BITESIZE

PORTFOLIO ADVISORY INSIGHTS

Why an RBA rate pause means you shouldn't sit on the sidelines through 2023...

The RBA delivered another 0.25% rate hike in February. It has more to come.

Rates are mostly restrictive, inflation is still too high, and the Bank wants to restore some credibility.

But, the RBA does not want a recession, particularly when this is unnecessary and avoidable.

We expect another two or more 0.25% rate hikes then a pause in Q2. That will extend Australia's economic cycle.

1 Australian equities will be supported

Australia retains significant economic momentum, the labour market is strong, and China is reopening and re-engaging with Australia. If the cycle extends, earnings will be supported through 2023 and equities should perform well. We favour Australian equities over international developed economies for the near-term.

2 We also expect Australian government bonds to perform well

Market expectations for rate hikes look sensible. Inflation is likely to slow faster than both markets and the RBA expects. That should help the inflation premium decline even as the term premium has maxed out. Yields at current levels offer reasonable income, but importantly good diversification and downside protection. We continue to hold a modest overweight to Australian government bonds in our portfolios.

A recession is possible at some stage in the medium-term, so it pays to be prudent. But we continue to think 2023 could be a year of FOMO for many investors if they wait for an avoidable and unnecessary recession.

Curated by Dr. Isaac Poole, CIMA®
Chief Investment Officer, Oreana Portfolio Advisory
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.