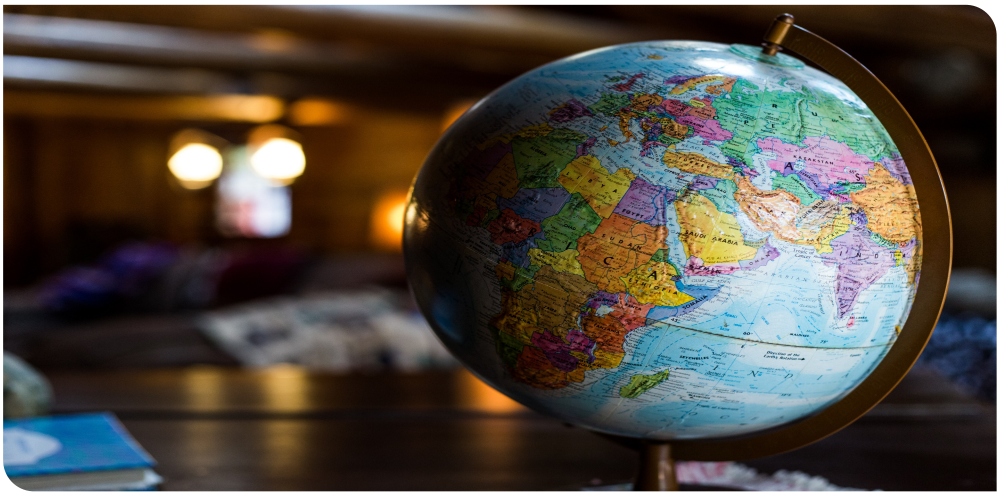
Reid Wealth Management



Reid Wealth Management - June 2022 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.

How the new government could impact your finances

As the dust settles on the 2022 Federal election and a new government is ushered in how might your finances be impacted?

Homebuyers

Hoping to get a foot on the property ladder? A shared equity scheme will offer a helping hand. Under a Labor government there won't be the possibility of raiding your superannuation savings to get into the property market. Under its proposed scheme the government will provide eligible homebuyers with an equity contribution of up to 40 per cent of the purchase price of a new home and up to 30 per cent of the purchase price of an existing home.

The homebuyer will need to have a deposit of 2 per cent and qualify for a standard home loan with a participating lender to finance the remainder of the purchase. The scheme will be available for individual Australians with a taxable income of up to $90,000 and $120,000 for couples. The scheme is not just for first homebuyers but to be eligible the buyer must not currently own or have an interest in a residential dwelling.

There are caps on the value of the property that may be purchased. In Sydney and NSW regional cities it is $950,000; in Melbourne $850,000; and in Brisbane $650,000, for instance.The purchaser can pay back the government or it will recover its equity and its share of the capital gain when the property is sold.

Tax cuts

Labor has pledged to go ahead with the third stage of tax cuts put forward by the previous Federal government. Those cuts will see everyone earning between $45,000 and $200,000 paying 30 per cent in tax from 2024. That means the 37 per cent tax bracket for those earning above $120,000 will be scrapped.

Electric Vehicles

For anyone wanting to make the move to an electric vehicle Labor has promised to introduce tax breaks. It could save people about $2000 on a $50,000 vehicle.

Seniors

There are a few proposed policy changes that could benefit senior Australians. From July 1, 2022 the age at which people become eligible for the downsizer scheme will be lowered from 65 to 55 and the proceeds will exempt from the pension assets test for two years instead of one. That will allow Australians from the age of 55 to downsize their home and make a non-concessional contribution of up to $300,000 into their superannuation without affecting their contribution limits. Labor promised to freeze deeming rates at their current levels for two years and more people will be eligible for the Senior Health card as the threshold is raised to $144,000.

Childcare

More generous subsidies are promised including locking in the previous government's changes for second and additional children. It would also raise the maximum subsidy rate to cap it at 90 per cent for the first child in care. It has a long-term goal of providing a universal, 90 per cent subsidy to all families. The family income threshold would be lifted from $354,305 to $530,000 and there would be no annual cap.

Recent Market Volatility

As you may be aware financial markets have been through a period of elevated volatility in the past couple of weeks, which has served to punctuate the regime change we have been experiencing in markets so far in 2022, in particular, this June quarter. This regime change is coming from the world 're-opening' post the Covid 19 lockdowns, which has led to both rising demand and ongoing disruption to the supply of manufactured products. This has in turn led to rising inflationary pressure and some outsized responses by central banks in the near term, with the expectation of more interest rate rises to come.

In relation to events of the past 2 weeks, share markets began softening from about Wednesday 8 June ahead of the US Inflation data release on Friday morning, 10 June. From a global perspective, the US inflation data for May was critical because its level would provide strong guidance to the US Federal Reserve's (Fed) interest rate policy setting. The US Consumer Price Inflation (CPI) came in at 1.0% for the month of May (8.6% p.a. for the year), while 'core' inflation (which excludes food and energy) came in at 6.0% p.a. The CPI data in particular, was much higher than anticipated by share and bond markets and this led to a heavy selloff both in the US and globally. Further, it was clear evidence that peak inflation and bond yields may still be yet to occur. This contrasted with the views of many market participants who believed this event had recently passed. In Australia, our markets were spooked by RBA Governor Philip Lowe raising our cash rate by 0.50% on 7 June 2022, a larger rise than anticipated by the markets and local shares and bonds responded by selling off.

With the higher inflation data for May, the US Fed determined to increase US cash rates by a very large 0.75% at its meeting on 15 June, to set rates in the range of 1.50% to 1.75%. Fed Chair, Jerome Powell, in his commentary indicated that another increase of 0.75% or 0.50% was anticipated from its meeting in early August. If this occurs, the US cash rate will rise to at least 2.0% and possibly as high as 2.5%. Similarly, in Australia, RBA Governor Lowe commented that inflation could rise to 7.0% by December, from which markets inferred a further 0.50% rate increase was likely here in early July.

While current economic data paints a reasonably positive backdrop (i.e. employment is strong, corporate earnings are holding up and the Chinese economy is turning on again after a 60-day Covid lockdown of major industrial and commercial centres), forward looking indicators are pointing to a slowdown of growth in the developed world. Of these indicators, softening US retail sales, very weak consumer sentiment and continued elevation of oil and energy prices are indicating the increased probability of a recession. This added fuel to the fire of market volatility last week when markets also had to factor in further increases to interest rates in the near term. This confluence of events is largely responsible for the elevated market volatility of the past two weeks.

Despite this, financial markets are forward looking and adjust quickly to new information, a good example being last week. While the risk of recession has risen, the prospect of this occurring in the near-term is not likely. We believe that the global economy can continue grow as the world re-opens from Covid, given demand remains resilient. Also, we are yet to see any broad slowdown in corporate earnings with many companies having beaten analysts' expectations recently, giving us some confidence in share market valuations.

We also consider inflation is likely to moderate over the remainder of the year. Assuming this occurs, it will reduce the need for the US Fed, the RBA and others to hike interest rates by as much as is now priced into markets. This is the economic 'soft landing' outcome we currently think is most probable but is contingent on consumption, corporate earnings and economic growth remaining positive.

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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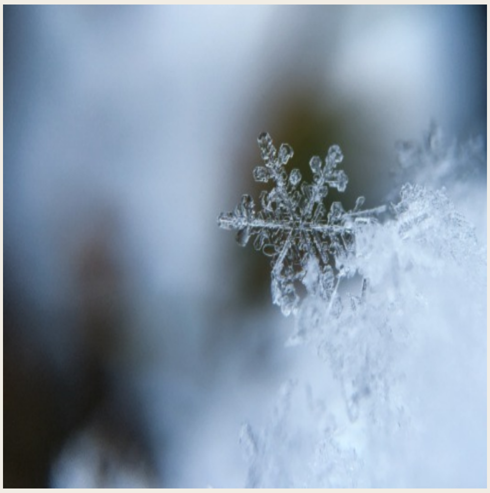
Top tips for keeping the winter blues at bay



With the chill of winter closing in it can be hard to keep a smile on your dial. If shorter daylight hours and colder temperatures put your mood on the down low, here's 10 ways to keep the winter blues at bay.

Lighten up

Laughter decreases stress hormones and boosts immune cells and infection-fighting antibodies. Plus, it triggers the release of endorphins, the body's natural feel-good chemicals. So book that comedy show, tune the telly to something that gives you a giggle, and catch up with your favourite quirky friend.

Warm up

When we're cold it's natural to feel down and lethargic. Research shows staying warm reduces the winter blues by half. Help yourself by rugging up in thick woolly jumpers and scarves; cosying up with layers of blankets; and warming yourself from the inside with a steaming mug of chai or a bowl of soup.

Plan to pack your bags

Give yourself something to look forward to during the winter months. Book a skiing holiday or a trip to a tropical isle or plan a pampering retreat. Even locking in a staycation can feel therapeutic.

Schedule shut eye

Getting quality sleep relies in part on having a routine for bedtime. To get on track try setting two alarms. The first to signal when to start preparing for bed: stop the social media scrolling, put away devices, don the PJs, brush the teeth, and put on some soothing music. The second alarm to signal lights out.

Move it

If winter wreaks havoc on your usual fitness routine, find a way to adapt. Can you do a dance class, swim at an indoor pool, sign up to an online fitness challenge, or walk with an umbrella?

Set an intention of reaching Spring feeling strong, fit, and energetic rather than like a sloth emerging from months of hibernation.

Get outdoors

Soaking up the sun, particularly in the middle of the day, will give your vitamin D levels a lift.

Nurture yourself

Overloading with carbs and sugar-laden comfort food is all too easy in the winter months. Make this year different and nurture yourself with delicious and nutritious food. You'll not only ward off the winter blues, it will help keep lurgies at bay by boosting your immune system. Fresh fruit and vegetables, lean protein, wholegrains and staying hydrated will keep you happy and healthy.

Let go

Follow nature's lead and let this be a season for shedding the old and stale. Prepare for new beginnings by decluttering your physical and mental space. Journaling, meditation, clearing your wardrobe, or your garage can all give you a sense of renewal.

Reach out

It can be hard to get out the door to socialise in the winter months. Instead, invite friends or family to come to you. Embracing the 'hygge' concept of lighting candles, playing board games, and cooking together will make winter seem warm and wonderfully welcoming.

Try something new

Joining a choir, taking a painting class, writing a blog, learning a new skill. The winter months will fly by when you've got something new and fun to focus on.

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