WELCOME TO OUR SUMMER EDITION OF FFP NEWS

Welcome to the latest edition of FFP News.

Seasons Greetings for this festive time of year where we all get to reflect and then prepare for next year and enjoy time spent with family and friends.

Inside this issue of FFP News we take a look at Oliver's Insights and his 2025 Outlook and Why it Pays to Review Your Insurance.

As always we are here if you are needing to discuss any of your financial planning needs and welcome you to call us any time. If you have updated any of your contact details please let us know so we can update them.

Our Christmas and New Year Office hours are featured for your reference.

We look forward to continuing to provide you with all of your financial planning needs throughout 2025.

Kind regards,
Rhys & Michelle

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Christmas and New Year Office Hours
Closed from December 20th 2024 and Reopen January 13th 2025

Wishing All of Our Valued Clients a Very Happy and Safe Christmas and New Year with Family and Friends

WHAT'S IN STORE FOR INVESTORS IN 2025

Key points

- The key themes for 2024 were: better than feared growth; global divergence; more disinflation; falling interest rates but with Australia lagging; and more geopolitical threats but not as bad as feared. As in 2023, returns were strong.
- 2025 is likely to see positive returns, but after the surprising calm of 2024, it's likely to be far more volatile (expect a 15% or so correction along the way) and more constrained.
- Expect the RBA cash rate to fall to 3.6%, the ASX 200 to rise to 8800 and balanced super funds to return around 6%.
- Australian home prices will likely see further softness ahead of rate cuts providing a boost in the second half of 2025.
- Key things to keep an eye on are: interest rates; recession risk; a potential trade war; and the Australian consumer.

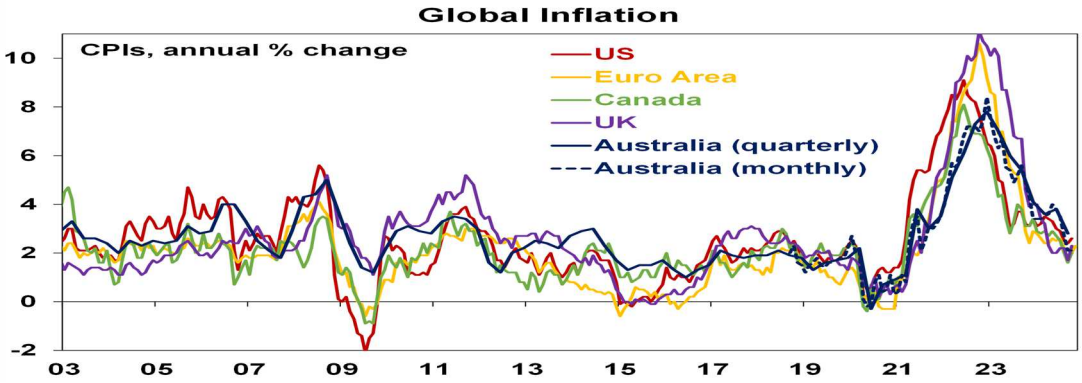
Another year of Goldilocks in 2024…

2024 was like a rerun of 2023 with lots of angst but it turned out okay. Key big picture themes of relevance for investors were:

Stronger than feared growth. Yet again the much feared recession failed to materialise. Despite the monetary tightening of 2022 and 2023 and China's property collapse, global growth in 2024 remained just above 3%. In Australia despite a "per capita recession" economic growth remained positive albeit at only around 1% helped by strong population growth, stronger than expected growth in public spending and labour hoarding offsetting severe mortgage pain for some.

Global divergence. Within emerging countries, India grew around 6.5%, China grew around 4.8% (which is slow for China) but South America and the Middle East only grew around 2%. And within developed countries, US growth remained strong at around 2.8% but growth was just 0.8% in Europe and around 0.3% in Japan.

Further disinflation. Inflation in major countries has fallen sharply from peaks of 8 to 11% in 2022 to around 2 to 3% in 2024. Australia lagged on the way up and is doing the same on the way down.



Source: Bloomberg, AMP

Falling interest rates. It took longer to get there & rates didn't fall as much as expected at the start of the year but most major central bank started to cut their policy rates. The RBA should start early in 2025.

Geopolitical threats were not as worrying as feared. In particular, the conflict in Israel widened to include Lebanon and missile exchanges with Iran but didn't impact oil supplies and the oil price was little changed, the Cold War with China didn't produce any major disruptions and Donald Trump's re-election boosted US shares.

…resulted in strong returns for investors

There were a few bumps along the way for shares – notably with an inflation scare in April and a growth scare into August – but they were relatively minor (with brief falls in shares off less than 10%). For diversified investors 2024 was another strong year.

- Global shares had a strong year as rates fell, albeit less than expected, and profits were stronger than expected.
- US shares outperformed reflecting its stronger economy, tech exposure and a boost from Trump' s re-election promising US friendly policies. By contrast non-US shares underperformed, particularly Eurozone shares which weren't helped by French political uncertainty. Chinese shares got a boost from more stimulus.
- Australian shares did well in anticipation of stronger profits and rate cuts ahead but underperformed with China worries and no rate cut.
- Government bond returns were constrained by smaller than expected rate cuts and worries about Trump's policies driving higher inflation.
- Real estate investment trusts saw solid returns in anticipation of better commercial property returns ahead.
- Unlisted assets were constrained by the valuation effect of high bond yields with office property seeing losses from reduced space demand.
- Australian home prices rose with the housing shortfall, but "high" rates saw gains stall into year end with prices falling in several cities.
- The $A fell but mainly against the $US, with the latter rising on Trump's tax cut, deregulation and tariff plans.
- Reflecting all this, balanced super funds had very strong returns for the second year in a row. They were roughly double our expectations!

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The key threats for 2025

Just as was the case for 2024 the worry list for 2025 is long and maybe even more threatening given the uncertainty Trump's policies pose:

- Share valuations are less attractive, with the key US share market trading on a 26 times forward PE and the earnings yield bond yield gap is negative. Australia is not so bad at 20 times but it's not cheap.
- Uncertainty remains around how much the Fed, the RBA and some other central banks will cut rates as core inflation is still not at target.
- Bond yields could continue to rise on the back of Trump's tax cut and tariff policies, placing pressure on shares.
- The risk of recession remains, particularly in the US if rising bond yields prevent a recovery in manufacturing and housing and in Australia if the RBA leaves rates too high for too long.
- A global trade war in response to Trump's threatened tariffs could add to this risk particularly in Europe and Asia.
- Risks for the Chinese economy are high and could be amplified as Trump ramps up tariffs & if Chinese policy stimulus remains modest. There are signs of bottoming in China's property market though.
- Geopolitical risk is high: "maximum pressure" from Trump to resolve the war in Ukraine and Iran's nuclear aims could see the Ukraine and Middle East wars getting worse before they get better threatening higher oil prices; similarly tensions with China could escalate; political uncertainty will likely be high in Europe with issues around the French budget and another potential election and a German election in the first half (although the latter is likely to be benign with the centre right Christian Democrats likely to "win"); and the Australian election is due by May although it's unlikely to lead to a radical change in economic policy but does run the risk of even more public spending.

These considerations point to at least a high risk of increased volatility after the relative calm of 2024.

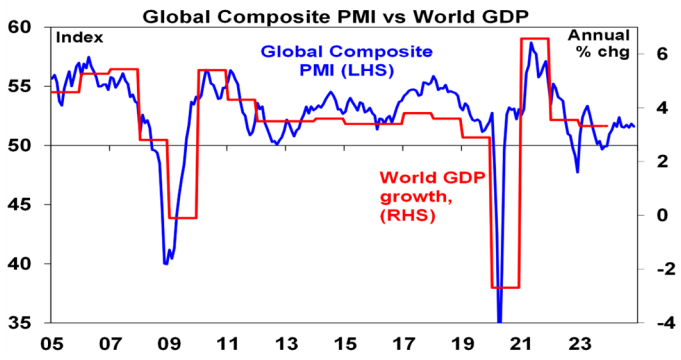
Reasons for optimism

However, despite these worries there are several grounds for optimism. First, inflation is likely to continue to trend down as labour markets are continuing to ease, demand growth is still slowing and commodity prices are in a mild downtrend from their 2022 high.

Second, central banks are likely to continue cutting interest rates. This is likely to range from the Fed which will become more gradual and cut to around 3.75% to the ECB which is likely to cut to 1.5% (partly to offset the negative impact of a possible trade war and possible fiscal austerity in France). This is likely to include the RBA where quarterly trimmed mean inflation is likely to soon drop to around 0.6-0.7%qoq (or 2.4-2.8% annualised), enabling it to possibly start cutting in February but by May at the latest taking the cash rate down to 3.6% by year end.

Third, global growth is likely to slow in 2025 but only to just below 3% with US growth around 2.5% helped by optimism on Trump's policies, Chinese growth around 5% with more stimulus offsetting a potential trade war with the US and Japanese and European growth around 1%. Global growth is likely to strengthen in the second half helped by rate cuts. Australian growth is likely to edge up to 1.8% helped by rising real wages, tax cuts & rate cuts and this should see profit growth return.

Fourthly, if recession does occur it's likely to be mild as most countries including Australia have not seen a spending boom that needs to be unwound and traditionally makes recessions deep. And the Chinese government is likely to continue to do just enough to keep growth around the 5% level. Currently global business conditions surveys are still around levels consistent with okay global growth.



PMIs are surveys of business conditions and confidence. Source: Bloomberg, IMF, AMP

Finally, while Trump's policies will create a lot of uncertainty and disruption as he uses tariffs and other things as part of a maximum pressure strategy to negotiate better outcomes for the US his first term as President tells us he ultimately wants to see shares up, not down. He was also elected on a mandate to get the cost of living down for Americans, not to push it up. This could ultimately mean more of a focus on his tax and efficiency policies as opposed to his populist measures like tariffs.

Implications for investors

Just as trees don't grow to the sky, 20% plus returns from global shares are not sustainable. So, we expect good investment returns over 2025, but it will likely be a rougher and more constrained ride than in 2024.

- Global and Australian shares are expected to return a far more constrained 7% in the year ahead. Stretched valuations after two strong years, the ongoing risk of recession, the likelihood of a global trade war and ongoing geopolitical issues will likely make for a volatile ride in 2025 with a 15% correction somewhere along the way highly likely. But central banks still cutting rates with the RBA joining in and prospects for stronger growth later in the year supporting profits should still see okay investment returns.
- Expect the ASX 200 to end 2025 at around 8,800 points.
- Bonds are likely to provide returns around running yield or a bit more, as inflation slows to target, and central banks cut rates.
- Unlisted commercial property returns are likely to start to improve next year as office prices have already had sharp falls in response to the lagged impact of high bond yields and working from home.

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- Australian home prices are likely to see further weakness over the next six months as high interest rates constrain demand and unemployment rises. Lower interest rates should help from mid-year though and we see average home prices rising by around 3% in 2025.
- Cash and bank deposits are expected to provide returns of over 4%, but they are likely to slow in the second half as the cash rate falls.
- The $A is likely to be buffeted between the positive of a narrowing in the interest rate differential between the Fed and the RBA and the negative of US tariffs and a potential global trade war. This could leave it stuck between $US0.60 and $US0.70.

What to watch?

The main things to keep an eye on are: interest rates; recession risk; a likely trade war; China's property market; and the Australian consumer.

Dr Shane Oliver

Head of Investment Strategy and Chief Economist, AMP

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Why it pays to review your Insurance Cover

Your life insurance is flexible and can be adapted to your changing needs.
Make sure you have a cover review with your adviser every 12-18 months to ensure you're covered for just the right amount, paying the right amount, and getting the best value from your policy.

Every 12-18 months, make sure you ask yourself, have you:

· Welcomed any new members to the family or taken on new responsibilities such as caring for an older relative?
You might want to add a new beneficiary to your policy or increase your amount insured to cover for your growing family's future needs and the increased financial responsibility you have.

· Changed jobs or got a promotion?
Your income is your biggest asset over the course of your life. If your income has changed, your future needs have likely changed too – so you'd benefit from reviewing your sum insured with your financial adviser.
This is especially important if you've got income protection. That's because your benefit amount, and the premium you're paying, are directly linked to the personal income we have recorded on your policy.

· Paid off large debts?
The amount you're insured for is to cover for your future financial needs should something happen to you. If you've significantly paid down large debts, your needs may have changed.
You may want to think about reviewing your sum insured to ensure it's right for your needs – not too little, and also not too much.

· Taken on any new debts?
Being insured for the right amount is an important factor of cover suitability. Customers usually need a level of cover that can, as a minimum, pay off any existing debts should something happen to them. If you've taken on new debts, your needs may have changed.

· Does your policy have a health loading? Has your health improved – or have you stopped smoking?
Personal risk factors such as smoking and your Body Mass Index (BMI) add what are called 'premium loadings' to your cover – which means you pay a higher premium than someone who doesn't have this risk factor.
If your health has improved (e.g. you've lowered your BMI or your lifestyle has changed recently), get in touch with your financial adviser to review your policy and determine if these loadings can be removed to help lower your premium.

Ways you can adapt your cover to your current needs:

1) Choose the amount you're insured for
Your premium is closely linked to the total amount you're insured for. And it's important to make sure you're covered for the right amount – not too little, not too much.

2) Choose to pay stepped or level premiums
Most insurers offer two ways to structure your premiums:
1. Stepped premiums are recalculated each year based on your age at renewal – they start lower and increase as you get older.
2. Level premiums are 'averaged out' across the duration of your cover, which means they start higher in the early years but end up being cheaper in the later years.
Choosing the premium type that's right for you can have a big impact on the lifetime cost of your policy, and your financial adviser will be able to help with forecasting that impact.

3) Choose to accept or decline indexation
Indexation is an automatic increase to your sum insured to ensure the value of your policy is not eroded by the impacts of inflation.
But you're in control – it's important to know that as the sum insured increases, the premium you pay may also increase. This means there are circumstances in which you might want to decline the indexation offer.

4) Remove any loadings you might have
Personal risk factors such as smoking, dangerous hobbies or occupations, or a high Body Mass Index (BMI) may add what's called a 'premium loading' to your cover – which means you pay a higher premium than someone who doesn't have those risk factors.
Any loadings like these are recorded on your Policy Schedule. So, if your health improves or your lifestyle has changed recently, get in touch with your financial adviser to review your policy and determine if these loadings can be removed to help lower your premium.
Want to know more?
If you'd like to discuss any of the content in this article and how it may apply to you, please call me on 03 5622 3005.