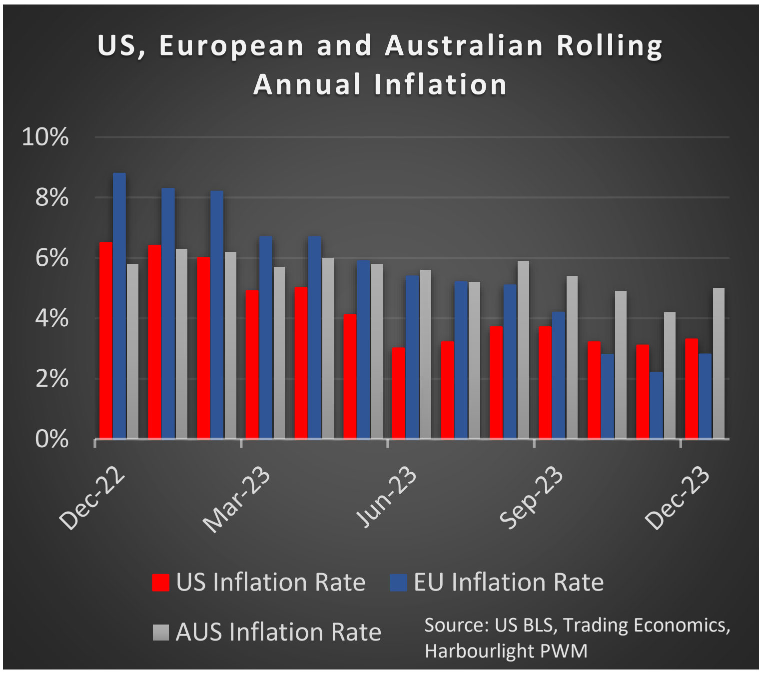
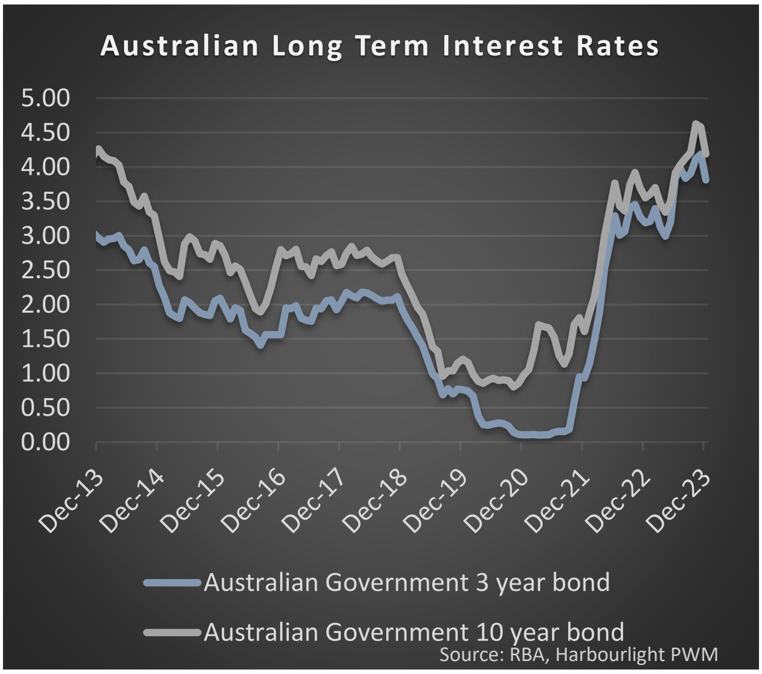
Harbourlight PWM Investment Review and Outlook.

A brief review of investment markets and broader factors affecting clients. **January 2024**

Executive Summary:

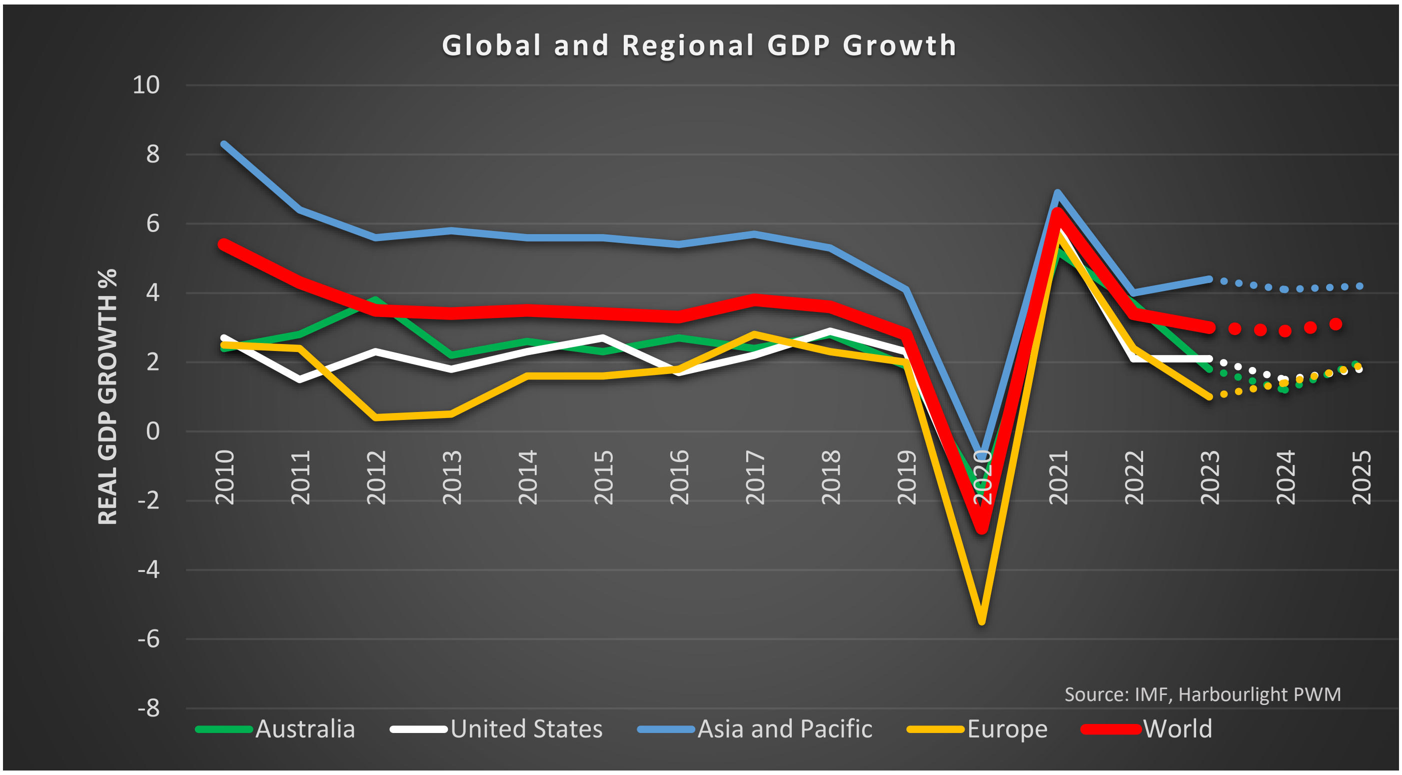
- Global inflation, whilst volatile, is on a downward trajectory. Recent data indicates annual inflation rates of 3.4% in the US, 2.9% in Europe, and 4.3% in Australia.
- A soft landing for global growth appears underway.
- With household saving depleting, consumer confidence low and global growth slowing yet avoiding recession, the next significant move in interest rates is likely to be a shift towards cuts and more neutral monetary policy.
- At present, financial markets are implying approximate a 0.75% reduction in interest rates over the next 2-3 years. Portfolio returns are likely to be helped if this outcome occurs though political risk remains.
- 2023 was a robust year for asset prices, with positive returns across major asset classes ranging from 3% to 23%. Subsectors like technology outperformed rebounding from previous year's lows.
- Residential property prices have had a year-on-year increase but remained broadly stable since 2021 when interest rates began to rise.
- A strengthening in the AUD helped hedged international share portfolios but our bias still remains towards hedging where sensible.
- Higher yield bond prices have increased, resulting in running yields decreasing slightly to 6-9%.



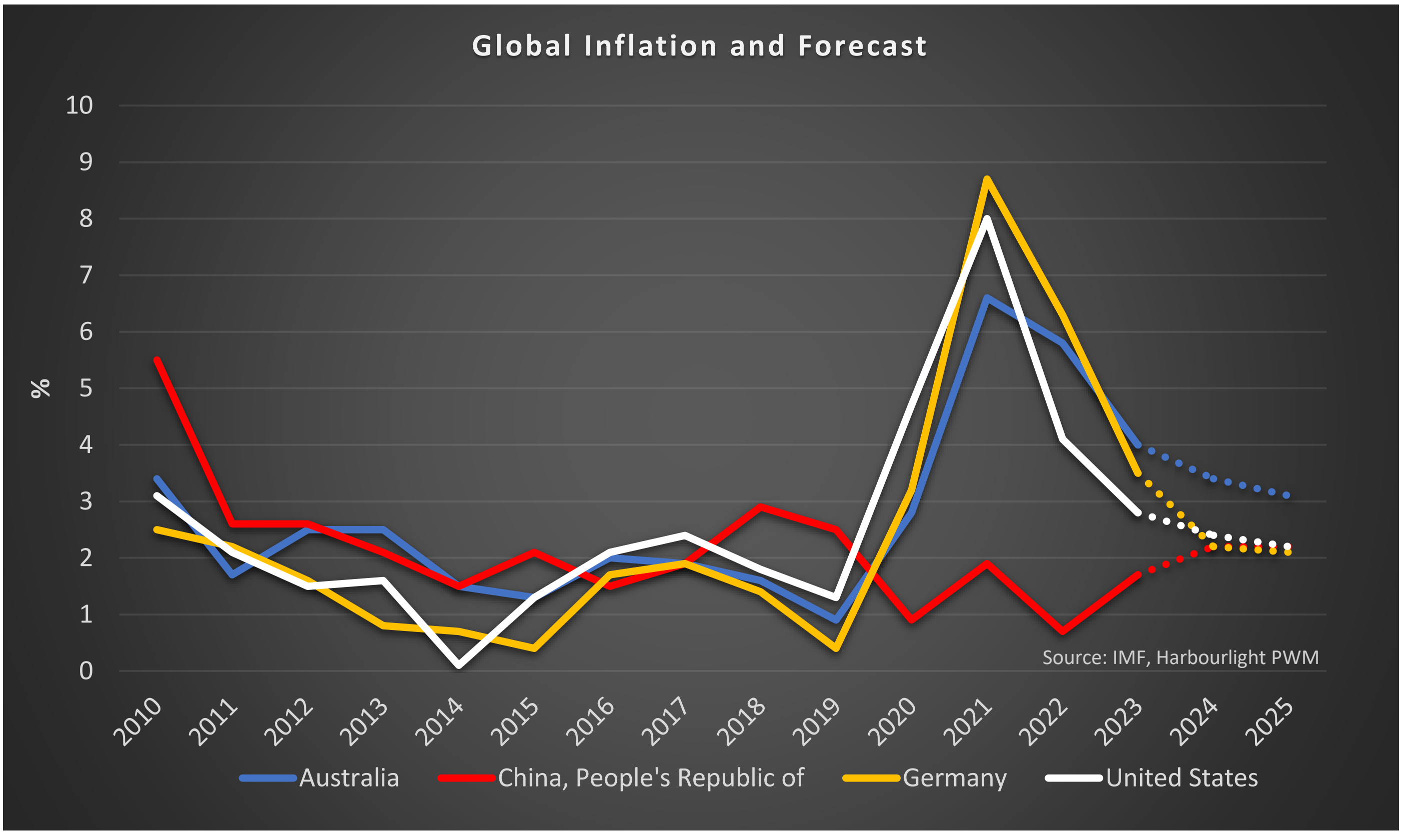


Economy and Financial Markets

Global growth is displaying more signs of a soft landing as the lingering impacts of the COVID-19 pandemic permeate through economies.

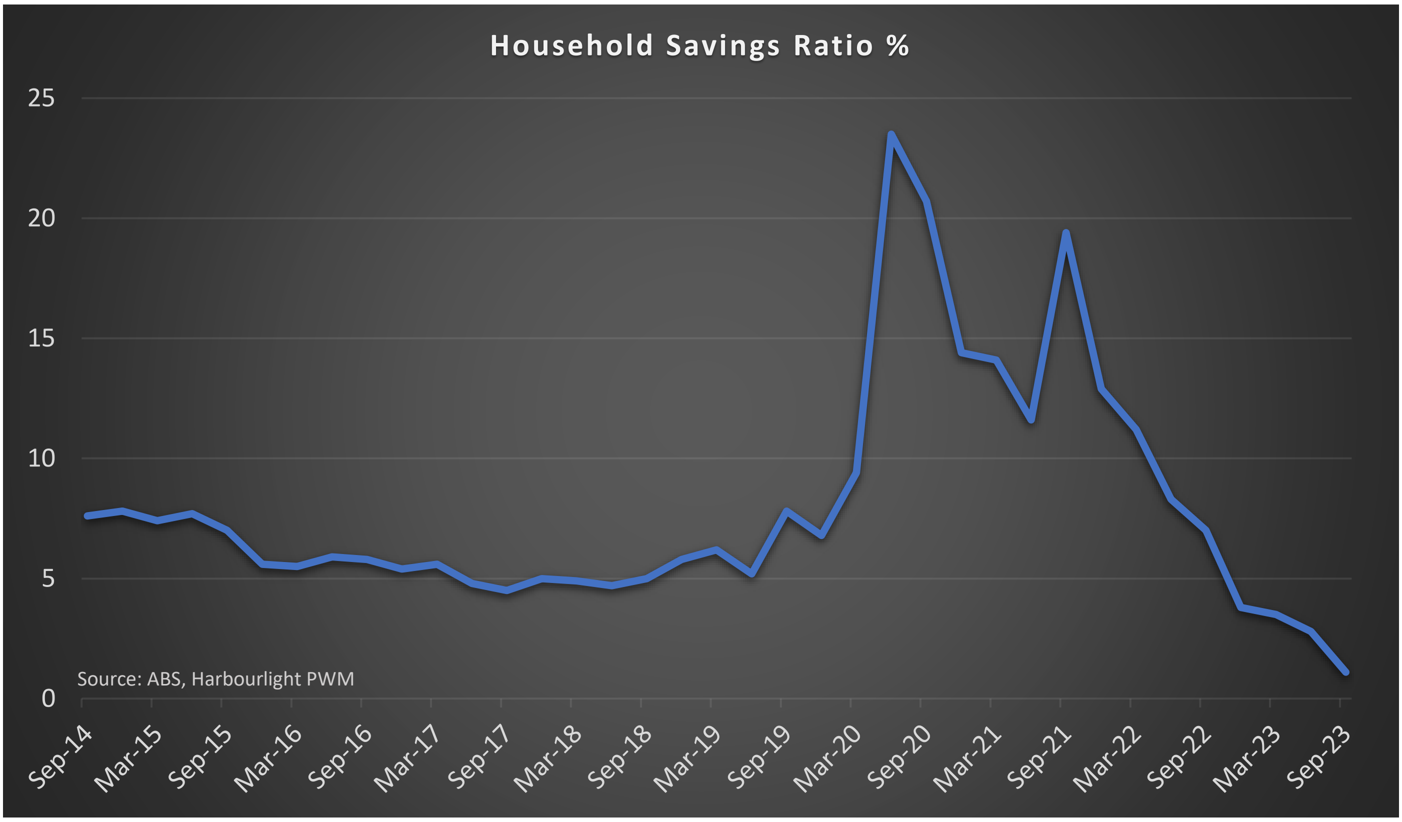


Inflation, while exhibiting volatility, is on a downward trajectory, alleviating concerns about further interest rate hikes and creating room for potential gradual interest rate cuts.

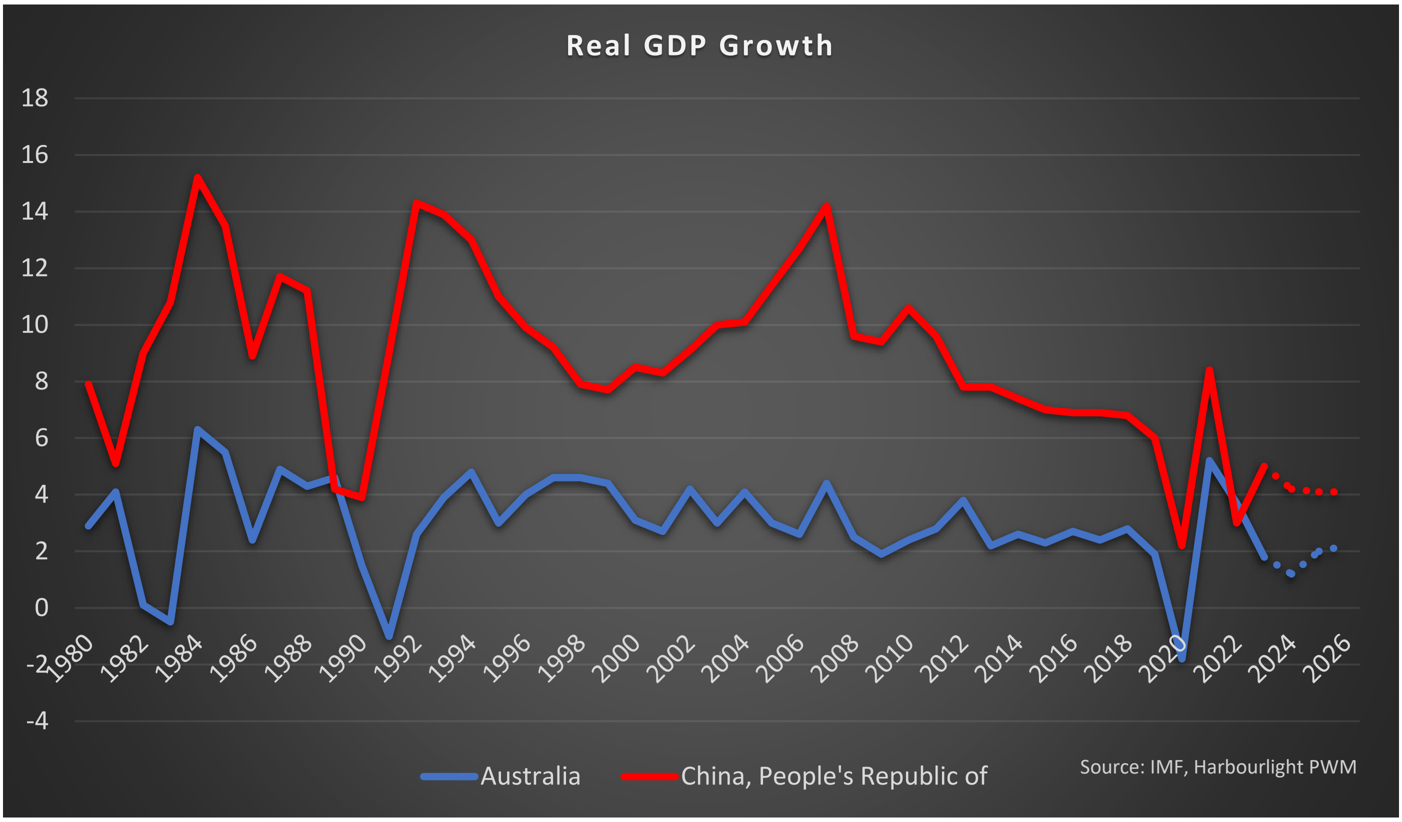


Wage growth is at its highest level in 10 years. Whilst not peaking as high as inflation, wage growth is expected to slow with rising unemployment and slowing growth.

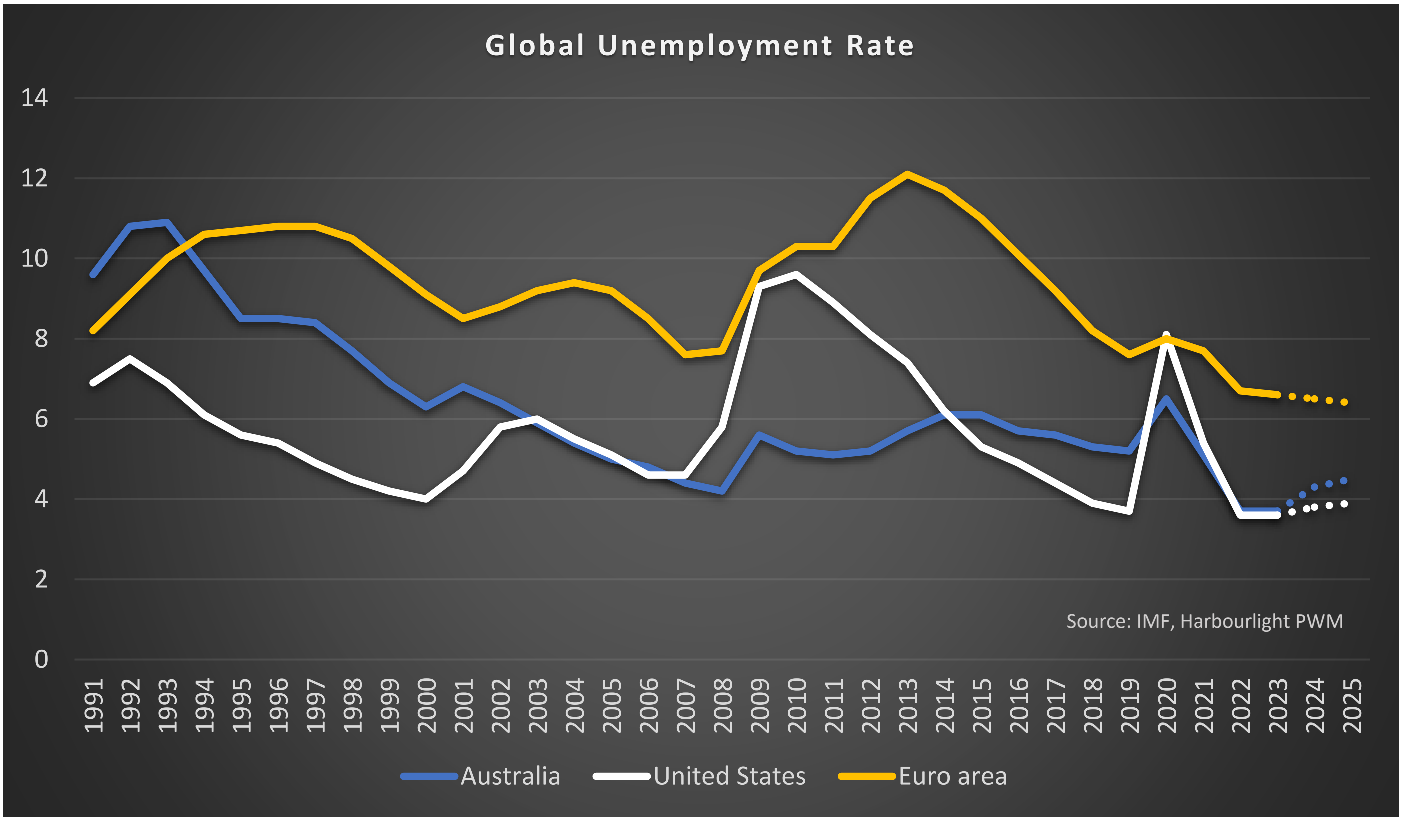
Declining **household savings** indicate that previous interest rate cuts have been effective, allowing for a measured scaling back of these measures.



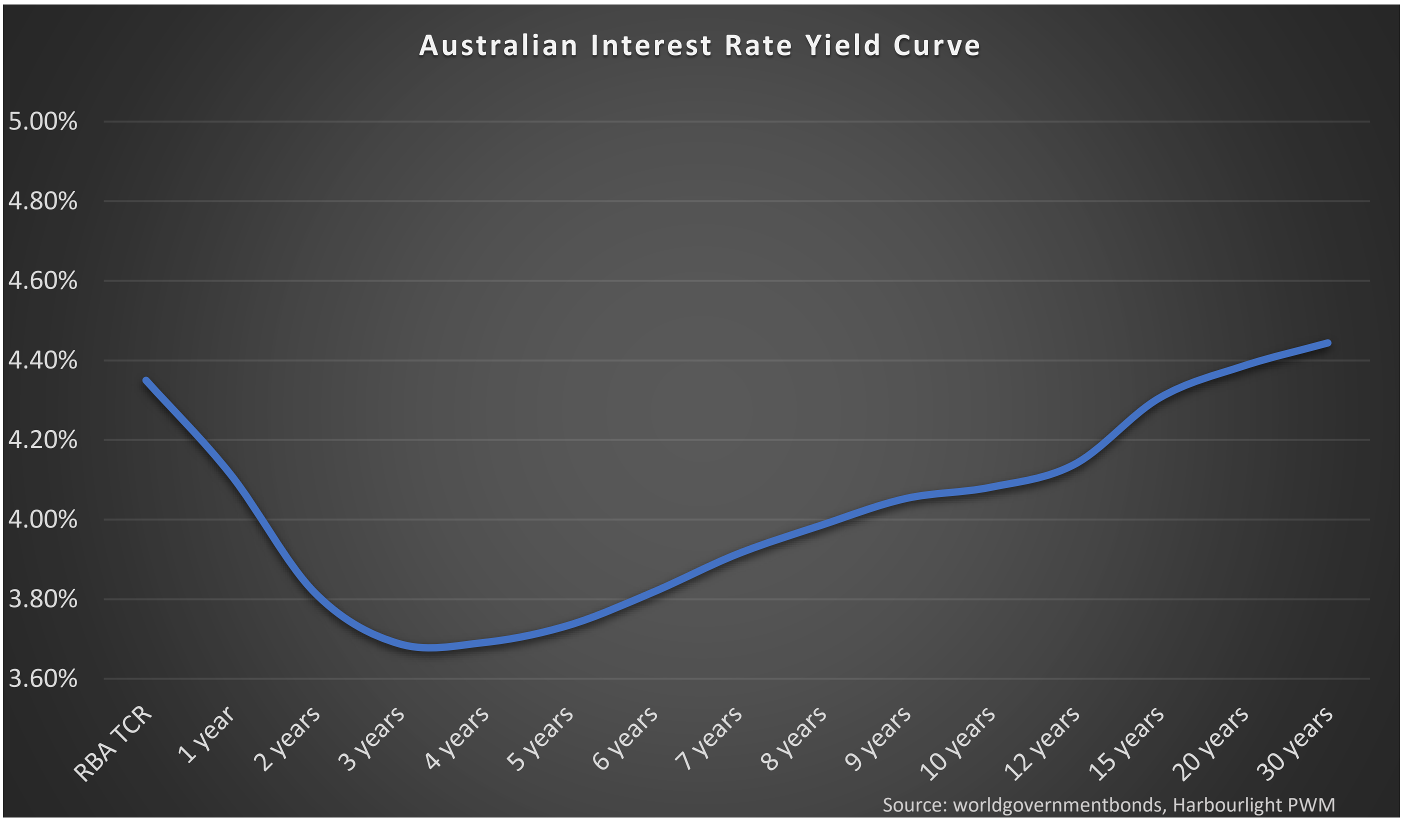
China, constituting 20% of global GDP, continues to grow at a measured pace, with recent indications of additional fiscal and monetary stimulus from the Chinese government providing scope for further growth.



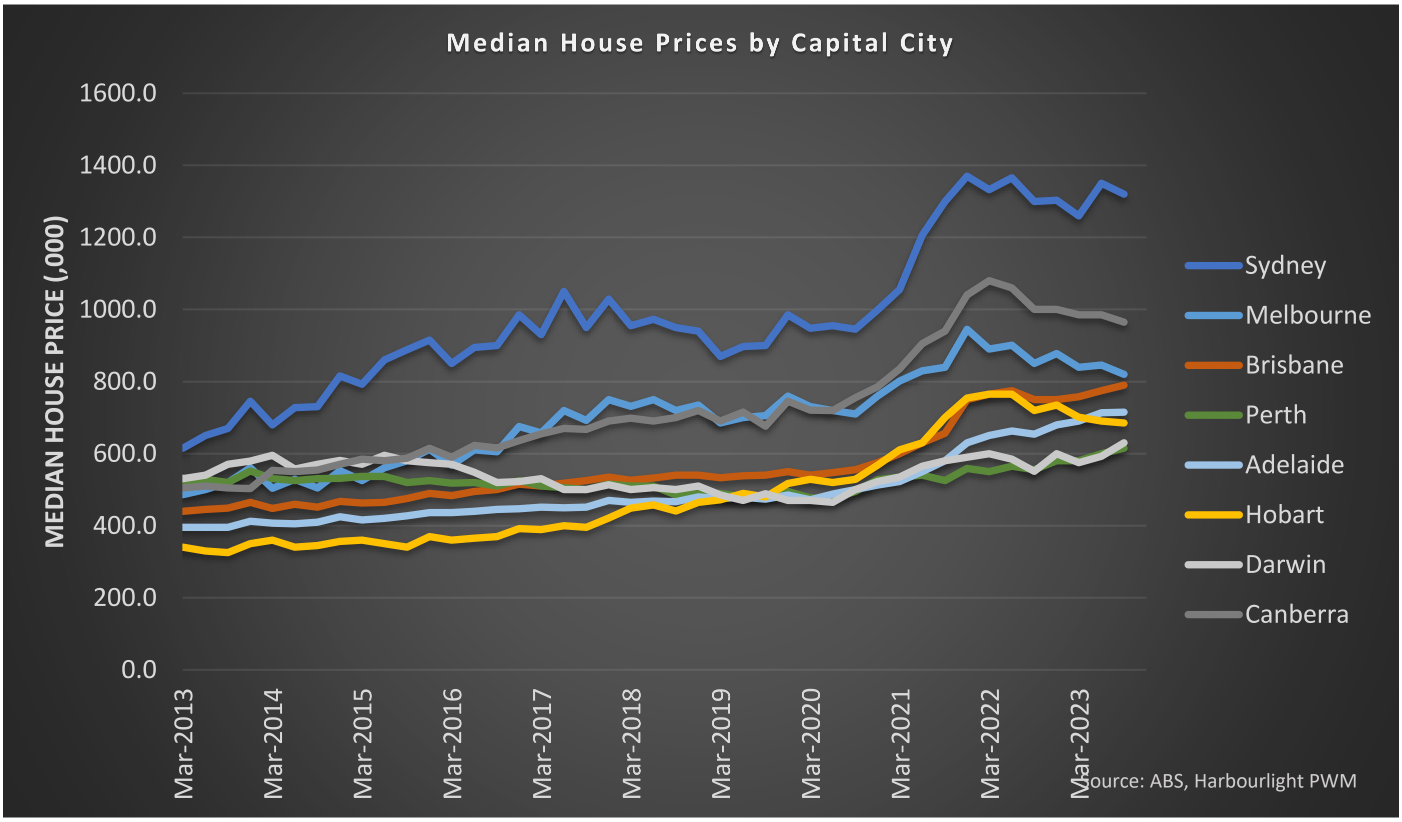
Unemployment remains low globally though is expected to rise slowly as economies further cool.



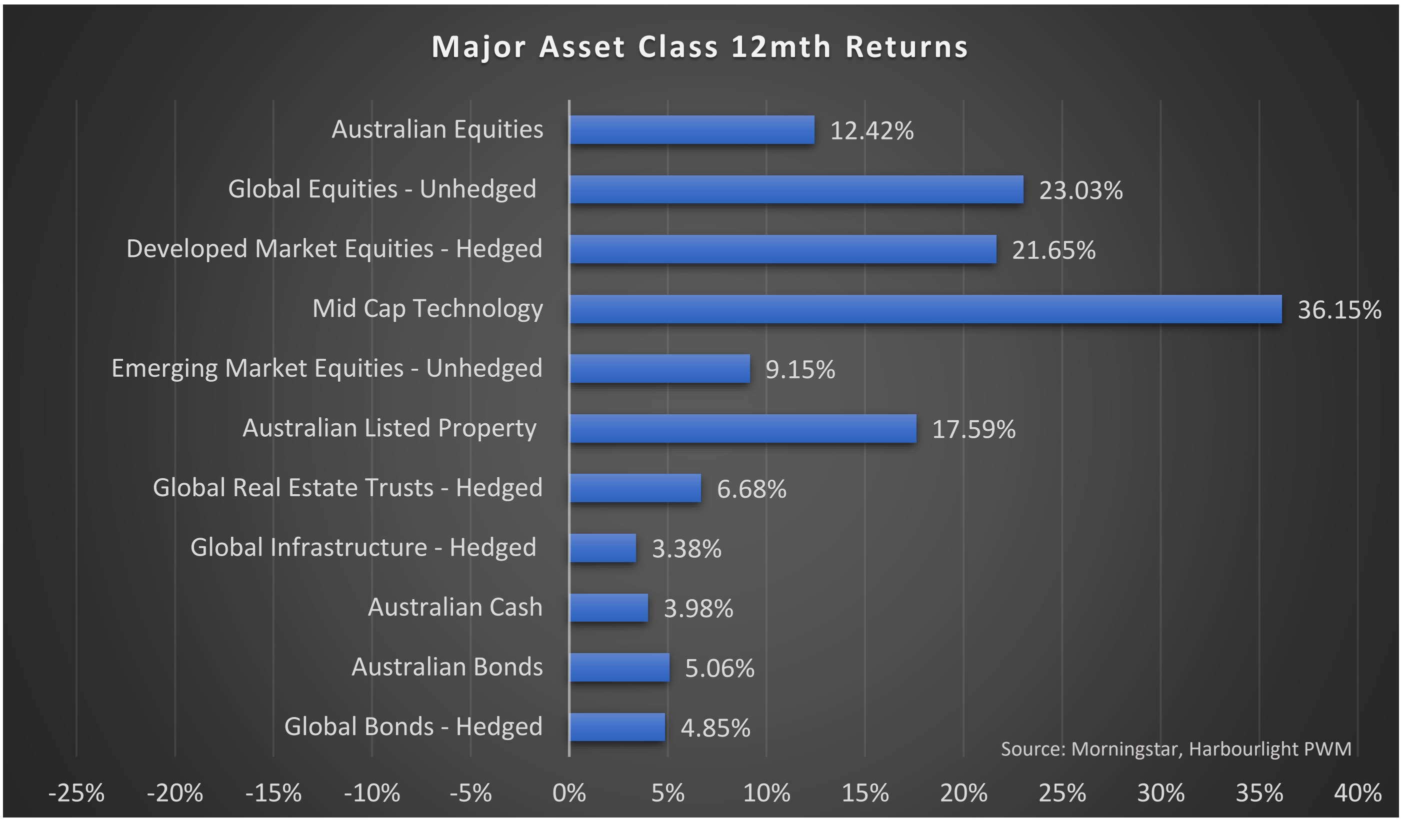
Interest rates remain at high levels though **bond markets** are predicting a 0.75% reduction in interest rates over the next 2-3 years in Australia.



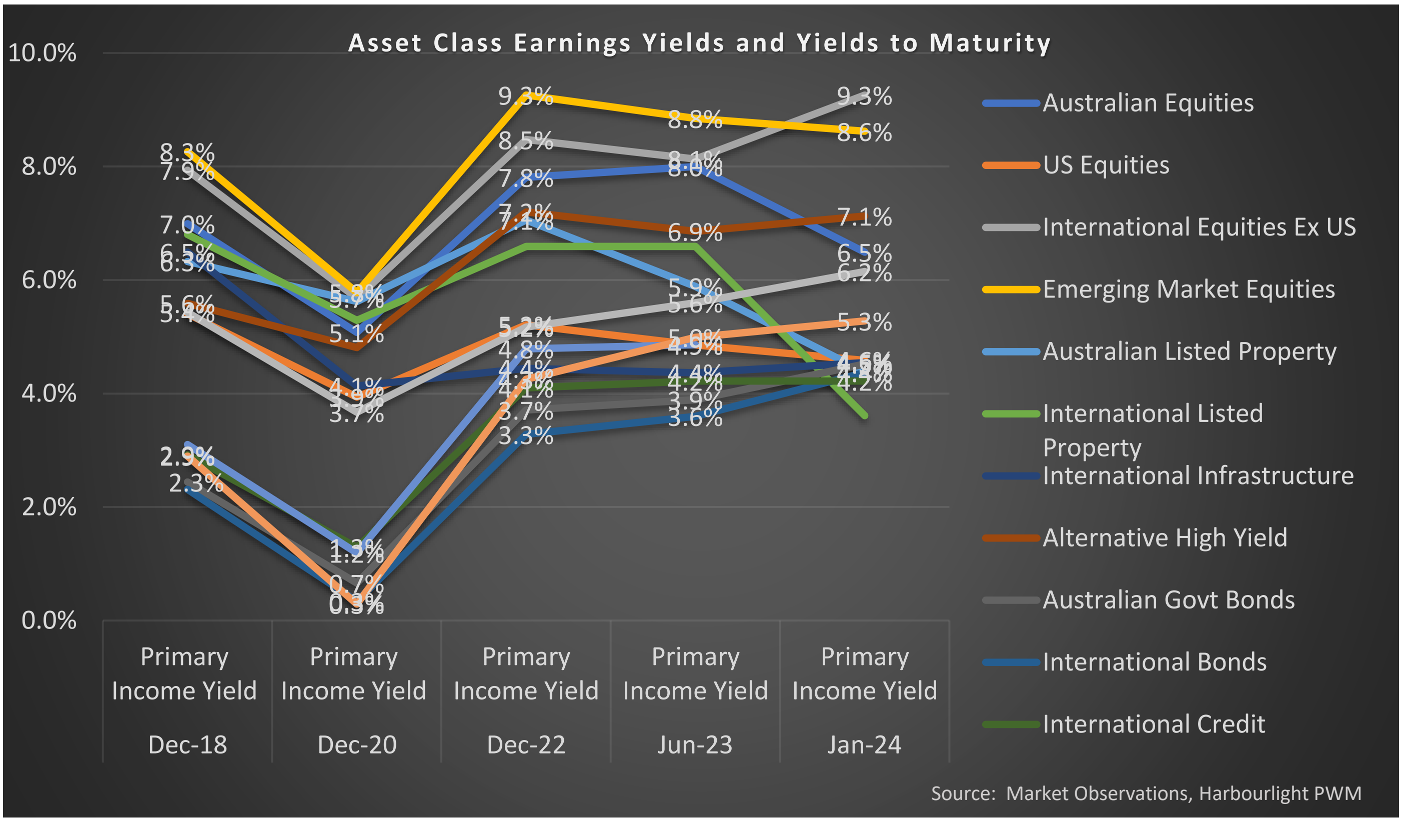
Median house prices have seen recent increases but remain broadly stable, exhibiting some variations in state level appreciation.



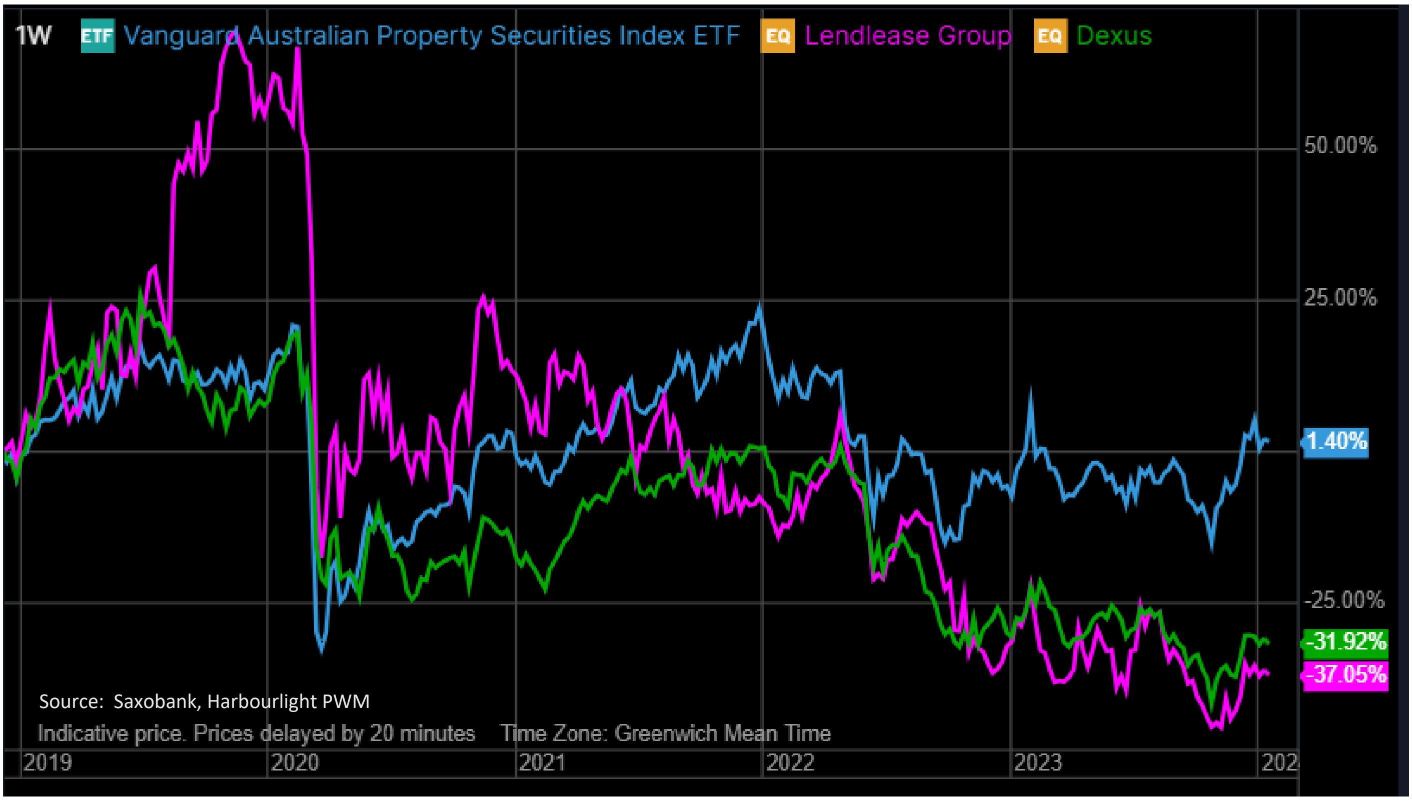
Financial Markets have shown strong growth with no major asset class showing negative returns in 2023.



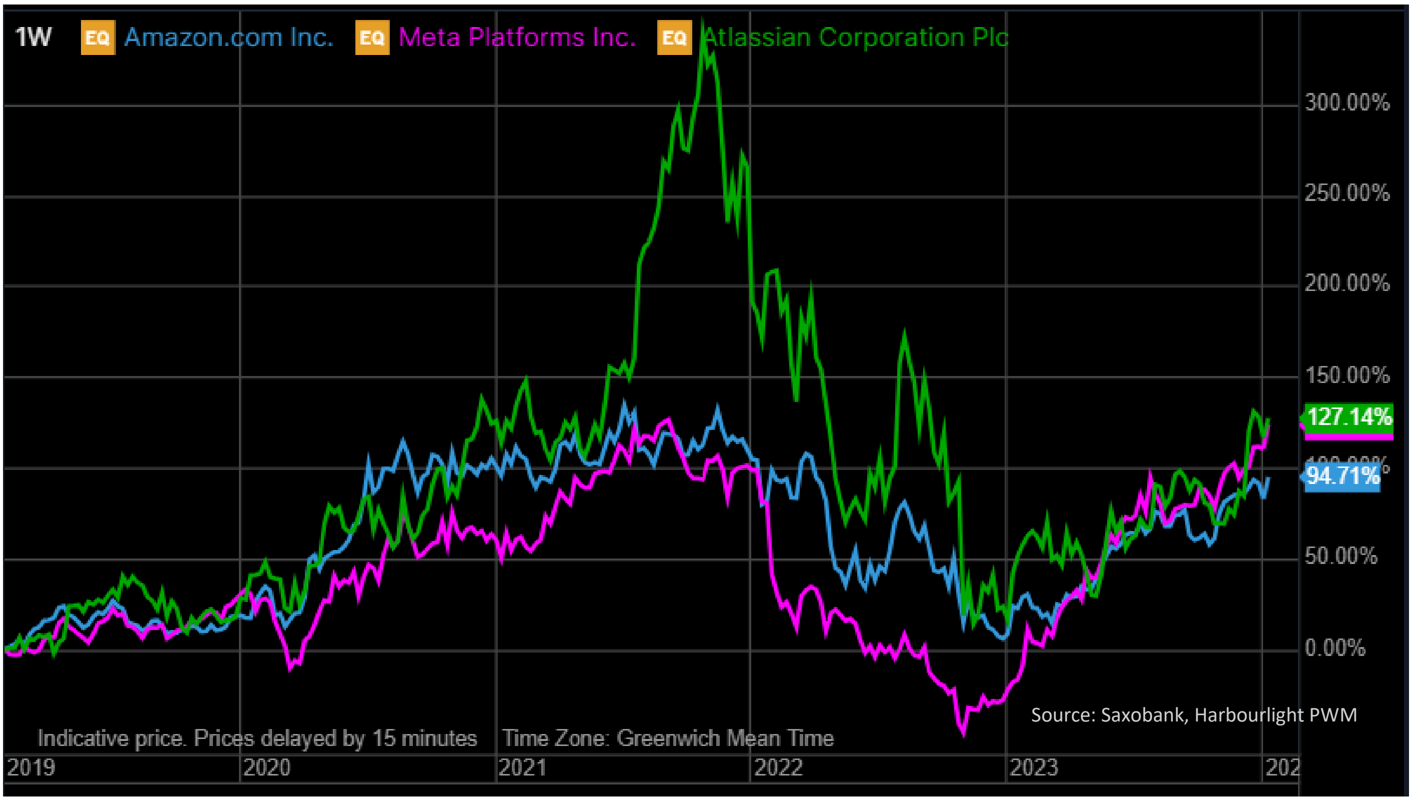
Asset class valuations are generally fair, though commercial property stands out with ongoing valuation write-downs affecting earnings. These write-downs are expected to normalise over time.



Certain individual **property stocks** such as Lend Lease and Dexus are becoming attractive, although associated risks should be carefully considered.



Mid Cap Technology companies like Atlassian have started to recover well, lagging the recovery of larger technology stocks.



Our views for the next 12 months.

Anticipating a soft landing, transitory inflation, and a moderation in global growth, the next 12 months are expected to witness a gradual easing of monetary policy.

With interest rates projected to soften slowly, the year ahead appears supportive for stable to good investment returns. With the belief that equities should still outperform in this environment, the opportunity to make portfolios more conservative may arise later in 2024.

Asset prices are generally fair, though some opportunities are emerging in commercial property.

We continue to prefer a neutral asset allocation with sectoral skews towards Asia, mid cap technology stocks and high yield fixed income with a bias to slightly increase general fixed income allocations as suit client needs.

Other Regulative Matters

- Stage 3 personal marginal income tax cuts will come into effect on 1 July 2024 providing those with a taxable income between $45,000 and $200,000 a reduced marginal tax rate of 32%.

- Any unused concessional contributions from the 2018/2019 financial year will cease to be available under catch up allowances.

- Compulsory super contributions will increase to 11.50% from the 1st July 2024.

- Superannuation contribution caps remain at $27,500 for concessional contributions and $110,000 for non-concessional contributions for the 23-24 financial year.

- The transfer balance cap applying to commencing retirement income streams increased to $1.9m from 1st July 2023.

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

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