June 2024

In this edition to keep you informed and inspired…

- Monthly Market Update *May 2024*
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  - Living your best life in retirement
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  - Markets love certainty

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

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MONTHLY MARKET UPDATE

May 2024

How the different asset classes have fared:

(As of 31 May 2024)

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]	1.85	1.6	2.32	4.32	1.82	2.2	1.1	0.38
Australian Bonds[2]	1.99	-0.76	-2.29	0.64	-0.71	1.96	-0.61	0.31
International Bonds[3]		-1.19	-3.75	1.06	-1.76	1.4	-0.31	0.83
Australian Shares[4]	8.09	8.21	6.77	13.89	3.5	11.2	1.23	0.87
Int. Shares Unhedged[5]	13.09	13.88	12.16	21.8	12.6	14.66	1.74	2.03
Int. Shares Hedged[6]	10.18	11.86	7.06	24.15	10.85	15.21	4.07	4.06
Emerging Markets Unhedged[7]	5.63	3.74	-2.04	8.35	5.47	6.53	1.2	-1.88
Listed Infrastructure Unhedged[8]	8.92	4.86	7.55	5.38	6.7	7.33	4.76	3.29
Australian Listed Property[9]	9.46	5.44	7.55	23.39	9.33	21.8	3.12	1.91
Int. Listed Property Unhedged[10]	5.98	0.82	1.4	3.08	-1.87	4.36	-2.2	1.5
Gold Bullion Unhedged[11]	6.45	12.57	7.38	19.6	13.6	14.97	15.25	1.21
Oil Unhedged[12]	-10.99	0.39	17.7	25.35	12.13	5.86	1.74	-5.08

1 S&P/ASX Bank Bill TR AUD, 2 Vanguard Australian Fixed Interest Index, 3 Vanguard Global Aggregate Bd Hdg ETF, 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, 11 LMBA Gold Price AM USD, 12 S&P GSCI Crude Oil TR

Source: Centrepoint Research Team, Morningstar Direct

Key Themes:

- **Equity markets continue upwards despite the fall in April**: Both international and Australian equity markets posted positive performance over the month following promising data reports.
- **Fixed Income continues to rise**: Both international and Australian bond prices continued to rise, and yields fall following positive data in the US.
- **Australian Dollar marginally appreciated**: The Australian dollar ended the month higher following strong performance in metals and weakening US dollar.
- **Commodities end mixed**: Oil prices fell due to supply/demand concerns. Gold rallies, breaking the $2400 level once more.

International Equities:

Following underperformance in April, equity markets rebounded in May and continued their long-term trend upwards, with many markets reaching new highs. Over the month the S&P 500 gained 4.8% whilst the tech heavy NASDAQ gained 6.88%, the Dow Jones lagged other US indices but still managed to return just over 2%. The Technology sector was the best performing sector in May, with the MSCI World IT index climbing 9.76%. Impressive performance was led by NVIDIA once again, returning over 30% for the month. However, not all US equities were able to achieve the same performance with Salesforce missing earnings and subsequently falling over 12%. Amongst the worst performing sectors were Consumer Discretionary and Healthcare however both sectors were able to finish the month in positive territory. Energy also lagged the top performers largely due to a

5.08% decrease in oil prices over the month following higher-for-longer interest rates and signs of slowing demand from China.

Elsewhere, Japan also continued its upward trend and gained over 1% following corporate government reforms which should improve transparency and subsequently encourage foreign direct investment. The UK also finished positive despite pulling back in the second half of the month given the uncertainty surrounding the upcoming election which was announced during the month.

Overall, international equities rose by 2.03% whilst the hedged version rose by 4.06%, highlighting the relative strength of the Australian Dollar against the US Dollar in May.

Australian Equities

In May, Australian Equities were once again swayed by economic data reports which offer insights to investors attempting to predict the timing of the RBA's rate cuts. Following a turbulent month, Australian equity markets ended modestly higher, up by 0.87%.

Over the first half of May equities performed well off the back of data suggesting that the economy may be cooling. This included a higher-than-expected unemployment rate which resulted in the S&P/ASX 200 rallying over 4%. The rally was however short-lived following the CPI coming in at 3.6%, which was 0.2% higher than expected. This data flipped sentiment in a matter of days from investors questioning when the RBA is likely to cut rates, to whether the RBA will need to raise rates once again. Subsequently the S&P/ASX 200 gave up much of the months gains but still managed to finish the month in the green.

In line with the global trend, Technology emerged as the best performing sector with a return of 5.2% in May. It was closely followed by the Utilities and Real Estate sectors, which also showed strong performance, yielding returns of 3.5% and 2%, respectively.

Domestic and International Fixed Income

Australian bonds settled 0.31% higher in May. Bonds rallied in the first half of the month following economic data suggesting that the recent RBA rate hikes may have been effective. This drove yields lower and bond prices higher. However, the market gave most of this back in the second half of the month with a higher-than-expected inflation reading ending the month, weighing on investor sentiment. The persistence of inflation in Australia has even led some leading economists to question whether the RBA may need to hike rates once again to regain control of inflation. Despite the volatility, domestic fixed income finished marginally positive for the month.

Globally, bond prices rose by 0.83% for the month of May. US data reports were the main driver of performance in international bond markets, in particular data suggesting that the US labour market is starting to soften whilst inflation continues its downward trajectory, this provided a tailwind for markets. As a result, US 10-Year Treasury yields fell from 4.64% to 4.56% over the month. Elsewhere, inflation in the UK fell to the lowest level since Jully 2021 and subsequently drove UK Gilts yields lower.

Australian Dollar

The Australian Dollar rose in May, gaining 2.47% relative to the US Dollar with 1 AUD growing from 0.649 USD to 0.665 USD. This was driven by a rally in commodities in the first half of the month, including copper and gold as well as higher than expected inflation readings in the later part of the month. This contrasted with a cooler US inflation reading which caused the US dollar to weaken against many of its counterparts, further boosting the Australian dollar performance.

Commodities – Gold and Oil

Oil fell in May by 5.08% off the back of higher-for-longer interest rates, bearish sentiment in broader financial markets and signs of slowing demand from China.

Gold prices on the other hand have reached new highs, breaking $2400 per ounce once more despite high bond yields and a persistently strong US dollar. Much of this outperformance can be attributed to rising geopolitical tensions over the month providing a tailwind to safe heaven assets such as gold, resulting in a gain of 1.21% for the month.

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Prepare for Life

Winter 2024

IN THIS ISSUE

Living your best life in retirement
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Living your best life IN RETIREMENT

If you're nearing retirement age, it's likely you're wondering if you will have enough saved to give up work and take it easy, particularly as cost-of-living increases hit some of the basic expenses such as energy, insurance, food and health costs.

Fortunately, someone has already worked out what you might need.

The Association of Superannuation Funds in Australia (ASFA) updates its Retirement Standard each quarter, which provides a breakdown of expenses for two types of lifestyles: modest and comfortable.[i]

Based on our average life expectancy – for women it is just over 85 years and men 81 – if you are about to retire at say age 67, you will have between 14 and 18 years in retirement, on average and depending on your gender.[ii]

ASFA finds that a couple needs $47,387 a year to live a modest lifestyle and $72,663 to live a comfortable lifestyle. That's equal to $902 a week and $1,387 respectively.

The figure is of course lower for a single person – $32,915 for a modest lifestyle ($628 a week) or $51,630 ($986) for a comfortable lifestyle.[iii]

What does that add up to? ASFA estimates that, for a modest lifestyle, a single person or a couple would need savings of $100,000 at retirement age, while for a modest lifestyle, a couple would need at least $690,000.[iv]

A modest lifestyle means being able to afford everyday expenses such as basic health insurance, communication, clothing and household goods but not going overboard.

The difference between a modest and a comfortable lifestyle can be significant. For example, there is no room in a modest budget to update a kitchen or a bathroom; similarly overseas holidays are not an option.

The rule of thumb for a comfortable retirement is an estimated 70 per cent of your current annual income.[v] (The reason you need less is that you no longer need to commute to work and you don't need to buy work clothes.)

Building your nest egg

So how can you build up a sufficient nest egg to provide for a good life in retirement? There are three main sources: superannuation, pension and investments/savings.

Superannuation has the key advantage that the money in your pension is tax free in retirement.

Your superannuation pension can be augmented with the government's Aged Pension either from the moment you retire or later when your original nest egg diminishes.

Your income and assets will be taken into account if you apply for the Age Pension but even if you receive a pension from your super fund, you may still be eligible for a part Age Pension. You may also be eligible for rent assistance and a Health Care Card, which provides concessions on medicines.[vi]

Money keeps growing

It's also important to remember that the amount you accumulate up to retirement will still be generating an income, whether its rentals from investment properties or merely the growth in the value of your share investments and the accumulation of money from any dividends paid.

You can also continue to add to your superannuation by, for instance, selling your family home and downsizing, as long as you have lived in the home for more than 10 years.

If you are single, $300,000 can go into your super when you downsize and $600,000 if you are a couple. This figure is independent of any other superannuation caps.[vii]

Planning for a good life in retirement often requires just that – planning. If you would like to discuss how retirement will work for you, then give us a call.

i Retirement Standard - Association of Superannuation Funds of Australia
ii Life expectancy, 2020 - 2022 | Australian Bureau of Statistics (abs.gov.au)
iii https://www.superannuation.asn.au/media-release/retiree-budgets-continue-to-face-significant-cost-pressures/#:~:text=The%20ASFA%20Retirement%20Standard%20December,to%20around%203.5%20per%20cent.
iv https://www.superannuation.asn.au/resources/retirement-standard/
v https://www.gesb.wa.gov.au/members/retirement/how-retirement-works/cost-of-living-in-retirement
vi Assets test for Age Pension - Age Pension - Services Australia
vii Downsizer super contributions | Australian Taxation Office (ato.gov.au)

Caught IN THE middle: HELP FOR THE SANDWICH GENERATION

If you are feeling a bit like the meat in the sandwich you are not alone. The 'sandwich generation' is a growing social phenomenon that impacts people from all walks of life, describing those at a stage of their lives where they are caring for their offspring as well as their elderly parents.

The phenomenon is gathering momentum as we are tending to live longer and have kids later. It even encompasses royalty – Prince William has been dealing with a sick father while juggling school aged kids (as well as a partner dealing with serious health issues).

A growing phenomenon

The number of people forming part of the sandwich generation has grown since the term was first coined in the 1980's. It is estimated that as many as 5% of Australians are currently juggling caring responsibilities which has implications for family dynamics, incomes, retirement and even the economy.[i]

Like many other countries, the number of older Australians is growing both in number and as a percentage of the population. By 2026, more than 22 percent of Australians will be aged over 65 - up from 16 percent in 2020.[ii] It is also becoming more common for aging parents to rely on their adult children for assistance when living independently becomes challenging.

The other piece of bread in the sandwich is that as a society we are caring for kids later in life. The median age of all women giving birth increased by three years over two decades.[iii]

And with young people staying in the family home well into their twenties, we are certainly supporting our children for longer. Even after the kids leave the nest, it's also common for parents to become involved in looking after grandchildren.

Taking its toll on carers

While we want to support our loved ones, when that support is required constantly and intensively for both parts of the family, it can mean that something has to give and that 'something' is often the carer's well-being.

Even if you are not part of the sandwich generation but being squeezed at either end – caring for kids or parents, acting as a primary care-giver often requires you to provide physical, emotional, and financial support. It's common to feel it take a toll on your own emotional and physical health, and sometimes your finances as you sacrifice some of your savings or paid work to help your loved ones.

Support for caregivers

It can be difficult to acknowledge you need assistance but there are a number of ways you can access help.

Deciding what to get help with

It can feel like there is not enough hours in the day and that's overwhelming. Try to think about what you really need to do and where your time is best spent and consider if you can get assistance with tasks or duties you don't have to do. This may mean outsourcing things like buying a healthy meal instead of cooking or getting a hand with gardening or lawn mowing.

Think about what others could assist with to lighten and share your load.

Accessing support

There are also support networks out there that exist to take off some of the pressure. Reach out to local support networks via Carers Australia for help identifying mainstream and community supports.

You or your loved ones may also be entitled to government support, under the *National Disability Insurance Scheme* (NDIS) or *My Aged Care*. These programs provide funding and resources to help pay for essential care; from domestic assistance with cleaning and cooking, to home modifications, to 24-hour care for those who require more support.

The importance of self-care

It's vital to take some time out for yourself and make your own wellbeing a priority. Don't feel that it's selfish to take care of your own needs as that's an essential part of being a carer. Resources like respite care and getting support when needed is an important gateway to self-care.

Managing your finances

Caregiving can put financial pressure on the whole household and has the potential to impact retirement savings. The assistance of a trusted professional can help, and we are here if you need a hand.

Raising kids as well as supporting parents to live their best lives as they age is becoming more common and can be a challenging time of life. While the act of caring is the ultimate act of kindness – the most important thing to remember is to be kind to yourself.

i https://info.careforfamily.com.au/blog/sandwich-generation

ii https://www.sydney.edu.au/news-opinion/news/2023/10/09/confronting-ageing-the-talk-australia-has-to-have.html

iii https://www.abs.gov.au/ausstats/abs@.nsf/2f762f95845417aeca25706c00834efa/b130815d4b2de356ca2570ec000c1c60!OpenDocument

Markets love certainty, but what happens next?

Financial markets can be like finely tuned racehorses, poised to gallop ahead under ideal conditions but often highly reactive to unexpected events.

It's often said that the markets love certainty. Investors feel more confident when economic conditions are stable and predictable.

But certainty in financial conditions is never a sure thing. Uncertainty is always just around the corner with the possibility of changes in interest rates, new laws or regulations, upheavals in overseas markets, a breakdown in Australia's relationship with a major trading partner, and wars and political instability.

As a result, stability and predictability are most often fleeting with peaks and troughs in prices inevitable.

Look at the past few years. Between 2020 and 2022, we were dealing with the side effects of COVID-19 on the economy and markets. Since 2022, interest rate rises, increases in the cost of living and conflicts in Ukraine and the Middle East have caused further market volatility.

This year, global political stability may be affecting markets with almost 50 per cent of the world's population due to head to the polls to choose new governments including the United States, India, Russia, South Korea and the European Union.[i] Interest rate movements in Australia and overseas are another focus.

In this dynamic environment, investors find themselves grappling with crucial decisions about how to safeguard and optimise their portfolios.

It could be useful to know that making hasty decisions, reacting quickly to the latest event, may not be the best move.

Consider the performance of various assets classes over 24 years. If you had invested $10,000 in a basket of Australian shares on 1 February 2000, for example, your portfolio would have been worth $67,717 at 31 January 2024, delivering a return of 8.3 per cent each year.[ii] The same amount invested in international shares over the period would have provided a 5.4 per cent annual return with your portfolio then at $35,373.

US investment advisers Dimensional have calculated the risk to a portfolio of being out of the market for even a short period.

An investment of US$1,000 in 1998 of stocks that make up the Russell 3000 Index, a broad US stock benchmark in 1998, would have turned into US$6,356 for the 25 years to 31 December 2022. But if you had decided to sell up during the best week, before later reinvesting, the value would have dropped to US$5,304. Miss the three best months, which ended June 22, 2020, and the total return dwindles to US$4,480.[iii]

In other words, reacting to events by quickly selling up can have an unwelcome effect on your portfolio.

Trying to time the market by identifying the best and worst days to buy and sell is almost impossible. Investing for the long-term in a well-diversified portfolio can better suit some investors.

Historically, long-term investors who have weathered short-term storms have been rewarded.[iv] Markets have shown they tend to recover over time, and a diversified portfolio allows investors to capture the upside when conditions improve.

And there's a bonus. The compounding effect of returns over an extended period can significantly enhance the overall performance of a portfolio if they are reinvested.

Why diversify?

Different asset classes – such as shares, bonds and cash – perform differently at different times.

By diversifying investments across different asset classes, regions and companies, can work towards reducing the effect of a poorly performing asset on the overall portfolio, providing a buffer against volatility and lowering risk.

Appreciating the lessons learned from the past while also understanding that past performance may not predict future performance, is a helpful way of navigating the uncertainties of the global markets.

We can help you stay committed to a robust investment strategy, design a portfolio that meets your objectives and help navigate the complexities of the markets. Reach out to us to help you invest confidently.

i The Ultimate Election Year: All the Elections Around the World in 2024 - Elections Around the World in 2024 | TIME
ii https://insights.vanguard.com.au/VolatilityIndexChart/ui/retail.html
iii What Happens When You Fail at Market Timing | Dimensional
iv Vanguard Index Volatility Charts

We hope you enjoyed our latest edition of Prepare for Life.

Please contact our office if you would like to discuss anything in this edition.

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