KEY FINANCIAL PLANNERS
WEALTH SPECIALISTS

NEWSLETTER

Autumn Edition

In this issue:

- **What's happening in the markets**
- **Market Update**
- **Memory loss, dementia & your money**

What's happening in the markets

February saw continued equity market volatility due to concerns surrounding inflation, supply chain constraints, monetary policy and rising bond yields. February also saw an escalation in geo-political tensions with Russia invading Ukraine adding further uncertainty to markets. Only time will tell what this will mean for central bank policy, economic growth and financial markets in general.

Market Update

Russia/Ukraine

- On the 24th of February 2022 Russian President Vladimir Putin ordered a full-scale invasion of Ukraine by Russian armed forces.
- Consequently, a number of Western Nations implemented sanctions including limiting key Russian institutions from accessing the global finance messaging service SWIFT.
- While the conflict continues to unfold, the outlook for assets linked to the crisis is uncertain. As such, we focus the attention of the monthly commentary on the overall global economy and key macro data points released over the month which provide an indication of where we are in the economic cycle.

Developments in the global economy

Australia

While the global events plagued what is normally a busy month for Australian companies, February marks half year and full year reporting for the majority of listed Australian companies.

Over the month of February, 164 of the ASX200 companies had reported their earnings results (138 companies reported half-year results to December 31, and 26 companies issued full-year results).

- 67% of the companies that reported half-year results lifted profits which is above the 60% long-term historical average.
-
- 88% of the 138 companies reported a statutory profit – the most in two years and in line with the long-term average.
- Aggregate cash holdings lifted 60%. While cash holdings of all 164 companies stood at a record AU$246 billion at 2021 calendar year end.
- 81% of companies issued a dividend – short of the 85% long-term average. Aggregate dividends lifted by 5.9%.
- Costs have risen over the past six months; however, pressures haven't dramatically weighed on profitability. But cost pressures remain a dominant concern for chief executives from earnings rhetoric.

These results paint a strong picture of corporate Australia.

In addition to this, other key economic data points released over the month supported this story of a healthy and improving Australian economy. Wages grew at the fastest quarterly pace in nearly 8 years, up 0.7% over the December quarter, to be 2.3% higher over the year. There are clear signs momentum in wage growth is building as wages growth has stepped up to 2.5% in six-month annualised terms in the December quarter. A key indicator the RBA is keeping a close eye on.

Furthermore, the latest national accounts revealed the Australian economy sprung back into action in the final quarter of 2021. Q4 GDP bounced back 3.4%, after a Delta-induced contraction of 1.9% in Q3. The recovery at the end of 2021 meant the economic expansion for the calendar year printed at 4.2%. The economy at the end of 2021 was 3.4% larger than prior to the pandemic. With consumer spending driving a large part of the recovery. The household savings ratio fell to 13.6%, as household consumption surged 6.3%, piercing the pre-pandemic level for the first time.

For 2022, the BT (Westpac) house view is expecting another leg up in economic output of around 5.5%, although this year isn't without its challenges. The Omicron wave is likely to have sidelined economic activity in the early part of this year.

The floods in Queensland will hurt economic activity before the rebuilding effort adds to growth. The highly uncertain and fluid developments in Ukraine that we addressed earlier will continue to wane on sentiment in the immediate term.

The Reserve Bank (RBA) kept the cash rate on hold at its March 1 meeting at 0.10%, where it has been since November 2020. The RBA has underscored the need for patience because of two key factors;

- Uncertainty over how long global supply-chain disruptions will persist, and
- Wages growth is not yet at a level the RBA considers appropriate

United States

As we spoke to in last month's commentary, the year started with a very strong focus on the strength of the US economy (particularly inflation) and expectations around the Federal Reserve (Fed) policy response.

While expectations have now tempered from a 50bps point rise to a 25bp rise in the Fed funds rate at their March meeting, inflation continues to be a very real problem facing the US economy, regardless of any additional geopolitical pressures.

During the month, US Fed Chair Jerome Powell told a House panel that he backs a quarter-point move, but he left open the possibility of a larger hike if inflation remains elevated. Powell said he will 'proceed carefully' with hikes, emphasising the "need to be nimble in responding to incoming data and the evolving outlook". He also acknowledged the uncertainty posed by the war in Europe but reiterated the need to remove pandemic support had not changed and is open to a "series of rate increases" in 2022.

As for economic data, ADP employment in February was stronger than expected. Employment rose 475k in February, well above consensus expectations for an outcome of 375k. Most job gains were in services and hospitality as the economy continued to reopen.

The ISM manufacturing index rose to 58.6 in February, which was above consensus expectations and the 57.6 result in January. Furthermore, US retail sales rose 3.8% in January, the most in 10 months and beating estimates. The biggest gains were amongst non-store retailers, furniture and autos.

In the latest beige book released in February, it was noted economic activity in the US has expanded at a modest to moderate pace since mid-January. It noted that many districts reported that the surge in Covid-19 cases temporarily disrupted business activity, as firms faced heighted absenteeism.

Asia

As for China, data reported showed inflation pressures eased in January, despite recent expansionary policy changes from the Peoples Bank of China (PBOC). The result gives the central bank more leeway to ease policy settings and stimulate the slowing economy.

Furthermore, China's National Development and Reform Commission (NDRC) said inflation risks will fall this year for China. The NDRC expects shifting monetary policies abroad to weaken the global commodities rally. It also expects lingering Covid and global-supply concerns to ease.

The producer price index (PPI) increased by 9.1% in the year to January. This is down from a 10.3% annual

increase in January and below consensus expectations of a 9.5% rise.

While the Consumer price inflation also slowed. The CPI jumped 0.9% over the year to January, down from a 1.5% increase over the year to December.

Europe

As for Europe and the UK, the immediate economic risk from the conflict in Ukraine appears to be the most significant given its geographical proximity and reliance on trade.

In the UK, January Inflation data surprised to the upside. The CPI index jumped 5.5% over the year to January. This is the fastest annual pace of inflation since March 1992. However, the pace of increase of CPI pulled back 0.1% over the month of January, providing some indication that inflation pressures may be slowing given the recent rate rises.

While Core CPI, which excludes volatile items such as food and energy, increased by 4.4% over the year to January, this is up from a 4.2% annual rise in December and is the fastest annual pace since May 1992.

Produce prices also rose in January. The Producer Price Index (PPI) jumped 1.2% in January, following a 0.3% rise in December. In annual terms, producer prices surged 9.9% in January, up from 9.3% in December. It is expected this will lend further support to calls for the Bank of England (BoE) to hike rates further at their next meeting in March. The BoE was the first of the major developed countries to raise rates in December 2021.

Across the Eurozone, producer price inflation spiked in January following slightly softer results over the previous two months. Producer prices jumped 5.2% in the month, up from a revised 3.0% in December. The result was well above consensus expectations of a 2.8% rise. In annual terms, producer prices surged 30.6%. This is the fastest annual pace of growth in the history of the series, going back to 1982.

The unemployment rate fell to its lowest level since records began in April 1998. The unemployment rate hit 6.8% in January, falling from 7.0% in December.

While the services PMI came in at 55.5 in February, this is solidly above January's result of 51.1. While this data paints an optimistic picture of growth, we will have to wait and see the extent of the Russian conflict and flow on effect to energy prices and supply chains to determine the full impact to the UK & European economies.

Developments in financial markets

Australian Equities

Despite the geopolitical headwinds the Australian markets bounced back in February with the S&P/ASX300 Accumulation returning 2.09% for the month, bringing the 1 year rolling return to 10.25%. From a size perspective, the large cap ASX 50 and ASX 100 indexes ended the month up 1.60% and 1.30% respectively. While the ASX MidCap 50 index and the ASX Small Ordinaries Accumulation index both underperformed ending the month down -0.80% and -0.01% respectively.

Once again, Information technology lagged the market for a third month in a row ending the month down -1.99%, bringing the 3 month return to -26.07%. Energy, Consumer Staples and Materials all benefited from stronger prices ending the month up +8.13%, +7.39% and +6.32% respectively.

International Equities

February painted a very different picture for global markets with Investors piling into safe-haven investments such as US government bonds, gold and the US dollar, after Russia launched the invasion of Ukraine.

As for the major US markets, the S&P returned -2.99%, the NASDAQ was down –3.35% and the Dow Jones -3.29%, bringing annual returns to 16.39%, 4.92%, and 11.59% respectively. This was the second month of declines for the broader US Market (S&P500), its longest losing streak since October 2020 and the biggest two-month drop since March 2020.

Once again, the larger end of the market, particular the tech sensitive stocks rerated off increased volatility, threatening their already stretched valuations. In response to weak earnings guidance, shares in Facebook owner Meta Platforms dipped 24.3%. While shares in PayPal shed 26.7%.

The Europe 600 STOXX reported a loss of -3.36%, the French CAC 40 -4.86%, the German DAX -6.53% and the UK's FTSE100 ended nearly flat -0.08%.The UK market did benefit of rising commodity prices given its large exposure to energy & mining companies.

Asian markets were somewhat mixed with Japanese Nikkei 225 and the Hong Kong Hang Seng both finishing down, reporting -1.71% and -4.58% respectively. While the Korea KOSPI and Shanghai composite bucking the trend ending up 1.35% and 3.00% respectively.

Fixed Interest

With inflation and interest rates continuing to be the hot topics of the last few months, markets are paying close attention to global central banks' sentiment and policies.

The Bloomberg AusBond Composite (0+Y) returned -1.21% for the month and -2.13% on a rolling 1 year basis. In international fixed income markets, the Barclays Global Aggregate TR Hedged index returned -1.30% over the month and -3.34% for the rolling 1year. As a quick reminder, there is an inverse relationship between bond yields and bond prices. That is, rising interest rates lead to falling prices and hence negative returns.

The Australian 10 Year yield ended the month at 2.13% adding 24 bps over the month and the US 10 Year yield at 1.83% adding 5bps. While both curves traded higher during the month, they moderated post the 24th, off the potential outlook of lower economic growth resulting from Russia/Ukraine tensions and flow on impact to central bank decisions on the path and speed of cash rates.

As mentioned last month, the yield curve continues to display a flatter shape with the market pricing in short term rate rises, but given the level of global debt, longer rates do not expect to reach levels seen prior to the GFC levels for an extended period of time

Foreign Exchange

Despite the risk off sentiment in the market and increased demand for USD assets, the AUD stood up against the USD, ending the month at 0.7263, up 2.77%.

However, this was not the case against the other major currencies, with the EUR and GBP ending down -0.14% and -0.20% respectively to the USD. A similar story unfolded from the Yen which was somewhat surprising as it is normally seen as a safe haven asset. The USD/JPY ending the month at 115, down -0.10%.

Commodities

Commodities across the board had a strong month with the Bloomberg Commodity Index ending up 6.20%. This brought the 3 month return to 19.58%, and 1 Year to 34.33%.

As mentioned previously, oil benefited off political tensions and impact to future supply with WTI and Brent up 8.59% and 10.72% at US$95.75 and US$100.99 respectively.

Much to Russia's disappointment, Germany announced the Nord Stream 2 pipeline would be halted.

Gold, another safe haven was well supported towards the end of the month, ending up 6.22% to US$1908.99

Source: BTIS – Westpac Financial Services Limited – February 2022

Memory loss, dementia and your money

How planning now can protect your future

Most of us will have some memory loss as we age. However, for some people, significant memory loss, arising from illnesses such as dementia, can be a problem. When it gets to the point where you are struggling to manage your finances it's important to put some safeguards in place.

Here we explain how to set up your finances so they can continue to be managed responsibly if you can no longer do this yourself.

- How memory loss can affect your finances
- Plan ahead to protect your money
- Protecting yourself from financial abuse
- Where to get support to plan your future

How memory loss can affect your finances

Memory loss can make it difficult to stay in control of your money. Things you found easy before - like tracking your spending, checking your bank statements or investments, or even paying your bills - may become challenging or you may just not remember you need to do them.

You may also find it hard to take in and absorb information from banking staff or your financial adviser or accountant.

All these factors mean you may not be making the best financial decisions or be able to keep up with the regular maintenance of your money.

Plan ahead to protect your money

Planning for the future is important for everyone, but this is especially true as you age.

Although it can be confronting to think about what you want to happen when you can no longer make decisions for yourself, putting a plan in place is the best way to ensure your wishes are carried out. It also relieves your loved ones of the stress of having to make these decisions for you.

Here are some steps you can take to protect your money:

Simplify your finances

To help you stay in control of your money as you age, and make it easier for your loved ones to help you, here are some ways you can simplify your finances:

- Consolidate your transaction accounts into one.
- Reduce the number of credit cards and store cards you have.
- Close your cheque account.
- If you have super in more than one account, consolidate them into a single account.
- Put a list on your fridge of what your regular bills are and when they come in (e.g. phone monthly, electricity quarterly, rates annually).
- Put a 'tick' beside each bill once you've paid it.
- Put unpaid bills on the fridge and take them down when they have been paid.
- Consider whether you would like to set up direct debits to pay some of your bills.

Appoint an enduring power of attorney

An enduring power of attorney allows you to choose a person to manage your affairs if you lose the ability to make these decisions for yourself. If you do not have these plans in place then a court or tribunal may need to appoint someone to take care of this for you.

It is important to choose someone you trust as your enduring power of attorney. They will be responsible for looking after your bank account, paying your bills, and even selling your house if you need to move into an aged care facility. You need to feel confident they will act in your best interests.

This person could be your spouse, child, another relative or friend. Alternatively, it could be an independent person, such as the Public Trustee, or your solicitor. Some people prefer to appoint two people to be their enduring powers of attorney. If you do this, you need to be confident that they will generally agree on what is in your best interests.

Whether you choose one person or two people for this role, it is important they understand the responsibilities and legal obligations of an enduring power of attorney.

No matter who you appoint, you should discuss your decision with your family so everyone knows and understands your wishes. This will help avoid disputes later on.

Medical decisions

In some states, you may need to set up separate arrangements to nominate someone to make medical decisions on your behalf. Advance Care Planning Australia has more information about this.

Update your will

Review your will to make sure it is up to date. If you don't already have a will, now is the time to create one.

To make a valid will, you need to be able to understand the decisions you make about your assets and the effect these decisions will have, so it is better to make or update your will before being diagnosed with dementia.

A diagnosis of dementia does not automatically mean you have lost capacity to make these decisions for yourself. However, if you are concerned about memory loss, or someone close to you has been diagnosed with dementia or another form of memory impairment, it is important to acknowledge the issue and obtain legal advice, or consult the Public Trustee, to help you create or update your will.

It is a good idea to give a copy of your will to your beneficiaries. This is especially useful if you only have one beneficiary, in case you misplace your copy of the will.

Get your super in order

Nominate your super beneficiaries

Unlike your other assets, your super account does not automatically form part of your estate. This means you cannot nominate the beneficiaries of your superannuation through your will.

To ensure your super fund goes to the people you choose when you die, you need to make a binding beneficiary nomination (sometimes called a binding death benefit nomination) through your super fund.

Alternatively, you could nominate your estate as the beneficiary of your super fund. Doing this will ensure your super benefits will be distributed according to the terms of your will.

Reconsider your self-managed super fund (SMSF)

Running your own super fund can be very complex, and there can be very serious financial consequences if you can no longer manage it properly.

If you are diagnosed with dementia or you suspect memory impairment, consider changing your super arrangements. You could transfer your super assets to a managed fund. Alternatively, you could nominate someone you trust, and who has the right skills, to take over your trustee role as your legal personal representative.

Sort out your important documents

For your own peace of mind, and to make things easier for your power of attorney, it is a great idea to set up a file of your personal and financial information. You could also keep a duplicate file containing copies of these documents in a safe location (such as a safe deposit box with your bank, or with your solicitor). Create a list setting out where these files are located.

The key documents you should include in this file are:

Personal documents

- Birth certificate
- Marriage certificate
- Will
- Enduring power of attorney or guardian details
- Personal insurance policies

- Tax File Number
- Centrelink/DVA Client Reference Numbers
- A list of all of your assets

House documents
- House deeds
- Home and contents insurance
- Deeds and insurance policies for any other real estate you own

Financial documents
- Bank account details
- List of any direct debits
- Mortgage documents
- Superannuation papers
- Documents related to any loans you may have
- Investment documents (securities, share certificates, bonds)
- Any pre-payments of funeral investments or plans

Health documents
- Advance healthcare directive (also called a living will)
- Medicare card number
- Medical insurance details
- Details of your My Health Record
- Pensioner concession card

Protecting yourself from financial abuse

If you suffer memory loss, you have to rely more heavily on the people around you and trust them to take care of you. Unfortunately, this can leave you vulnerable to people who might wish to take advantage of that trust.

Your family and friends might have their own opinions about who should be in control of your money or property, but it is important that they do not pressure you or try to influence your decision. This is financial abuse.

Elder abuse is one of the most common forms of financial abuse, and people with dementia are higher risk of this happening to them.

Where to get support to plan your future

The elder care and seniors support https://www.moneysmart.gov.au/life-events-and-you/over-55s/elder-care-and-seniors-support page has the contact details of a range of national and state-based organisations that can provide advice, support and assistance for you.

The 'start2talk' website also has a lot of useful information and resources for each state and territory about planning ahead for your future.

Taking steps now to protect your future financial interests is not only empowering, but can help you and your loved ones avoid unnecessary problems in the future.

Source: MoneySmart

Address:

17 Murray Street
Nuriootpa SA 5355

Phone:

08) 8561 2400

Email:

admin@keyfinancial.net.au

Website:

www.keyfinancial.net.au