THE GENERATOR

Money is the most universal and most efficient system of mutual trust ever devised

Yuval Hariri

Q4_2021

The Great Moderation

Extracts from Russell Investments 2022 Global Market Outlook

We believe global growth will be slower in 2022 than 2021, but still above trend. Amid this backdrop, we think equities should outperform bonds. In addition, while inflation has yet to peak, we believe it will likely decline over the year. As a result, we expect any tightening by central banks in 2022 will be modest.

2021 was a year of rebound and recovery, and we expect that 2022, by contrast, will be a year of moderation—particularly when it comes to growth, inflation and investment returns. Developed economies have spare capacity, households are sitting on accumulated savings from the pandemic lockdown and central banks are planning to remove accommodation only gradually. Overall, the global economy appears poised for a second year of above-trend growth, but at a slower pace than in 2021. In our view, the three main uncertainties for 2022 are:

- The durability of the spike in inflation
- The extent and duration of the property-market-driven slowdown in China
- Possible further COVID-19 lockdowns as infection rates increase again or new variants emerge.

We expect the spike in inflation will be mostly transitory, although it could reach uncomfortably high levels in early 2022 before declining as supply-side issues are resolved. We also think that while Chinese authorities are likely to implement stimulus measures to soften the nation'sproperty slump, the response may be too late and too small to prevent a deeper downturn.

Regarding COVID-19 risks, while the success of vaccines and approval of pills to treat infection has made investors more relaxed, the new omicron variant demonstrates that these risks can quickly return.

Our cycle, value and sentiment (CVS) investment decision-making process continues to score global equities as expensive, with the U.S. the most expensive developed equity market globally.We see the business cycle as still supportive for equities, while becoming a larger headwind for government bonds. In the U.S., we believe that moderating demand, coupled with a rebalancing in demand (from goods to services) and a healing supply-side of the economy, should allow inflation rates to throttle down aggressively in the second half of 2022.

Continued on page 3………….

GENERATION WEALTH MANAGEMENT

Albany Office
PO Box 64001, Botany, Auckland 2163
TEL. 09 272 9030
EMAIL. botany@generationwealth.co.nz

Botany Office
PO Box 64001, Botany, Auckland 2163
TEL. 09 272 9030
EMAIL. botany@generationwealth.co.nz

Pukekohe Office
PO Box 66, Pukekohe 2340
TEL. 09 238 3322
EMAIL. pukekohe@generationwealth.co.nz

Festive wishes to all

The team at Generation Wealth Management would like to wish you and your families a great Xmas and a healthy, prosperous and lockdown-free 2022

Office closing and reopening times

Like everyone, our staff have had a very busy and, at times, difficult year, so we're all looking forward to a well earned break to recharge our batteries for the new year.

Last Day—Tuesday 21st Dec

Reopening— Monday 10th Jan

We will be checking our phone messages regularly so please request a callback if you need us.

Inside

The cost of retirement increases - again

The cost of living in retirement has increased nearly 4% in the past year

The annual Retirement Guidelines Expenditure report says people living in metropolitan areas need more than $800,000 in savings to fund a comfortable post-work lifestyle.

Expectations and aspirations for retirement will be very challenging for the majority of New Zealanders unless they prepare and plan, according to Massey University's Fin-Ed Centre report, authored by Claire Matthews.

The research states that a two-person household in the main cities in 2021 would need to have saved $809,000 to fund a "choices" lifestyle, while a couple living in the provinces would need to have saved $511,000.

Considering the average KiwiSaver balance is a little over $25,000, New Zealanders have a long way to go to avoid "sleepwalking" into retirement.

They say the average retired household continues to spend in excess of NZ Super, highlighting the importance of preparing for retirement and suggest most Kiwis will need to make provision for supplementary retirement income, in addition to what NZ Super can provide.

They calculate what retirees currently spend to maintain either a 'no frills' retirement or a more fulfilling 'choices' lifestyle that includes some luxuries. Costs are calculated for one and two-person households in metropolitan and provincial areas.

The lump sums required for a 'choices' lifestyle for a one-person household are $600,000 and $688,000 for metropolitan and provincial areas respectively.

Only two-person provincial households living a 'no frills' lifestyle come close to being funded by NZ Super, though they would still need savings of $75,000. A metropolitan two-person household with a 'no frills' lifestyle would require $195,000 savings at retirement in addition to NZ Super.

The guidelines say the key inflationary drivers for superannuants for the 12 months ending 30 June this year were transport, housing and household utilities.

Financial Advice NZ chief executive Katrina Shanks welcomes the report, saying it is a further timely reminder about the need for people to plan for their retirement.

"We need to drill home to people that they must start thinking seriously about saving for their retirement from an early age or they will struggle to live the lifestyle they want to once they stop work, and these guidelines clearly show what people need to aim for."

Other research conducted for Financial Advice NZ shows the majority of those who seek professional advice will be better off in their retirement than those who don't, so planning early and seeking advice on just how to do that seems to be the best method for achieving top results.

TABLE 1: CHANGES IN TOTAL WEEKLY EXPENDITURE BY HOUSEHOLD GROUP 2020 - 2021

		Total Weekly Expenditure		Change 2019 – 2020	
		2020	2021	$	%
One-person households	No Frills - Metro	703.60	726.19	22.59	3.21%
	No Frills - Provincial	586.10	604.92	18.82	3.21%
	Choices - Metro	993.34	1028.89	35.55	3.58%
	Choices - Provincial	1066.73	1116.23	49.50	4.64%
Two-person households	No Frills - Metro	835.34	864.94	29.60	3.54%
	No Frills - Provincial	724.47	746.81	22.34	3.08%
	Choices - Metro	1423.29	1470.26	46.97	3.30%
	Choices – Provincial	1137.17	1176.14	38.97	3.43%
				CPI	3.30%

Summing up

- *markets are volatile and can deliver unexpected results*
- *maintain your disciplined investment strategy*
- *think of your long term goals and how they are best achieved*
- *always talk to your adviser if you are worried*

The Great Moderation in 2022

.....from page 1

We expect Europe to head into 2022 with healthy growth momentum, with business surveys showing broad-based gains across countries and sectors, and fiscal policy set to provide persistent support to growth. We believe that the MSCI EMU Index, which reflects the European Economic and Monetary Union, has the potential to outperform the S&P 500® Index in the coming quarters.

In the UK, Brexit has placed constraints on labour supply, putting upward pressure on wages and inflation. The situation is encouraging the Bank of England to begin raising interest rates,with markets priced for liftoff in February. While UK equities have lagged the global rally in 2021, the FTSE 100 Index is the cheapest of the major developed equity markets and offers a dividend yield of close to 3.5% as of November 2021. We believe it has the potential to outperform in a global cyclical rally as fears around inflation and COVID-19 ease.

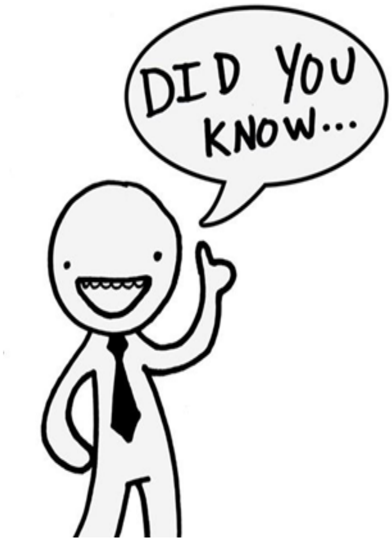
China's property-market downturn, triggered by the collapse of developers such as Evergrande, is a large drag on economic growth. It's difficult to gauge the exact size of China's residential property sector, but somewhere around 20% of GDP (gross domestic product) seems in the ballpark, according to various estimates. A reasonable assumption is that there will be some stimulus in the first half of 2022, which should see China's growth trajectory improve toward the end of the year.

In Japan, inflation has remained very subdued, due to softer demand and less challenge with supply chains. We do expect a very modest increase in inflation through 2022, given that import prices have been rising. However, this is unlikely to pose a challenge to the Bank of Japan, which we believe will lag behind other central banks in raising interest rates.

Economic growth in Australia should pick up through 2022 as the country reopens following sustained lockdowns during the second half of 2021. Because Australia has not seen the same levels of wage pressure as other regions, we believe the Reserve Bank of Australia will likely hold on raising rates through 2022.

"It's *tough* to *make predictions, especially about the future*"

Attributed to baseball legend Lawrence Peter "Yogi" Berra



- After adjusting for inflation, U.S. bond investors have almost never been compensated less than they are today. With the exception of a single month back in 1974, today's real 10-year yield of –5.3% is the lowest we've ever seen. The 6.8% inflation rate (highest US CPI since 1982) caught many investors by surprise, but perhaps more surprising has been the lack of a meaningful rise in interest rates, with the 10-year treasury yield sitting at only 1.5%.
- According to a recent IMF report, Luxembourg achieved the highest GDP per capital for 2021 at USD125,923 with New Zealand coming in 24th position at USD41,793.
- In 1990, 1.9 billion people lived in extreme poverty, which was 36% of the world's population at the time. Over the last 30 years, the number has been steadily decreasing with the UN estimating that extreme poverty will only represent 6% of the population by 2030.
- The history of Wall Street dates back to the 1600s, when New York was called the New Amsterdam settlement. Back then, before the bells and exchanges, it was merely a pathway that ran alongside a wall protecting the settlement from Native American attacks. In a moment of creativity, the citizens named the corridor "Wall Street."

Summing up

- *sometimes what you see as a safe strategy can in fact be a risky one, because it won't deliver on your goals*
- *Seek sound advice about setting up a multi-asset, multi strategy portfolio of assets*

Market Timing & Predictions

When a picture is worth a thousand words

They say a picture is worth a thousand words.

I could easily spill a thousand words on market timing.

I could talk about how, on average, market timing newsletters underperform the market by over 4.00%.

I could talk about the fact that, over about 85 years, the S&P 500 has only gone up 51.02% of the days.

I could talk about the concentrated nature of returns. I could show that being out of the market, and missing the best month each year, drops returns by about 7% per year.

I could talk about a psychologist from Berkeley, named Philip Tetlock - who studied over 82,000 varied predictions, by 300 experts, from different fields, over 25 years - and concluded that expert predictions barely beat random guesses. Ironically, the more famous the expert, the less accurate his or her prediction tended to be.

I could talk about Nobel Prize winner Bill Sharpe's contention that timers need to be right 74% of the time, to overcome the frictions and costs of their moves.

I could talk about magazine covers, like the Death of Equities, that featured just before five years of 14.44% average compound returns for the S&P 500.

I could talk about a study of 1,557 managed funds and 210 institutional funds, where the author concluded timing ability of managers is, on average, negative.

I could talk about how the market timing gurus whose calls are tracked, have less than 50% accuracy.

I could mention the 1,460 different market timing techniques tested by a fund manager only to find the average benefit was -1.37%.

I could talk about how the predictive power of last year's return, to correctly forecast this year's return, is 0.01%.

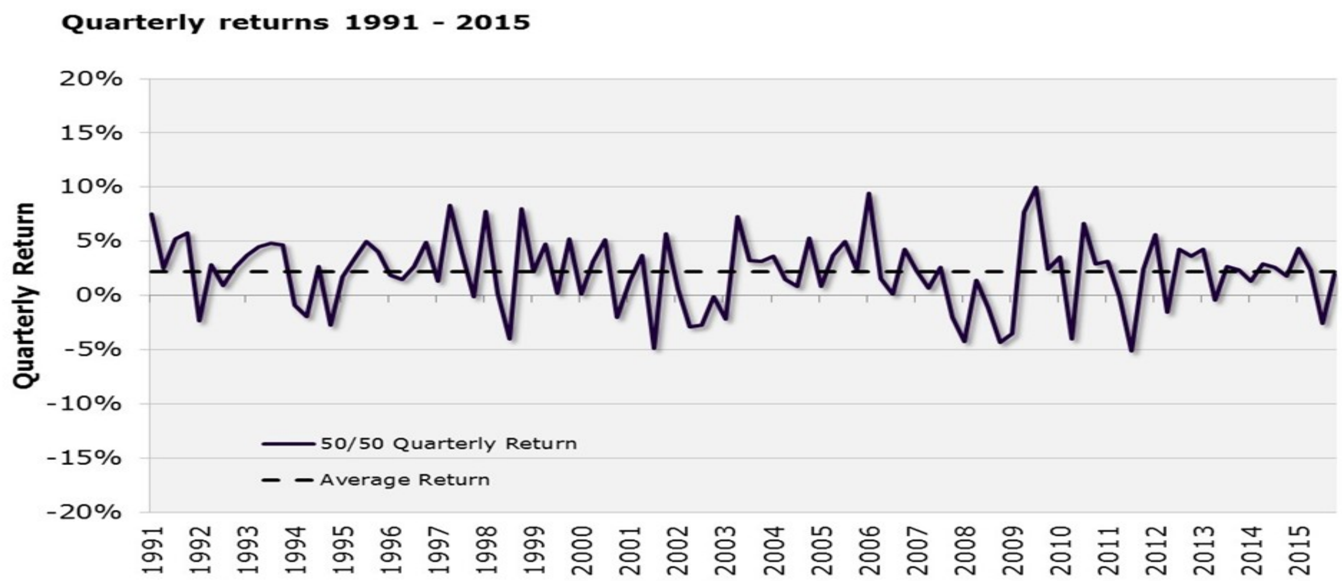
I could talk about the wise words of Warren Buffett, who said, "The only value of (share) forecasters is to make fortune tellers look good."

I could talk about the simple logic that all market timing calls offset each other. If you buy, someone must sell. If you sell, someone must buy.

I could talk about a lot of things.

Or…

I could show you this picture of monthly returns and simply ask you to find the pattern.



Reported returns are after fund management fees, but before custodial, administration, adviser fees and transaction costs and before tax.

Next step

••• *See us about the best investment options for you.*

GENERATION WEALTH MANAGEMENT