

NEWSLETTER

December 2023



M & M FINANCIAL GROUP
WEALTH CREATION | INSURANCE | RETIREMENT

Introduction

Welcome to our last newsletter for 2023. The year has been marked by a rebounding residential property market, a sideways movement for share prices, and a continued steep rise for interest rates. We look back on the impact of those changes. Have a safe Festive season and we look forward to talking to you in 2024.



Mason Walsh

03 6275 5436

mason@mmfinancial.com.au

www.mmfinancial.com.au



Matthew Geappen

03 6275 5436

matt@mmfinancial.com.au

The Share Market

We have gone to press a little later this month, which is having an impact on our share market report for November. Basically, as measured by the ASX200, the Australian share market tracked sideways during the month of November. However, on the 4th of December when we sat down to write this newsletter, the market was having a very good day, as can be seen in the following graph (thanks to Google and the ASX). This good day makes the whole month look good:

S&P/ASX 200

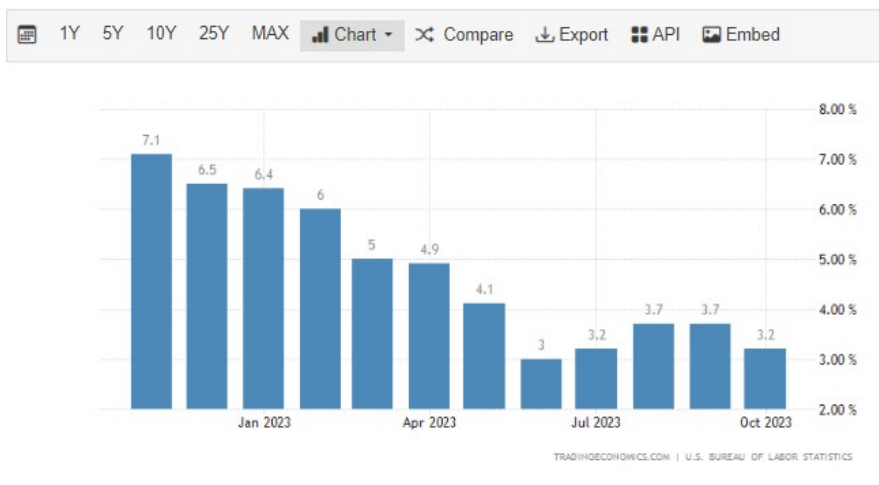


A little unusually, the Australian market lagged its US counterpart during November. Up until the afternoon of December 4, our market had risen by approximately 2% over the preceding 31 days. Over the same period, the US market, as measured by the S&P 500 had soared by more than 5%:

S&P 500



The optimism in the US markets is mostly attributable to some very positive inflation figures that were released during November. In the 12 months to November 2022 (that is, this time last year), US inflation was more than 7%. The most recent figures, for the 12 months to October 2023, show inflation has fallen and is staying close to around 3%, as shown in this graph from Trading Economics:



While the US inflation target remains a rigid 2%, the data seems to show that inflation in the US has fallen back to an acceptable level. What’s more, the trend seems to be a downward one.

Here in Australia, the official inflation figures are released on a quarterly basis, not a monthly one as in the US. However, Trading Economics’ Australian graph also shows the official inflation rate falling here in Australia (although we urge caution about this graph – the bottom line/x axis is actually 5%, not 0):



Australia's rate of inflation has not fallen by as much as the US, which was perhaps reflected in the RBA's decision in November to raise interest rates once again. Accordingly, our share market is not quite as ebullient as the American market. But inflation in Australia is clearly heading in the same direction as it is in other parts of the world, which is causing optimism amongst Australian investors.

Notwithstanding this latest spike, the 2023 calendar year has basically seen the Australian share market track sideways. Since the 4th of December last year, our market is actually down by just under 3%:

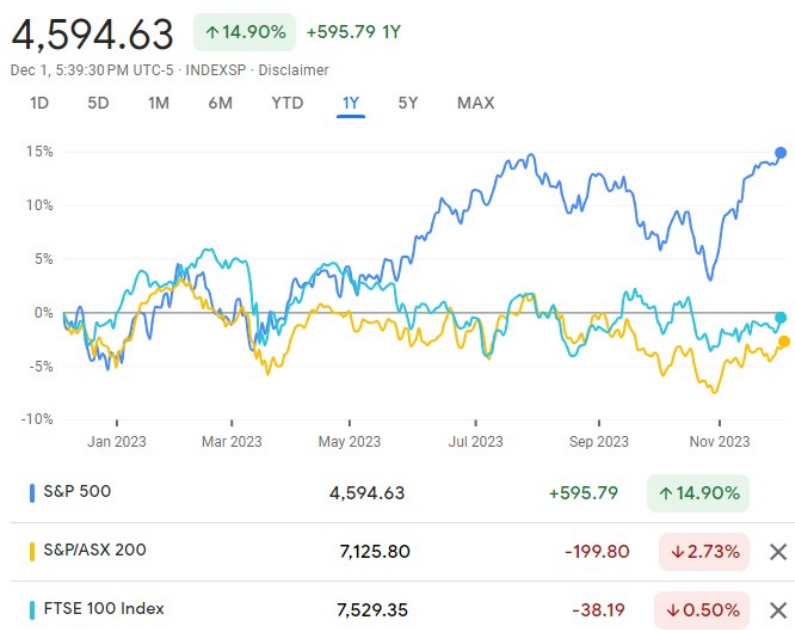
S&P/ASX 200



The average dividend yield in the Australian market tends to be around 4%. So, investors did not lose money, on average. But their overall investments did not keep track with inflation.

The Australian market very closely parallels the UK experience, as measured by its leading index, the FTSE 100. That said, as we write above, both of these markets have significantly lagged the US market during 2023, as can be seen in the following comparison:

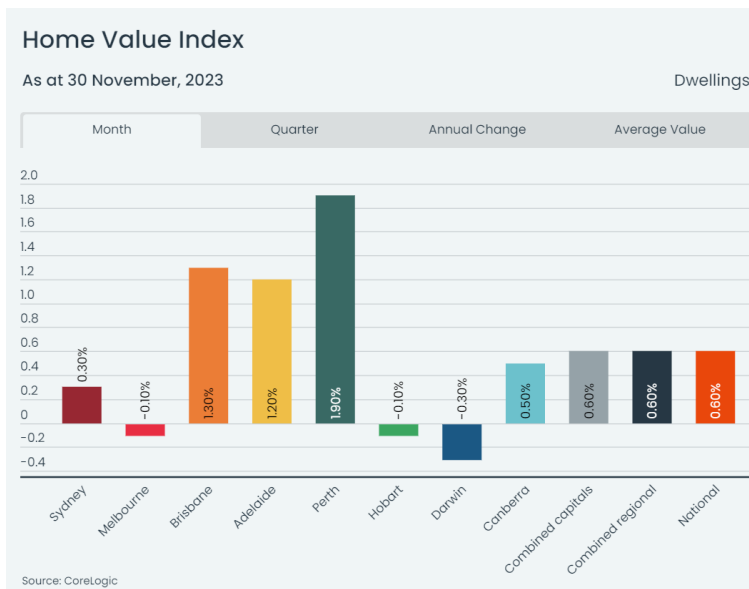
S&P 500



Lest you lament Australia’s share market performance over the last 12 months, remember that history suggests that periods where markets track sideways are simply periods in which it makes sense to buy more shares. Unless you have needed to sell shares during 2023, this year of moving sideways has simply given you a chance to increase the size of your personal funds invested. This is why we almost always recommend regular investments, at a minimum through mandated superannuation contributions, but ideally through deliberate extra efforts on your own part. Regular investments let you take advantage of periods where prices do not move much. If share market investing is a marathon, then 2023 stands like one of the ‘middle miles’ - maybe mile 13, where it's OK to simply keep pace while you gather your energy for the second half of the race.

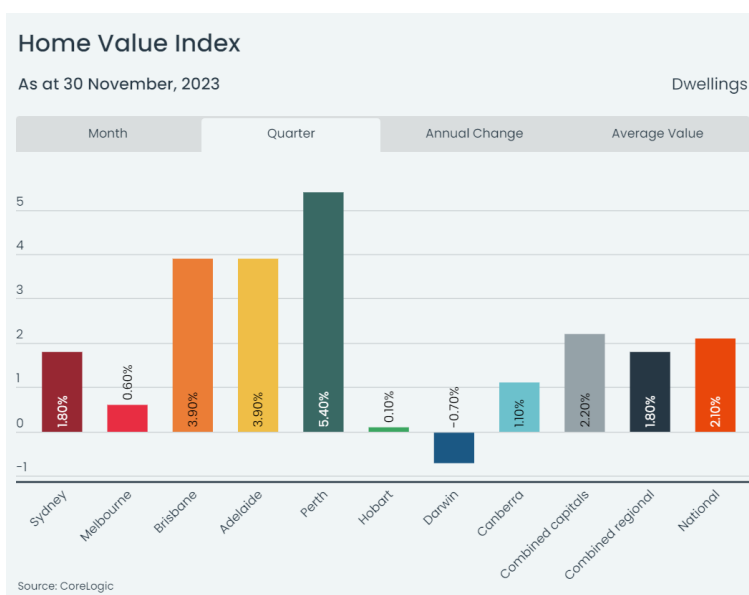
The Residential Property Market

Last month, we reported that national average median house prices rose by 0.9% during October, as measured by respected market analyst CoreLogic. In November, the rises slowed and CoreLogic is reporting that the rises for November were the smallest since February of this year. Here is how CoreLogic presented the monthly moves during November:



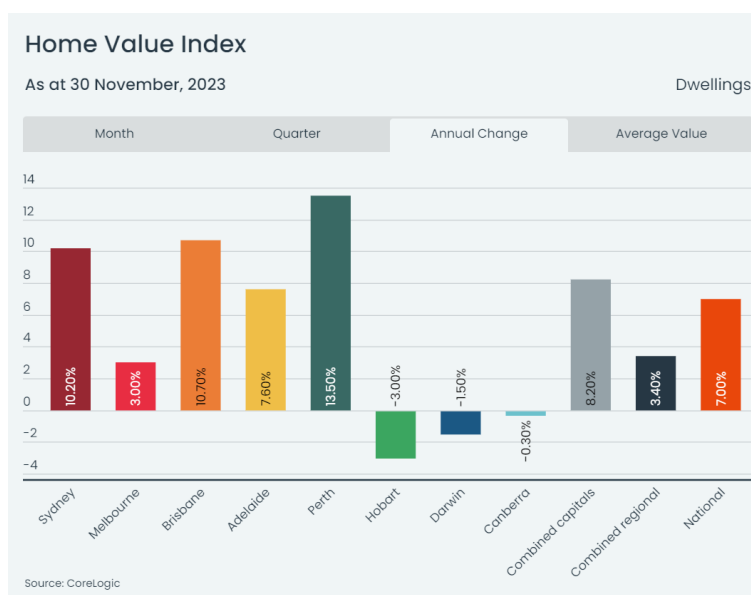
Sydney and Melbourne are Australia’s largest markets, and the relatively small growth in those markets during November is what held down the national average. As can be seen, the markets of Brisbane, Adelaide and Perth all reported growth of more than 1% in median property prices for the month. It is quite unusual for the national average rate to be higher than the rate in both of our largest markets, in particular Sydney. Those two markets usually dominate the national data.

This unusual pattern is repeated when we examine the quarterly figures as well. Once again, on a quarterly basis, national average growth is greater than the growth in either Sydney or Melbourne:



The experience in Melbourne is perhaps particularly interesting. A quarterly growth rate of 0.6% is lower than the current rate of inflation, meaning that 'real' (that is, inflation-adjusted) prices actually fell in that market over the three months to the end of November. For Melburnians whose income kept pace with inflation, housing became slightly more affordable. Slightly.

That all said, the experience of the last three months may simply be a correction to what happened in the first nine months of the last year. As this graph of 12 month figures shows, Sydney prices have risen by more than almost every other market since the start of last December:



Sydney's rate of growth, along with that of Brisbane and Perth, has exceeded the rate of inflation. Median house prices have risen in real terms since this time last year in those markets. Housing has, once again, become less affordable.

Housing represents the centrepiece of most people's wealth. However it is also a necessity and this is why we have long been ambivalent about whether soaring house prices are actually a good thing for our clients (and especially their kids and grandkids). High prices are great for people who already own multiple properties, they don't mean much for people who already own one property, and they are bad for people yet to buy a property. Just maybe, the experience over the last few months will represent a cooling in the real price of Australian housing, giving that last group of people – the 'yet to buy brigade' - a chance to enter the property market for the first time.

Inflation and Interest Rates

The RBA Board met for the last time this year earlier this week. They decided to keep interest rates where they are. That's a good decision.

Next year, when the Board recommences its meetings, those meetings will be very different. For a start, they will be longer, covering 2 days instead of the current system of meeting for just a few hours on a Tuesday morning. The idea is that the Board will have more time to absorb and think about information that is being presented to it before making its decision with regard to interest rates. It's a good idea.

The good news is that inflation appears to be falling. Economist Peter Martin wrote [a great article](#) on the ABC website this week in which he observed that if inflation for the months of November and December maintains the average over previous months, our annual inflation rate will fall to just 3.1%. This is pretty much in line with the Reserve Bank's target for inflation, which is between 2 and 3%. Martin shows the trend for inflation with the following graph:



The trajectory is clearly a downward one. Martin also observes that there are very many prices, such as clothing, where prices have actually fallen during 2023. All those previous interest rate rises are starting to hurt consumer spending. As a further example, total spending on the recent 'Black Friday' sales is estimated to have only increased by 1%. Our population has grown by more than that in the last 12 months, showing that, per person, we're actually spending much less on discretionary goods such as those sold on Black Friday – even when they are heavily discounted, as they are in the sales around that day.

By the time the Reserve Bank meets again in the first week of February 2024, it will have received inflation data for the months of November and December. Combined with its newfound commitment to truly reflect on the data before acting, this should give cause for some optimism for borrowers and potential borrowers. Unless something very unusual happens between now and then, it is unlikely that there will be a need for a further rate rise in early 2024.

Happy New Year!

The Legal Stuff

General Advice Warning

The above information is general in nature and does not take into account your personal situation. You should consider whether the information is appropriate to your needs, and where necessary, seek professional advice from a financial adviser.

Contact Details

Address	11 Scott Street Bellerive TAS 7018
Phone	03 6275 5436
Website	www.mmfinancial.com.au
Email	admin@mmfinancial.com.au

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