MONEYNEWS

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2022 Year In Review

The year began on an optimistic note, as we finally began to emerge from Covid restrictions. Then Russia threw a curve ball that reverberated around the world and suddenly people who had never given a thought to the Reserve Bank were waiting with bated breath for its monthly interest rate announcements.

2022 was the year of rising interest rates to combat surging inflation, war in Ukraine and recession fears. These factors combined to create cost-of-living pressures for households and a downturn in share and bond markets.

Super funds also suffered their first calendar year loss since 2011. Ratings group Chant West estimates the median growth fund fell about 4 per cent last year.[i] While this is bad news for members, it's worth remembering that super is a long-term investment, and that the median growth fund is still 11 per cent above its pre-Covid high of January 2020.[ii]

The big picture

Even though investors have come to expect unpredictable markets, nobody could have predicted what unfolded in 2022.

Russia's invasion of Ukraine in February triggered a series of unfortunate events for the global economy and investment markets. It disrupted energy and food supplies, pushing up prices and inflation.

Inflation sits around 7 to 11 per cent in most advanced countries, with Australia and the US at the low end of that range and the Euro area at the higher end.[iii]

As a result, central banks began aggressively lifting interest rates to dampen demand and prevent a price and wages spiral.

Rising inflation and interest rates

The Reserve Bank of Australia (RBA) lifted rates eight times, taking the target cash rate from 0.1 per cent in May to 3.1 per cent in December.[iv] This quickly flowed through to mortgage interest rates, putting a dampener on consumer sentiment.

Australia remains in a better position than most, with unemployment below 3.5 per cent and wages growth of 3.1 per cent running well behind inflation.[v]

Despite the geopolitical challenges, Australia's economic growth increased to 5.9% in the September quarter[vi] before contracting to an estimated 3 per cent by year's end, in line with most of our trading partners.[vii]

Australia key indices December

	2021	2022
Economic growth	4.6%	*5.9%
RBA cash rate	0.1%	3.1%
Inflation (annual rate)	3.5%	^7.3%
Unemployment	4.2%	#3.45%
Consumer confidence	104.3	82.5

*Year to September ^September quarter # November

Share markets (% change) Year to December

	2021	2022
Australia All Ordinaries	13.6%	-7.2%
US S&P 500	27.0%	-19.3%
Euro Stoxx 50	20.9%	-11.7%
Shanghai Composite	4.8%	-15.1%
Japan Nikkei 225	4.9%	-10.9%

Sources: RBA, ABS, Westpac Melbourne Institute, Trading Economics

Continued overleaf

2022 Year In Review (From previous page)

Volatile share markets

Share investors endured a nail-biting year, as markets wrestled with rising interest rates, inflation, and the war in Ukraine.

Global shares plunged in October on interest rate and recession anxiety only to snap back late in the year on hopes that interest rates may be near their peak. The US market led the way down, finishing 19 per cent lower, due to its exposure to high-tech stocks and the Federal Reserve's aggressive interest rate hikes. Chinese shares (down 15 per cent) also had a tough time as strict Covid lockdowns shut down much of its economy.

Australian shares performed well by comparison, down just 7 per cent, thanks to strong commodity prices and the Reserve Bank's relatively moderate interest rate hikes.

Energy and utilities stocks were strong due to the impact of the war in Ukraine on oil and gas prices. On the flip side, the worst performers were information technology, real estate and consumer discretionary stocks as consumers reacted to cost-of-living pressures.

Property slowdown

After peaking in May, national home values fell sharply as the Reserve Bank began ratcheting up interest rates. The CoreLogic home value index fell 5.3% in 2022, the first calendar year decline since the global financial crisis of 2008.

As always though, price movements were not uniform. Sydney (-12 per cent), Melbourne (-8 per cent) and prestige capital city properties generally led the downturn. Bucking the trend, prices continued to edge higher in Adelaide (up 10 per cent), Perth (3.6 per cent), Darwin (4.3 per cent) and many regional areas.

Rental returns outpaced home prices, as high interest rates, demographic shifts and low vacancy rates pushed rents up 10.2 per cent in 2022. Gross yields recovered to pre-Covid levels, rising to 3.78 per cent in December on a combination of strong rental growth and falling housing values. However, it's likely net yields fell as mortgage repayments increased.

Despite the downturn, CoreLogic reports housing values generally remain above pre-COVID levels. At the end of December, capital cities combined were still 11.7 per cent above their March 2020 levels, while regional markets were a massive 32.2 per cent higher.

Looking ahead

While the outlook for 2023 remains challenging, there are signs that inflation may have peaked and that central banks are nearing the end of their rate hikes.

Even so, the risk of recession is still high although less so in Australia where the RBA has been less aggressive in applying the interest rate brakes.

Issues for investors to watch out for in the year ahead are:

- A protracted conflict in Ukraine
- A new COVID wave in China which could further disrupt supply chains across the Australian economy, and
- Steeper than expected falls in Australian housing prices which could lead to forced sales and dampen consumer spending.

If you would like to discuss your investment strategy in the light of prevailing economic conditions, don't hesitate to get in touch.

Note: all share market figures are live prices as at 31 December 2022 sourced from: https://tradingeconomics.com/stocks.

All property figures are sourced from: https://www.corelogic.com.au/news-research/news/2022/corelogic-home-value-index-australian-housing-values-down-5.3-over-2022

i https://www.chantwest.com.au/resources/another-strong-month-for-super-funds-as-recovery-continues/

ii As above

iii https://tradingeconomics.com/country-list/inflation-rate

iv https://www.rba.gov.au/statistics/cash-rate/

v https://www.rba.gov.au/snapshots/economy-indicators-snapshot/

vi https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release

vii https://www.rba.gov.au/publications/smp/2022/nov/economic-outlook.html

Mortgage vs Super

With interest rates on the rise and investment returns increasingly volatile, Australians with cash to spare may be wondering how to make the most of it. If you have a mortgage, should you make extra repayments or would you be better off in the long run boosting your super?

The answer is, it depends. Your personal circumstances, interest rates, tax and the investment outlook all need to be taken into consideration.

What to consider

Some of the things you need to weigh up before committing your hard-earned cash include:

Your age and years to retirement

The closer you are to retirement and the smaller your mortgage, the more sense it makes to prioritise super. Younger people with a big mortgage, dependent children, and decades until they can access their super have more incentive to pay down housing debt, perhaps building up investments outside super they can access if necessary.

Your mortgage interest rate

This will depend on whether you have a fixed or variable rate, but both are on the rise. As a guide, the average variable mortgage interest rate is currently around 4.5 per cent so any money directed to your mortgage earns an effective return of 4.5 per cent.[i]

When interest rates were at historic lows, you could earn better returns from super and other investments; but with interest rates rising, the pendulum is swinging back towards repaying the mortgage. The earlier in the term of your loan you make extra repayments, the bigger the savings over the life of the loan. The question then is the amount you can save on your mortgage compared to your potential earnings if you invest in super.

Super fund returns

In the 10 years to 30 June 2022, super funds returned 8.1 per cent a year on average but fell 3.3 per cent in the final 12 months.[ii] In the short-term, financial markets can be volatile but the longer your investment horizon the more time there is to ride out market fluctuations. As your money is locked away until you retire, the combination of time, compound interest and concessional tax rates make super an attractive investment for retirement savings.

Tax

Super is a concessionally taxed retirement savings vehicle, with tax on investment earnings of 15 per cent compared with tax at your marginal rate on investments outside super.

Contributions are taxed at 15 per cent going in, but this is likely to be less than your marginal tax rate if you salary sacrifice into super from your pre-tax income. You may even be able to claim a tax deduction for personal contributions you make up to your annual cap. Once you turn 60 and retire, income from super is generally tax free. By comparison, mortgage interest payments are not tax-deductible.

Personal sense of security

For many people there is an enormous sense of relief and security that comes with having a home fully paid for and being debt-free heading into retirement. As mortgage interest payments are not tax deductible for the family home (as opposed to investment properties), younger borrowers are often encouraged to pay off their mortgage as quickly as possible. But for those close to retirement, it may make sense to put extra savings into super and use their super to repay any outstanding mortgage debt after they retire.

These days, more people are entering retirement with mortgage debt. So whatever your age, your decision will also depend on the size of your outstanding home loan and your super balance. If your mortgage is a major burden, or you have other outstanding debts, then debt repayment is likely a priority.

Older couple nearing retirement

Tony and Elena, both 60, would like to retire in the next few years. Together they earn $180,000 a year, excluding super, but they still have $100,000 remaining on their mortgage. Tony has a super balance of $600,000 and Elena has $200,000.

They want to be debt free by the time they retire but they are also worried they won't have enough super to afford the lifestyle they look forward to in retirement.

If they do nothing, at a mortgage interest rate of 4.5 per cent it will take five years to repay their mortgage with monthly mortgage payments of $1,864. At age 65, their combined super balance will be a projected $1,019,395.

Jolted into action, they decide they can afford to put an extra $1,000 a month into their mortgage or super.

- If they increase their mortgage payments by $1,000 a month, the loan will be repaid in three years and two months. But their super will only be a projected $931,665 by then, so they may need to work a little longer to fund a comfortable retirement. From age 63, they might consider salary sacrificing into super with money freed up from early repayment of their mortgage.
- If they salary sacrifice $1,000 a month to super from age 60, their combined super balance will grow to a projected $1,082,225 by the time they are 65 and their home is fully paid for.

These are complex decisions, but whichever option they choose they will probably need to consider working until at least age 65 to be debt free and build their super.

All calculations based on the MoneySmart mortgage and retirement planner calculators.

All things considered

As you can see, working out how to get the most out of your savings is rarely simple and the calculations will be different for everyone. The best course of action will ultimately depend on your personal and financial goals.

Buying a home and saving for retirement are both long-term financial commitments that require regular review. If you would like to discuss your overall investment strategy, give us a call.

i https://www.finder.com.au/the-average-home-loan-interest-rate

ii https://www.chantwest.com.au/resources/super-members-spared-the-worst-in-a-rough-year-for-markets/

Six simple ways to protect your passwords

You use passwords to access your bank accounts, social media, email and more every day. Passwords are the keys to our online identity. That's why protecting them is so important.

Creating a strong password is the first step to protecting yourself online. This helps reduce the risk of unauthorised access by those willing to put in a bit of guesswork.

To help stay safe online, follow these password tips.

1. Make your passwords strong

Short and simple passwords might be easy for you to remember, but unfortunately they're also easier for cyber criminals to crack.

Strong passwords have a minimum of 10 characters and a use mix of:

- uppercase and lowercase letters
- numbers
- special characters like #, !, &, and *

Use passphrases

You may like to consider using a passphrase instead of a traditional password.

Passphrases are considered more secure than regular passwords, and easier to remember too.

A passphrase is used in the same way as a password, but is a longer collection of words that is meaningful to you, but not to someone else.

For example, the passphrase 'CloudHandWashJump7' is 17 characters long and contains a range of different characters. This is more complex than the average password.

Having complex passwords is important to deter 'brute force' attacks, in which a computer program cycles through every possible combination of characters to guess a password. These automated attempts at guessing passwords are not slowed down by numbers or capital letters, but depend on how long a password is.

Depending on the systems you access, you may be limited to a defined number of characters.

2. Make passwords hard to guess

Could someone who knows you guess your passwords? For this reason, it's best to avoid using personal information such as your children, partner or pet's name, favourite football team or date of birth as your password.

When trying to hack into an online account, cyber criminals start with commonly found words and number combinations.

So it's best to avoid using:

- dictionary words
- a keyboard pattern like qwerty
- repeated characters like zzzz
- personal information like your date of birth or pet's name.

Security companies publish lists each year of the most common passwords exposed in data breaches. Read the list from 2020.[i] Make sure you're not using them, because it's likely criminals will try these passwords first.

3. Create new, unique passwords

If you need to reset a password, don't just change one part of it.

Instead of changing a number at the beginning or end, create something completely new you've never used before.

If your original exposed password had a '1' at the end, an attacker would likely try '2' next. That's why it's important to change the whole password.

Get into the practice of changing your password often, ideally every few months.

4. Don't share passwords, ever.

Never share your password with someone, not even with someone you trust.

What about family and friends?

Regardless of whom you share it with, once you share your passwords you lose control of how it's stored or how and when it's used.

What if a business or company I know asks for my password?

Reputable companies won't ask you to give them your password over the phone or via emails or SMS messages. This might be a warning sign of phishing or a scam; you can read more about phishing on our security alerts page.

Some organisations may ask you to provide a one-time code to verify yourself when you call but they will clearly state that they will ask you for the code.

You may not be covered for fraud

If you use internet banking, one of your responsibilities as an account owner and user of internet banking is to protect your password. Sharing your passwords or PINs may affect a claim for any money lost due to fraud.

5. Use different passwords for each of your online accounts

Using different passwords means that if one of your accounts is breached, criminals won't have access to other accounts that use the same password.

Make each of your passwords for online logins unique. This will help protect you from attacks like 'credential stuffing'.

Credential stuffing

Credential stuffing is an automated technique used by criminals. They test a user's known username and password combinations across multiple online accounts.

As many people use the same credentials for multiple sites, it can give criminals easy access to multiple accounts.

This gives criminals an opportunity to gather more information about you, which they might use to impersonate you online to access accounts under your name.

For example, it's not a good idea to use the same password for an online pizza delivery website and your business email. If the pizza delivery site is compromised, you don't want someone to also have access to your business email account.

6. Store passwords safely

Writing passwords down is never recommended. You could lose them, or someone else could see them and use them.

Password management tools

There are programs and apps known as password managers that will store all your passwords in a secure vault.

A password manager only needs one strong password to access it and has extremely strong protection to make sure that only you can access it.

This means you only need to remember one password to have access to all your passwords.

Password safes can even generate and store new, complex passwords for you when you create new online accounts.

Don't allow web browsers to store your passwords either. Some web browsers may display a pop-up message, asking whether you want the browser to remember your login details.

For the protection of your personal information, it is recommended that you select 'Never for this site' if you see this message when logging in to any website, particularly internet banking.

For more information, check out the Australian Cyber Security Centre's guide on creating secure passphrases.

i https://nordpass.com/most-common-passwords-list/

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