OUR GEMS

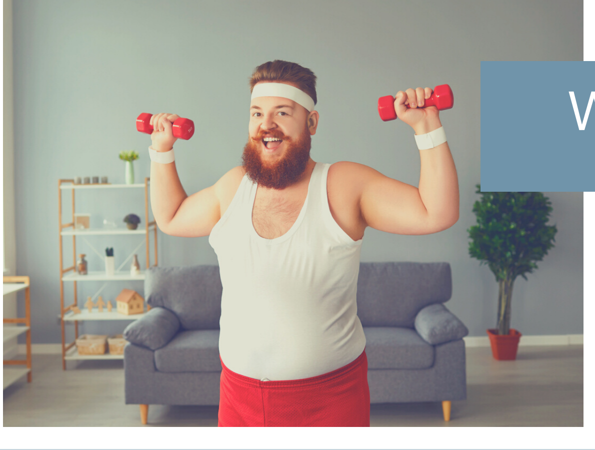
JEM Wealth Monthly Newsletter - January 2023

RELFECTION ON 2022

As the world slowly emerged out of Covid lockdowns, two central themes dominated 2022: inflation and geopolitics. Domestically, the annual CPI figure has exceeded 7%. It has been a similar story...

MARKET UPDATE

In 2022, Energy and Utilities were the strongest performers. Overall, the broader market decline ultimately meant that the Australian market finished the year with a decrease of -1.1%...



WHY BOTHER WITH A BUDGET

A budget is telling your money where to go instead of wondering where it went.
But is it necessary? And how are all these people sticking to it?!

RELFECTION ON 2022

Insights from Lonsec Research CIO | 16-01-2023

Inflation and geopolitics

Domestically, the annual CPI figure has exceeded 7%. It has been a similar story across most economies as a cocktail of years of low interest rates, central bank driven liquidity in the form of quantitative easing, severe supply chain disruptions caused by Covid lockdowns and the Russian invasion of Ukraine placed pressure on commodity prices.

As a result, interest rates have risen. The rising interest rate environment has fuelled volatility in markets with no asset class spared, as assets have repriced for the higher interest rate environment. Needless to say, it has been a challenging time for diversified portfolios as equities and bonds have both sold off.

Additionally, as the market has tried to digest the prospect of higher inflation, we witnessed a sharp rotation into sectors and stocks viewed as being beneficiaries of higher inflation such as energy stocks, with sectors such as healthcare and technology selling off irrespective of the quality of the company.

Despite the challenging market environment, there have been some bright spots.

Alternative assets have generally benefited from increased market volatility and dispersed returns. Unlike traditional assets, higher volatility is conducive to alternative strategies such as relative value approaches as they exploit market inefficiencies. Value-based investment approaches have also turned around a decade of underperformance relative to growth-style investing as growth stocks have been sold off.

We have seen many active approaches able to add value as active investment managers have been sifting through the market as assets have indiscriminately sold off.

Finally, bonds are beginning to show signs of value as yields have risen.

In 2023 the themes of inflation and heightened geopolitical risk are expected to continue. However, the narrative will increasingly focus on the prospect of a recession as the impact of higher interest rates makes its way through the economy, impacting households and ultimately demand. We expect the influence to reach corporate earnings by Q3 in 2023. At this stage, our base case is not for a deep recession in Australia.

However, on a global level, Europe remains at greater risk of a deep recession due to high inflation combined with energy security concerns. Central banks appear to be comfortable with the prospect of a recession as long as inflation is controlled. Against this backdrop, we have been gradually neutralising our key exposures away from risk assets in favour of bonds. 2023 will be challenging with markets likely to range trade. Our dynamic asset allocation has added value over recent years as the decision to be long equities and underweight bonds was a relatively simple one. We expect that bottom up manager and stock selection will be a greater contributor to returns in 2023 as we continue to see increases dispersion in returns within asset classes as market volatility remains

Market Update:

Australian Equities

The Australian market concluded the year with the S&P/ASX 200 Accumulation Index falling by -3.2% and every sector finishing negatively. The Materials (-0.9%) and Utilities (-1.2%) led all sectors, as the broader market 'Santa Rally' faded in December and investors evaluated potential global macroeconomic uncertainty. The Consumer Discretionary (-7.0%) and Information Technology (-5.4%) sectors were the biggest laggards as the prospect of further hawkishness from global central banks weighed on investors. The Materials sector was the most robust performer as commodities were relatively steady amidst China reopening optimism and higher gold spot prices. Despite the broader market selloff, volatility was relatively muted as Australian investors repositioned themselves for 2023 after a strong month in November. In 2022, Energy (+49.0%) and Utilities (+30.0%) were the strongest performers, whilst Information Technology (-33.7%) and Property (-20.5%) were the biggest fallers. Overall, the broader market decline ultimately meant that the Australian market finished the year with a decrease of -1.1%.

Global Equities

Global equities ended 2022 with a monthly decline across most major indices. Emerging markets continued their relative strength against their developed market counterparts, recording a -2.6% loss according to the MSCI Emerging Markets Index (AUD) versus a -5.5% loss according to the MSCI World Ex Australia Index. Across key global regions, there were few safe havens for investors to park their money, as the war in Ukraine, disordered supply chains, rampant inflation, and another year of Covid turned markets on their head. China's CSI 300 Index had approximately one-fifth (-19.8%) of its valued wiped in 2022, followed closely by the S&P 500 index (-18.1%).

Fixed Interest

In its final meeting of the year, the Reserve Bank has again raised interest rates by 25bps bringing the target cash rate to 3.1%. The rise in bond yields resulted in almost every fixed income sector being in the red, resulting in the Bloomberg AusBond Composite 0+ Yr Index to return -2.06% over the course of the month. The Australian unemployment rate however remains steady, supporting the growth outlook of the economy. Globally, fixed income markets show a similar story. In a December 14 meeting, The Federal Reserve raised the target federal funds rate to 4.25%-4.50%, with a rate hike of 50bps.

REITs (listed property securities)

Local and Global REITs sold off during December following two positive months. Domestically, the AREITs index (represented by the S&P/ASX 200 A-REIT Accumulation Index) ended the month -4.1% lower. Global REITs outperformed the local REITs index, albeit still experiencing a drawdown of –3.8% during the month. Domestically, infrastructure has followed the trend in A-REITs, returning –1.44% in December. The Australian residential property market experienced –1.2% change month on month in December represented by Core Logic's five capital city aggregate. Brisbane (-1.4%), Sydney (-1.4%), and Melbourne (-1.2%) were the worst performers. Perth (+0.2%) was the only city within the five to advance. The %YoY change for Core Logic's five capital city aggregate as of 31 December 2022 is –7.1%.

Alternatives

Preliminary estimates for December indicate that the index decreased by 3.2 per cent (on a monthly average basis) in SDR terms, after decreasing by 6.6 per cent in November (revised). The rural and non-rural subindices decreased in the month, while the base metals sub-index increased. In Australian dollar terms, the index decreased by 3.3 per cent in December.
Over the past year, the index has increased by 15.6 per cent in SDR terms, led by higher thermal coal, LNG and iron ore prices. The index has increased by 16.6 per cent in Australian dollar terms.
Consistent with previous releases, preliminary estimates for iron ore, coking coal, thermal coal and LNG export prices are being used for the most recent months, based on market information. Using spot prices for the bulk commodities, the index decreased by 1.8 per cent in December in SDR terms, to be 17.5 per cent higher over the past year.

Budget Like a Boss

Did you make any New Year's Resolutions?

Well, if you did, you should know that you have a cheer squad behind you: the team at JEM Wealth! We want to see you get closer and closer every year to achieving your financial goals.

Making a budget could be your first step this year. Budgets help you to plan for the future, avoid overspending, and reach your financial goals.

Fun fact: according to a survey by NAB, only 35% of Aussies use a budget!

Don't be a statistic - *budget like a boss*.

As a good quote goes, 'A budget is telling your money where to go instead of wondering where it went.'

So, grab a pen and paper (or your mobile phone) and get serious about saving and spending!

How To Make A Budget

0. **Write down your income and expenses**
0. **Identify areas to immediately cut back on**
0. **Set financial goals**
0. **Track your spending and review the budget**
0. **Make adjustments and stick to it!**

Overcoming Common Challenges

1 Difficulty in tracking expenses

One of the challenges of budgeting is keeping track of all the expenses.
To overcome this, you can use mobile apps or software to track your expenses automatically. Or you could write down all your expenses in a notebook or spreadsheet.

2 Unexpected expenses

Unexpected expenses can throw off a budget, but you can overcome this by setting aside a certain amount of money each month for emergencies.
A comfortable amount is enough to cover 3 months' worth of living expenses.

3 Sticking to the budget

It can be difficult to stick to a budget, but you can overcome this by setting realistic goals and being honest with yourself about your spending habits. Additionally, you can try to find ways to cut back on expenses, such as eating out less or cutting back on subscriptions.

4 Lack of motivation

When you lose momentum, try to find ways to make budgeting more fun, such as setting goals and rewarding yourself when you reach them.
Additionally, you can try to make it more manageable, such as breaking it down into smaller tasks or reviewing itt less frequently.

The Barefoot Investor is a great introductory book about budgeting. He suggests taking yourself/your partner on a 'finance date' to talk about it!