Market Update – June 2022

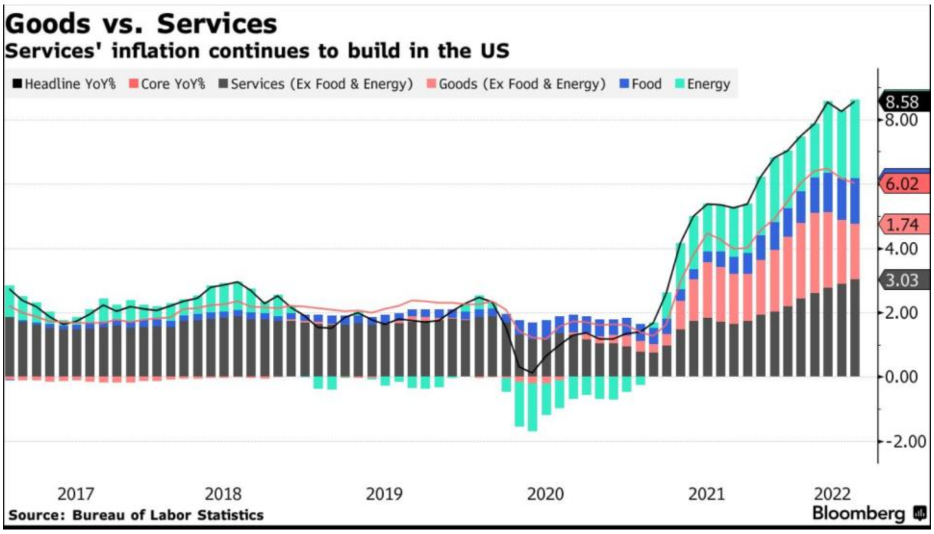
The volatility that we've seen over the last six months, while significant, is not an unusual occurrence for a normal and healthy functioning market. Despite the recent heightened volatility being an uncomfortable experience in the short- term, equity markets and some parts of the bond markets will continue to be an important contributor to overall long-term returns.

We appreciate that the current environment looks concerning given falls in markets and likely further interest rate rises during 2022, with the possible risk of recession, however it is important to continue to stay invested and manage your portfolio in line with your long-term objectives, aligned to your risk tolerance. We would encourage investors to discuss their portfolio with their adviser to ensure that it meets their personal needs, objectives and is in line with their risk tolerance.

Key Summary Points:

- Stock and Bond Markets have fallen dramatically this week, continuing the trend since the start of 2022.
- High inflation in the U.S. was the cause – coming in at 8.6%. The highest in 40 years. This prompted the U.S. Federal Reserve to raise interest rates by 0.75%. Domestically, the RBA raised rates by 0.5%.
- The Inflation is being caused by a range of factors, including supply chain disruptions due to the COVID crisis and the war in Ukraine.
- Investors fear that rising interest rates, to combat inflation, will hurt economic growth and cause a recession.
- Fear of slower economic growth has hurt the share market, which performed strongly in 2020 and 2021.
- Stocks market and Bond market falls means they are now more attractively priced.
- It is important to take a long-term view and stay invested, with diversification, in line with your risk tolerance.
- Time in the market, is more important than timing the market.

Inflation at 40-year highs



Sourced: June 2022

The chart above shows the recent dramatic increases in U.S. Inflation with the colours reflecting where the inflation has come from – mainly from energy prices, services and food.

The COVID crisis and the war in Ukraine caused reduced supply of goods and services. Also, just after the COVID crisis back in March 2020, governments and central banks increased the money supply to support markets and economies. The increased money supply, meant more money bidding for the same quantity of goods, causing rising prices. This will likely continue throughout 2022, as it takes time to work through the global economy.

Outlook

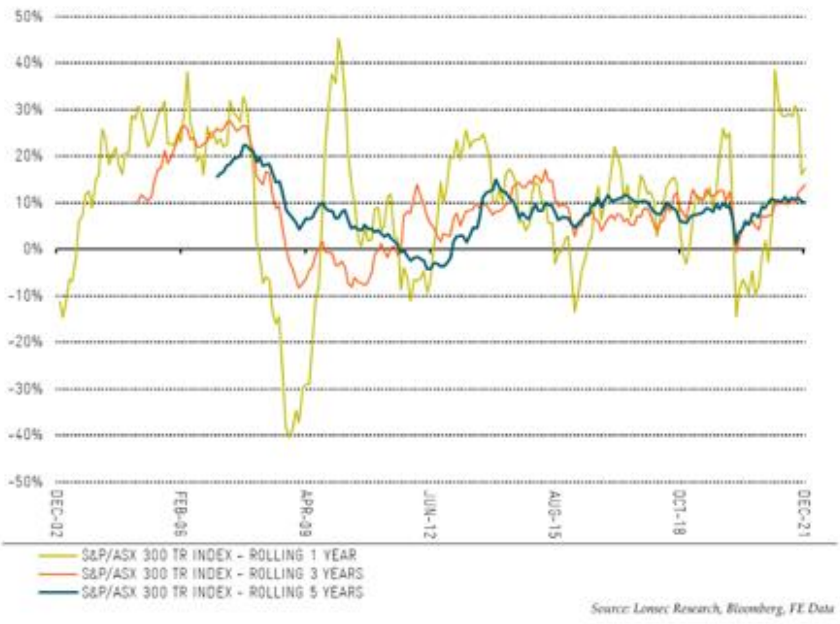
We expect inflation and interest rates to continue rising in 2022. This will have an effect in the short-term, dampening economic growth. We also expect inflation to reduce in 2023 and this should take pressure off the global economy. This is because the supply side shocks should reduce as the world opens up after the COVID crisis.

An end to the war in Ukraine would also help the inflation situation, as the supply of many key commodities would increase.

Markets have fallen substantially and are therefore more attractively priced than recent all-time highs at the end of 2021. There are asset classes that should do well in the coming periods, including floating rate Bond markets and asset classes that benefit from inflation – e.g. Infrastructure and Commodities.

One of the important lessons in investing is that time in the market, is more important than timing the market. The following chart demonstrates that whilst short term movements in markets (in this case the ASX 200) can be extremely volatile (as we have witnessed in the past six months), investing for the longer term (the blue line) provides a much more stable outcome. As we continue working through this period of heightened volatility, keeping the longer-term in mind remains important.

Long Term Returns (Blue Line) More Stable than Short Term Return (Green Line)



Source : Lonsec May 2022

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Research Analyst Disclosures:

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