

Global Banking System Volatility

Market volatility has been elevated over the past month driven by the failure of the Silicon Valley Bank (SVB).

The unfolding situation in the US could be construed as having echoes of the Global Financial Crisis (GFC). This, combined with recent falls in Credit Suisse shares (which appear to be unrelated to the US mid-tier banks), have continued to put jitters into the banking sector. It is important to note, however, that despite the SVB's failure being the second largest in US history, when put into perspective, its assets are less than one tenth of J.P.Morgan's, one of the major players in the US banking system.

Considering the rapidly developing situation, the US Federal Deposit Insurance Corporation (FDIC) has already taken control of the SVB to navigate the collapse in the best interest of the financial system. Further announcements from the U.S. Treasury have sought to calm the broader market of the financial system's health and to reassure the market that the relevant tools are available, however stating there will be no GFC-style bailout, nor will one be necessary.

The US financial system is considered to be well capitalized overall. According to Mark Zandi, Moody's Chief Economist, the size of the smaller banks at risk is not likely to pose any threat to the financial system overall.

How it happened

- SVB has been operating in a relatively unusual manner. Instead of lending the deposits received, the Bank invested in long dated fixed interest rate bonds. This exposed the Bank's assets to significant interest rate risk which was not sufficiently hedged.
- Given rising interest rates, the value of the bonds held to cover customer deposits have fallen significantly. The need to sell fixed interest rate secure ties to cover the withdrawal requests resulted in realised losses.
- In early March, a single sale resulted in a \$1.8 billion loss which led the Bank to raise capital to increase the balance sheet health. This capital raise failed, which prompted customers with deposits with the Bank to withdraw their funds, resulting in a run on the Bank.
- Within 48 hours the Bank was bankrupt with the FDIC taking control of the Bank.
- Since then, the US Federal Reserve and the US Government have guaranteed customer funds at SVB will be paid back in full.
- More recently, major investment bank Credit Suisse has experienced a panic after the share price dramatically fell, with their banking operations coming under pressure.
- The Swiss National Bank and the Swiss financial regulator announced support for the Bank announcing that "Credit Suisse meets the higher capital and liquidity requirements applicable to systemically important banks" and confirmed they will "provide liquidity to the globally active bank if necessary".

What to do?

This current market volatility, while significant, does not alter our long-term views on how portfolios are positioned. It is important to manage your portfolio in line with your long-term objectives, aligned to your risk tolerance and to that end we would encourage you to discuss your portfolio with us.

(Source: Actuate Alliance Services)



647 Ruthven Street, TOOWOOMBA QLD 4350 | PO Box 1615, TOOWOOMBA QLD 4350 | 07 4639 3733 | enquiries@ritoowoomba.com.au
Ipswich Corporate Centre Level 3/16 East Street, Ipswich QLD 4305 | PO Box 1615 TOOWOOMBA QLD 4350 | 07 3202 4588
Gold Coast—WOTSO Varsity Lakes 194 Varsity Parade VARSITY LAKES QLD 4227 | PO Box 3288 ROBINA QLD 4230 | 07 5593 0000

Visit us on the web: www.ritoowoomba.com.au | Find us on Facebook: RI Toowoomba and Ipswich and Gold Coast

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ANZAC DAY



LEST WE FORGET

Jeff's Jottings

Welcome to our first quarterly newsletter for 2023.

Reflecting on 2022; after an optimistic start with most things opening up after Covid restrictions, the war in Ukraine certainly changed everything again. With rising interest rates to combat surging inflation, recession fears and all of these contributing to cost of living pressures and a downturn in share and bond markets, it is important to not lose focus on your long term strategies and goals.

A prediction from CommSec analysts is that over the coming year the Australian share market could rise by up to 7 per cent, rebounding from the falls suffered in 2022. We will certainly be watching economists' predictions closely.

Further encouraging news is headline inflation of 0.1% in November suggests that if this was sustained in 2023, an annualized run-rate of 1.2% headline inflation would be a significant decline from 2022's highs.

Historically, markets bounce back after sharp declines and resilience is very important as it is about "time in the market" and not "timing the market."

Fundamentals matter when investing, predictions should be monitored but with caution and prudent planning will always prevail.

Please do not hesitate to contact our team should you have any concerns.



Jeff English

CEO and Senior Financial Adviser

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Market Update

After booming returns in January, the month of February saw most markets sell off. **Global Share** performance was weak. Global shares lost 1.6% on a currency hedged basis, but gained 2.1% on an unhedged basis, due to a stronger USD and a depreciating AUD. In the U.S., almost all sectors of the S&P 500 were weaker. Technology was comparatively resilient, while Energy was amongst the weakest sectors with investors eyeing potential cost pressures.

AUSTRALIAN SHARES

The Australian share market fell during February, with the broad market index, the S&P/ASX 200 Accumulation Index losing 2.4%. The best performing sectors were Utilities and I.T., while the worst performing sectors for the month were Materials and Financials.

The **Australian dollar** fell by 4.6% against the US dollar over the month, mainly due to a strengthening US dollar, driven mainly by the interest rate differential between Australia and the US. Against the Yen, the AUD was marginally lower, losing 0.1%. On a Trade-Weighted Index basis, the AUD was down by 1.6%, which was a complete reversal of last month's 1.6% rise.

GLOBAL SHARES

The Conference Board reports that the global economy is so far weathering headwinds better than expected. Incoming activity data for the fourth quarter of 2022 beat expectations, even though they do point to continued slowing momentum.

Global real GDP is forecasted to grow by 2.3% in 2023 according to the Conference Board, down from 3.3% in 2022. Most of the weakness is expected to be concentrated in Europe, Latin America and the U.S., though it is weighing on the industrial sector globally.

Asian economies are expected to drive most of global growth in 2023, as they benefit from ongoing reopening dynamics and less intense inflationary pressures compared to other regions.

FIXED INTEREST

returns for the month struggled, with Australian Fixed Interest losing 1.3%, and global fixed interest losing 1.8%.

LOCALLY

The labour market eased slightly, as the unemployment rate rose to 3.7% surprising the market, however, the annual change in the Hourly Rates of Pay continued to rise.

The RBA again increased the cash rate target by 0.25% to 3.60% on 7 March, which is now an accumulated increase of 3.50% over 10 months.

Did you know?

Steve Lowe, Senior Financial Adviser...



...Just celebrated 9 years with RetireInvest.

Steve joined the RI Team in March 2014 as an Adviser Personal Assistant to Jeff providing support to our Advisory Team and a vital client liaison within our business. He has a natural empathy which enables him to interact with our clients in a professional and friendly manner.

Steve holds a Diploma of Financial Services (Financial Planning). He brings a wealth of experience to our team after working in the finance industry as an Adviser and Company Director for over 10 years.

Steve enjoys spending quiet evenings with his wife entertaining family and friends. In his spare time his three daughters keep him busy and on his toes.

Easter Egg Crack Recipe

- 6 Arnott's Salada Original crackers
- 160g (1 cup, lightly packed) brown sugar
- 125g butter, chopped
- 425g (2 1/2 cups) white chocolate melts
- Oil-based yellow food colouring, to tint
- 2 x 41.5g pkts Cadbury Mini Eggs, coarsely chopped

Step 1

Preheat oven to 180C/160C fan-forced. Line a 20 x 30cm slice pan with baking paper, allowing the paper to overhang the 2 long sides. Arrange crackers in a single layer over base of prepared pan, trimming to fit.

Step 2

Place sugar and butter in a small saucepan over medium heat. Cook, stirring, until butter melts and mixture is evenly combined. Bring to the boil. Cook, stirring occasionally, for 3 minutes or until thickened.

Step 3

Pour sugar mixture over crackers. Bake for 5 minutes or until sugar mixture is bubbling. Set aside for about 20 minutes to cool to room temperature or until just warm.

Step 4

Place 2 cups of the chocolate melts in a microwave-safe bowl. Microwave on HIGH for 3 minutes, stirring once or twice, or until melted. Place remaining chocolate melts in a small microwave-safe bowl. Microwave on HIGH for 1-2 minutes, stirring halfway through, or until melted. Add a few drops of colouring to the smaller bowl and stir to combine.

Step 5

Pour the white chocolate over the sugar mixture. Use a palette knife to smooth the surface. Drop a spoonful of the yellow chocolate mixture over the white chocolate layer. Tap pan gently on the bench to settle chocolate. Scatter over the chopped eggs. Refrigerate for 20 minutes or until set.

Step 6

Lift out of pan and cut into squares or shards to serve.
(Source : taste.com.au)

Macro Perspectives: Recession, inflation and duration consideration

Source: Stephen Dover, CFA, Chief Market Strategist, Franklin Templeton Institute



From a macroeconomic perspective, 2022 centered around the actions of reserve banks around the world. While the fight against inflation continues into 2023, the discussions are more focused on recession and potential weakness in the US Dollar. I recently gathered with some of our economists across the firm to discuss these topics – here are some of my key takeaways:

• **US inflation is trending lower, but the fight isn't over yet.** This contrasts with Europe, where inflation remains higher and has not peaked. Asia has generally seen milder inflation. Japan, for the first time in over 20 years, is experiencing inflation and positive real interest rates. Our economists disagree on how quickly and how far inflation will fall. The market consensus suggests US inflation will run at roughly 3% for the full year. Internally, we have a healthy debate on how quickly inflation will fall and whether it will get to the US Federal Reserve's (Fed's) 2% target.

• **Interest rates are near peaking.** In the United States, we expect the Fed's policy rate to rise to at least consensus expectations of around 5%, with the possibility of reaching 5.25%. Our economists disagree on how long the Fed will hold rates at the higher level. The implications for fixed income and equity investors are that the Fed is unlikely to provide a "Fed put" if the market has a correction.

• **How deep might a US recession be?** One could describe 2023's economic outlook as "the most-anticipated recession ever," with surveys of economic forecasters and market behaviour in 2022 providing the evidence. Everyone seems to "know" the United States is going to have a recession, and everyone seems to "know" it will be mild. Whenever "everybody" thinks something, that type of herd mentality makes me nervous because often the herd is misguided. I gain some comfort from internal discussion and healthy debate among our economists, whose views on recession vary from the possibility of no recession at all, to a "normal" recession, which typically lasts about 10 months.

• **Time to consider increasing fixed income allocation.** Fixed income is now providing income again. Rates are near a peak, and 2023 may be a year of positive returns for fixed income. We see a general shift toward larger fixed income allocations no matter how one is currently positioned.

• **There's a quality bias when leaning into fixed income.** We believe investment grade and sovereigns are particularly attractive in this environment, with continued economic uncertainty perhaps providing opportunities on a selective basis in areas like high yield.

• **Opportunity outside of the United States.** This year, analysts expect US growth to come in below that of Japan – which has not happened for over two decades – while emerging and developed Asia overall will likely see higher growth than the United States. Meanwhile, Europe's economy is doing better than many forecasts expected, due largely because of a mild winter.

• **Expect volatility.** While our economists agree that taking a long-term strategic view suggests taking on a bit more duration, there may be tactical opportunities within the fixed income markets.

• **Emerging markets may have tailwinds.** Both debt and equity markets in emerging markets are seeing favourable conditions. Relatively stronger growth rates combined with tempered inflation – and the potential US Dollar may have peaked – provides opportunities, particularly in Asia.

• **Asia generally, and specifically Japan and China, may provide new opportunities for active investors.** With a whiff of inflation in Japan, it is now facing different dynamics than during previous decades of deflation. Meanwhile, China is finally coming out of COVID-19 lockdown, which should help spur renewed consumption and improve global growth prospects.

A Will isn't always the only way

You would have heard the saying: "where there's a will, there's a way". This statement is usually used to encourage people who are losing enthusiasm for a task or goal. But it also reflects the way many people feel about estate planning. They think that so long as you have a Will, you have a way to ensure your wealth is passed correctly to your loved ones. But this is not necessarily the case.



The truth about Wills

A Will can help ensure the assets that form part of your estate are distributed according to your wishes. But did you know that a Will typically only applies to personally held assets and therefore may not deal with a significant portion of your wealth? For example, the proceeds from your superannuation funds and life insurance policies don't necessarily form part of your Estate. They can pass directly to certain beneficiaries, who may have been nominated by you, or go to your Estate where they'll be dealt with by your Will. Also, some assets never form part of an estate, like jointly owned assets or assets held in a discretionary family trust. To cover all bases, thorough estate planning (or personal succession planning as it's also known) involves putting in place strategies that address all your assets, not just those covered by your Will.



Do I need a personal succession plan?

Just about every asset you own and every investment you make has estate planning implications. As a result, personal succession planning is something everyone needs to consider, regardless of age or stage in life.

At a minimum, every individual should have:

- a current Will to distribute estate assets
- an Enduring Power of Attorney to cover situations where they're unable to make financial decisions themselves
- appropriate superannuation and insurance beneficiary nominations, and
- appropriate arrangements in place to distribute or pass control of any assets that are not covered by the Will.



What are the benefits of personal succession planning?

Personal succession planning can:

- provide certainty by getting the right assets in the hands of the right people, at the right time
- enable you to provide for and protect your loved ones while reducing tax payable by your beneficiaries, and
- provide certainty that your children are taken care of.



What are the consequences of NOT having a personal succession plan?

Personal succession is something you should address now. Don't wait until it's too late. If you die without a valid Will, intestacy legislation will determine how your estate assets are distributed among your surviving family members. If you die without a valid superannuation or life insurance death benefit nomination, the proceeds may not be distributed according to your wishes. And, if you're badly injured in an accident or lose mental capacity, who will manage your affairs while you're still alive but unable to make your own decisions? If you would like any more assistance please contact our office on 07 4639 3733.

Welcome

Alexia



We would like to introduce you to Alexia Smyth. Alexia joined the team in January as an Adviser Support for Jeff. She has a Diploma in Financial Planning and is currently studying a Bachelor in Business (Financial Planning) and a Bachelor in Communications (Professional Communication). Alexia and Jeff work together to provide our clients with a high level of service in helping them achieve their financial goals.

Introducing Renee



We would also like to introduce you to Renee Perkins. Renee joined the RI Team in February 2023 as our new Receptionist. Renee is the polite and friendly voice you will hear when you call our office. With a passion for delivering excellent administrative support and customer service to our clients and staff, Renee will be another valuable member of our team. Outside of work Renee enjoys walks along the beach, hanging out with family and friends and keeping fit while doing Zumba.

Please note the Office is Closed for the following Public Holidays



Wild cards: Worries and optimism

Here are some key themes our economists are watching closely.

US debt ceiling/budget deficits

Government deficits around the world have grown since pre-COVID. We are mindful of economic and market risk if the United States does not resolve its debt-ceiling limit. This could cause severe market volatility, and in the worst case, could lead to a ratings downgrade.

"Sticky" inflation

If the global economy is stronger than expected, and inflation proves more long-lasting, this could cause a very different monetary policy approach (tighter for longer) than the market is currently pricing in.

Growth in Asia and China's reopening

With China beginning to reopen, growth dynamics could have some moderate inflationary impacts.

The recognition that Asia's growth rate is likely to outperform that of the United States' is not without country-specific risks, but also creates opportunities for investors in non-dollar assets.

Europe, energy and war

Amid a milder-than expected winter, Europe seems unlikely to face the type of severe downturn feared just a few months ago. The outlook can be considered fairly encouraging, but still represents geopolitical uncertainty, especially as the Russia-Ukraine war continues.

