



PLANET WEALTH

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Newsletter - January 2025

Welcome to the latest edition of our client newsletter,

We wish you a Happy New Year!

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss "Financial Advice in Retirement" and provide you with information on "What's driven the fall in the \$A" and "The joy of saying YES".

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime, we hope you enjoy the read.

All the best,

Planet Wealth



It's personal - why advice matters in retirement

Here's how an adviser can help close the loop between your financial situation and your retirement goals.

If you're about to make the leap from accumulating capital in work to eating your capital in retirement, your success could depend on quality financial advice. Here's why....

The Australian superannuation system has built up a huge community chest of capital. As the system gets closer to maturity, the focus shifts to ensuring that capital delivers more choices and an emotionally rich retirement. The key to success is quality advice.

"When people are saving for retirement they're accumulating capital," says Shane Oliver, AMP Head of Investment Strategy and Chief Economist. "In accumulation mode, everyone has one goal – build maximum capital. In retirement the goals shift, they're as unique as the individual."

Growing need for advice

What you want in retirement depends on multiple variables. Your health and that of your partner. The age of your children – and your parents – and the shape of those relationships. Longer lifespans and social change mean today's retirees are more frequently dealing across generations and often with blended families.

So, while some see retirement as a long period of rest, many will become carers up or down the family tree. There will be those who explore side hustles, study, seek new jobs. While some need to get away and explore, others relish the time to live in their homes rather than just sleep there.

That's why financial advice is a key element of the retirement landscape. There may be a time when Artificial Intelligence can help manage your financial situation by taking into account your

unique needs and desires. But today, it's your financial adviser who can close that loop.

"The transition from living off your pay packet to eating your capital is incredibly complex," says Shane Oliver. "And in a world where the investment rules that applied for the past twenty years are changing, asset allocation and investment decisions are going to get more complex. Most people need more advice."

Freeing you up to enjoy retirement

Ideally your financial adviser will be deeply involved in your accumulation strategies by:

- maximising your personal contributions
- optimising strategies like co-contributions and spouse contributions
- making sure your investment strategy is aligned to your needs and risk profile.

Yet it's at retirement that the value of advice starts to really hit home.

Today, a lot of government rules in areas like Centrelink, transfer balance caps and total super balance limits are built around individual numbers.

Pockets of cash, buckets of growth

Some people will respond to a retirement income strategy built around 'buckets'. Cash and term deposits buckets to meet short-term income needs and buckets of growth assets in account-based pension.

Every situation, retirement goals and lifestyle aspirations are different. Contact us today to make an appointment to see how we can help you work toward your retirement goals.

Current as at January 2025



What's driven the fall in the \$A? Does it threaten inflation and RBA easing?

Key points

- The \$A has been hit since September by the return of Trump, a hawkish pivot by the Fed versus the RBA and concerns about the outlook for iron ore prices.
- We doubt the fall is significant enough to boost inflation much and shouldn't stop the RBA easing in February if underlying (or trimmed mean) inflation falls as expected.
- In any case, it's now had a bit of a bounce from oversold levels as Trump refrained from Day One tariffs opting for government agencies to investigate unfair trade & tariffs and reportedly more of a negotiating approach.
- The \$A could be stuck between \$US0.60 and \$US0.70, but with the risk skewed to the downside if Trump acts more aggressively on tariffs in the months ahead. Note, Trump still said in his inaugural speech that tariffs are coming.

Introduction

Currency markets are well known to be volatile – as there is no clear agreement on how to value them and they are vulnerable to international shocks and shifts in investor sentiment. Changes in the value of the \$A are important as they impact Australia's export competitiveness and the cost

of imports, including that of overseas holidays. For investors they directly impact the value of international investments and indirectly impact the performance of domestic assets via the impact on competitiveness.

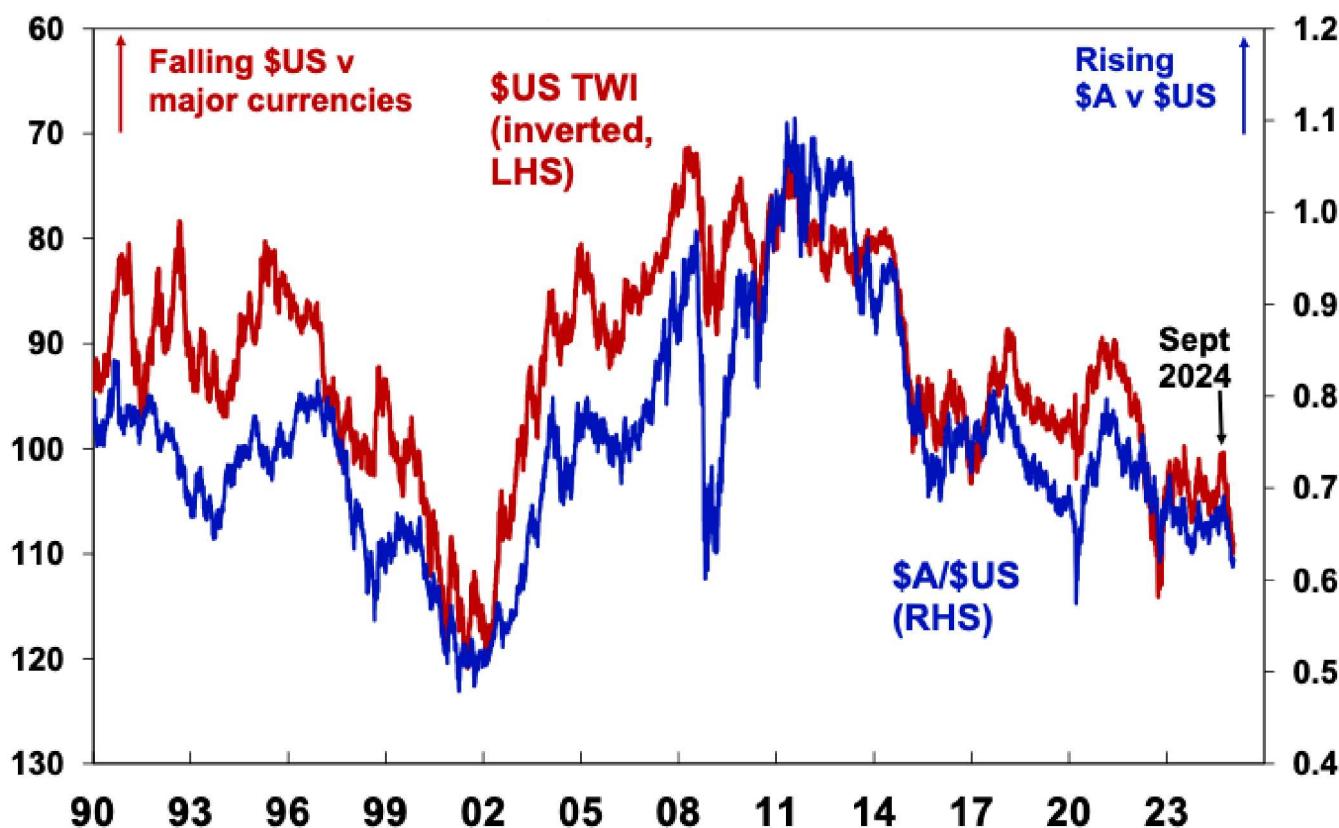
Unfortunately, currency forecasting is a bit of a mugs game to which John Kenneth Galbraith's observation in relation to economic forecasters that there are "those who don't know and those who don't know that they don't know" may apply. So, it should not be surprising the value of the \$A continues to surprise. Six months ago, when the \$A rose to \$US0.67 we thought it would go higher for various reasons including that it was slightly undervalued and interest rate differentials looked likely to shift in favour of Australia. As it turns out it did go higher, rising above \$0.69 in September. But then it fell sharply, recently reaching a low of \$US0.615. This in turn has led to concern about a boost to inflation and the RBA being less able to cut interest rates and possibly having to raise rates. This note looks at what's driven the fall, the outlook and its implications.

Why has the \$A fallen since September?

The fall in the value of the \$A reflects a combination of three things:

- The return of Trump – support for the Democrats peaked around late September/early October and so markets moved to price in the rising probability and then reality of his return to the presidency. Since his policies – tax cuts and deregulation which could boost US productivity, tax cuts which could add to the US budget deficit and result in tighter Fed policy, and tariffs – all imply a stronger US dollar this is what we have seen with the \$US rising around 9% against a basket of major currencies from its September low.

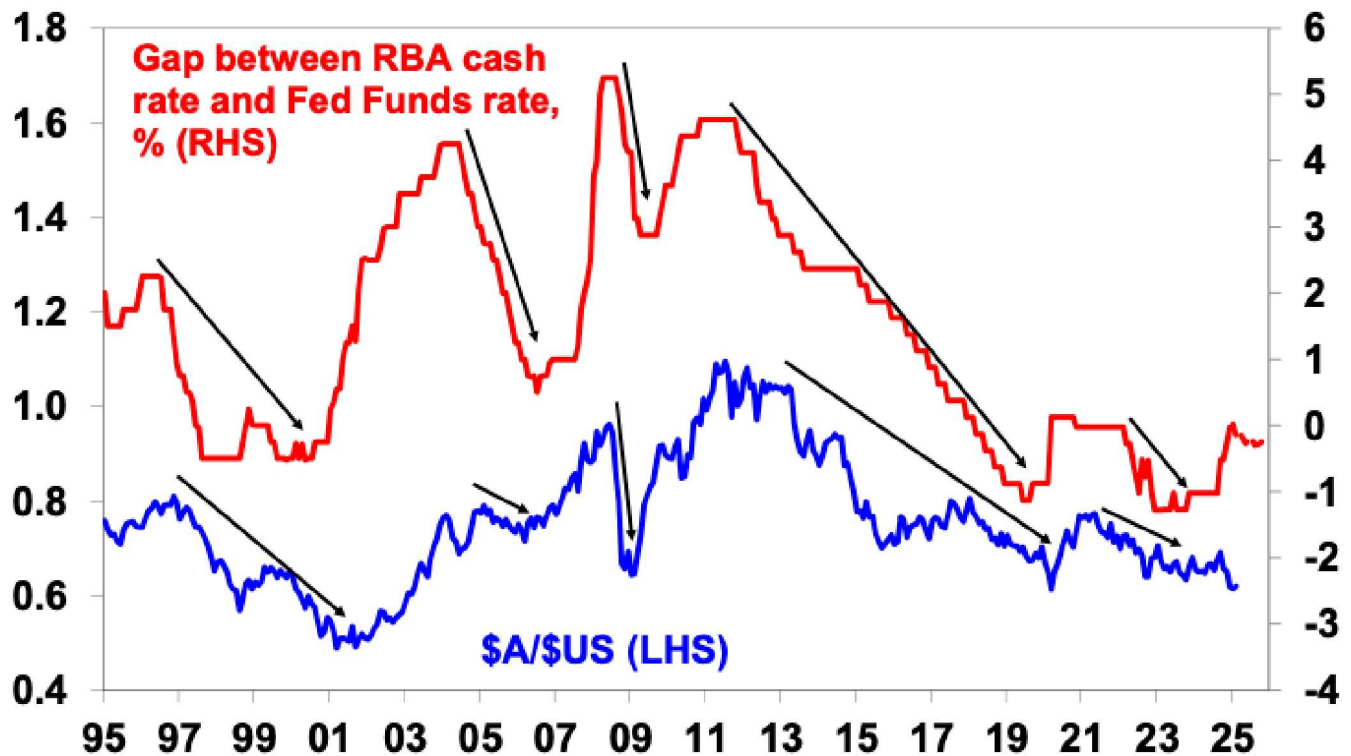
The \$US v major currencies & the \$A



Source: Bloomberg, AMP

- A hawkish pivot by the Fed versus the RBA – whereas the Fed cut rates in December to 4.25-4.5% it signalled less cuts than previously expected through 2025 whereas confidence has grown that the RBA will start to cut rates. As a result, the interest rate gap between the Australia and the US is expected to deteriorate in contrast to previous expectations for an improvement. Historically the \$A goes up when the Australian interest rates rise versus US rates and vice versa.

The interest rate gap between Aust & the US versus the \$A



The dashed part of the rate gap line reflects money mkt expectations. Source: Bloomberg, AMP

- Finally, concerns about the outlook for the iron ore price, Australia's biggest export, rose after disappointing stimulus announcements in China and fears that US tariffs on China could reduce demand for Australian commodities – that said iron ore prices and wider commodity price indexes are above their September lows suggesting commodities have not really been a major driver of the fall in the \$A.

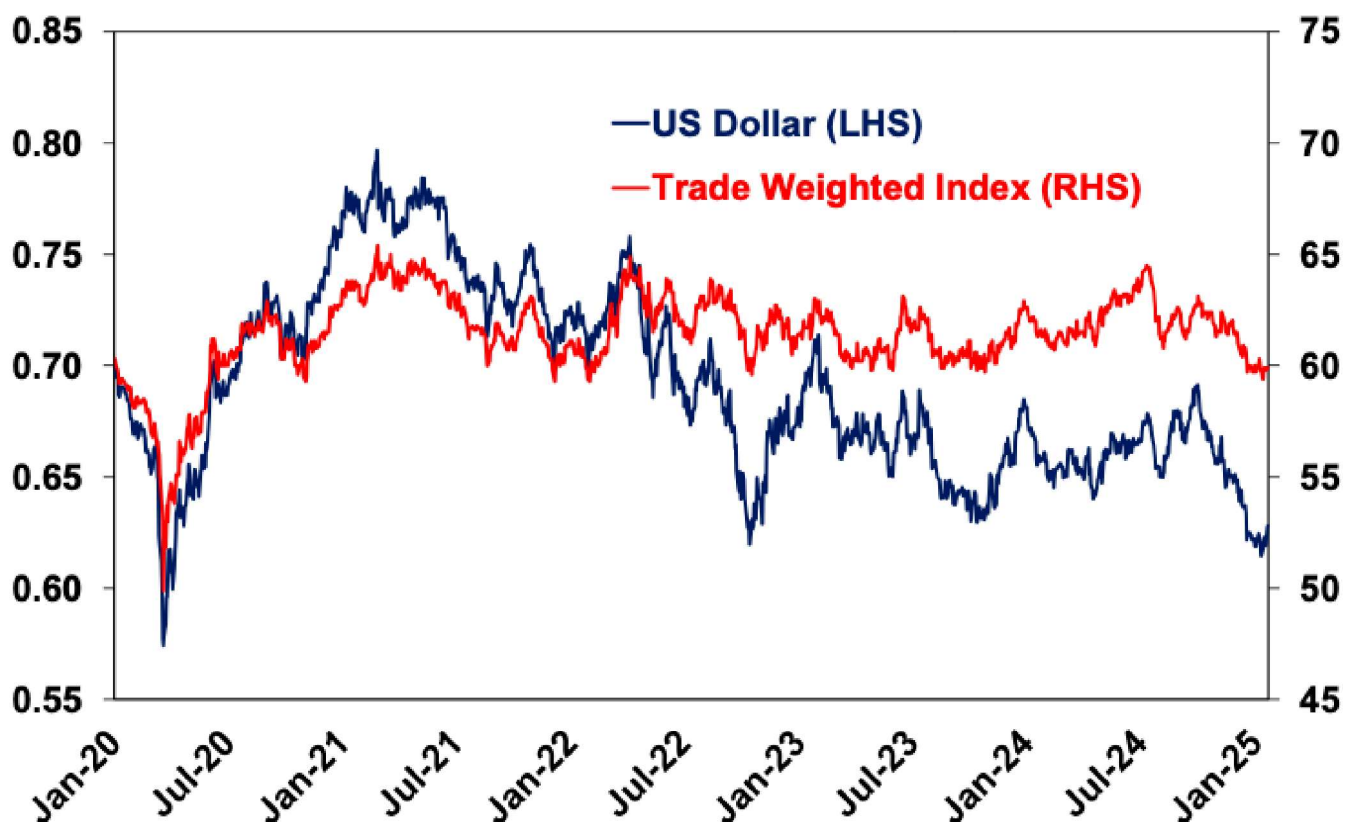
So, the fall since September is mainly a strong US dollar story rather than a weak \$A story as since September the \$A fell around 10% but the \$US rose around 9% as other major currencies also fell against the \$US.

Will the fall add to inflation & hamper RBA rate cuts?

It's not the RBA's role to defend the \$A or maintain it at a particular level -otherwise it would defeat the whole purpose of having a flexible exchange rate which is to provide a shock absorber to events that threaten our growth outlook – like less demand for our exports. But it's fall will be of some concern to the RBA in terms of the risk that it poses to inflation as a fall in the value of the Australian dollar by boosting import prices could add to inflation. However, there are several reasons why the RBA is unlikely to be too concerned.

- Firstly, while the \$A has had roughly a 10% fall from September against the \$US, other countries' currencies have also had sharp falls against the \$US so the value of the \$A on a trade weighted basis is only down by around 5% over the same period which is neither here nor there in terms of the impact on inflation.
- Secondly, on a trade weighted basis the \$A is in basically the same range it's been in for the last four years now. And with President Trump holding off from Day One tariffs and opting instead for a US government review of them and a "more negotiating approach" with China (according to a Bloomberg report) the range appears to be holding with the \$A bouncing slightly from oversold levels.

The Australian dollar, measured against...



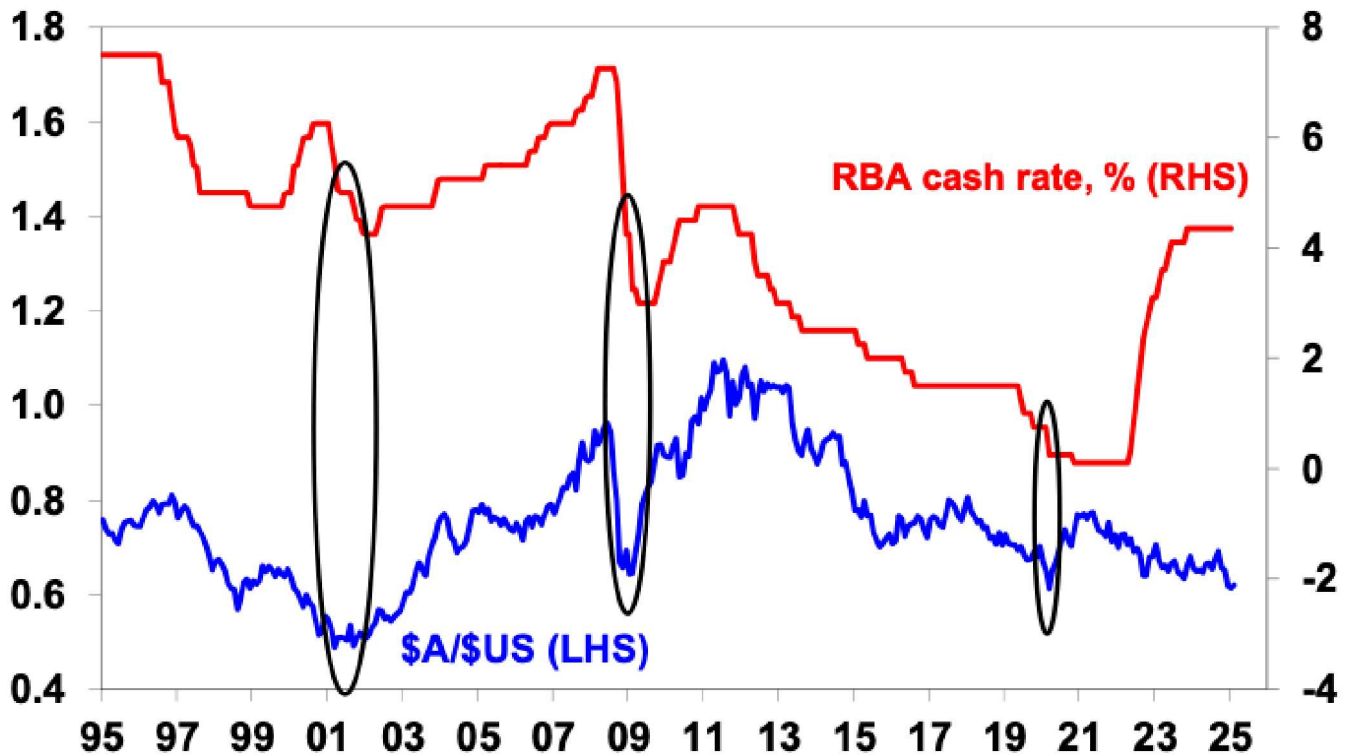
Source: Bloomberg, AMP

- Thirdly, with consumer spending depressed it's hard to see businesses being able to pass on higher import prices anyway – beyond higher petrol prices and international travel – without depressing demand.

So, it's hard to see a significant boost to the inflation outlook from the fall in the Australian dollar so far and so the RBA shouldn't be too concerned - albeit I have no doubt it will mention it in upcoming communications.

It's worth noting that the \$A plunged in 2001 (to \$US0.48); 2008 (from \$US0.98 to \$US0.60 in 3 months) and in the pandemic (to \$US0.57) and yet the RBA eased on each occasion with other factors dominating!

The RBA has eased several times when the \$A fell sharply



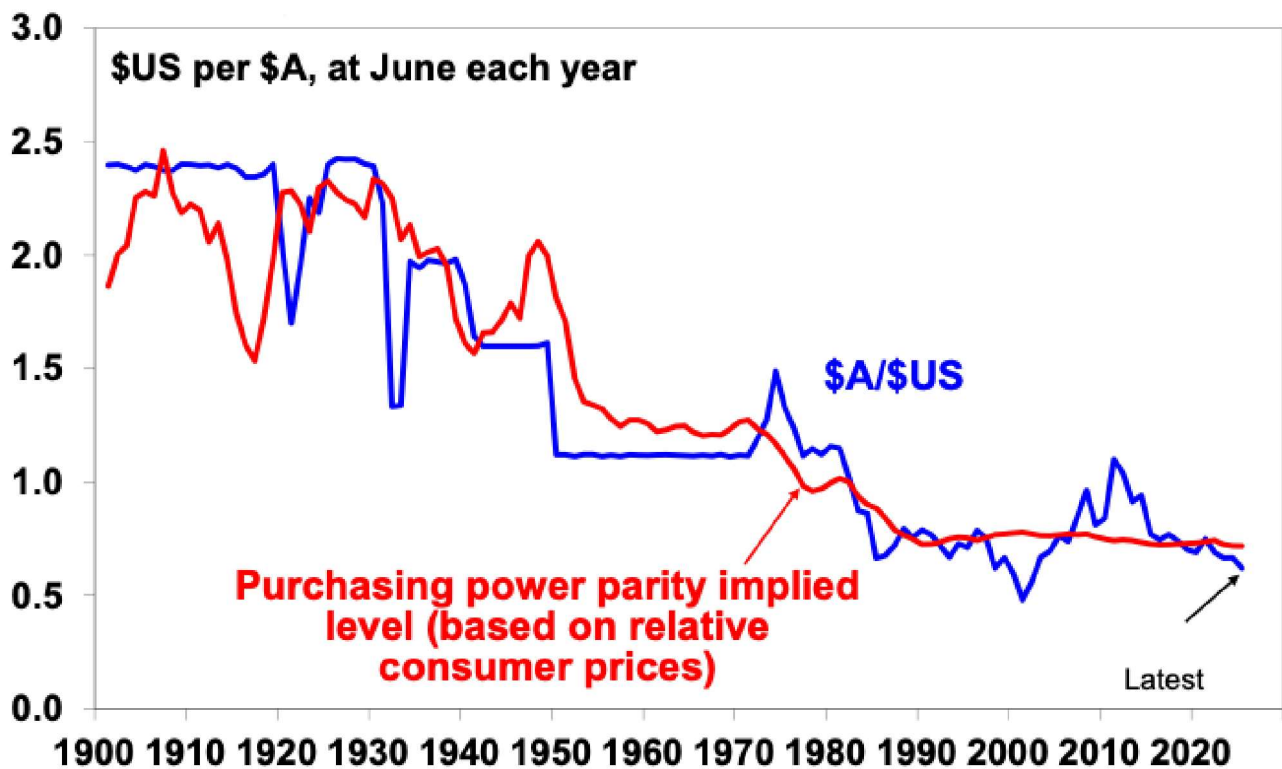
Source: Bloomberg, AMP

In short, while the fall in the \$A will concern the RBA we don't see it as being enough to stop the RBA from cutting rates ahead. Ultimately, the rates decision next month will come down to December quarter inflation data to be released next week. If trimmed mean inflation comes in at 0.6%qoq or less as looks likely as against implied RBA expectations for a 0.7%qoq rise it will be very hard for the RBA not to cut in February.

Despite the slide there are several positives for the \$A

- Firstly, from a long-term perspective the \$A remains cheap. The best guide to this is what is called purchasing power parity (PPP) according to which exchange rates should equalise the price of a basket of goods and services across countries (the red line in the next chart). If over time Australian prices and costs rise relative to the US, then the value of the \$A should fall to maintain its real purchasing power. And vice versa if Australian prices fall versus the US. Consistent with this the \$A tends to move in line with relative price differentials over the long-term. Right now, it's cheap at around \$US0.63 compared to fair value around \$US0.72 on a purchasing power parity basis.

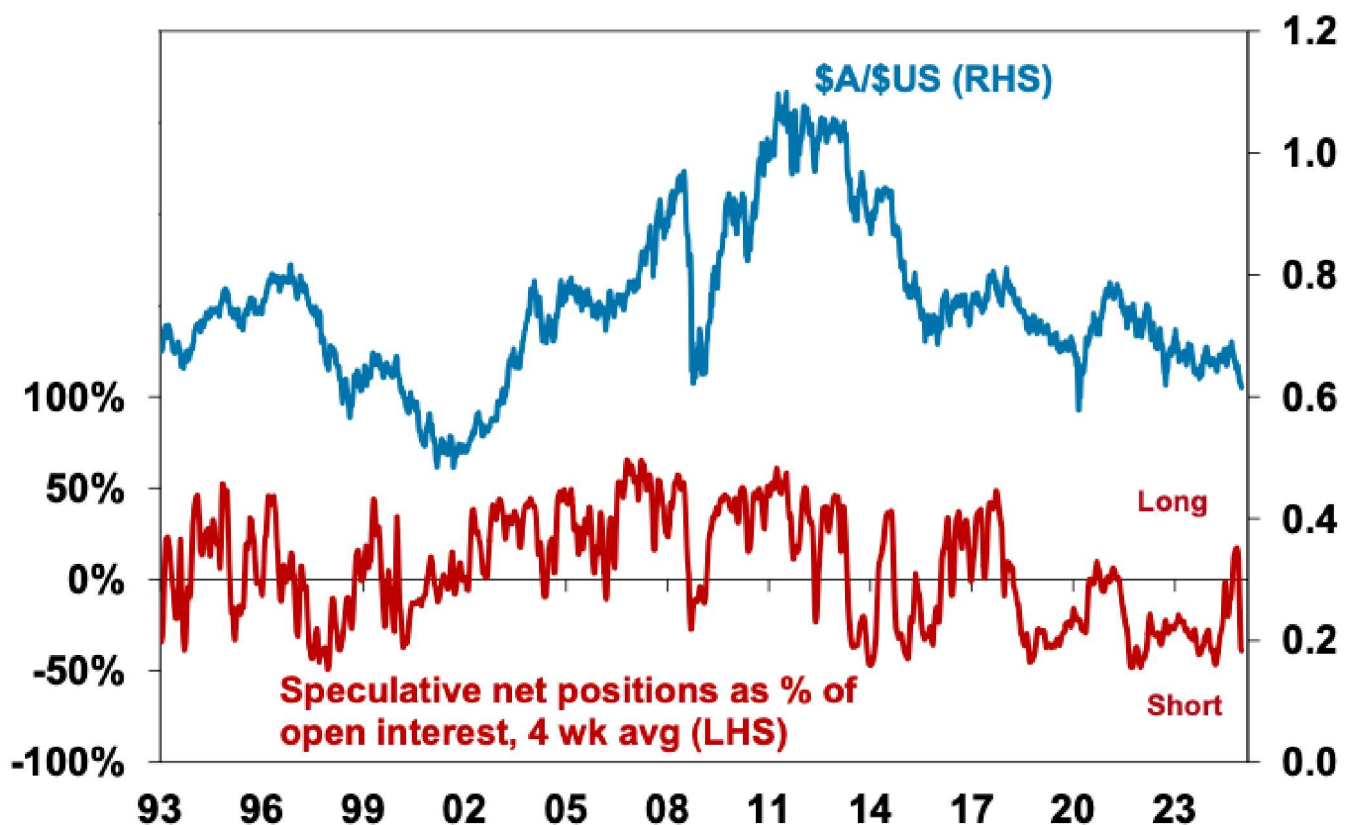
The \$A is below fair values based on relative prices



Source: RBA, ABS, AMP

- Second, sentiment towards the \$A is negative, reflected in short or underweight positions. Many of those who want to sell the \$A may have already done so and Trump's return may already be factored in, and this leaves it susceptible to a rally if there is any good news.

\$A positioning is back to short



Source: Bloomberg, AMP

- Finally, commodity prices look to be embarking on a new super cycle. The key drivers are the trend to onshoring reflecting a desire to avoid a rerun of pandemic supply disruptions and increased nationalism, the demand for clean energy and increasing global defence spending all of which require new metal intensive investment compounded by global underinvestment in new commodity supply.

Where to from here?

In the short term the \$A is bouncing from oversold levels (and the \$US falling from overbought levels) as Trump's return was largely factored and so far his bite has been less than his bark. Over the next 12 months it's likely to be buffeted between changing views as to how much the Fed will cut relative to the RBA and how far Trump goes on tariffs (so far so good – but there is a way to go yet as Trump is still saying tariffs are coming) versus potential positives of undervaluation, negative sentiment and maybe more decisive stimulus in China. This could leave it stuck between \$US0.60 and \$US0.70, but with the risk skewed to the downside if Trump acts more aggressively on tariffs.

Implications for investors?

While the fall in the value of the \$A will add to the cost of petrol and overseas travel (mostly to the US) and could constrain the RBA in cutting rates, although we don't think this will be significant, there is a silver lining to the cloud in that the fall has boosted the value of (unhedged) international assets so it has enhanced returns in global shares. This highlights the benefits of having a well-diversified investment portfolio across both assets and also across currencies.

Dr Shane Oliver - *Head of Investment Strategy and Chief Economist, AMP*

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The joy of saying 'yes'

As we step into a new year, it's a good opportunity to think about what we want to embrace and experience in the year to come. Amidst all the resolutions that might be broken before we know it, one powerful and positive way to approach the new year is to make this the year of saying yes.

Let's dive into the warmth of possibility, fight the fear and explore the benefits of saying yes, (while also recognising that it's perfectly okay to say no when it counts!).

The magic of yes

There's something magical about the word "yes." It carries a sense of adventure, curiosity, and openness. When we commit to saying yes, we invite a world of possibilities into our lives. Whether it's trying a new hobby, attending a friend's event, or accepting an unexpected invitation, each "yes" can lead to enriching experiences that might just become the highlights of our year.

Be open to growth and learning

Every new opportunity is a chance to grow and learn something new. When we step outside our usual routines, we often discover hidden talents or passions we didn't know existed. Maybe you've always wanted to paint but never picked up a brush. A friend invites you to an art class, and suddenly, you find joy in expressing yourself creatively. Each experience expands our horizons and introduces us to an aspect of ourselves that we may not have known existed.

Cultivate new connections

Saying yes also opens the door to new relationships. Each time we engage with new people, whether in a casual setting or a more structured environment, we have the opportunity to form

connections. These relationships can lead to friendships, collaborations, or even just delightful conversations that brighten our days. When you attend that gathering or volunteer for a community event, you never know who you might meet or how they might inspire you.

Build confidence and spark inspiration

Each small step outside our comfort zones builds our confidence. When we say yes to new experiences, we're essentially telling ourselves, "I can do this!". Even if we stumble along the way, those moments contribute to our sense of self-efficacy. Think about that time you gave a toast at a wedding or tried rock climbing for the first time. The thrill of stepping up to the challenge can leave you feeling accomplished and more willing to embrace future opportunities.

New experiences can also ignite creativity and inspiration. Have you ever noticed how a change of scenery or a fresh activity can spark new ideas? It's like a reset for our brains. When we engage in activities that are different from our daily routines, we open ourselves up to innovative thinking. So, whether it's a cooking class, a new fitness routine, or exploring a different neighbourhood, each experience has the potential to inspire new ideas and perspectives.

Finding your balance

While saying yes has many benefits, it's equally important to recognise that saying no is perfectly acceptable. Life is a balancing act and sometimes we need to protect our time and energy. It's okay to say no to things that don't align with our values or drain us emotionally. For instance, if you're feeling overwhelmed with work and social commitments, it's perfectly fine to decline an invitation.

The key is finding a balance that works for you and to say "no" to the things that aren't right for you and "yes" to the things that are. When considering an invitation or opportunity, take a moment to ask yourself: Does this excite me? Will it bring me joy or growth? If the answer is yes, then lean in and say yes, but if it feels like a burden or something you're not genuinely interested in, don't hesitate to politely decline.

Remember, it's about making conscious choices that support your journey and well-being. Saying no when appropriate frees you to say yes to the things that truly matter and make space for the right opportunities to come along—ones that truly resonate with us and enrich our lives.

So, let's step into this new year with open hearts and curious minds. Embrace those invitations, try that new activity, and savour the joy of each experience. Remember, it's not just about what you say yes to; it's about the richness of life that unfolds when you open yourself up to what could be.

Here's to a year of embracing new possibilities!

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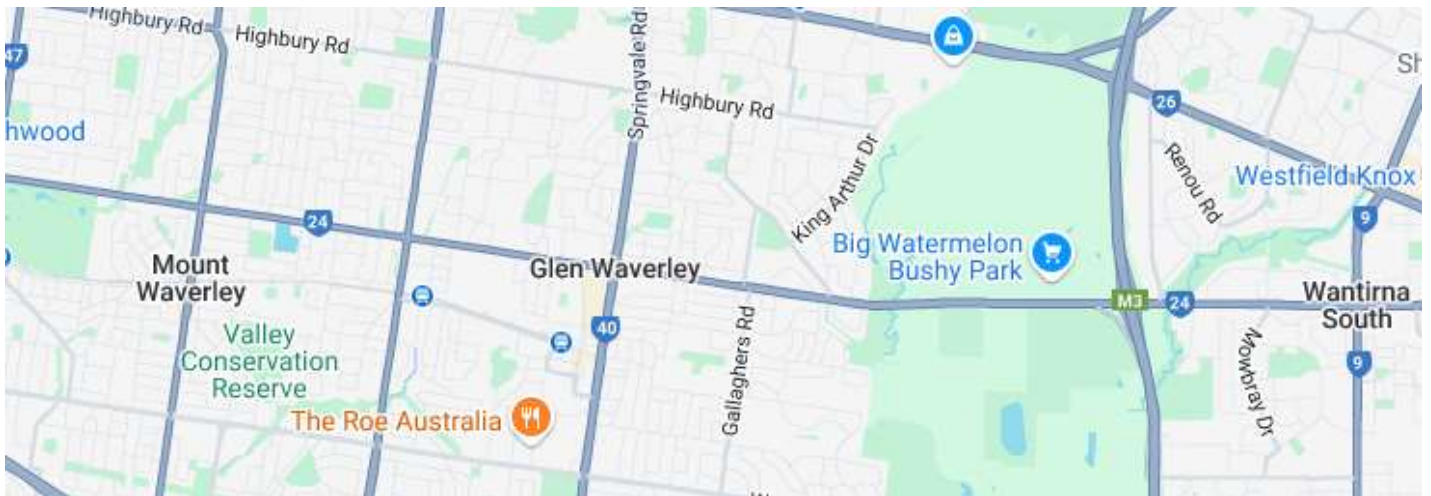
Planet Wealth

921 High Street Rd Glen Waverley Vic 3150

P 1300 004 254

E info@planetwealth.com.au

W www.planetwealth.com.au



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