May 2022

In this edition to keep you informed and inspired…

- Monthly Market Update *April 2022*
- Understanding the recent market volatility

We look forward to hearing from you if you have any questions.

Heading Forward Financial Planning

Shop 5, 45 Sandison Terrace
Glenelg North SA 5045

P 08 8294 3515
M 0478 541 254
E admin@headingforward.com.au
W www.headingforward.com.au
Facebook heading forward financial planning
Linkedin https://www.linkedin.com/company/heading-forward-financialplanning-pty-ltd

*Heading Forward Financial Planning are authorised representatives of InvestPlan. This document contains general advice. It does not take account your objectives, financial situation or needs. Information in this document is based on current regulatory requirements and laws, which may be subject to change. While care has been taken in the preparation of this document, no liability is accepted by InvestPlan, its related entities, agents and employees for any loss arising from reliance on this document. If you do not wish to receive direct marketing material from your adviser, please notify your adviser by email, phone or in writing.

MONTHLY MARKET UPDATE

April 2022

How the different asset classes have fared:

(As at 30 April 2022)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash[1]	1.79	0.99	0.40	0.02	0.00	0.01	-0.01	-0.02
Australian Bonds[2]	3.12	1.40	-0.91	-7.47	-7.28	-5.27	-6.33	-1.49
International Bonds[3]	3.47	1.24	-0.14	-7.00	-7.72	-7.45	-6.18	-2.88
Australian Shares[4]	10.02	9.47	10.24	10.22	0.79	3.14	7.87	-0.81
Int. Shares Unhedged[5]	14.57	11.45	10.12	4.70	-11.35	-6.52	-9.31	-3.23
Int. Shares Hedged[6]	12.04	9.69	9.38	-1.37	-12.09	-10.02	-7.42	-7.50
Emerging Markets Unhedged[7]	6.46	4.84	1.36	-11.80	-9.77	-9.42	-10.69	-0.26
Listed Infrastructure Unhedged[8]	12.80	8.42	6.07	15.98	2.31	9.50	2.66	1.95
Australian Listed Property[9]	12.04	8.00	7.02	16.39	-6.08	2.76	3.72	0.69
Int. Listed Property Unhedged[10]	10.36	6.38	4.46	13.92	-6.42	2.06	-3.15	0.40

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD

Source: Centrepoint Research Team, Morningstar Direct

International Equities

Volatility re-entered international equities over the month of April. This resulted in a 7.5% drop in the hedged index and a 3.23% fall in the unhedged index. A sharp US dollar rally caused divergence in these two indexes as the Dollar was once again seen as the safe haven currency. US based stocks remain the most impacted globally as the NASDAQ fell a whopping 13% with the S&P 500 following closely behind with a 9.6% fall. Consumer discretionary fell the most, followed by communication services and technology. Consumer discretionary has been severely impacted by inflation and the reshuffling of budget priorities by consumers as 'needs' are prioritised over 'wants'. This is combined with the impacts of rising interest rates, especially on the technology sector. At the end of the month, GDP data came out of the US at a negative 1.4% QoQ (quarter on quarter) number, suggesting a significant slowing in the US economy may already be here.

Australian Equities

Australian shares took back some gains in the month of April as the index declined 0.81%. The Australian stock market remains resilient thus far in the face of steepening yield curves and inflation heating up. Australia finally got the CPI number that was expected to arrive sooner or later. Australian inflation hit a 21-year high of 5.1% in the first quarter of 2022 as Australia joined the globally synchronised rise in inflation. Australia remains well-positioned to deal with a rise in inflation from an equity market perspective relative to other countries due to the index comprising of high weightings to materials, energy and financials.

Domestic and International Fixed Income

Domestic and international bond indexes continued their decline, falling 1.49% and 2.88% respectively. This continues an already historic decline in the bond indexes. These indexes are down 5.27% and 7.45% calendar YTD (year to date) currently. This scenario is something that bond holders are not accustomed to as capital preservation and significant gains has been achieved for decades via holding bonds. Significant inflation has caused interest rates to adjust upwards quickly. The question is how high can these rates really go without causing too much pain in the economy and markets?

Australian Dollar

The Australian Dollar (AUD) fell 5.7% in April on the back of a strong United States Dollar (USD). Significant volatility in international foreign exchange markets resulted in a move into the safe-haven USD and caused devaluations in nearly all currencies priced in USD, suggesting the strength in the currency is the cause for the move as opposed to the weakness in the other currencies priced in USD.

Disclaimer

The information provided in this communication has been issued by Centrepoint Alliance Ltd and Ventura Investment Management Limited (AFSL 253045).

The information provided is general advice only has not taken into account your financial circumstances, needs or objectives. This publication should be viewed as an additional resource, not as your sole source of information. Where you are considering the acquisition, or possible acquisition, of a particular financial product, you should obtain a Product Disclosure for the relevant product before you make any decision to invest. Past performance does not necessarily indicate a financial product's future performance. It is imperative that you seek advice from a registered professional financial adviser before making any investment decisions.

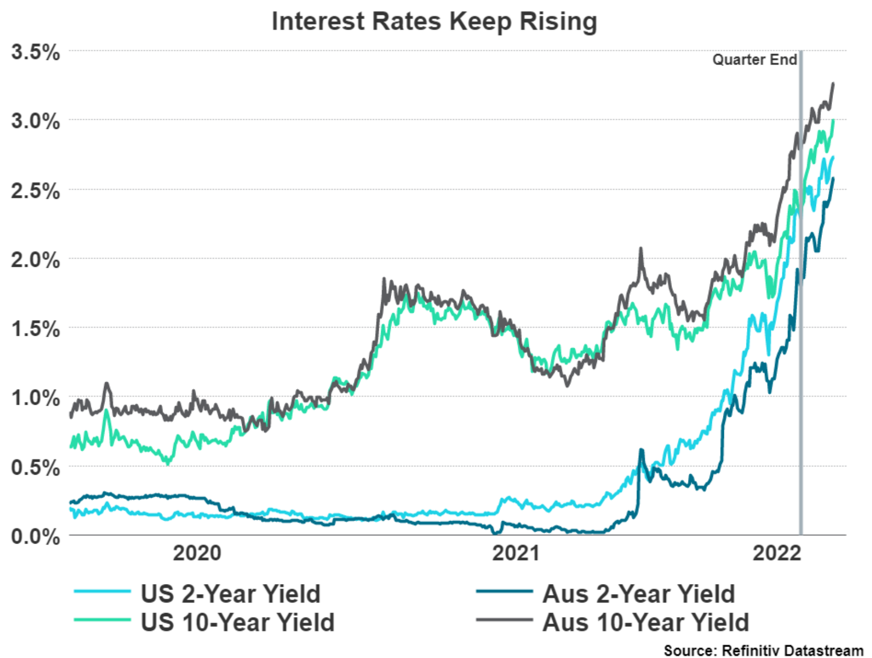
Whilst all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither Centrepoint Alliance Ltd nor its related entities, guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution.

UNDERSTANDING THE RECENT MARKET VOLATILITY

MAY 2022

1. INTEREST RATE AND INFLATION EXPECTATIONS KEEP SHIFTING UPWARDS

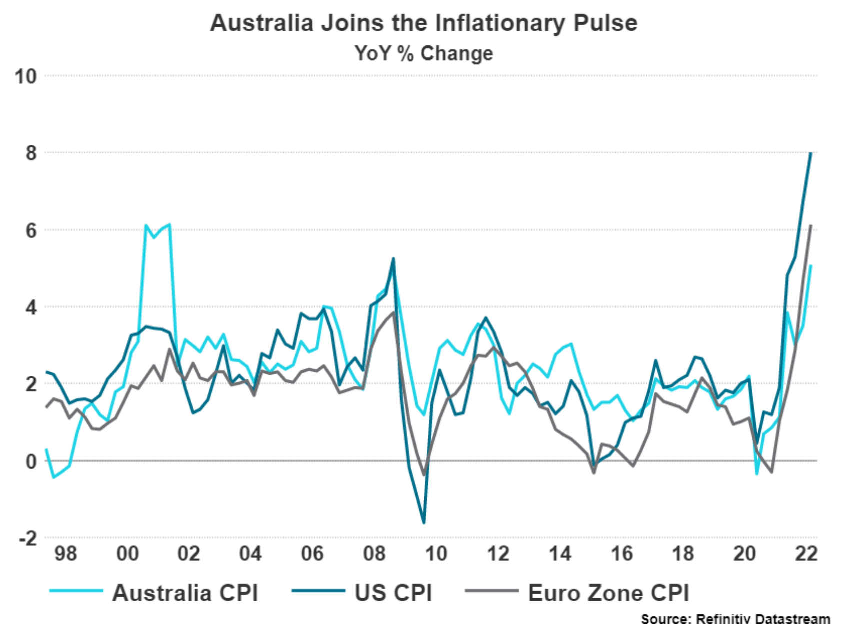
Since our last quarterly update, interest rates have continued to move higher on both the long and the short end. With inflation finally showing its head in the last Australian CPI print, Australian bonds (as well as international bonds) have had yields increase significantly.



The RBA (Reserve Bank of Australia) has changed their view that interest rates needed to remain extremely accommodative until 2024 as the Australian economy has shown strength via the unemployment and GDP numbers. This is combined with the inflation numbers in the Australian economy not only increasing to a 21-year high but increasing across broad areas of the CPI basket and above expectations of the RBA.

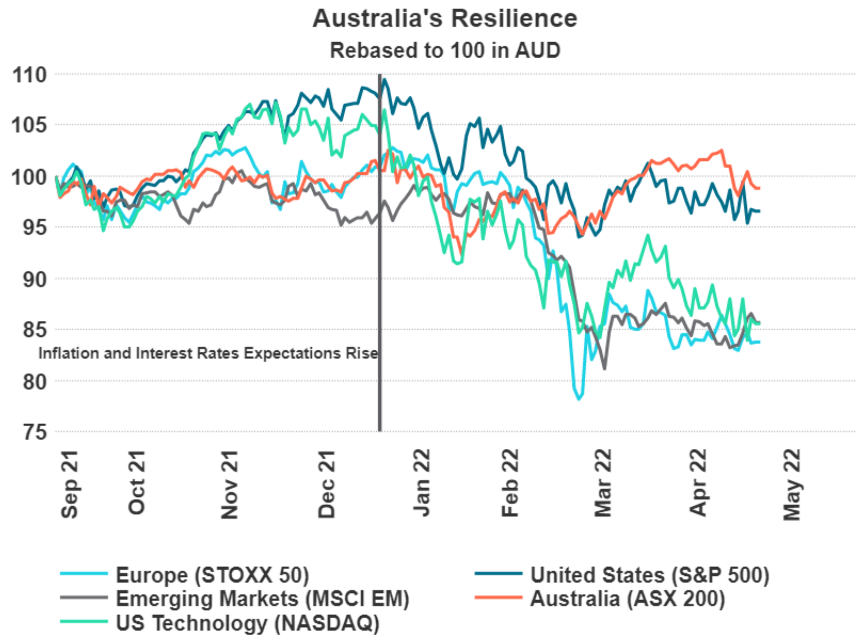
This has resulted in the RBA, for the first time in 11 years increasing the Cash Rate by 0.25%. It now sits at 0.35%, up from 0.1%. The RBA has also indicated that they will start decreasing their balance sheet simultaneously with most of this tightening occurring in 2023 and 2024.

The RBA has made it clear that they expect higher inflation to continue. This source of this inflation is from both supply shocks stemming from the zero-covid policy enacted in China and the war in Ukraine, and also increases in domestic demand putting pressure on available capacity. Their medium-term expectations are that inflation will return to the upper end of their inflation range (3%) by 2024.



2. CUMULATION OF NEGATIVE FACTORS PRESSURE EQUITIES

The repricing in of inflation and interest rate expectations have put pressure on equity markets, most namely the NASDAQ. Markets have been accustomed to accommodative monetary policy for many years and are now having to deal with a very different macroeconomic environment that puts stress on the most speculative parts of the market.

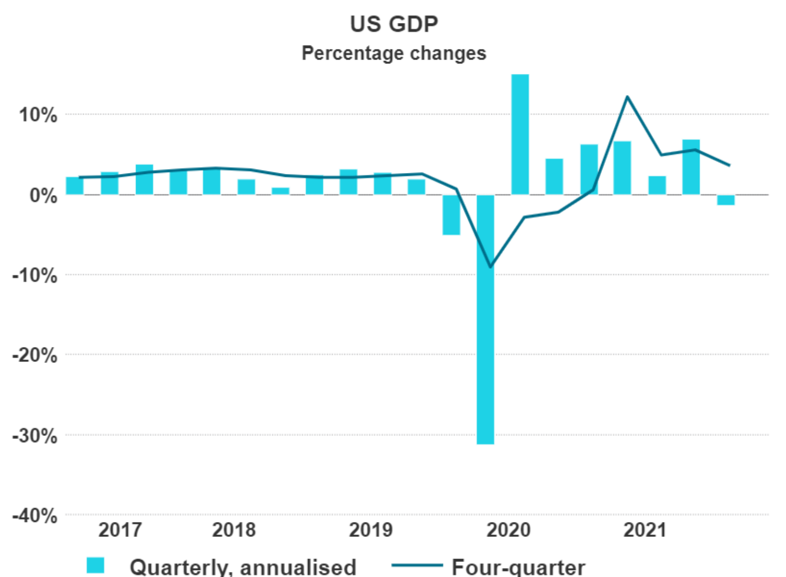


Australian markets have held up well during the volatility due to the number of materials, energy, and financials companies in the index. These companies tend to do well during inflationary periods.

The war in Ukraine has also impacted the European markets primarily but has had economic supply impacts across most of the world. This situation is not abating and remains dynamic in how the world will continue to be impacted. Food supply issues have been brought up as a rising concern due to the fertiliser supply from the Ukraine/Russia region being heavily impeded. The casual discussion by Russia of their willingness to use nuclear weapons if they deem necessary is an escalation not seen since the Cold War.

3. THE COMING SLOWDOWN AND WHAT THIS MEANS FOR EQUITIES AND BONDS

In the last Masterclass, Centrepoint Research outlined the first warning signs of a coming economic slowdown. Since then, the United States has reported an unexpected 1.4% drop in quarterly GDP growth verses an expected 1.1% gain. Whilst one quarter does not indicate a trend, the unexpectedness of the number is the primary concern. Research expects this slowdown start showing in Europe as the war in Ukraine continues to drag on the region.



If a slowdown is coming, what does this mean? It will mean that central banks will have to rethink how aggressive they can be with interest rates. A lot of interest rate increases are now priced into markets, and this is likely to be a positive for both equities and bonds if these expectations of increases must be wound back to some degree. Remember, interest rate increases are ultimately not positive for equities or bonds. A return to a low growth environment (which has been the case for the last 10+ years) is likely to occur in the medium term. This

slowdown may not take place until 2023/24 as interest rate increases take time to impact economies. Value stocks have performed well over the last few months, these companies tend to be in the materials and energy sectors. An economic slowdown would see these companies start to struggle as they are closely tied to economic growth.

The short term remains highly unpredictable and diversification across asset classes, regions and styles remains the best strategy. Ensuring that there are strategies with defensive capabilities in each component of the portfolio is recommended as inflation will remain elevated and interest rates should continue to move higher. Inflation is likely to remain elevated due to the continuing supply pressures seen around the world and therefore allocations to real assets is still recommended.

Disclaimer

The information provided in this communication has been issued by Centrepoint Alliance Ltd and Ventura Investment Management Limited (AFSL 253045).

The information provided is general advice only has not taken into account your financial circumstances, needs or objectives. This publication should be viewed as an additional resource, not as your sole source of information. Where you are considering the acquisition, or possible acquisition, of a particular financial product, you should obtain a Product Disclosure for the relevant product before you make any decision to invest. Past performance does not necessarily indicate a financial product's future performance. It is imperative that you seek advice from a registered professional financial adviser before making any investment decisions.

© Copyright 2018 - 2019 Centrepoint Alliance Ltd. All rights reserved. Whilst all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither Centrepoint Alliance Ltd nor its related entities, guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution.

For more information, refer to the Financial Services Guide (FSG) for Ventura Investment Management Limited (available at https://venturafm.com.au/media/1729/ventura-fsg-update-nov.pdf).