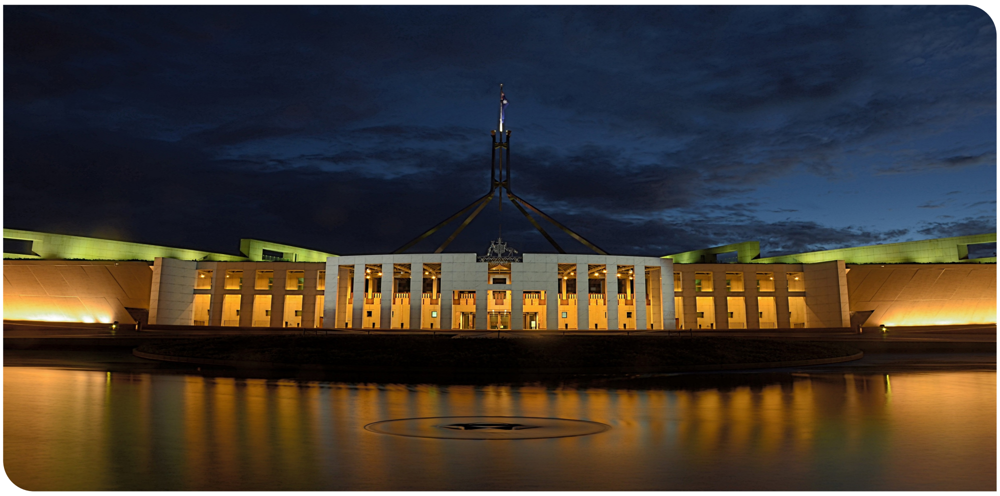


Reid Wealth Management - Federal Budget & Market Update 30/3/2022

In this special report we look at the key takeout's from the 2022 Federal Budget and what it means for individuals and businesses.

At a Glance: Federal Budget Summary 2022

Please find below a high-level overview of key takeout's from the Federal Budget Summary 2022 as delivered overnight.

Taxes

• Temporary reduction in the fuel excise - one of the first announcements was a halving of the fuel excise from about 44 cents per litre to 22 cents per litre for 6 months (starting from midnight on Budget night), at a cost of $3 billion. The fuel excise is a bit of a sacred cow and governments are loathe to meddle with it, but as instant sugar hits go, that's about a $12 saving per tank for most people.

• The Low and Middle Income Tax Offset (LMITO) will be increased by $420 for 2021-22 – while the LMITO is legislated to cease this year (and no announcement was made that it would be extended), the Government did announce a one-off $420 cost of living tax offset for the 2021-22 income year which will see the LMITO increased up to a maximum of $1,500 (for 2021-22 only).

• No changes announced regarding personal tax rates - the legislated Stage 3 personal income tax cuts remain unchanged and will commence in 2024-25.

• Digitalising trust returns – the Government has announced that from 1 July 2024, all trust tax return filers will be given the option to lodge income tax returns electronically.

Superannuation

• Super pension drawdowns – the 50% reduction in the minimum annual payment amounts for superannuation pensions and annuities that was provided during the economic downturn caused by the pandemic will be extended by a further year to the 2022-23 income year.

• Super Guarantee rate - the Budget did not contain any change to the legislated Super Guarantee rate rise from 10% to 10.5% for 2022-23.

Social Security

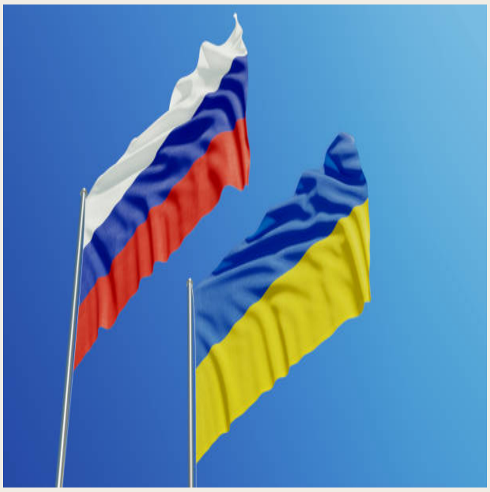
• $250 cost of living payment - the Government announced that in April 2022, it will provide a one-off cost of living payment of $250 to eligible pensioners, welfare recipients, veterans and concession card holders.

• Paid Parental Leave scheme will integrate existing schemes to give eligible families access to up to 20 weeks leave to use in ways that suit their specific circumstances.

Small businesses

• Small business 20% deduction boost: skills training and digital adoption - businesses with aggregated annual turnover less than $50 million will receive a 20% uplift on deductions for eligible expenditure on external training courses and digital technology (the cost of business expenses and depreciating assets that support digital uptake), or, as the Treasurer described it, for every $100 spent, businesses can deduct $120. The measure will apply to eligible expenditure incurred from 29 March 2022 until 30 June 2024 (for skills training) and 30 June 2023 (for digital adoption).

Market Volatility & Europe



Why has Russia invaded Ukraine?

Russian President Vladimir Putin's main motive for launching the invasion of Ukraine appears to be to prevent NATO's expansion going further East into the Balkan states. That said, there is also another motive which is much closer to home for President Putin. Ukraine's people and culture have drifted to the West and have become more European since independence from the former Soviet Union and Putin is also concerned about the impact of having a Western leaning democracy on Russia's border. This is because economic success in Ukraine would highlight the corruption, underperformance and inequities of autocratic Russia. So, the invasion of Ukraine is also about protecting Putin's reign from enemies within Russia and to strengthen his position in the upcoming Russian elections this year.

What has been the response of the rest of the world?

Ukraine is not a member of NATO, so Europe and the USA are not obligated to defend Ukraine militarily. To date it seems that the West is unwilling to engage Russia militarily, which is wise given Russia's substantial nuclear arsenal. To date, the main response to the invasion by the West has been economic sanctions, which are targeted to hurt Russia's economy and the Russian oligarchs.

How is the Ukraine war likely to play out?

While Ukraine has a strong military, it is not a match for the Russian army. That said, the Ukrainians are willing fighters and will provide strong resistance. While the actual invasion and defeat of Ukraine's military is expected to come relatively quickly, much like the US occupation of Iraq, many military analysts believe that a full longstanding occupation of Ukraine (including taking Kiev) could prove to be very costly for Russia. Though Putin has said he does not intend to occupy the Ukraine.

The war with Ukraine does not seem to be that popular in Russia, Putin's plan may therefore be to play the long game, seeking to only take part of the country (not including Kiev) and destabilise the Ukrainian government with the goal of putting in a Russian leaning leader in charge.

How does Russia's invasion of Ukraine impact the markets?

Russia's economy is only marginally bigger than Australia's and less than 2% of the world economy. This is despite Russia having nearly six times as many people as Australia. So, the economic impact of the war is likely not material in terms of the global economy.

However, Russia's economy has some similarities to Australia and is driven by commodity prices, with Oil and Gas being Russia's main exports. From a market's perspective, the key concern about the Ukraine war is Energy prices. Energy prices are a key driver of inflation, which is already very high in the USA and the West. Given that interest rates are already set to rise this year in developed economies to quell inflation, so the focus of markets is on how the Ukraine war will impact the decisions of central banks.

On this point, since the situation in Ukraine has escalated, the implied chance of a 0.50% interest rate hike by the US Fed in March has dropped from 60% to 11% today. (Essentially the markets are implying that a hike of only 0.25% is now all but guaranteed and the implication here is that central banks will not hike rates as aggressively as was expected prior to the invasion.)

How are we thinking about the impact of the war on portfolios?

While we obviously don't know how the Ukraine war will play out, there are a few lessons from history we should head from previous geopolitical events:

- Markets are unpredictable in the short run and market timing is difficult

Should you have any queries in relation to this newsletter, please feel free to contact our office.

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