Like most years, it is easy to look into the rear-view mirror and see how events played out in the investment world as they did. This table below sums up what was expected vs what REALLY happened:

Investment returns for major asset classes

Total return %, pre fees and tax	2022 actual	2023 actual*	2023 forecast
Global shares (in Aust dollars)	-12.5	21.0	5.0
Global shares (in local currency)	-16.4	18.5	7.0
Asian shares (in local currency)	-18.3	1.5	9.0
Emerging mkt shares (local currency)	-15.5	6.5	9.0
Australian shares	-1.1	5.1	9.0
Global bonds (hedged into $A)	-12.3	2.2	4.5
Australian bonds	-9.7	2.3	4.5
Global real estate investment trusts	-25.9	-1.2	9.0
Aust real estate investment trusts	-20.5	5.5	9.0
Unlisted non-res property, estimate	9.5	-5.0	-5.0
Unlisted infrastructure, estimate	4.0	5.0	7.0
Aust residential property, estimate	-7.0	10.0	-1.0
Cash	1.3	3.5	4.2
Avg balanced super fund, ex fees & tax	**-5.2**	**7.2**	**5.3**

***Year to date to Nov. Source: Bloomberg, Morningstar, REIA, CoreLogic, AMP**

Forecast numbers are as predicted and collated by AMP

Notable points:

- Total return is capital movements (values going up or down) PLUS income return (rent, interest, dividends, etc).
- Across the board, all asset classes have underperformed expectations except international shares and Australian residential property.
- International shares have been buoyed by the US market particularly. And in the US market, this has been driven by the "Magnificent 7" being Apple, Alphabet (Google), Microsoft, Amazon, Meta (Facebook), Tesla and Nvidia. These companies combined make up 28% of the US share market. If you include them in the US share market, the US share market has gained 20% YTD, but if you remove them, then the rest of the US share market has returned just 6%.
- In Asian shares - While Japan had a strong year, the slowdown of China continues, which due to its size of the world economy, dragged markets.
- The Australian share market has, up until the start of December, been flat (0%) from a value point, with dividends providing basically all its return.

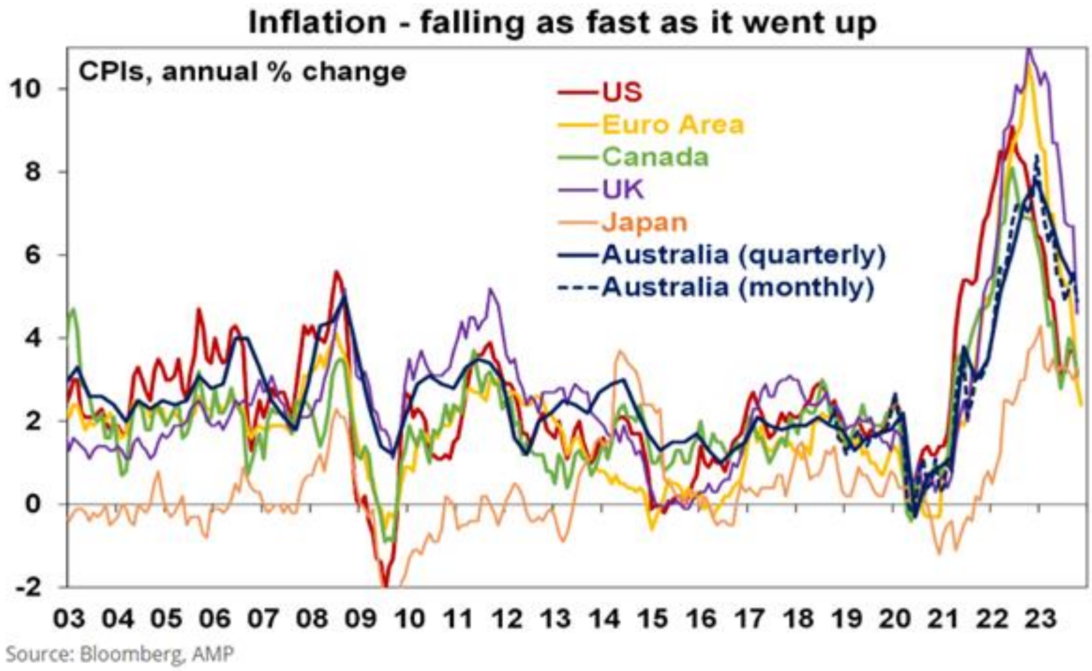
- The Australian residential property market grew substantially in a period when it was expected to go backwards in value. A return to high immigration, and low levels of construction contributed further to our chronic undersupply of housing, despite interest rates being the highest in 15 years, and housing affordability being the lowest on record.

Despite all this, the average balanced super fund outperformed its forecasts and provided a 7.2% return. If looking deeper into the numbers, most of this return was generated in the first half of the year (January to end of June), returning from a pullback in markets at the end of 2022.

What were the issues *and what happened*

Investment markets move, not only because of what is happening, but what they think may happen. The forecasts were focussed on a few things:

- Interest rate rises – while great for a term deposit (cash returns), this weighs down most growth markets (shares, property). This makes repayments higher to buy a property when you borrow, and businesses borrowing to invest have their profits squeezed as they have higher borrowing to invest costs. *While we have seen these dampen things for businesses, the share market values have not dropped, and housing has continued to appreciate given the supply issues. These rises are still expected to still slow down the economy, it takes time. The hope is that it will be a "soft landing" as opposed to a recession – which was a higher belief earlier in the year.*
- Inflation – Interest rates were pushed up hard to try to get inflation under control. The realisation that it was more than supply issues for goods became apparent, expecting that this would reduce spending and keep interest rates "higher for longer". *Inflation is falling off the back off interest rate hikes. Australia has lagged the rest of the world on the way up, which means we are lagging on the way down. While this is good for household budgets, the hope is that it doesn't go the other way and drop too low. This can be just as disastrous as high inflation.*



- The Mortgage cliff – A high level of homeowners (particularly first time owners) coming off low fixed rate mortgages and coming onto variable rates that were a lot higher then they ever anticipated. This created worries of a large number of forced sales, reduced consumer spending and wider impact on the economy. *At this point the housing market has continued to remain tight, and while many people's budgets have squeezed hard, the number of forced sales is not high (but this could change). The X-factor is unemployment, which is at historically low levels. If this starts to increase, it may force people's hands to sell and also have a downward effect on property prices, or at least stop the acceleration.*

- Artificial Intelligence – 2 years ago, this would have been a phrase that would only be relevant to science-fiction movies, but is now the buzz and much of the Magnificent 7's growth is based on their ability to harness this technology. *It is having a much more immediate and large impact on what we do, and there are some very exciting and scary prospects for the future.*

It might sound a little cheeky, but the last year is nothing unusual. That's because, every year has something unusual happen economically, geopolitically, technologically and socially. The attached article (Click here) is a great summary for the year that was and some forecasts for next year. As shown above, the forecasts should be considered mindfully, but also with a grain of salt. For us, we look to great investment managers who aren't trying to "pick the winners" (as time and time again, that is proven impossible), but can understand what investments have opportunities.

Merry Christmas and Happy New Year from the Tempus Wealth Investment Committee – next year will be exciting.

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