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# PORTFOLIO ADVISORY INSIGHTS

## What does an RBA pause mean for Australian assets

The market is pricing a very **restrictive** policy rate by early 2023.

We **disagree** with market pricing. We think the RBA will get to restrictive territory later this year. Then we expect they will pause for a long period.



## Will house prices collapse?

House prices will fall as rates rise. But we think the consensus for house prices to fall as much as 20% is overdone. We think a **10% decline** in house prices is probable.



## Will we have a recession?

A recession is a clear risk if the RBA hikes **too far**.

When the RBA hikes rates to restrictive territory house prices will fall, the economy will slow, and the unemployment rate may move higher. But if the RBA pause at modestly restrictive territory, a recession could be delayed for some time.



## What does it mean for Australian assets?

We think the shift to a pause in rates from the RBA may allow a resetting of the bearish recession expectations. And that could provide some upside to Australian equity markets.

Government bonds now offer **reasonable income** if a recession is avoided.

If the RBA hikes to recession, government bonds at current yields will help to protect on the downside.



## What can investors do?

- ✓ Avoid knee-jerk reactions through this uncertain environment. Uncertainty is keeping volatility high. A recession is a possibility but not inevitable.
- ✓ We have increased our exposure to government bonds but held exposure to equities largely unchanged.
- ✓ We increased the quality of our fixed income exposure and the resilience of our equity exposure.
- ✓ While we do not think a recession is the most likely outcome, we have looked to manage the downside risk while remaining exposed to better outcomes than the market has currently priced.

Contact PAS for further information.

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