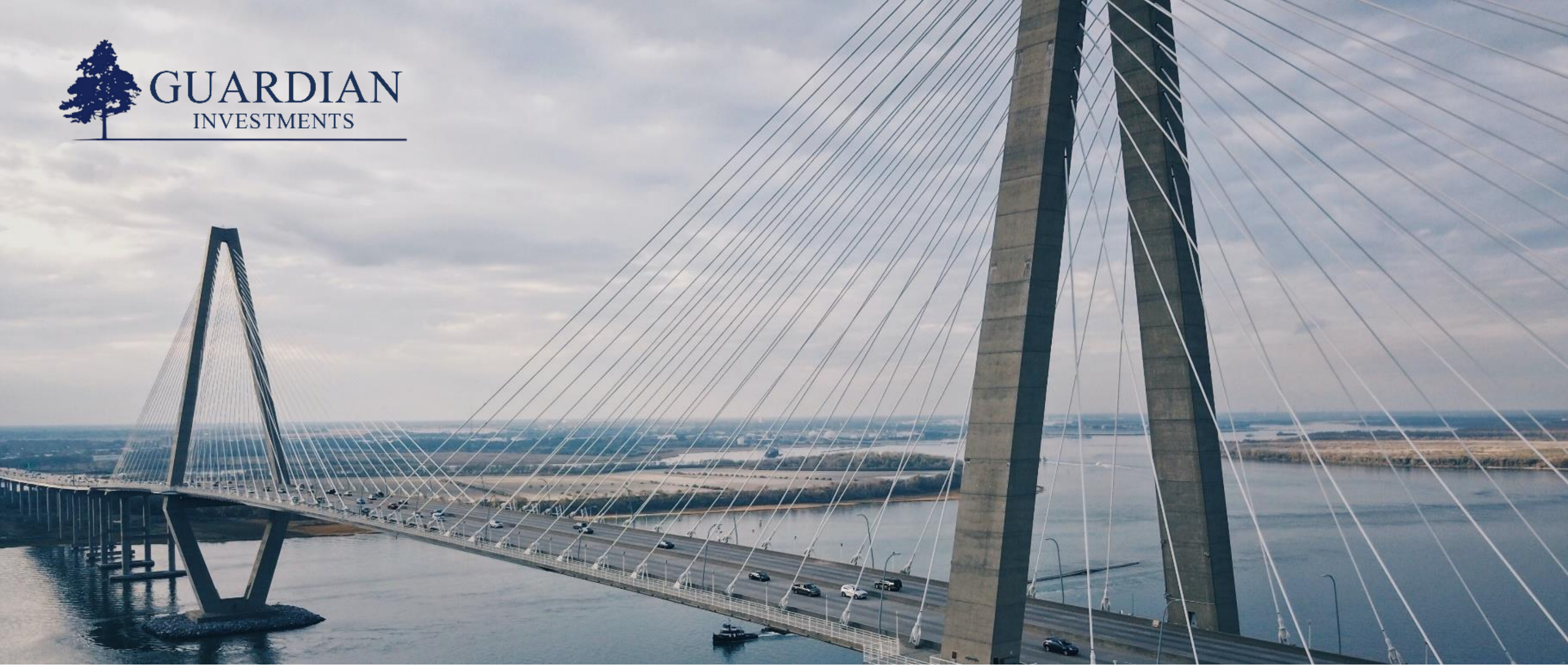

December 2023 Newsletter

The Australian equities market has remained volatile during the first 6-months of the Financial Year (FY24). From the 1st of July to the 31st of December 2023, the S&P/ASX200 rose 4.76%, finishing the Calendar Year (CY23) at a 12-month high. At its trough, the index was down over 6.5% during the 6 months.

Over November and December 2023, the market experienced a significant "Santa Rally" which was supported by news that interest rates in the US had peaked and that the Federal Reserve would execute multiple rate cuts in Calendar Year 2024 (CY24). In addition to this, the retail sector performed strongly. According to ABS data, November 2023 was the strongest month of retail sales ever recorded (i.e., 2.0% higher than October 2023 and 2.2% higher than November 2022). This was due to the timing of Black Friday and Cyber Monday which started earlier and lasted longer than previous periods.

The local monthly inflation indicator rose slightly to 4.3% in the 12 months to November, down from 4.9% in October (and down from its 8.4% peak last year). This is the second month in a row that inflation has fallen more than expected. Unfortunately, we are still experiencing uncomfortably high prices in housing, electricity, and gas.

We expect that interest rates in Australia have likely peaked, with economists now forecasting either one more rate rise in February or an extended pause at 4.35%.

Whilst the Australian economy remains resilient, we note that the chance of a recession remains relatively high in the short term. AMP's Chief Economist, Shane Oliver, recently stated that the risk of a recession sits at approximately 40%. The massive influx of immigration over the past 12-months has prevented a technical recession, however, has exacerbated the per capita recession Australia is currently experiencing. Given the persistent pressure on households we expect short to medium term volatility to continue across all markets. We remain optimistic that equities grind higher through CY24.

Returns for the 2024 Financial Year (6 months):

All Ordinaries: 7829.5, up 428 points or +5.78%
Listed Property Accumulation Index 66126, up 7239.10 or 12.29%
90 Day Bank Bills 4.36%, up 0.23%
AUD vs U.S. Dollar 68.3c, up 1.68c or 2.5%
UK FTSE 100, 7733.20 points, up 202 points or 2.68%
Dow Jones Industrial Avg, 37689.54 points, up 3340 points or 9.72%

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2023 YEAR IN REVIEW: defying predictions

Australia's economy stubbornly defied predictions during 2023, dashing any hopes that we might begin to return to some kind of normal.

Some had expected an end to the Reserve Bank's continued cash rate rises during the year. Instead, inflation has been a stubborn foe and we saw five rate rises. On a positive note, superannuation funds bounced back after losses in 2022 with SuperRatings reporting the median balanced option can expect returns of 9.6% in 2023.[i]

The big picture

Global economic forecasts for 2023 were also beset by a number of wild cards during the year. While many economists were predicting recession in the United States and Europe and a rebound in China, the year ended differently with no recession in the US, Europe struggling but doing better than expected and China still battling some headwinds.

October brought concerns of a wider Middle East conflict, the International Monetary Fund saying that an escalation of the conflict could be far-reaching, affecting tourism, trade, and investment.[ii]

Inflation and interest rates

In Australia, economic growth slowed a little on 2022's result but still delivered a better return than forecast. The economy grew by 2.1% although a larger-than-expected increase in the population is putting extra pressure on housing and prices, keeping inflation higher.[iii] It was the eighth quarter in a row of economic growth.

Inflation remains high but many believe we have seen the end of interest rate rises for 2024. The latest figures show the rate of inflation dropped from 4.9% in October to 4.3% in November.

New dwelling prices rose 5.5% in the 12 months to November while rents rose 7.1%. Electricity prices were up by 10.7% for the year and food and non-alcoholic beverages increased by 4.6%.The Reserve Bank raised the cash rate five times in 2023 to finish the year at 4.35%.[iv]

Sharemarkets

Global sharemarkets ended 2023 on a more positive note. In the US, welcome news from the Federal Reserve of an end to rate hikes saw stocks and bonds soar in the final weeks of the year. During the year, the Dow Jones index increased by 13.7% and the Nasdaq by 43.4%. There was mixed news in Asian markets with a jump of 28.2% on the Nikkei 225 but China's Shanghai Compositive fell 3.7%.[v]

Australia's sharemarket may not have experienced the heady double-digit returns of some global markets but it ended the year with a gain of almost 8%, marking its best performance since 2021.[vi]

Commodities

Despite big falls from the peaks of 2022, commodity prices remain high across the board.

Iron ore, Australia's biggest export, rose more than 21% as the Chinese government continues to create strong demand by stimulating property and infrastructure development.

Oil prices saw some spikes during the year but steadied by December. However, the World Bank notes that conflicts in the Middle East and Ukraine, could cause a major oil price shock, pushing global commodity markets into uncharted waters.[vii]

As the US dollar gathers strength and Australia's high inflation figures persist, the Australian dollar is under pressure. It ended the year where it began after recovering from a slide in the second half of the year.

Property market

While rising interest rates usually dampen property prices, by year's end we saw a remarkable turnaround for some cities in another result that upended forecasts.

CoreLogic's national Home Value Index rose 8.1% in 2023, up from the 4.9% drop in 2022 with a patchy performance across the country.[viii]

House prices rose at more than 1% every month on average in Perth, Adelaide, and Brisbane in the second half of the year. While Melbourne values dropped in November and December, Sydney and Canberra prices barely moved, and Hobart and Darwin prices fell slightly.

Looking ahead

As floods and storms ravage the eastern states and bushfires break out in the west, another tumultuous Australian summer might be mirrored by a chaotic year for the economy both in Australia and overseas.

The RBA expects economic growth to remain subdued but resilient in 2024, and is confident that inflation will continue to fall slightly throughout the year.[ix]

Worldwide, China's spluttering economy and the outcome of the US presidential election may cause ripple effects across the globe, meanwhile markets will be nervously watching the ongoing conflicts overseas which have the potential to create broader economic challenges.

Whatever the year ahead brings, we are here for you.

i https://www.afr.com/policy/tax-and-super/super-balances-growalmost-10pc-thanks-to-tech-rally-20240103-p5euwb
ii https://www.imf.org/en/Blogs/Articles/2023/12/01/middle-eastconflict-risks-reshaping-the-regions-economies
iii https://www.abs.gov.au/media-centre/media-releases/australianeconomy-grew-02-cent-september-quarter
iv Monthly CPI indicator rose 4.3% annually to November 2023 | Australian Bureau of Statistics (abs.gov.au)
v https://www.businesstoday.in/markets/story/global-marketperformance-heres-how-global-equity-markets-major-currenciesperformed-in-2023-411391-2023-12-31
vi https://www.abc.net.au/news/2023-12-29/asx-marketsbusiness-live-news-dec29-2023/103271578
vii October 2023 Commodity Markets Outlook: Under the Shadow of Geopolitical Risks [EN/AR/RU/ZH] - World | ReliefWeb
viii https://www.corelogic.com.au/news-research/news/2023/australian-home-values-surge-in-2023
ix https://www.rba.gov.au/speeches/2023/sp-ag-2023-11-13.html

HOW TO GIVE BACK

Australia is a giving country, but we often give in kind rather than financially.

Whenever there is a disaster here or overseas, Australians rush to donate their time, household goods and cash. However, we still lag other countries when it comes to giving money.

According to Philanthropy Australia, our total financial giving as a percentage of Gross Domestic Product is just 0.81 per cent, compared with 0.96 per cent for the UK, 1 per cent for Canada, 1.84 per cent for New Zealand and 2.1 per cent for the US.[i]

Currently the number of Australians making tax deductible contributions is at its lowest levels since the 1970s.[ii] Despite this, the Australian Tax Office reports that deductible donations claimed by individuals rose from $0.74 billion in 1999-2000 to $3.85 billion in 2019-20.[iii]

Considering an estimated $2.6 trillion will pass between generations over the next 20 years, the opportunities for increasing our financial giving abound. Philanthropy Australia wants to double structured giving from $2.5 billion in 2020 to $5 billion by 2030.[iv]

Many ways to give

There are many ways of being philanthropic such as small one-off donations, regular small amounts to say, sponsor a child, donating to a crowd funding platform or joining a giving circle.

For those with much larger sums to distribute, a structured giving plan can be one approach.

Structured giving

You can choose a number of ways to establish a structured giving plan including through a public or private ancillary fund (PAF), a private testamentary charitable trust or giving circles.

Whichever way you choose, there are attractive tax incentives to encourage the practice.

The type of vehicle will depend on:

- the timeframe of your giving
- the level of engagement you want
- whether you want to raise donations from the public
- whether you want to give in your lifetime or as a bequest
- whether you want to involve your family to create a family legacy.

Private ancillary fund

A private ancillary fund is a standalone charitable trust for business, families and individuals. It requires a corporate trustee and a specific investment strategy. Once you have donated, contributions are irrevocable and cannot be returned. To be tax deductible, the cause you are supporting must be a body identified as a Deductible Gift Recipient by the Australian Tax Office.

The benefits of a PAF are that contributions are fully deductible, and the deductions can be spread over five years. The assets of the fund are exempt from income tax.

The minimum initial contribution to a PAF is at least $20,000. The costs of setting up a PAF are minimal and ongoing costs are usually about 1-2 per cent of the value of the fund.

Each year you must distribute 5 per cent of the net value of the fund to the designated charity.[v]

Testamentary charitable trust

An alternative to a PAF is a testamentary charitable trust, which usually comes into being after the death of the founder. The governing document is either a trust deed or the Will.

With a testamentary charitable trust, trustees control all the governance, compliance, investment and giving strategies of the trust. The assets of the trust are income tax exempt. The minimum initial contribution for such a fund is usually $500,000 to $2 million.[vi]

Philanthropy through structured giving still has a long way to go in Australia. The latest figures for total giving in Australia is $13.1 billion, of which $2.4 billion is structured giving. Currently the number of structured giving entities stands at just over 5400.[vii]

As the baby boomers pass on their wealth to their families, there is a wide opening for some of this money to find their way into charities and causes through structured giving.

If you want to know more about structured giving and what is the right vehicle for you to help the Australian community at large, then give us a call to discuss.

i,iii https://www.philanthropy.org.au/wp-content/uploads/2022/11/7480-PHA-Giving-Trends-and-Opportunities-2023-1.2.pdf

ii https://www.socialventures.com.au/sva-quarterly/insights-to-grow-philanthropic-giving-for-not-for-profits/

iv,vii https://www.philanthropy.org.au/our-impact/a-blueprint-to-grow-structured-giving/

v,vi https://www.philanthropy.org.au/guidance-and-tools/ways-to-give/choosing-the-right-philanthropic-structure/

RETURNING TO WORK *after retirement*

Employers are desperate for workers and cost of living pressures are making it tough to live on a pension. That's a perfect mix of conditions to send some retirees back to work. But it's smart to get good advice before you take the leap.

With unemployment rates at historic lows and employers facing a shortage of skilled workers, an increasing number of retirees are choosing to re-enter the workforce. According to recent data from the Australian Bureau of Statistics (ABS), approximately 45,000 more individuals aged over 65 are actively working compared with a year ago.[i]

Some retirees may have been forced to return to work to financially support themselves. National Seniors research found 16 per cent of age pensioners re-entered the workforce after initially retiring, while another 20 per cent said they would consider returning to work.[ii]

Declining superannuation returns combined with rising inflation and cost of living pressures may be some of the reasons why retirees could soon be returning to work.

Things to consider

Returning to work after retirement raises several important financial and logistical considerations for retirees including the effect on the Aged Pension and superannuation.

If you receive an Aged Pension and are planning to return to work, you will need to let Centrelink know you are receiving additional income within 14 days. The extra income may mean that your pension is reduced if it exceeds Centrelink's income threshold. It's essential for retirees to be aware of these thresholds and how their earnings may affect their pension to plan their finances effectively.

Eligible age pensioners should also consider the Work Bonus incentive. This incentive encourages age pensioners to return to work with no or less impact on their age pension. Under the Work Bonus, the first $300 of fortnightly income from work is not assessed as income under the pension income test. Any unused amount of the Work Bonus will accumulate in a Work Bonus income bank, up to a maximum amount. The amount accumulated in the income bank can be used to offset future income from work that would otherwise be assessable under the pension income test.

Effect on superannuation

Returning to work after retirement can have implications for your superannuation, particularly if you're receiving a pension from your super fund. You can continue taking your pension from super, but you will still have to meet the minimum pension requirements.

So, even though you may not need that pension income, you have to withdraw at least the minimum, which depends on your age and your super balance. This minimum pension rate is set by the government. Failing to meet these requirements can have tax implications and may affect your pension's tax-free status.

You can convert your super pension phase back into the accumulation phase if you wish to stop taking the minimum pension. However, be aware of the tax differences. In the accumulation phase, any income and gains are taxed at 15 per cent whereas they are tax-free in the pension phase.

Don't forget that if you retain your pension account, then you will have to open a new super accumulation account to receive employer contributions because you cannot make contributions into a super pension account.

Other investments

If you have personal investments outside super and have been receiving a pension, your lower income may mean that you are not paying tax on any gains from them. But extra income from a job may mean you move up a tax bracket and any investment income and capital gains will then be assessed at the higher rate.

Returning to work after retirement can have far-reaching implications on your finances, particularly with regard to your Aged Pension and superannuation. It's vital to carefully seek appropriate advice to ensure a smooth transition back into the workforce, allowing you to make informed decisions that align with your financial goals and overall well-being.

If you would like to discuss your options, give us a call.

i https://www.abc.net.au/news/2023-07-21/retirees-in-demand-as-employers-face-tight-labour-market/102626676

ii https://nationalseniors.com.au/news/finance/a-working-retirement-retirees-who-return-to-work#:~:text=National%20Seniors%20research%20found%2016,next%20year%20if%20you%20do