Your PERSONAL WEALTH

Spring 2023

Welcome

Global markets seem to defy economic reality as the share markets appeared have been buoyed by consumer spending, We're still on uncertain ground as some analysts expect a soft landing whilst others feel this stance may be overly optimistic. Uncertainty leads to market volatility, and also opportunity.

As they say, the one thing that is constant in life is change. Whilst growing your wealth is one part of a great financial plan, protecting your wealth in the event of your incapacity or death is just as important. With this in mind, we take a look at the pillars of estate planning, for everyone.

We hope you find this edition valuable!

Contents

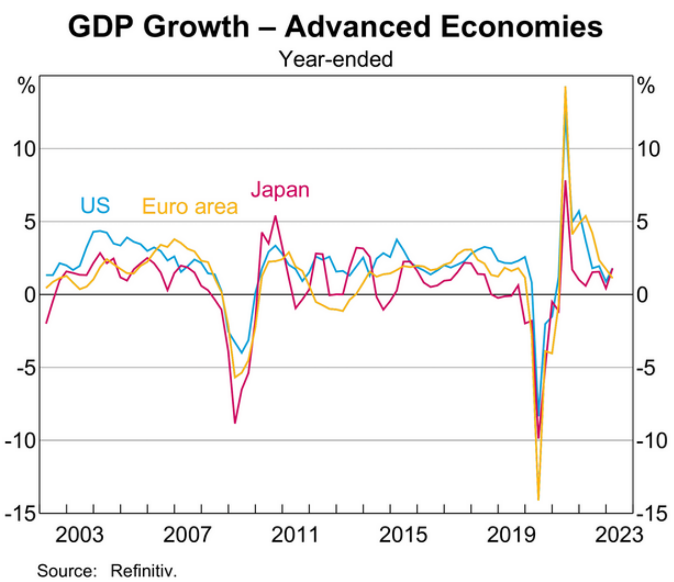
Leaving behind an unusual 12 months

We have witnessed a situation in global share markets that has seemed to defy economic reality. The overarching theme is that global central banks have needed to aggressively hike interest rates to fight runaway inflation at a time of record government and consumer debt levels. For example, the Reserve Bank of Australia (RBA) has increased rates 12 times since May 2022.

This has had a significantly negative impact on global economic growth.

Throughout the year, nearly all economic indicators were flashing a recession led by the US. We saw a debt crisis in the UK in September 2022, followed by a collapse in several large US Regional Banks in March 2023.

Yet global share markets largely shrugged off the recessionary outlook, specially in the US, which returned 23.6% for the full year and 9.1% for the June quarter. However, Australia, which led the market in the first half of the financial year, returned



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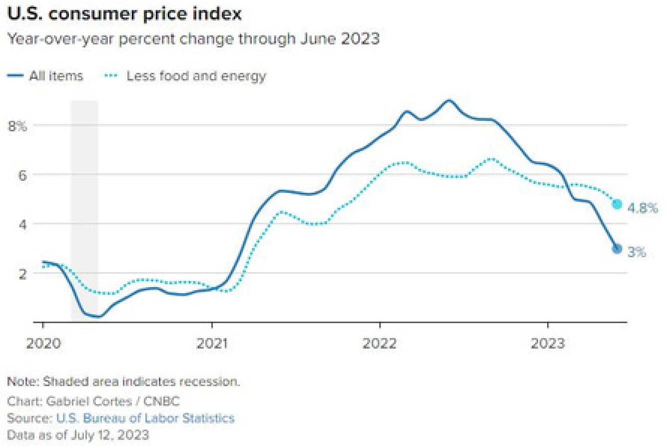
14.8% for the year and only 1% for the final quarter. The drivers of return were very different in the second half of the financial year, with the returns of the US share market dominated by large-cap technology-related stocks – Nvidia being the standout. Australia underperformed due to the lack of technology exposure and continued uncertainty about China's recovery.

Why the share market performed well against expectations.

Share markets were saved by consumers. Spending was resilient during the year despite the huge increase in the cost of living due to historically low unemployment and associated wage increases and large savings accumulated during COVID-19. Later in the year, markets took heart from the fall in US inflation. Australian inflation has also fallen, albeit still at high levels.



What does the year ahead hold?

The times we face are essentially unchanged and are very uncertain, as described by the following snapshot presented by Magellan.

Inflation, while falling, is well above targets. Central Banks (including the RBA) seem willing to risk recession to achieve their inflationary goals. So-called 'sticky inflation' (services inflation) remains stubbornly high. Further, surplus consumer cash from COVID is expected to be exhausted by the end of September 2023, putting downward pressure on the economy and likely increasing unemployment. Overall, we are in a low growth period, with the OECD forecasting Global GDP growth of 2.7% in 2023, rising to 2.9% in 2024. Growth in 2023 is projected to be its lowest annual rate since the global financial crisis, apart from the 2020 pandemic.

Against this background, some analysts and fund managers expect a 'soft landing' where a US recession is averted, and the rally in stock markets continues. This may be overly optimistic, and our base case expectation is a US recession for the following reasons (noting that Europe and the UK are already in recession):

- Inflation is very unlikely to fall to Central Bank targets over the next 12 months, with sticky inflation and interest rates likely to be held at high levels for longer than markets expect.
- Falls in consumer spending will continue with significant negative impacts on corporate earnings.
- Bank lending officers have tightened credit conditions to 'credit crunch' recessionary levels.
- Corporate insolvencies are increasing rapidly globally (a 50% increase on the prior year in Australia).
- The yield curve is significantly inverted, which is a strong recessionary indicator.
- China's economy appears to be in trouble, with major real estate collapses continuing, indicators such as exports and imports plummeting, and unemployment rising rapidly.
- Data sets such as small business confidence, consumer confidence, and corporate CapEx intentions are at low levels.

The odds of a recession in Australia were 50/50, primarily due to confidence that record-high prices for iron ore and coal would continue. The outlook is now significantly more uncertain due to the deflation of the Chinese economy. The significant pressure on households due to the 'mortgage cliff' will worsen in the months ahead.

What does this mean for portfolios?

Uncertainty leads to volatility in investment markets, especially for markets where valuations are stretched, like the US market (which is 70% of the world market by capitalisation). A US recession would cause a sharp fall in share prices globally as corporate earnings and PE multiples fall and unemployment increases. This recession is hard to predict but will likely be in the last quarter of the 2023 calendar year or early 2024. We expect that the recession will not be deep, and the economy may recover quickly. It may be the case that share market returns will be low and volatile for several years.

Nevertheless, with volatility comes opportunity. While we would be cautious in adding to equity exposures now, there may be opportunities if a correction does occur. Further, the increases in interest rates have resulted in good returns for term deposits and fixed interest and attractive opportunities for profits in long-term bonds when interest rates do come down.

Overall, we believe it is important to maintain a quality theme in portfolios in uncertain times and be prepared to make changes to your portfolio as opportunities arise.

Super strategies

The recent release of the **2023 Intergenerational Report** by Treasury demonstrates superannuation will play a key role in reducing reliance on the Age Pension and supporting the economy. The report anticipates that mandatory superannuation will lead to a decrease in expenditure on Australian government age and service pensions from approximately 2.3% of GDP in the fiscal year 2022-2023 to about 2.0% of GDP by the fiscal year 2062-63.

Recent Australian Prudential Regulation Authority (APRA) figures show Australia's total superannuation assets reached $3.54 trillion at the end of June 2023, a 12-month increase of 7.6%.

Those in the 60-64 age group have an average balance of $358,000 for males and $288,000 for females compared to those in the 30-34 age group, with an average balance of $49,000 for males and $40,000 for females. Increases in the government Superannuation Guarantee rates up to 11% on 1 July 2023, 11.5% on 1 July 2024, and 12% on 1 July 2025, will help boost these balances.

Strategies including topping up concessional and non-concessional contributions, spousal contributions and selecting the appropriate super fund investment strategy with you are ways we can help ensure you're ahead of the average.

Big Mac index & travel

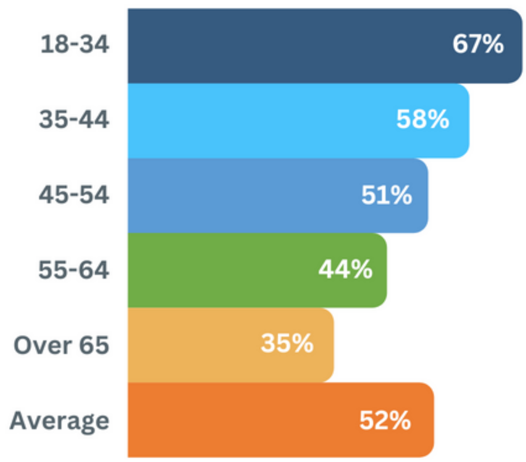
Where are you planning your next vacation?

The Big Mac index has been used as a baseline indicator to help measure purchasing power between nations. Interestingly, from July 2022 to January 2023, some nations, including the USA, Venezuela, China, and Indonesia, saw the relative price remain stable. Countries such as Singapore, Britain and India saw around a 5% hike, whilst Australia, New Zealand, Japan, and the Euro area saw around a 10% jump.

Empowering choices

UK-based **AML/The Nursery Investor Index** shows that even though investors feel they have an increased sense of control and opportunity, they are generally **hesitant to make big changes to their portfolios**.

'I feel nervous to make new or different investment choices'

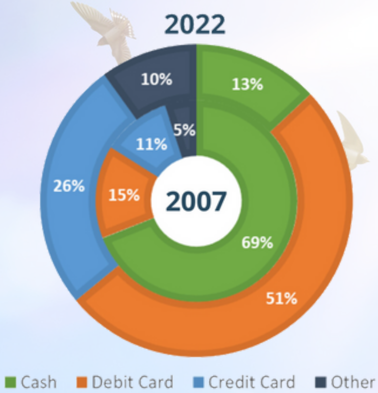


As professional financial advisers, we can help you to become more confident in making new or different investment choices, focused on helping empower you to achieve your goals.

How our habits change

When was the last time you paid in cash?

It probably wouldn't surprise you that in 2022, only 13% of transactions were paid in cash, compared to 69% in 2007. Conversely, in 2007, 26% of transactions were by card, 15% by debit cards and 11% by credit cards, increasing to 76% of transactions by card in 2022, 51% by debit cards and 26% by credit cards.



https://www.finder.com.au/credit-cards/credit-card-statistics
https://www.rba.gov.au/publications/bulletin/2023/jun/consumer-payment-behaviour-in-australia.html

Estate planning is for everyone

Whilst growing your wealth is one part of a great financial plan, protecting your wealth in the event of your incapacity or death is just as important.

Many people think that Estate Planning is only for people close to retirement, especially if we fall into the trap of thinking that Estate Planning is just about getting a Will. But did you know that Estate Planning addresses key protection strategies whilst you're still alive? **It doesn't matter who you are, Estate Planning is for everyone.**

What are the key pillars of Estate Planning?

Estate Planning is all about making sure that you get the choice as to what happens to you and your assets – whether you need someone to make decisions on your behalf if you become incapacitated or you pass away, and your estate needs to be divided up.

1. Advance Care Directive

Should something happen to you, and you are unable to communicate decisions about your medical care and treatment, an advance care directive allows you to:

- Give other people directions about any future health care you may need,
- Make your wishes about the type(s) of treatment you want (and don't want) known to medical professionals and,
- Appoint someone you trust to make decisions about health care on your behalf.

If the directive is valid, it must be followed and cannot be overridden by medical professionals or family members.

2. Power of Attorney

A Power of Attorney allows a person you nominate to make financial and legal decisions on your behalf if you lose capacity because of illness, injury, or disability. They can help ensure important financial and legal matters are handled without delay if you can't manage them yourself – for example, paying your bills, managing your bank accounts, managing your investments, and buying and selling property.

3. A Valid Will

Whereas the first two pillars ensure that important matters are handled in accordance with your wishes if you're incapacitated, a Will ensures that those same matters are handled in accordance with your wishes after your death. A Will gives you the best chance of ensuring that your assets go where you want them to. It also provides an opportunity to set up a testamentary trust upon the person's death for additional protection and potential tax savings for nominated beneficiaries.

If you die without a valid Will:

- The Public Trustee will determine how your estate is to be distributed, which can take a lot of time and consultation with related parties.
- If you have a complex estate, children from different relationships, or are separated but have a new partner, this could lead to legal proceedings, infighting amongst relatives and your assets being wasted on legal fees or distributed against your wishes.

4. Superannuation

Superannuation is not automatically included as part of your estate. When you pass away, your superannuation is distributed to the person(s) you have nominated in the fund's death benefit nomination. However, this may not be binding on the super fund, and if you haven't nominated a beneficiary, this could result in a lengthy process as the super fund trustee needs to decide who gets the money.

An estate plan gives you choice and control.
Ensuring that your estate plan is in order gives you choice and control over how your affairs and assets will be handled, which in turn benefits both you and your loved ones.

If you would like to explore your estate planning options, contact us to get started.

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