



HEADING FORWARD
FINANCIAL PLANNING



May 2023

In this edition to keep you informed and inspired...

- Monthly Market Update *April 2023*
- Federal Budget Summary *May 2023*

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

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MONTHLY MARKET UPDATE

April 2023

How the different asset classes have fared:

(As at 30 April 2023)

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	1.68	1.11	0.81	2.37	1.10	1.60	0.83	0.30
Australian Bonds ²	2.64	1.38	-2.28	2.06	4.80	4.23	1.99	0.19
International Bonds ³	2.35	0.43	-3.17	-2.28	2.80	3.86	0.69	0.41
Australian Shares ⁴	8.11	8.43	14.42	1.51	5.44	8.52	-0.94	1.76
Int. Shares Unhedged ⁵	14.01	11.20	12.76	11.25	12.63	8.61	9.39	3.16
Int. Shares Hedged ⁶	10.02	7.65	12.18	1.68	8.92	8.86	2.53	1.68
Emerging Markets Unhedged ⁷	6.06	1.10	3.53	0.08	5.39	12.34	1.31	0.11
Listed Infrastructure Unhedged ⁸	11.13	8.67	8.08	5.19	6.55	6.07	6.79	3.91
Australian Listed Property ⁹	7.65	5.37	11.27	-10.20	5.50	7.11	-2.39	5.16
Int. Listed Property Unhedged ¹⁰	7.19	4.52	6.19	-8.62	5.58	2.18	0.38	2.85
Gold Bullion Unhedged ¹¹	3.02	8.54	4.92	3.51	9.40	20.98	4.07	0.20
Oil Unhedged ¹²	-8.69	-2.25	55.89	-15.87	-3.18	-8.56	-1.64	2.19

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, 11 LMBA Gold Price AM USD, 12 Bloomberg Sub WTI Crude Oil TR USD

Source: Centrepoint Research Team, Morningstar Direct

International Equities

International shares once again had a positive month with unhedged and hedged equities returning 3.16% and 1.68%, respectively. United States equities, the largest region within the international shares index, have only 32% of stocks within the S&P 500 beating the index year-to-date. That means that a small number of large-weighted companies are driving the returns within the overall index and most stocks in the index are not actually performing well, despite the overall index's positive performance. This can be a cautionary sign, however the mega-cap growth and technology stocks in the US primarily beat earnings and, in the past, have been safe-haven-like investments for slowing economies due to their lower reliance on economic growth.

Australian Equities

Australian shares also had a positive month in April with shares returning 1.76%. The only negative sector was materials which suffered from a broad sector sell-off during the middle of the month. This was due to the iron ore price selling off 17% off the back of economic slowdown concerns. The concerns over an economic slowdown forced interest rates materially lower. This helped real estate and technology to a strong gain of 5.1% and 4.8% on the month, respectively, leading the market.

Domestic and International Fixed Income

Australian bonds gained 0.19% on the month, whilst international bonds rose 0.41%. Interest rates rose sharply to begin the month of April, however reignited concerns within the US banking sector pushed global interest rates lower and allowed bonds both domestically and internationally to move back into the positive.

Australian Dollar

The Australian Dollar (AUD) fell 1.3% in April. This was due to the Reserve Bank of Australia (RBA) deciding not to raise interest rates in the meeting mid-month. Interest rates not increasing combined with a weakening iron ore price, caused the AUD to be less attractive for currency holders.

Commodities – Gold and Oil

Gold Bullion rose 0.2% on the month. Whilst still positive, the momentum of the yellow metal slowed slightly. Uncertainty around economic outlook and interest rates continues to create a gyrating market as market participants try to understand the fallout from the record-breaking rate hiking cycle endured over the past 2 years.

Oil prices rose 2.19% during April, however, this does not summarise the activity in the oil market correctly. Oil price volatility has been trending up significantly since the beginning of the year and has only been higher 2 other times in the past 15 years. Over the past two months alone, the oil price in USD has moved from \$67 to \$83, back down to \$68. The combination of uncertainty around how quickly economies will slow, combined with the unknown impacts within the financial sector, and the battle of oil supply between OPEC+ and the United States, has made this period very difficult to price oil.

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FEDERAL BUDGET SUMMARY

MAY 2023

INTRODUCTION

On the evening of 9 May 2023, the Government delivered its second Budget in the current parliamentary term. Inflationary pressures, interest rates and escalating costs of living have all had a significant impact on the lives of every-day Australians. The Budget needs to deliver the right balance of spending and savings.

This year's Budget has a strong emphasis on providing cost of living relief, strengthening Medicare, and investing in a stronger and more secure economy. There were very few surprises and most of the significant announcements had been made prior to the Budget being released.

Importantly, it goes without saying the measures announced in the Budget are not a *fait accompli*. They will be subject to the successful passage of relevant legislation.

HIGHLIGHTS

2022-23 SURPLUS	ENERGY BILL RELIEF	STRENGTHENING MEDICARE	FALLING INFLATION
\$4.2bn	\$3bn	\$5.7bn	3¼% by 2023-24

THE STATE OF THE ECONOMY

Perhaps the surprise in this year's Budget was the announcement of a surplus for the 2022-23 financial year of \$4.2 billion. This is the first surplus since 2007-08 and represents significant turnaround from the projected \$36.9 billion deficit forecast in the October 2022 Budget.

Real GDP growth is expected to be 1½% for 2023-24 before rising to 2¼% in 2024-25.

The unemployment rate in recent years has placed Australia in an enviable position. The currently historically low unemployment rate is expected to increase marginally in 2023-24 and 2024-25.

Much of the focus of the past year or so has been the rapid rise in the inflation rate. The Government predicts the inflation rate has now peaked and is starting to moderate. The inflation rate for 2023-24 is forecast to be 3¼% and will return to the Reserve Bank's target band of 2-3% by 2024-25.

The big-ticket items in this year's Budget include:

- Cost-of-living relief,
- Increased Parenting Payment (Single), JobSeeker, and Youth Allowance,
- Further investment in renewable energy

Now for a more detailed look at some of the key announcements.

SUPERANNUATION

The Budget was decidedly quiet on the superannuation front this year. The only measures of any significance were:

Better targeted super concessions

This simply repeats the release made on 28 February 2023 when the Government announced plans to proportionately increase the tax on a person's total superannuation balance that exceeds \$3 million by an additional 15%. The Budget announcement does not depart from the initial proposal despite the measure having been open for public consultation between 31 March and 17 April 2023.

This measure will not apply until 1 July 2025 and is only expected to affect 80,000 individuals, at least in the early stages. However, this is expected to increase as the \$3 million threshold is not indexed.

This measure will also extend to members of defined benefit superannuation schemes.

Importantly, most superannuation members have significantly less than \$3m in superannuation and will not be affected by this proposal.

Securing Australians Superannuation Package.

Employers are currently required to pay superannuation guarantee contributions for their employees by the 28th day of the month following the end of each quarter. The Budget proposes that from 1 July 2026, employers will be required to pay their employees superannuation guarantee contributions on the same day they pay their employees. This initiative will help to counter the underpayment or non-payment of superannuation guarantee contributions, which remains a significant problem.

Self managed super funds – amendments to non-arm's length (NALI) income provisions

The provisions announced by the previous Government covering the NALI provisions as they apply to expenditure incurred by superannuation funds will be amended to provide more certainty.

In particular, the income subject NALI provisions will be limited to twice the level of a general expense. In addition, fund income subject to NALI will exclude contributions.

Perhaps what was more notable from the Budget was what wasn't mentioned.

Pension drawdowns

For the past couple of financial years, the minimum prescribed income to be drawn from a pension account has been discounted by 50%. Discounting was due to end on 30 June 2023.

The Budget did not include any reference to the current 50% discount being extended beyond 30 June 2023.

Legacy pension amnesty

In its 2021 Budget, the previous Government announced their intention to allow a two-year window (from 1 July 2022) to allow people with old-style defined benefit income stream products (e.g. lifetime, life expectancy, and market linked pensions) to exit those products without incurring tax or social security penalties. Unfortunately, legislation to implement this opportunity was not passed before the last Federal Election was called.

While it has been hinted the current government will revisit this proposal, the Budget was silent on this.

Transfer balance cap indexation

The general transfer balance cap is scheduled to increase to \$1.9 million from 1 July 2023.

While the method of indexation is enshrined in current law, there had been some concern the Government might move to pause or limit indexation.

Again, the Budget was silent on any changes to the indexation of the general transfer balance cap, so we expect the cap to increase to \$1.9 million from 1 July 2023.

INCOME TAX

Like superannuation, the Budget was very quiet on income tax, with a couple of minor exceptions.

Exempting lump sums in arrears from the Medicare Levy

This initiative, due to apply from 1 July 2024, will ensure that low-income earners don't pay a higher Medicare Levy because of receiving an eligible lump sum payment, such as compensation for underpaid wages.

While this is worthwhile for those affected, it is expected to have minimal impact as the cost to the Budget is only \$2m over the next five years.

Medicare levy low-income threshold

As occurs most years, the income thresholds applying to the Medicare Levy are to increase from 1 July 2022.

The proposed thresholds are:

STATUS	CURRENT THRESHOLD	NEW THRESHOLD
Single	\$23,365	\$24,276
Family	\$39,402	\$40,939
Single seniors and pensioners	\$36,925	\$38,365
Family seniors and pensioners	\$51,401	\$53,406
Each dependent child or student	+\$3,619	+\$3,760

SMALL BUSINESS

To provide continued support to small businesses (those with an aggregate turnover of less than \$10 million) the Government has announced a temporary increase in the instant asset write-off threshold to \$20,000. This will apply from 1 July 2023 and will continue until 30 June 2024.

Importantly, the instant asset write-off applies per asset so small business may be able to access this opportunity on multiple occasions.

AGED CARE

The Government has committed to spending a total of \$36 billion on the aged care sector in the 2023-24 year with a focus on increased wages for aged care workers, funding to help improve the quality of care for both home care recipients and those in residential care facilities and additional funding to implement recommendations identified in the Royal Commission into Aged Care.

Wages to increase by 15%

From 30 June 2023, it is proposed that a 15% increase to award wages will be available for many aged care workers including registered nurses, enrolled nurses, assistants in nursing, personal care workers, home care workers, recreational activity officers, and some head chefs and cooks.

Implementation of Royal Commission initiatives

Over the next 5 years, the Government will provide funding exceeding \$300 million to implement recommendations from the Royal Commission into Aged Care Quality and Safety including:

- Enhancements to the Star Rating system to improve accountability and transparency of aged care providers,
- The development and implementation of a new, stronger Aged Care Regulatory Framework to support the new Age Care Act which is due to commence from 1 July 2024,
- Establishment of a national worker screening and registration scheme and the development, monitoring and enforcement of food and nutritional standards.

Improvements to care at home

Funding has been committed to improve in-home aged care by implementing a range of initiatives including the release of an additional 9,500 Home Care Packages and the design, build and implementation of the new Support at Home Program which is proposed to commence from 1 July 2025.

WELFARE

Delivering cost-of-living relief was a key focus for the Government in this year's budget including reduced energy bills, reduced health costs and increases to Rent Assistance for 1.1 million households.

Energy bill relief

Two initiatives have been announced to help reduce energy bills for eligible Australian households.

Firstly, the Commonwealth Government in conjunction with state and territory governments will provide targeted electricity bill relief of up to \$500 for eligible households. The amount that will be available will depend on which state or territory you live in.

To be eligible for the bill relief, you will be the primary electricity account holder and you must also hold an eligible concession card or receive an eligible government payment in your specific state or territory.

The second initiative announced was the establishment of the Household Energy Upgrades Fund to support home upgrades that improve energy performance and save energy, therefore providing further reductions to energy bills.

Reducing out-of-pocket health costs

From 1 July 2023, a range of measures have been announced to help reduce out-of-pocket health costs including:

- Tripling incentives for doctors to provide bulk billing,
- Investing in more bulk billing Urgent Care Clinics,
- Improving access to medicines, vaccinations and related services delivered by pharmacies.

The Government also proposes to allow 2 months' worth of certain PBS medicines to be dispensed by pharmacies from 1 September 2023.

Additional support to help combat rental affordability

With rental prices in most Australian locations increasing rapidly over the past decade, rental affordability for many, including those on Government income support and family benefits, is a major problem.

To assist, the maximum rates of the Commonwealth Rent Assistance will increase by 15%. It is projected that this will support over 1 million households including veterans, pensioners, job seekers, students and those receiving family tax benefits.

SOCIAL SECURITY

Some positive news for those receiving working age payments from Centrelink with an increase to the base rate of payment confirmed. Single parents will also be supported when eligibility rules are expanded for Parenting Payment (Single).

Payments to increase by \$40 per fortnight

The Government has announced that the base rate for a range of working age payments will increase by \$40 per fortnight from 20 September 2023.

Payments that will benefit from the increase include:

- JobSeeker Payment
- Youth Allowance
- Parenting Payment (Partnered)
- Austudy
- ABSTUDY
- Disability Support Pension (Youth), and
- Special Benefit.

Older JobSeekers

To recognise the barriers that older job seekers often face when looking for work such as age discrimination, the Government is expanding eligibility for the existing higher rate of JobSeeker to recipients 55 and over who

have received the payment for 9 or more continuous months. This higher rate (which is \$92.10 per fortnight more than the standard JobSeeker rate) is currently available to those 60 and over.

It is estimated that this change in age will help around 52,000 eligible recipients.

Eligibility to Parenting Payment for single parents expanded

From September 2023, eligible single parents, 91% of whom are women, will receive Parenting Payment (Single) until their youngest child turns 14. Currently, these parents are required to move to JobSeeker when the youngest child turns 8.

The current base rate of Parenting Payment (Single) is \$922.10 per fortnight, compared to the JobSeeker Payment base rate of \$745.20 per fortnight. It is hoped that the improved support for single parents will provide wellbeing benefits particularly for single mothers, who are overwhelmingly the recipients of this payment, and their children.

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