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Reid Wealth Management

Reid Wealth Management - June 2023 Newsletter

Here is the latest newsletter from Reid Wealth Management. Please do not hesitate to contact us if you have any questions in relation to these articles, or if we can help you with anything else.

Economic Update - June 2023

In this month's update, we provide a snapshot of economic occurrences both nationally and from around the globe.

Key points:
- US debt ceiling deliberations coming to an end
- Central banks are still hiking rates despite agreeing that inflation peak now behind us
- China economy not yet out of the woods as indicators remain mixed

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact the team.

The Big Picture

It seems that every time there is a divided Congress in the US, like there is now, both sides engage in brinkmanship. They always come to a solution but is there a better way? It destabilises asset markets and causes consumers unnecessary angst.

President Biden announced that a deal had been reached with Republican leadership on the last weekend in May, and was finally ratified by the US Congress in the past week, ahead of the reported June 5th deadline after which the US government becomes at risk of defaulting on its debt. Despite the apparent risk the US Government does have some wiggle room before they would actually default e.g. public servants and the like get furloughed first, as has occurred previously in response to this issue.

As a result of this squabble, one of the big three ratings' agencies, Fitch, put US Treasury Securities on 'negative watch' meaning that their AAA credit quality status was in jeopardy.

While we make light of the posturing for the TV cameras by the opposing political parties, a huge and very real problem is emerging. The total of US Government debt is now $31,000,000,000,000! (Trillion) As rates rise, the interest bill is becoming dangerously high unless some long-term deficit reduction solution is agreed upon. One day, US debt might become too risky for other nations to hold. What happens then when they've all but maxed out their credit card.

It is hard to unscramble all the influences on central banks and bond yields. It seems safe to ascribe a little of the recent uncertainty to the debt ceiling negotiations but a lot must also be due to central banks' interpretation of the economic and inflation data that are landing on the news wires in rapid fire.

The Reserve Bank of Australia (RBA) surprised markets in May by increasing the official cash rate by 0.25% to 3.85% when the consensus was that they would leave rates on hold. At the June meeting the odds of a rate increase changed markedly during May from a minor chance of an increase in June to the point of 'much more likely than not' in the few days prior to the June meeting on Tuesday 6th of June. The RBA decided to go with the majority and increased the cash rate to 4.10%.

Our CPI inflation data did come in a bit high at 7% in the last week of April and that was backed up by 6.8% from a new monthly publication at the end of May. While that figure is well above the target rate of 2% to 3%, we have no real way of knowing what will be the delayed impact of all the previous interest rate hikes in the future.

Everyone agrees that the impact of rate hikes is felt with 'a long and variable lag.' So, if Central Banks wait for inflation to be reasonable before they pause or 'pivot' down, there is no doubt that some bad economic conditions will inevitably follow. Even swift rate cuts wouldn't solve that problem as cuts also take time to work their way through the system.

In relation to the large swings in expectations of where Central Banks decide to take interest rate policy settings, when the probabilities change so much from day to day it makes little sense to take each number at face value. We prefer to interpret these probabilities and abrupt changes as evidence of confusion in the market. The next new number could be sufficient to flip expectations back to the RBA being on hold. We anticipate this volatility continuing for the near term at least.

The US Federal Reserve (Fed) also hiked rates by a quarter of a percent at the start of May to a target range of 5.0% to 5.25%. That means the current (average) Fed funds rate is about 5.1% or the figure the Fed forecast its rate would be at the end of 2023 – the so-called 'terminal (peak) interest rate'. Therefore, any more hikes put them in a

Defend your digital life - simple ways to protect your online data

It seems like every other week there's another cyber-attack, data breach or hacking incident in Australia, releasing our highly sensitive financial, medical and other personal information onto the dark web. It's a scary thought!

Although we have limited control on how third parties handle our personal details, there are some simple things we can all put in place to best protect our data online.

Multi Factor Authentication (MFA)
MFA is a security measure that requires two or more proofs of identity to grant access to an account. For example, when logging into a PayPal or Facebook account, you'll receive a notification via your selected choice of SMS, email, pin number etc. to confirm that it was you who was accessing it. This means that if someone does gain access to your pin or password, they'll still need other forms of identity to login. If it's an online account, we recommend having this enabled.

Passwords
As tempting as it is to use the same password across all of your accounts, or the classic variations of the word 'Password', it makes us more vulnerable to cyber-attacks if they're cracked. Best practice is to create complex passwords that are different for each platform which you can keep track of by using a trustworthy application such as 1Password or Bitwarden.

Emails
Don't recognise the sender? Approach with caution. Phishing and spam emails can often look like they're from a legitimate source, even pretending to be from your friends and family! They can include links that when clicked, can have you reveal passwords and personal information. If there's a link in an email that you're not sure about, it's best not to click.

Updates
Regularly updating your devices and software means they will have the most recent security upgrades to protect you. Hackers look for weaknesses in systems, so setting up auto updates is an easy way to make sure you're less susceptible to attacks.

Anti-virus software
Protect your computer from malicious software, viruses and malware with an effective anti-virus solution. This software will run regular scans on your device, preventing and removing any viruses that try to infect your computer. There are plenty of options to choose from, so research what's available or consult an IT professional for their recommendations.

Stay up to date Keeping in the loop with the latest news about your subscriptions, providers and other services means that if a security breach happens, you can minimise any potential problems by immediately updating your passwords.

If you do find yourself victim of a cyber-attack, or would like know more about how to protect your devices and accounts, visit the [Australian Cyber Security Centre](https://www.cyber.gov.au).

We believe in the power of word-of-mouth advertising! That's why it is the greatest compliment when our customers recommend us to their own friends and family.

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Lending and property update

As interest rates continue to creep upwards, the concept of 'mortgage prisoners' has crept back into media reports as more and more Australians are finding it difficult to refinance, due to lacking the borrowing power to re-borrow their current loan. 'Mortgage prisoners' are those that are stuck with their lender for one reason or another and are unable to swap to a different lender.

Towards the end of 2019, prior to the COVID pandemic, ASIC released an update to their Responsible Lending Regulatory Guide 209 that attempted to address this concept by giving more guidance to credit providers on the reasonable steps that should be taken when assessing a potential refinance.

This update essentially gave the green light to lenders to perform a more limited assessment on borrowers, as long as the consumer can demonstrate that over an extended period of time, they had consistently been able to meet the repayments of the facility.

Regulatory guidance is the framework in which lenders operate, however their own credit risk policy is what governs whether an application will be approved or not, and for a long time no banks took up this offer by making alterations to their credit policy to allow refinances under such circumstances. It is possible that the low interest rates we associated with COVID meant there was no need for such a policy.

With the recent dramatic rise in interest rates, and therefore the increase in assessment rate, there are again many borrowers that seem to be stuck with their lender and are potentially in a much higher interest rate, or an unfavourable product. Many fixed rate products revert to a rate that is far above the discounted standard variable rate, and it takes a credit application to change to a better product.

Lenders are beginning to take up ASIC on their offer. One bank has successfully piloted and rolled out a product that does not require income verification for a refinance, as long as the borrower can demonstrate an extended history of meeting all repayments on time. Another will adopt a much smaller assessment buffer again if the borrower can demonstrate a good history.

It is possible that even more lenders will start to reform their risk policies in order to allow borrowers to refinance their loans, despite not being able to afford their new loan on paper. This could spell the end of the 'mortgage prisoner' altogether.

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Things to consider when reaching retirement

You've worked hard for decades and retirement is the time to put your feet up and spend your days how you please. But before you slow down and smell the roses, there are some important things to consider to ensure your retirement is a happy one.

Will I have enough money?
Understandably, one of the most common worries for those reaching the age of retirement is "Will I have enough money?". This is determined by a number of different factors including investment markets, your super balance and the lifestyle you'd like to lead in your retirement.

To get you started, there are retirement calculators you can find online where you input data such as your annual income, age, expected retirement age and super balance to help project if you will have sufficient funds. From there, it may help to discuss this with your financial adviser to ensure you have the right mixture of investments and contributions to secure your financial future.

Will my family be looked after?

While we hope that most of your retirement will be spent being able to do the things you love, there will come a time where care options will need to be considered. Having a plan for health care costs, and the possibility of assisted living or aged care expenses, will help avoid passing the financial burden onto your family. This may also involve considering health insurance options for services that Medicare does not cover such as hearing aids, glasses and dental services.

How will I spend my time?
The options are endless when it comes to ways you can spend your time in retirement. Here are just some to consider:

Travel - This is at the top of many peoples bucket list, no matter what age! Whether you're booking some flights or jumping in the caravan, you're sure to make some great lasting memories. Speaking of the caravan, this can be a significant purchase for many, so be sure to consider how this will impact your retirement budget.
Get involved in the community - Many people choose to volunteer in retirement to give back to the community while keeping active and meeting new people.
Revisit your hobbies or learn new ones - Reading, painting, gardening, music… whatever you're interested in, retirement is the ideal time to explore them further. You could also look into local classes to learn something new.

How will I look after my health?Whilst staying physically active in retirement is highly important, your mental health should also be a priority. Sometimes, the drastic change of daily routines and stopping work can cause people to struggle with their self-worth. To combat this, planning out each of your days so that they're filled with things you enjoy, or time that is purposeful such as volunteering, can help bring more feelings of fulfillment.

Retirement is meant to be enjoyed and is an opportunity to live life on your terms. Taking some steps to plan before hand will set you up for more success during this big life transition.

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