INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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Oliver's Insights Outlook for 2022 – Recovery to continue, as we hopefully learn to live with COVID

Key Points

- 2021 was again dominated by the coronavirus pandemic, along with concern about higher inflation and monetary tightening but shares, unlisted assets and balanced growth super funds saw strong returns.
- Continuing solid economic, rising profits and still easy monetary conditions should result in good overall investment returns in 2022, but are likely to be more constrained and volatile than in 2021.
- The main things to keep an eye on are: coronavirus; inflation; US politics; China tensions; a possible Russian invasion of Ukraine; inflation; & the Australian election.

2022- from pandemic to endemic

First the bad news: uncertainty over covid remains high and a new variant (Omicron or another) could cause an upset; inflationary pressures will be high for a while; the Fed is expected to raise rates three times; the RBA is expected to start hiking in November taking the cash rate to 0.5% by year end as the conditions for higher rates (inflation sustained in the target range, full employment & 3% pace in wages) are likely to have been met; and political risk may have more impact.

In terms of politics: the mid-term elections in the US will likely see the Democrats lose control of Congress; French and Australian elections have potential to cause volatility (although Macron is ahead in France and the policy differences between the Government and ALP in Australia are minor compared to 2019); and tensions with China (over Taiwan), Russia (with a risk that it undertakes an invasion of southern Ukraine) and Iran (over its nuclear ambitions) are likely.

However, there is good reason for optimism about continuing economic recovery in the year ahead. First, while coronavirus remains a threat it appears to be having a far less negative impact on economics as vaccines and treatments get the upper hand. While uncertainty remains around Omicron and booster vaccines may need to be tweaked – it appears to be more transmissible but less deadly and if this is confirmed and if it comes to dominate other variants it could help hasten a progression to learning to live with coronavirus like the flu.

Second, excess savings of around $US2.3trn in the US and $250bn in Australia will provide an ongoing boost to spending.

Third, while monetary policy will start to tighten it will still be easy. Some easing in inflationary pressure as production increases and consumer demand swings back to services will provide central banks with breathing space and rate hikes in Europe and Japan are still years away. It's usually only when monetary policy becomes tight that it ends the economic cycle and the bull market in shares and that's fair way off.

Fourth, inventories are low and will need to be rebuilt which will provide a boost to production.

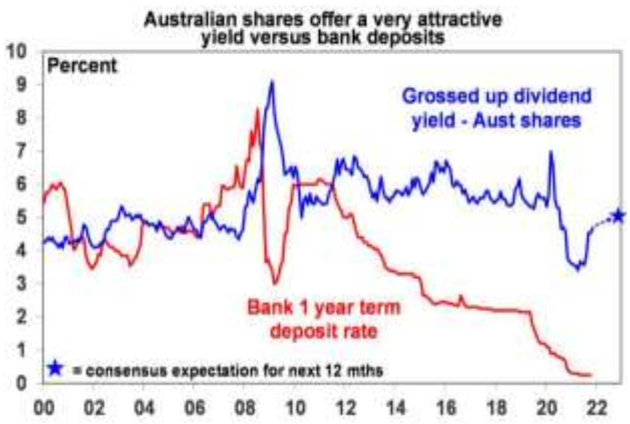
Fifth, positive wealth effects from the rise in share and home prices will help boost consumer spending.

Sixth, the Chinese Government looks to be becoming more focussed on boosting growth, so more policy easing is likely.

Finally, while business surveys are down from their highs, they remain strong consistent with good growth.

Implications for investors

- Global shares are expected to return around 8% but expect to see the long-awaited rotation away from growth & tech heavy US shares to more cyclical markets in Europe, Japan & emerging countries. Inflation, the start of Fed rake hikes, the US mid-term elections & China/Russia/Iran tensions are likely to result in a more volatile ride than 2021. Mid-term election years normally see below average returns in US shares and since 1950, have seen an average top-to-bottom drawdown of 17% usually followed by a stronger rebound.
- Australian shares are likely to outperform (at last) helped by stronger economic growth than in other developed counties, leverage to the global cyclical recovery and as investors continue to search for yield in the face of near zero deposit rates but a grossed – up dividend yield of around 5%. Expect the ASX 200 to end 2021 around 7,800.



Source: AMP Capital

- Still very low yields & capital loss from a rise in yields are likely to again result in negative returns from bonds.
- Unlisted commercial property may see some weakness in retail and office returns, but industrial is likely to be strong. Unlisted infrastructure is expected to see solid returns.
- Australian home price gains are likely to slow with prices falling later in the year as poor affordability, rising fixed rates, higher interest rate serviceability buffers, reduced home buyer incentives and rising listings impact.
- Cash and bank deposits are likely to provide very poor returns, given the ultra-low cash rate of just %.
- Although the $A could fall further in response to coronavirus and Fed tightening, a rising trend is likely over the next months helped by still strong commodity prices and a decline in the $US, probably taking it to around $US0.80

What to watch

The main things to keep an eye on in 2022 are as follows:

- Coronavirus – new variants could set back the recovery.
- Inflation – if it continues to rise and long-term inflation expectations rise, central banks will have to tighten aggressively putting pressure on asset valuations.
- US politics – political polarisation is likely to return to the fore in the US posing the risk of a deeper than normal mid-term correction in shares. However, US political gridlock is usually good for shares.
- China issues are likely to continue – with the main risks around its property sector and Taiwan.
- Russia – a Ukraine invasion could add to EU energy issues.
- The Australian election – but if the policy differences remain minor a change in government would have little impact.

Source: AMP Insights

Why life's big milestones are a reason to consider life insurance

Traditionally, life's big milestones were often summed up as getting married, buying a house, having a baby and later settling into retirement. And while all of these are still momentous and memorable life moments, today there are several other modern milestones to add to the list. These could be launching your own side hustle, investing in a property with a friend, choosing to have a child on your own, or deciding to leave the rat race and travel – just to name a few on the ever-growing list.

Why life's big milestones are a reason to consider life insurance: Big changes in your life are a time to take stock of the things you've achieved, your future goals and what's important to you. And more often than not, life's big milestones come with added financial responsibility. For this reason, it's important to consider how you would continue to meet these responsibilities if something were to happen to you.

While some things don't change the way to make that dream a reality is shifting for many. According to a 2017 Housing Affordability report by CoreLogic, more individuals are looking to purchase property with friends or family (17%) as a way to put buying a home within reach. While pooling funds with a friend could be a way to extend your purchasing power it comes with its own unique considerations, in particular, having a plan for how you will manage and share the financial responsibility, which extends to how you would cover both your shares of the mortgage if something were to happen to either of you.

Life insurance is a way to help protect the people that are important to you, helping ensure that neither your friend or your family would be left to cover the cost of your financial commitment. In the event of your death or if you are diagnosed with a terminal illness, life insurance can provide your loved ones with a lump sum payment that can give financial security and assist with ongoing expenses, funeral costs or any debts you may leave behind. This could mean that if you've committed to a mortgage with a friend or launched that side hustle, life insurance can give you peace of mind that your family won't be left to tackle any debts you've taken on.

Life Insurance – Provides for your loved ones in the event of your death, or if you are diagnosed with a terminal illness.

Why life's big milestones are a reason to consider income protection: While big life achievements are generally a result of considerable planning and preparation, you can't always predict what will happen in life. This means that if you're among the nearly one-third of Australians, that a GoDaddy survey revealed are considering launching their own venture as their next big milestone, it can be helpful to have protections in place that can help prevent your goals from being railroaded in the event of an illness or accident. And with 35% of individuals surveyed indicating that increasing their earning power was the motivation to launch a business, it may be worthwhile considering how you would maintain this financial security if something were to happen to you.

Income Protection can give you an alternative source of income if you're temporarily unable to work due to an illness or injury that's left you totally or partially disabled. Whether you've launched a solo side hustle or are working with a small team, it can help you stay on top of personal living expenses, medical costs and business expenses, leaving you to focus on recovering.

Income Protection - Provides you an alternative source of income if you are temporarily unable to work due to an illness or injury that has left you Totally Disabled or Partially Disabled. Source: TAL

What should you consider when choosing a Life Insurance beneficiary?

When taking out a life insurance policy, it's important to consider who should be your life insurance beneficiary and the role they play.

What is Life Insurance beneficiary?

A life insurance beneficiary is the person who will receive your life insurance payment should you pass away.

When choosing yours, it's important to think about who you would want to financially take care of you, should something happen to you. For most people, this is their spouse or children.

Nominating a beneficiary may seem straightforward, but there are a number of things to be aware of and plan for.

What to do if you don't have a beneficiary

If you hold the policy in your name, your benefit will go to your estate and be managed as part of your will.

If you have outstanding debts when you pass away, your benefit may be used to pay them before its is distributed to the people named in your will – this means your loved ones could miss out on the payment.

Who can be a beneficiary?

Naming a beneficiary ensures your benefit is not paid to your estate and goes directly to the person you nominate.

It's important to consider that if your beneficiary has any debts the proceeds might be used to pay them off. As well as this, keep in mind that if you nominate a minor such as your children, they will only receive the full amount once they turn 18.

Can you have multiple life insurance beneficiaries?

You can easily name multiple people as beneficiaries to your policy – you can check with your insurer as to how many beneficiaries can be named on your policy.

If you decide to choose several people, it's useful to designate a percentage of the payment to each person, as opposed to specific amount (as this may change).

You should also consider having a contingency beneficiary, should a primary beneficiary pass away before or around the time of your passing (for example, in an accident).

Who's eligible to be a life insurance beneficiary?

You can nominate anyone 18 years of above as your life insurance beneficiary. This can be:

- a spouse, which includes a person (whether of the same or different sex) with whom you're in a relationship with
- your child, including adopted child or step – child
- ex – nuptial child or your spouse's child who is financially dependent on you
- a person with whom you have an inter-dependency relationship; either living together, have a close personal relationship or if one or each of you provides the other with financial or domestic support.

What's the difference between a binding and non-binding beneficiary? If you have life insurance within your super, you'll be asked to nominate a beneficiary - a family member or loved one who will receive the life insurance money if you pass away. You have the choice to make a binding or a non-binding nomination. A **binding nomination** is a legally binding statement which your insurer will use to know who your money should go go when you pass away. A **non-binding** nomination is not legally binding. Your insurer will take your non-binding into consideration when making the life insurance payment on your behalf, in addition to other aspects of the law. To ensure your family is looked after, it's important to keep your beneficiary details up to date within your super account. Source: TAL

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

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