INSIDE

JULY 2022

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

- **Market Volatility: An overview**
- **What Rising Interest Rates mean for you?**
- **2022 Election Washup**

Market volatility: an overview

Many investors become concerned when volatility occurs in global financial markets – particularly about the impact on their super balance and other investments. In times like these, it's important to understand the causes of market movements and how to minimise risk.

Why do markets fluctuate?

Markets are influenced by many things – industrial, economic, political and social factors can all have an impact. For example, consumer and business confidence can both affect spending and therefore company profits. And of course, natural disasters can cause major damage to any economy with no warning. During times of market volatility, it's important to remember one of the fundamental principals of investing – markets move in cycles.

What is the effect of market movements on investment returns?

The table below shows the effect of market volatility on different asset classes for 6 months and 1, 3, 5,10 and 20-year periods. Looking closely, we can see that even through some asset classes have shown negative results over shorter periods, over 20 years, returns across all asset classes are positive.

What is the effect of market volatility on super funds?

When markets are volatile, your super balance may decline, but it is important to remember that markets move in cycles. Volatility is a natural part of the economic cycle. Markets are influenced by a range of factors and are inherently unpredictable. The Australian Securities & Investments Commission's (ASIC) MoneySmart says's 'Don't panic if the short-term returns are negative: remember that super is a long-term investment ". History demonstrates that over the long term, the general trend of share markets has been upward.

Are my investments safe?

When share market's experience volatility it's only natural to feel concerned about how fluctuations may impact your investments.

Keep in mind the bigger picture

Super is a long-term investment. Shares, which usually form a large part of most balanced super accounts, are also generally a long-term investment. They are designed to provide capital growth over a period of five years or more. Think in years, not days. The timeframe for super may be 20 years or more, so short-term volatility shouldn't diminish the long-term potential of your investments. Growth assets (such as shares) tend to fluctuate in the short-term, but have historically provided excellent returns for investors over the long term.

When share markets fall in value, it may be tempting to sell up. However, trying to time the markets by selling now and buying back later is a risky strategy that rarely results in investors coming out ahead. By taking a long-term view in investing, you can ride out any short-term fluctuations in the market and take advantage of growth opportunities over the long term.

Asset Class Returns as at 31 December 2019

Asset class	6 months	1 year	3 years	5 years	10 years	20 years
Australian Shares	3.28%	23.77%	10.33%	9.07%	7.77%	8.34%
Global Shares	8.95%	27.86%	13.69%	12.10%	12.20%	4.13%
Australian Property Securities	0.05%	19.36%	9.10%	10.93%	11.55%	7.73%
Australian Fixed Interest	0.63%	7.26%	5.14%	4.18%	5.74%	6.10%
International Fixed Interest	1.11%	6.60%	3.93%	4.09%	6.07%	6.96%
Cash	0.52%	1.50%	1.72%	1.91%	2.87%	4.24%
Global Property	6.93%	23.06%	9.31%	6.53%	9.25%	9.23%
Global Resources	5.26%	27.87%	15.56%	11.10%	1.38%	7.54%
Global Emerging Markets	6.91%	18.60%	12.68%	8.87%	6.26%	N/A
Global Listed Infrastructure	5.11%	24.19%	11.82%	10.06%	12.11%	N/A

Key takeaways

Super is a long-term investment designed to generate sufficient money so you can enjoy your retirement.

- Diversification is an important part of long-term super investment strategy. To create the lifestyle you want in retirement, it may be necessary to invest in growth assets like shares so that your returns stay ahead of tax and inflation.
- It may be beneficial to ride out the bad times in order to achieve long-term growth.
- See your financial adviser, they can be invaluable in this process as they can review your situation and provide guidance.

Source: Colonial First State

What rising interest rates mean for you?

The Reserve Bank of Australia (RBA) announced another rate rise on Tuesday 7 June, with a similar hike expected in July. We unpack what interest rate rises mean for you and your super.

At it's June meeting, the RBA decided to further lift the cash rate by half a percentage point to 0.85%. Following more than a decade of cuts, rate increases are a sign of positive developments in the Australian economy. Central bank raises and lower interest rates to stimulate economic growth and control inflation. If inflation is high, they might raise rates to try to control it. If it's low, they may lower rates to encourage consumers to spend and borrow money.

Throughout the COVID-19 era, low interest rates have supported economies around the world. And the combined effect of low interest rates and government hardship payments proved very effective in stabilising the Australian economy.

Yet lately, supportive government spending and monetary measures have coincided with supply side shocks such as Russia's invasion of Ukraine, lockdowns in China and COVID-19 related labour shortages. These have each resulted in higher inflation.

At some point, central banks, including the RBA, needed to raise interest rates back to normal levels, but these shocks are pushing up rates faster than expected.

In recent years, low interest rates bolstered share and fixed interest markets. Now, these markets are adjusting to higher long-term interest rates.

Compared to long-term averages, the official cash rate is still very low. And although we expect rates will continue rising for the next 12 months, we don't expect rates to climb to the levels seen in the 1990s or immediately following the global financial crisis in 2008.

How will rate rises affect me?

Investors

Interest rate rises are impacting all types of investments varying degrees:

- **Shares.** While share markets tend to react to political and economic news, like interest rate movements, any volatility is usually short-lived. As long as the economy remains strong, shares have historically performed quite will during periods of rising interest rates.
- **Property.** Direct property and property securities are impacted by rising interest rates because higher rates tend to reduce the borrowing capacity of borrowers. Higher interest rates can also slow down the property market by reducing demand.
- **Cash and fixed interest.** Fixed interest investments, like bonds, are also impacted because the prices of existing bonds that are paying a lower interest rate fall. This can cause negative returns for fixed interest investments over the short term.

Super members and retirees

If your super is invested across several classes – like Australian shares, global shares, property, fixed interest and cash – an interest rate rise could make your super balance go up and down, depending on how it's invested. This might be a good time to review your investment strategy to make sure your portfolio is well-diversified and appropriate for your stage of life.

For retirees, higher interest rates can be a good thing. As people near retirement, often change their investment strategy, so they have a higher allocation to defensive assets (such as fixed interest and cash) and a lower allocation to growth assets (such as shares and property). People closer to retirement tend to have a short-term investment time horizon and more money to invest. And having a lower allocation to high-risk assets means they're likely to experience less volatility overall.

People who have retired may also have more money invested in bank deposits and other low risk investments. Now that interest rates are higher retirees may be appreciative, they will receive higher interest on their bank deposits.

Borrowers

There has been plenty of speculation about the impact of interest rate rises on borrowers.

In January, average households were almost four years (45 months) ahead of principal and interest mortgage payments and 52 months ahead of interest-only mortgage repayments, according to figures from the Australian Prudential Regulation Authority (APRA).

Many Australians have also been saving throughout the pandemic. Data from the Australian Bureau of Statistics shows the household savings ratio has increased from 3.6% in the December quarter of 2019 to 13.6% in the December quarter of 2021. But it's important to note that with higher inflation, the real value of savings is reduced.

How will a rate rise impact my super?

We've seen negative returns in 2022 across most investment options. This is because share markets tend to react to changes in interest rates.

Investments in property can be impacted by rising interest rates because they tend to reduce the borrowing capacity for investors and borrowers. Higher interest rates can also slow down the property market by reducing demand.

Fixed interest rates, like bonds, may also be impacted by long-term interest rate rises. In this circumstance, the price of bonds will typically fall.

It's important to take a long-term view when looking at your super. Longer-term returns on CFS's investment options are positive. Any volatility is usually short-lived. History shows that people who stick with their strategy and remain invested are generally rewarded.

If you make regular contributions to your super, you're now investing in markets that are lower priced than they were a year ago.

Speak to a Financial Adviser

If you're concerned about the impact of rising rates on your super, or if your investment strategy isn't appropriate for your stage of life, the best thing to do is speak to your financial adviser. They can help you determine whether your super is still on track to reach your financial goals. Source: Colonial First State

2022 Election Washup

Following the election of the new Labor federal Government on 21 May, there are a number of tax and superannuation proposals that they have announced or existing measures they have committed to that may impact you and your business moving forward.

Some of course are subject to the passage of enabling legislation through the new Parliament.

Tax Cuts The incoming government has committed to the so-called Stage 3 tax cuts that the former government passed into legislation in 2018.

This will see the 37% tax bracket abolished, the top 45% bracket will start from $200,000 and the 32.5% rate will be cut to 30% for all incomes between $45,000 and $200,000. This is legislated to commence from 1 July 2024.

Multinational tax crackdown This will involve a four-pronged approach:

- Supporting the OECD's Two-Pillar Solution for a global 15% minimum tax and ensuring some of the profits of the largest multinationals - particularly digital firms are taxed where the products or services are sold.
- Limiting debt-related deductions by multinationals at 30% of profits, consistent with the OECD's recommended approach, while maintaining the arm's length test and the worldwide gearing ratio.
- Limiting the ability for multinationals to manipulate Australia's tax treaties when holding intellectual property in tax havens.
- Introducing transparency measures including reporting requirements on tax information, beneficial ownership, tax haven exposure and in relation to government tenders.

Downsizer scheme The incoming government has adopted the former government's proposed changes to the superannuation downsizer scheme. Age eligibility will be reduced to 55. Also, proceeds from the sale your house will be exempt from the pension asset test for two years instead of one.

For background, the downsizer scheme allows older Australians to downsize their family home and contribute up to $300,000 each into superannuation without counting towards the contribution caps.

SG increases to proceed The increase to the superannuation guarantee rate will go ahead as legislated. The rate of SG will be increased to 10.5% from 1 July 2022. It will then continue to increase by a further 0.5% each year until reaching 12% in 2025.

Home to Buy Scheme Eligible home buyers will need a minimum deposit of 2% with an equity contribution from the Federal government of up to a maximum of 40% of the purchase price of a new home and up to a maximum of 30% of the purchase price for an existing home. Help to buy will be open to buyers who do not own a property- not just first home buyers – but eligible buyers must earn less than $90,000 a year, or $120,000 if they are a couple. Participants must buy back the government's share in their house if they earn more than the above amounts. Source: Butler Settineri

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