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PORTFOLIO ADVISORY INSIGHTS

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Australian Housing Prices

House prices in Australia accelerated dramatically since the pandemic. As the RBA moves to drain liquidity from the market, cash rates and standard variable rates will increase.

Prices will fall.

Why are house prices falling?

Rising policy rates from 0.10% to 1.35% means mortgages are more expensive, resulting is less demand. After years of record low policy rates, this increased cost is a burden to households.

How high can interest rates go?

Rates will go higher than the 1.35% and 1.75% currently in Australia and the US. But we think they will not go so high as the markets have predicted this year.

How far could house prices fall?

Historically, the Australian housing market has been rather resilient to recessions. But credit availability has a distinct correlation with the housing market. Given aggressive monetary tightening by the RBA, we think there is a near-term downside of between 10% and 20% peak-to-trough.

What is the risk of a recession in Australia?

There is a very narrow landing strip for central banks to achieve a "soft landing". Central banks have almost always caused a recession when they hike rates. But it is possible to achieve a soft-landing for a period of time.

What is the implication for portfolios?

Lower house prices will likely lead to lower wealth for home-owners and less income for potential investors. All else being equal, lower house prices are clearly a risk to the economy and equity market returns. But not all is equal – we expect the RBA will not hike to recession.

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Isaac is the Global Chief Investment Officer and Portfolio Manager for **Oreana Financial Services**. With experience across investment strategy, portfolio and risk management, research and central banking in Asia, the UK and Australia, he leads the team in monitoring economic and market outlooks.