Harbourlight PWM Investment Review and Outlook.

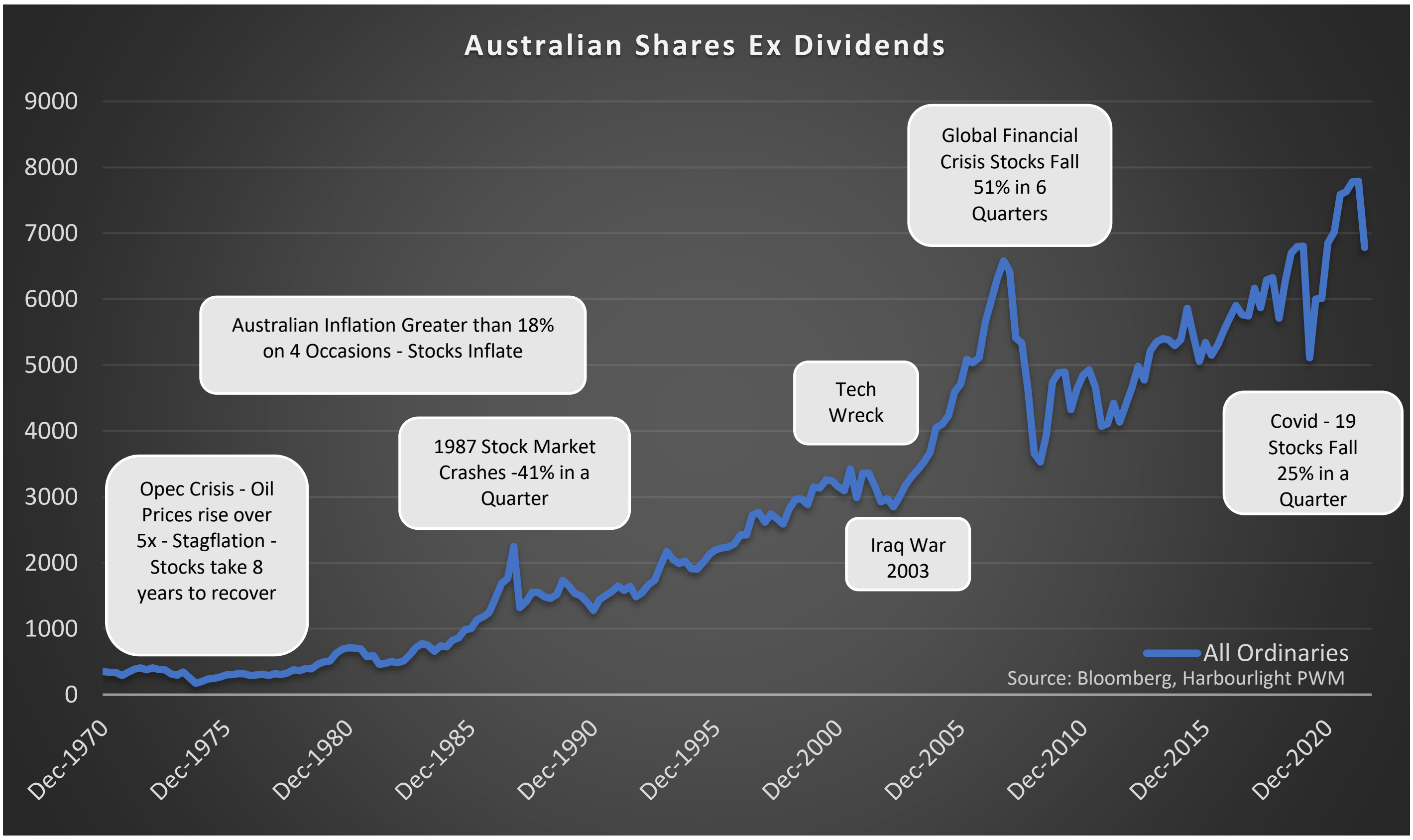
A brief review of investment markets and broader factors affecting clients. **June 2022**

Significant changes are occurring, but there should be opportunities in this for those with patience and a long-term horizon.

Just as the masks come off and restrictions ease, we have been greeted by steeply rising inflation, interest rates rises and a major transitionary point for global economics.

Inflation is a textbook financial problem, a core mandate of central banks to manage and something that can feed through to almost every aspect of day to day life. In the backdrop of an increasing split between the authoritarian and democratic world and the weaponisation of financial markets, context will be important for informed decision making.

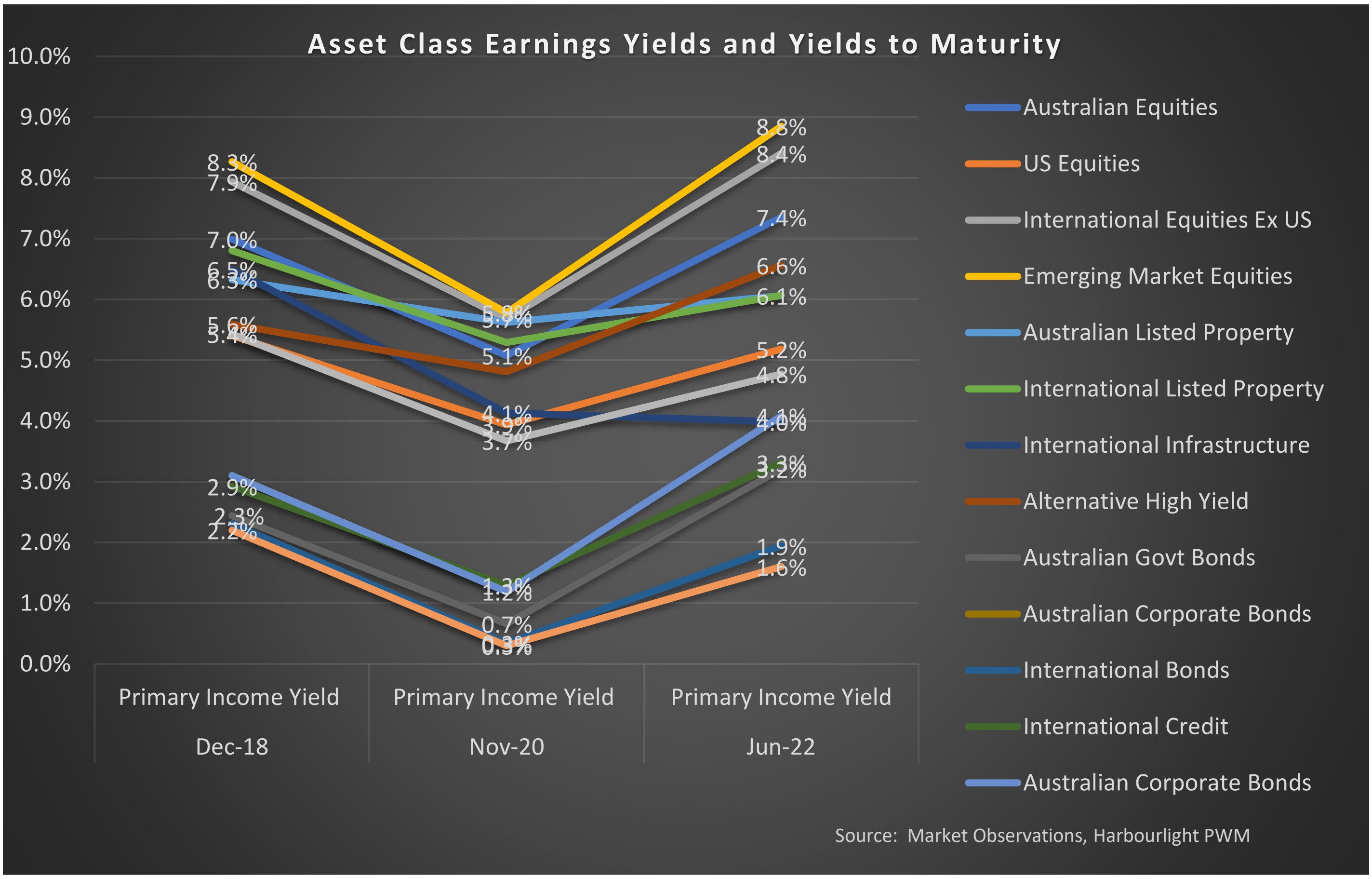
We have seen many of the current factors before in Australia, but to get a context for inflation we need to go back over 30 years. We're likely to see volatility followed by more asset price inflation.



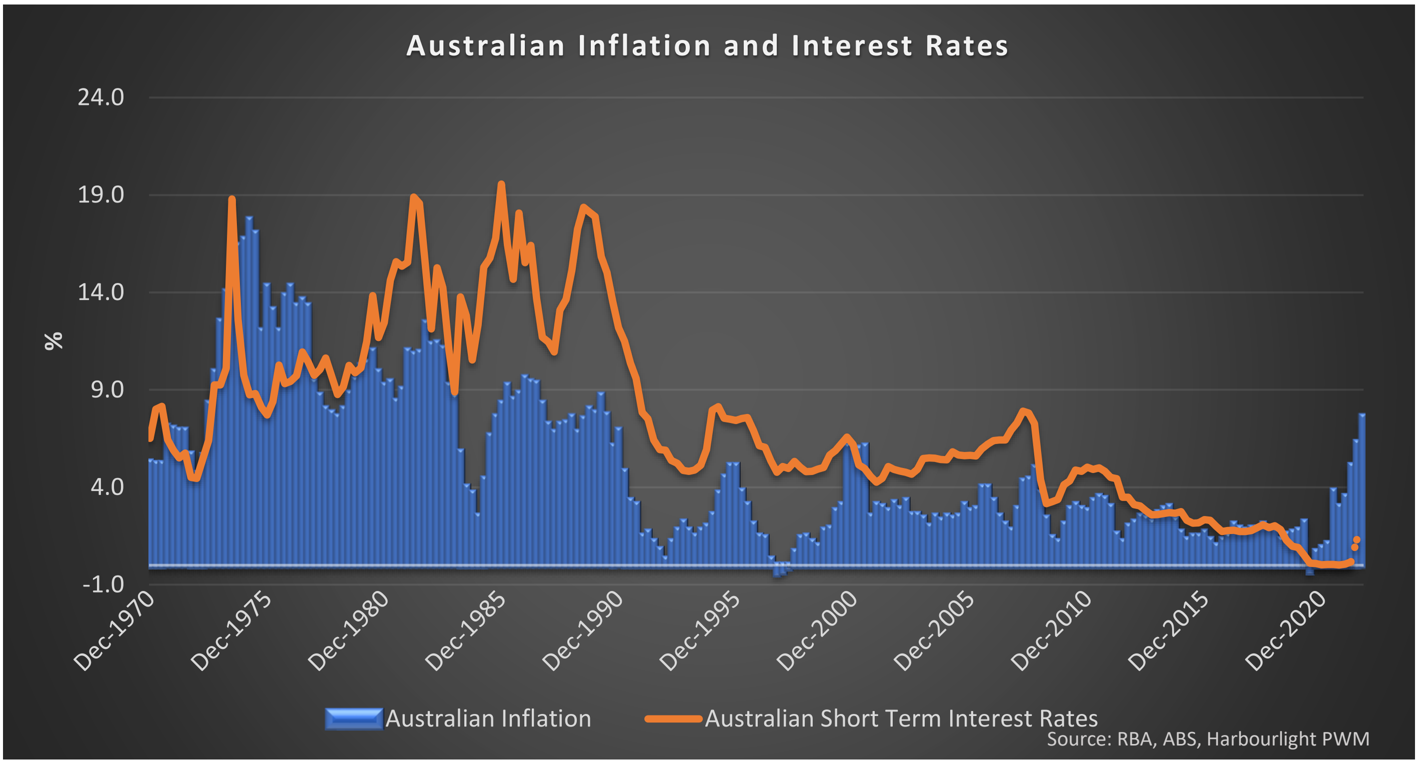
Themes for the year thus far with some historical context.

Listed asset prices have dropped back to levels near the start of the Covid 19 pandemic.

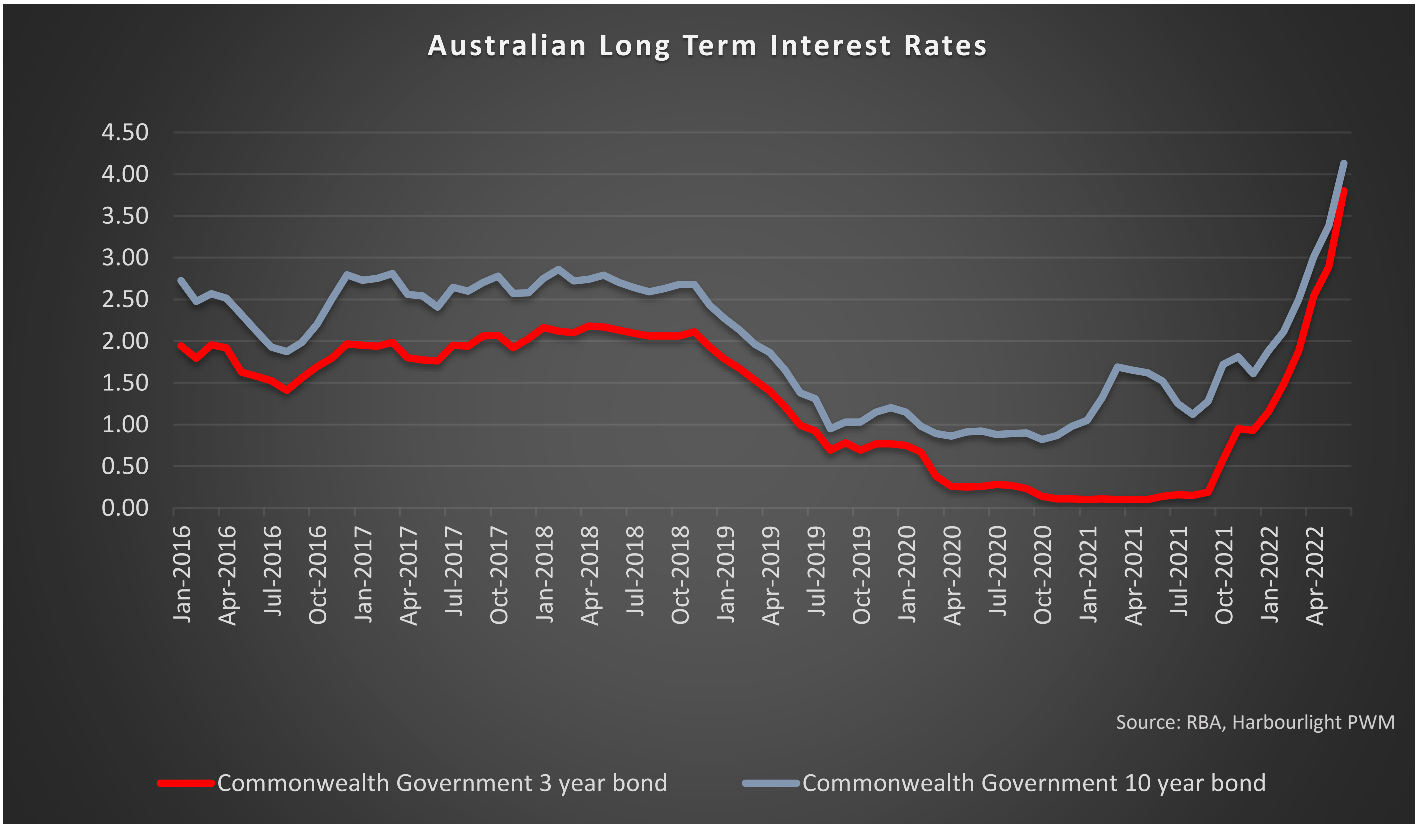
Valuations are actually look more attractive, though there is a fear earnings will fall (we have just been through one of these periods due to Covid-19).



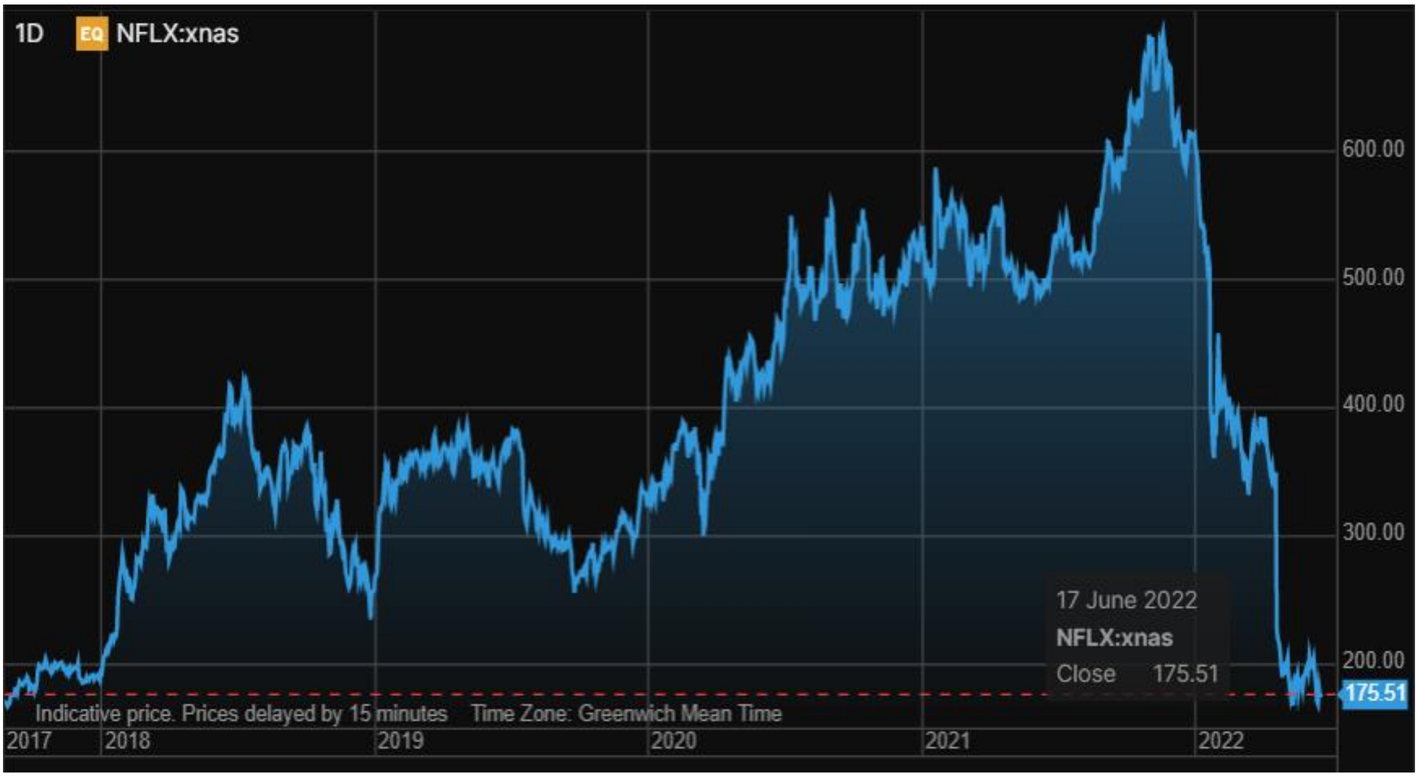
Inflation has surprised and is now sitting at a 30 year high, short term rates (more easy for a central bank to control) have been slowly rising but they lag wholesale markets and are expected to continue rising.



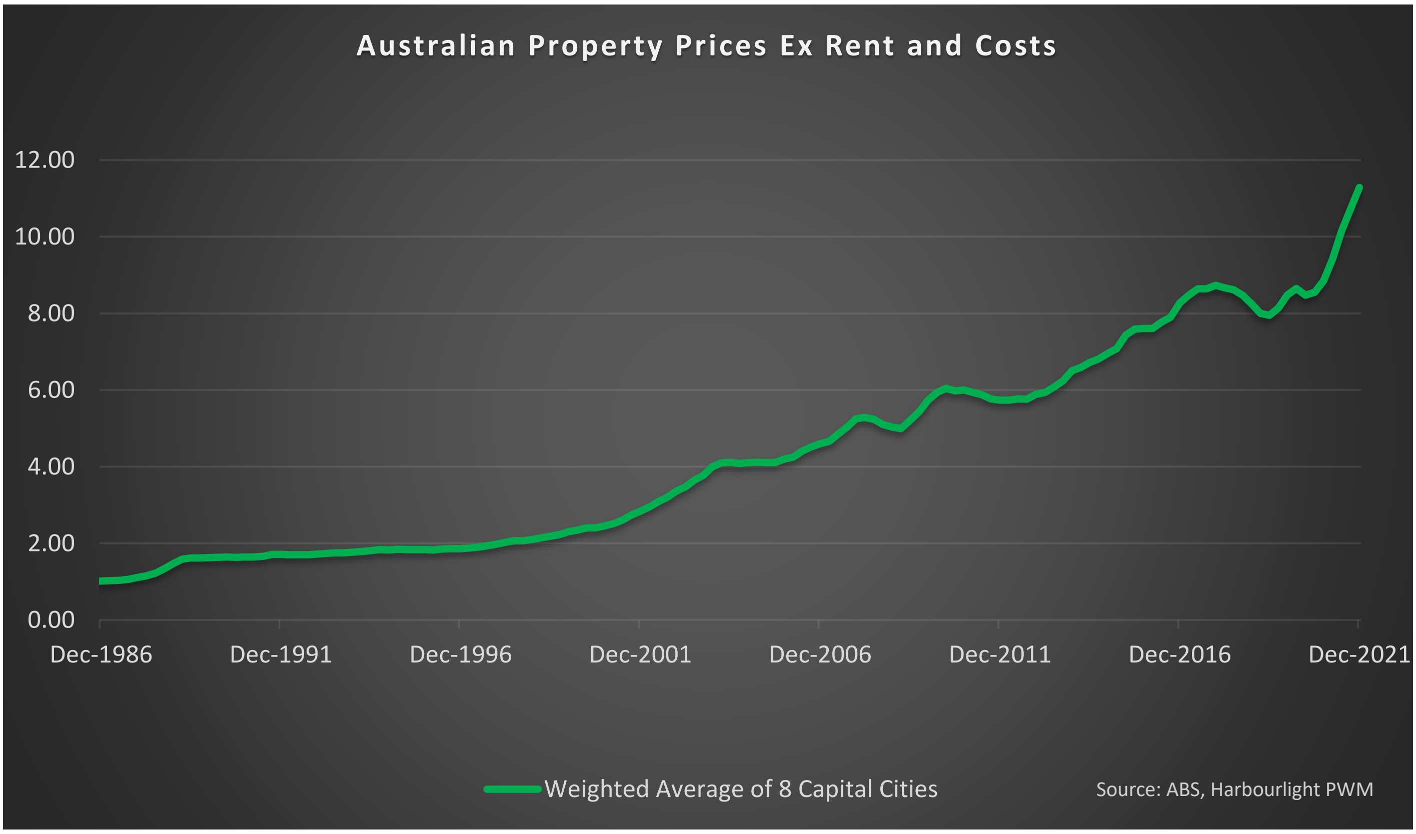
Wholesale interest rate markets have seen meaningful spikes, raising the cost of borrowing, but allowing investors to access more sustainable returns.



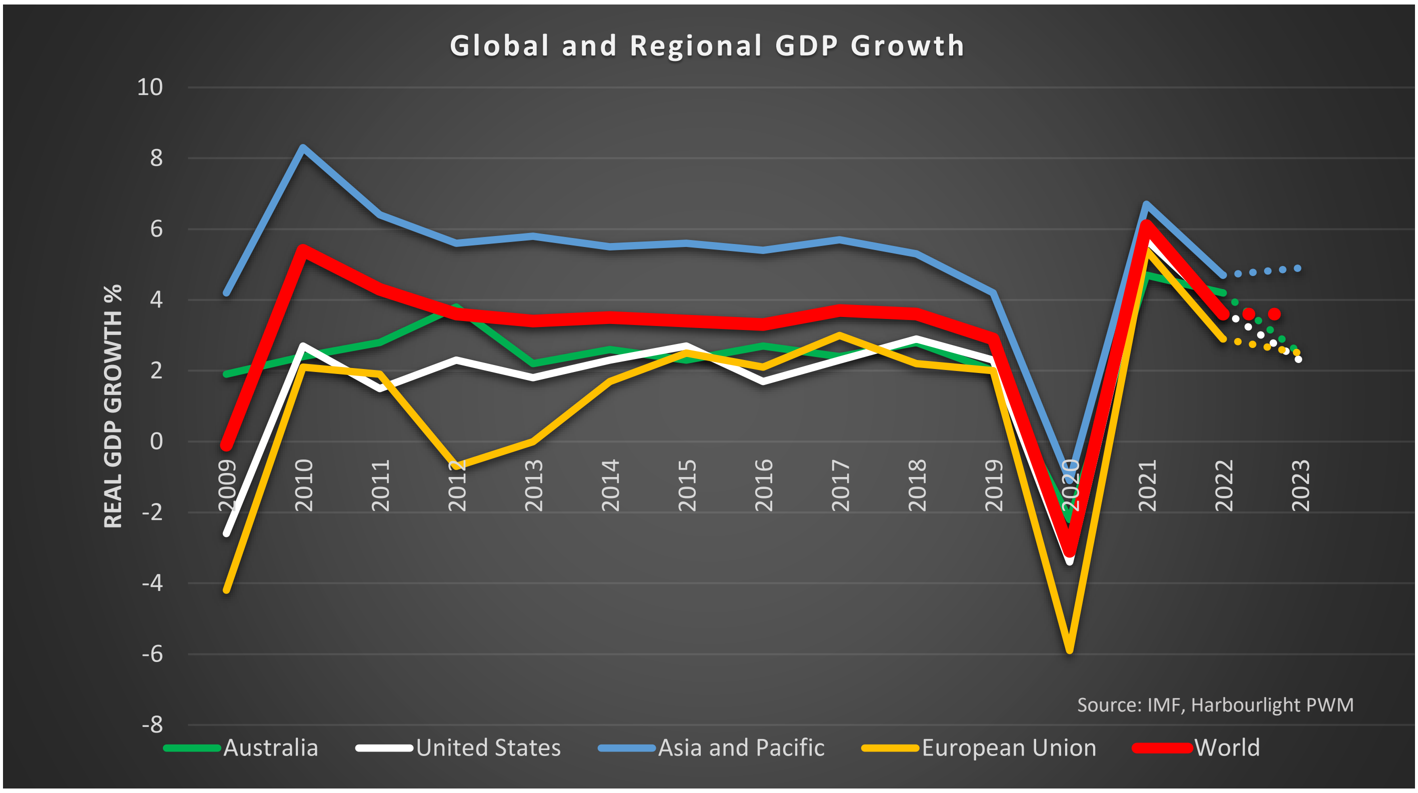
Thematic technology stocks have been wiped out by concerns of slowing growth, earnings uncertainty and investors having higher expected rates of return when compared to low risk interest rate focussed investments (see the Netflix share price below)



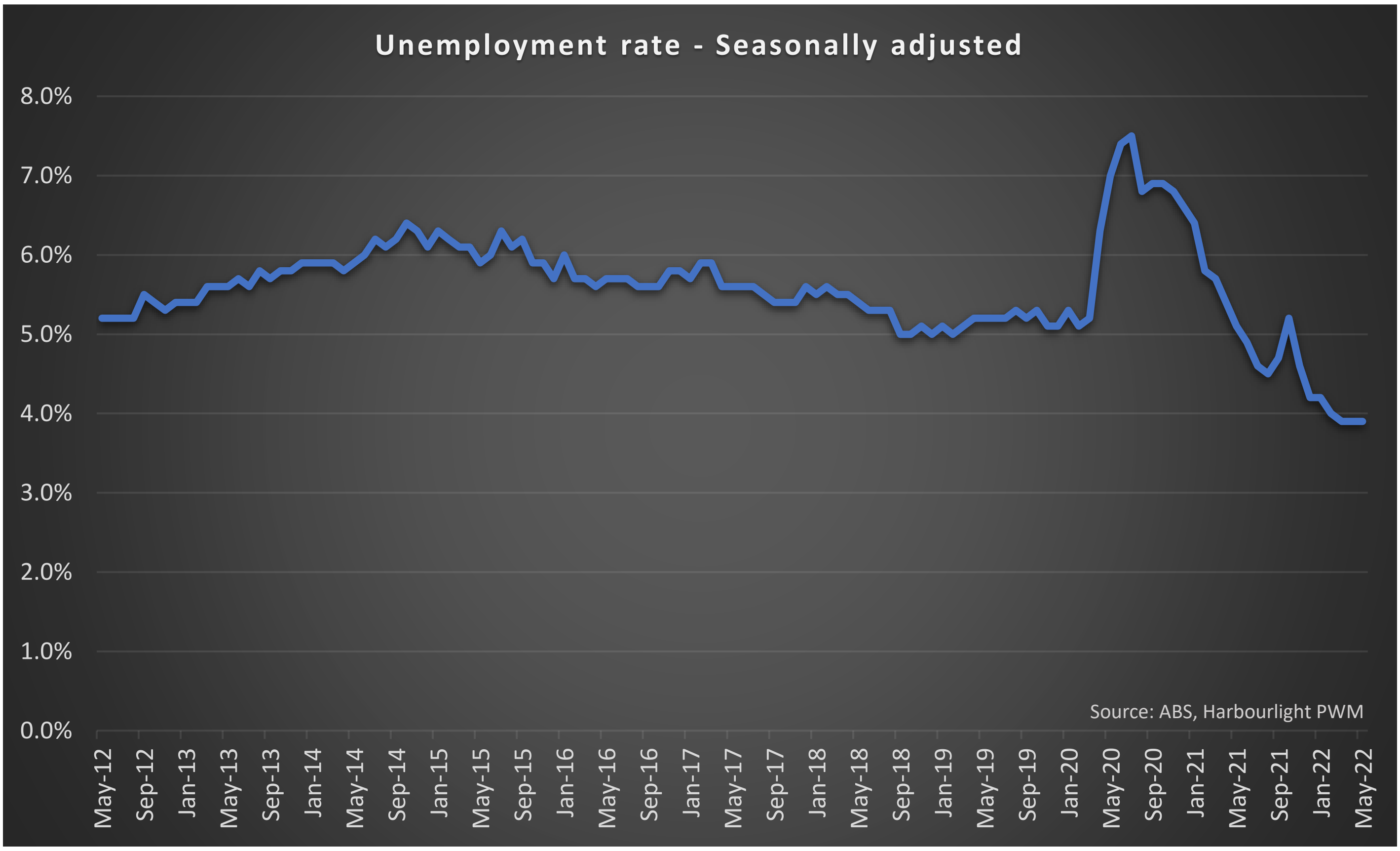
Residential property prices are showing signs of slowing, though also lag. Commercial banks and the RBA are slowly feeding through the effects of rate rises to the broader population. Household debt to income ratios remain high and interest rises will start to effect households as wages have not kept up with house price growth.



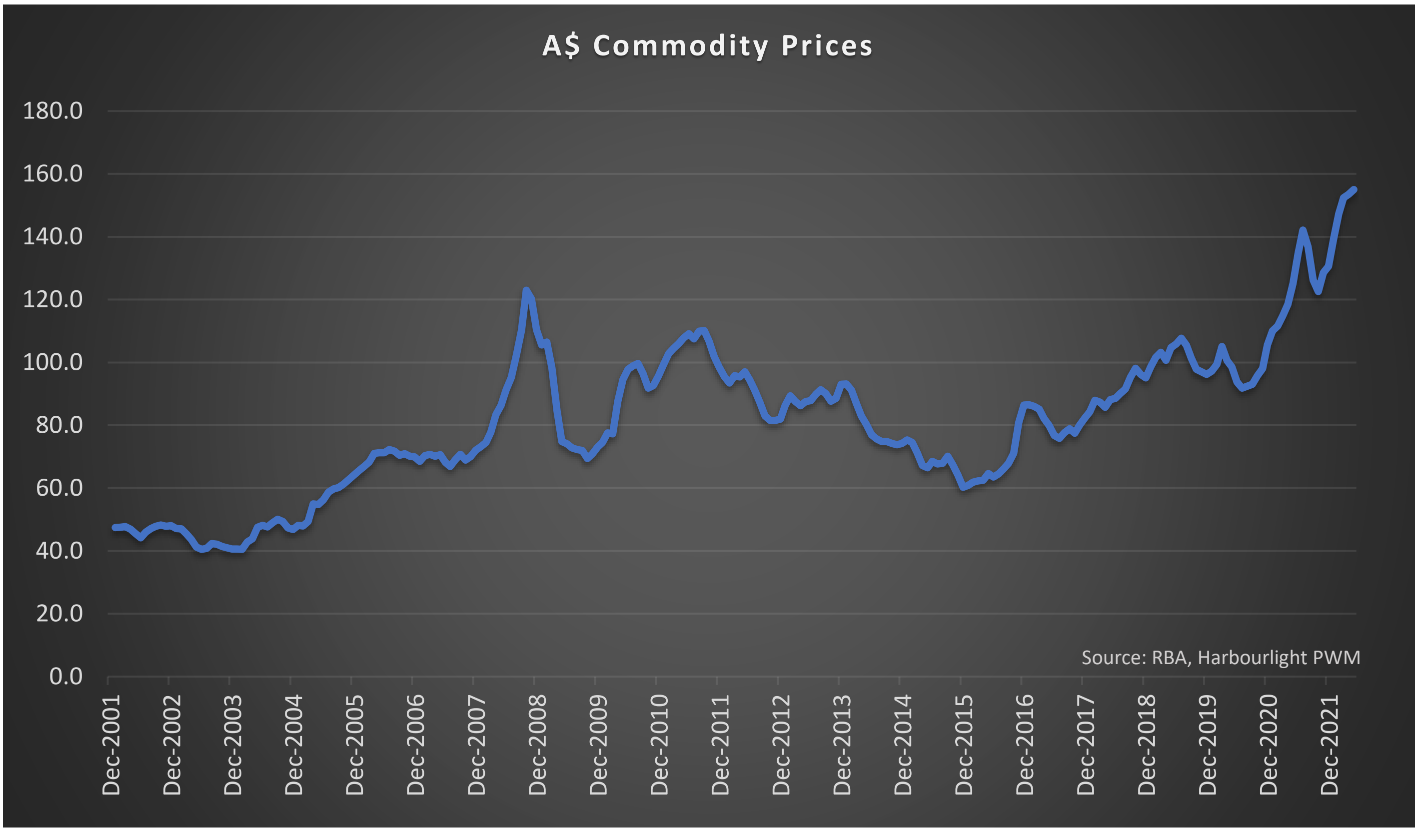
Global growth is normalising post a sharp Covid-19 related shock and recovery with some drag from countries like China who have continued with zero covid strategies and the effects of war in the Ukraine.



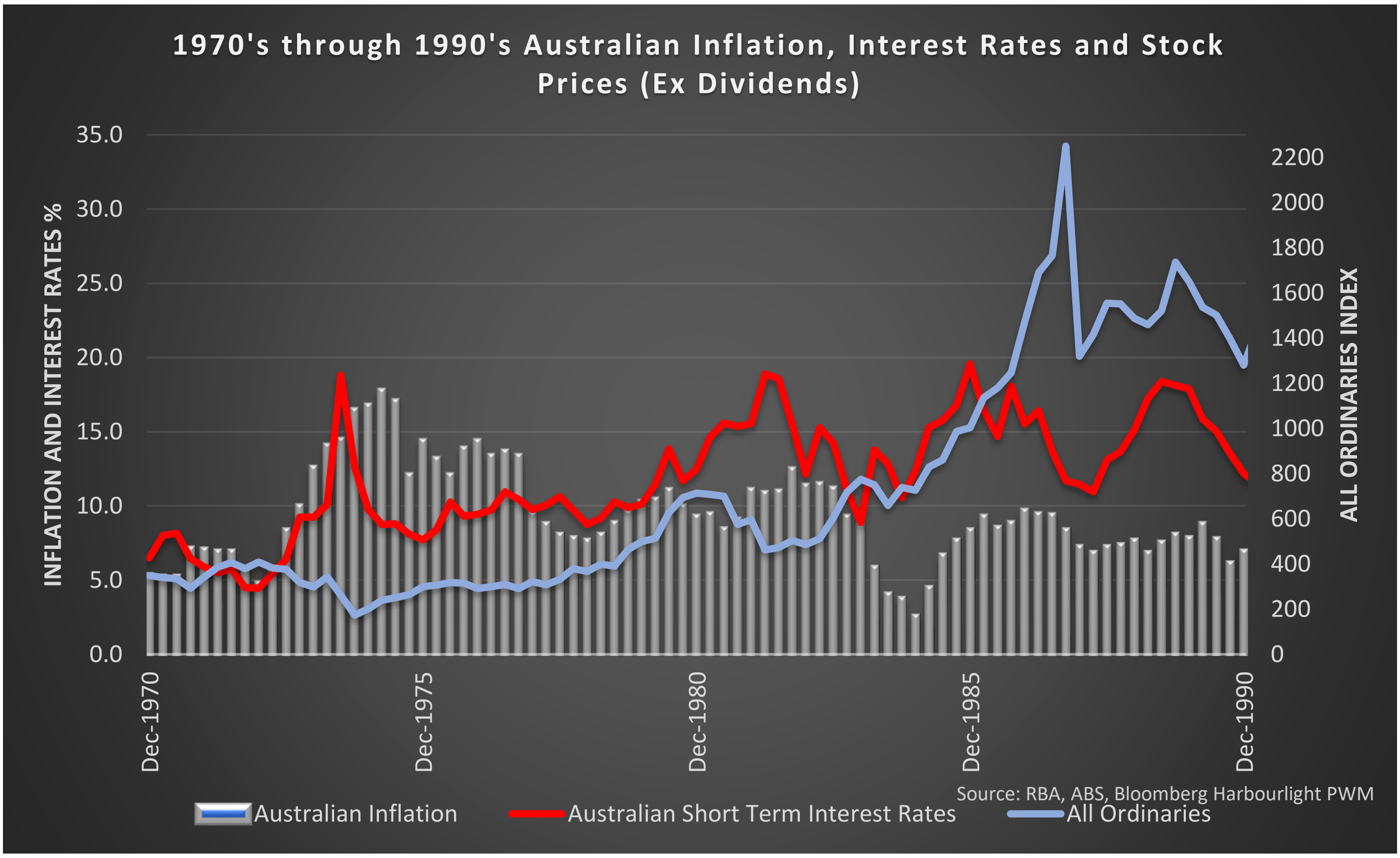
Employment remains strong for now.



Commodity prices are rising, generally a good sign for the Australian economy.



Australia has experienced longer periods of high inflation before, resulting in 8 years of little asset price growth and dividend income only for investors, followed by significant increases in asset prices.



Our views for the next 12 months.

As asset prices become more attractive, we begin to prefer more aggressively invested portfolios. Though we prefer this to be done slowly, cognisant of the fact that this may be a slower and more protracted downturn than the ones we've seen recently.

Asset valuations look fair, though rising interest rates will increase the rate of return expected by those purchasing assets.

High grade bonds look like a valid asset class for the first time in years offering returns of between 3% and 5%.

Other Regulative Matters

- The work test will be abolished on non-concession contributions for those aged between 67 and 75 from July 2022 making contributing to super easier for those in this age group.
- The age restrictions for downsizer contributions will be reduced to 60+ from the first of July 2022. With scope for further decrease to 55+.
- Compulsory super contributions will increase to 10.5% from July 2022.
- Superannuation contribution caps remain at $27,500 for concessional contributions and $110,000 for non-concessional contributions.
- Temporary Covid-19 legislation relating to halving of minimum pension payments will continue to the 30th of June 2023.
- The transfer balance cap applying to commencing retirement income streams remains at $1.7m.

Please feel free to contact us if you wish to discuss any of these matters.

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