Transcript

The Ideas Exchange
Episode 13: 2022 market update

February 2022

Helen (00:02):

Welcome to The Ideas Exchange by ASX, connecting you with market experts, investment updates, and ideas. I'm Helen Chong, National Business Development Manager at ASX. And this is our monthly podcast, covering everything from investment trends through to different ways to invest using a variety of products.

Helen (00:22):

For my very first episode, I had the pleasure of chatting with Dr. Shane Oliver. Shane is the chief economist and head of investment strategy at AMP. But really a man who needs no introduction. And a bit about me, I actually started my career in the industry at AMP Capital, and I got to see glimpse of Shane in action. He really he has a brilliant way of simplifying the complex. For those who are unfamiliar, Shane is one of the most prominent economists in our country. He is a well respected voice as a regular media commentator on economic and market issues.

Helen (00:54):

Shane is often quoted in the news and you may even subscribe to his [office 00:00:58] insights where he shares his market view. In this episode, we chatted about the latest headlines and what it means to our economy covering hot topics from inflation, where he sees interest rates going to his view on all things crypto and climate change. Despite a really shaky starts the year, Shane shares how he turns down to noise to stay focused as an investor. Keep listening to find out why it's not all doom and gloom and what investors should look out for this year. Let's get into it.

Voiceover (01:29):

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Helen (02:03):

Hi, Shane, you are celebrating 38 years of service this year at AMP, congratulations and welcome. It's great to have you join us.

Dr. Shane Oliver (02:11):

Thank you, Helen. It's great to be here.

Helen (02:14):

So let's get straight into it. Let's start with your views. I want to get your take on some recent events that have dominated headlines over the last year and well into the start this year, seven things that we've been reading about. So the first one is of course, coronavirus. As you know, two years on from the start of COVID, we're still living in the midst of the pandemic. How do you think this will impact us locally and globally?

Dr. Shane Oliver (02:38):

Well, it's having a huge ongoing impact, but I'm a bit of an optimist. And I reckon that every time we have a new wave, it seems to have less economic impact than the previous wave. And I know that Omicron came like a storm blowing in very quickly. Lots of people got it. I didn't know people directly in previous waves who got it, but I know lots of people now who've got Omicron also my neighbors, family members and so on. And that's a big disruption and obviously been a factor impacting the volatility in share markets just over the last month. But by the same token, there is some reason for optimism if you are a double vaccinated person, compared to an unvaccinated person, you are about one ninth as likely to end up in hospital. Put it the other way around.

Dr. Shane Oliver (03:24):

If you are unvaccinated, you're about nine times likely to end up in hospital in New South Wales. You're about 15 times more likely than a vaccinated person to end up in ICU. And likewise, in regards to you dying. So the vaccines are providing protection against serious illness, not necessarily against getting it, obviously when you get a booster shot, then that helps even more. That gives me optimism. There's new treatments on the way for coronavirus. None of these things are perfect, but this is a very different situation compared to two years ago, new treatments, Pfizer, Merck, various others, I think AstraZeneca has got one. So those things are on the way more importantly, look, I'm not an epidemiologist and epidemiologists have all sorts of opinions here, much like economists do. They didn't have a perfect crystal ball. Some are very gloomy, but some are saying, "Well, if it's now starting to evolve in a way that is less harmful, but more transmissible as Omicron is, then that could be a positive thing because it will come to dominate the more harmful variants."

Dr. Shane Oliver (04:26):

And we are on our way, all of those three things together, vaccines, treatments and less harmful coronavirus. We're on our way to coronavirus becoming endemic, learning to live with it. And that seems to be what's starting to happen. Obviously we don't like people not being able to go to work, but it seems like people still want to get out there and do things, but that not being able to go to work thing has caused disruption in supermarket elsewhere. That's affected the share market to some degree, but I reckon that's going to be pretty temporary. And I'm actually starting to feel more optimistic about coronavirus now starting to loosen its grip. Thanks mainly to modern science and health.

Helen (04:59):

Yeah. And I think this definitely wait and see. Now I just wanted to turn our minds to the volatility in markets. January, in the last month. Typically January is a quiet month of markets. Most of our industry, as you know, Shane are on break, they're enjoying summer by the beach, but we've had a really rough start this year to start a 2022. And we saw a lot of the fund managers rushing back to their trading screens. The last time we saw this level of volatility, I think was in 2016. So what's going on?

Dr. Shane Oliver (05:30):

It's in January of 2016, you had rough start the year turned out that was at the tail end of falls that started back in 2015. But they continued into January, 2016. So firstly feels are sometimes you do have a volatile January. It's not always smooth sailing and the volatility could come because the market is thin, but you get some bad news. And then that enables the market to fall sharply, which is what we've seen. We have seen quite sharp falls, biggest falls since back in 2020, last year was pretty benign. The biggest fall in the Aussie share market in 2021 was 6%. And I'm talking about a draw down here. The broad trend was up great returns, but the biggest draw down through the course of the year, which I think was August, September was down 6%. Now there's a few things that bear in mind after calm years called main reversion, you get volatile years.

Dr. Shane Oliver (06:15):

Last year was pretty calm, biggest fall was 6% biggest fall in the U.S. was 5% typically after calm year, you get a volatile year. So we're seeing that we had seen a big run up from the lows back in 2020. Some markets have become a little bit more vulnerable. Not as cheap as they once were. The easy gain are behind us. We heard all of that. There was a bit of froth around cryptos, crypto mania, main stocks, specs. Sometimes we get a bit of froth around, that's a bit of a negative sign, uncertain of the calm generally quite bullish. Then of course, you got the high inflation numbers coming out of the U.S. You got the Fed turning more hawkish, other central banks doing the same. We got some strong jobs numbers in Australia, which brings forward the possibility of rate hikes in Australia.

Dr. Shane Oliver (06:57):

And before you know it, markets are seeing big falls. And of course on top of all of that, Omicron was causing volatility. So you've got weaker data coming through or mixed data coming through in some countries, worries that it's going to disrupt things. Then you've got talk of higher interest rates at the same time, not a good combination. And of course, tensions on the Ukraine border and high risk around Ukraine and Russia. So all of those things have impacted markets, which is not good. It's not a great start of the year. I mean, I'd like to say seven things in response to all this and I'm sure I'm going to forget some of them. Trying to time markets is really, really hard. Some people put the effort in and they can have a good stab at it. Fair enough. They love doing that, that's what they do well and good, but it is a really hard thing for most of us to try and time the market.

Dr. Shane Oliver (07:43):

So I just think it's important for people to put it in context, understand that correction was quite normal. Last year was calm. I know 2020 was rough, but just think about the previous years we regularly had corrections. You mentioned 2016 there. That was the Aussie market when bottomed out in 2016 had fallen 20% from its high. U.S. market was a bit less than that. 2018, the trade war year, the U.S. share market out of 19, 20% correction. Oftentimes it's quite normal to have corrections of the order of five to 15%. So it's quite normal. It's the way the market works. You need, I think it's very important for people to understand that shares will give you fantastic returns over long-term because they're levered or they benefit from growth in the economy. So you get the income yield from the companies, the dividends, which are ranked up in Australia to give you something even higher than just the broad dividend.

Dr. Shane Oliver (08:35):

Then, you get capital growth levered to what the economy's doing, and that gives you better returns than most other asset classes. Although of course, if you have property, you might end up with a similar return over a long period. So that gives you great returns, but the price you pay for those higher returns is volatility in the short-term, 5%, 7%. As we're speaking, the Aussie markets down about six or 7% from its high. You get this volatility. That's the price you pay for those high returns over long-term. If you didn't get that volatility, then it would be like a free lunch. There's no such thing like free lunch, but you're right. If return would be a lot less, you might will pay your money in the bank.

So I think you have to be aware of the way markets work, the way you get the volatility.

Dr. Shane Oliver (09:12):

I think investors also need to be conscious to when they sell after the market is falling, you are selling at a loss. You've locked in a decline in the value of your investment relative to where it was say on January the first. So you've locked in a bit of a loss. Also be aware that sentiment changes around, that has a huge impact. Then the last year people are getting really optimistic again. Now they're starting to feel more pessimistic. And I look at sentiment surveys from relation to the U.S. they're back into negative territory. That's sometimes a good sign in the sense that markets then are starting to get cheaper because everyone's selling. And it's usually when everyone's selling that markets ultimately make a bottom. So be aware, don't get sucked in by the crowd, just because everyone around you, telling you to sell. It's usually when everyone's sold that markets make a bottom so just bear that in mind.

Dr. Shane Oliver (09:57):

The other thing to note, I think in relation to all of this is that even though the share market will give you volatility, the Aussie share market is paying you around a 4%, almost four and a half percent dividend yield. When you add in the franking credit, it's actually quite attractive. Where were you going to go? You're going to put your money in the bank account and get 0.2% on a term deposit? So yes, I know it's scary when we go through these things, but you are getting a better yield. The companies are still paying those dividends, even though the volatility occurs in the value of your investment, you're still getting those dividends. And if you want to get really technical about it, the earnings yield on the share market is still well above the bond yield, which is quite low.

Dr. Shane Oliver (10:34):

So you are still getting paid to be in shares in that sense, even though you get that short-term volatility. So I don't know whether I've covered seven points there, but I think that covers the main set of them. But the only other thing I would say, which is usually number seven is turn down the noise. A lot of investors get sucked into this. They see the nightly news, "Oh, I see the share market down again, it seems to be going down more than it never goes up." Statistically, the Aussie share market only rises just more than 50% of the time on a daily basis. It's a little bit more than 50%, but not much. It's almost 50/50 as to when you turn on the news, you'll get a positive reading on what the share market did or a negative reading.

Dr. Shane Oliver (11:07):

These days. You might just turn on your phone to look 50/50. But if you go at one month, it sort of pushes up. You go to one year, it something like 80%, you go out to decades and it's sort of like 100%. So the longer you look or the less you look at the share market, the more you turn the noise down, the more you're going to get better news out of the share market.

Helen (11:25):

Shane, one of your most famous sayings over the years is to turn down the noise. And we've been living in uncertainty for quite a few years now, especially from the impacts of COVID. So how do you stay focused as an investor, after hearing all the lists that investors would be worried about at this point?

Dr. Shane Oliver (11:43):

Yeah. I mean, it's often the case, there's a big worry list and there's an old saying, share markets climb wall of worry. I mean they did last year. There was a lot of worries around last year in the share market did pretty well, but I think I've had the benefit of lots of other investors and maybe will influence me. I mean, Warren Buffett's had a huge impact, the whole concept of value investing, putting your money in not knowing what's going to happen in the short-term as he did at the time of the GFC, but knowing it will do well over the long term, obviously Benjamin Graham influenced Buffett.

Dr. Shane Oliver (12:10):

So he's a big influence as well. In Australian context, one of the guys who influenced me the most is an economist called Dr Don Stammer. And he's been saying for decades now, and he was a chief economist at the time I started my career at Bain & Company and then Deutsche, and of course he's still around writing a column and he put regular in newspaper column, but he had a favorite saying of mine, which is make the most of the magic of compound interest. That's where you grow your wealth via the share market. It comes from the magic of compounding reinvesting your money over time. You've got a favourite little shot here if you invest $1 in 1,900 and put it in cash, today you'd have about $240. This was back in 2020.

Dr. Shane Oliver (12:46):

So it's in the midst of the pandemic setback you put the money in bonds, you'd have just over $1,000. So that's fantastic. So the money's compounded from one to those bigger numbers. If you put the money in the share market, you'd be pushing towards 600,000 and that's because of the compounding of dividends being reinvested in the market that capital growth and the money builds on itself through time. But he also says don't get blown off by the cycle. So the key is not to get blown off by the cycle. When the market goes down, people take the sky is falling better sell, and then they don't get back in until it makes a new record high again. So they lock in a loss and then they don't feel comfortable to get back in until the market's back up again. So to me, that's critical. Make the most of the magic of compound interest. Don't get blown off by the cycle. How do you avoid doing that? Basically turn down the noise and stay focused.

Dr. Shane Oliver (13:28):

I reckon there's a bunch of things. Put the latest worry in context, look back through the history of the share market, realize that it was adversely affected by Spanish flu over 100 years ago, World War I, World War II, the great depression, the list goes on and on and on, Vietnam War, stagflation in the 1970s, Watergate. So on and so forth. 87 share market crash. I was at work one day in the share market about 25%, 25% would you believe it? And lots of other things, pandemic, GFC, and so on.

Dr. Shane Oliver (13:55):

So these things happen. Don't like them, but they happen. But the broad trend in the market is up and it provides fantastic returns. Understand how markets work? Yeah. The share market will give you great returns over a 20 year period, over a 10 year period most of the time, especially all the time, but year to year, it can be very volatile. And so that's something I mentioned earlier, the great long-term returns you get out of shares, the price you pay for that volatility in the short-term, try and find a way to filter the news. Social media has gone bonkers. I've got news on my phone. I used to have to wait the next day when I got the newspaper turn on the night, when news on the TV, now it's instantaneous and you feel, "I've got to respond to that." But you don't have to respond to that. Try and filter that. Watch all great runs of the Brady Bunch, if you're from my generation or the Gilmore Girls or something, or rather.

Dr. Shane Oliver (14:40):

There's lots of fantastic stuff on streaming services. Watch that rather than get obsessed with what's going on in markets and the negative news we're seeing, "Don't check your investment so much." It's about 50/50 as to whether the market will be up or down on given day. Yeah. Best to wait, check out it once a month or check it once a year. Try and focus on the long-term, have a well diversified portfolio, but don't check it as much. So you're not going to get blown off by those short-term moves. And finally look for the opportunities. When the market goes down, think of what Warren Buffett might be thinking. Is this an opportunity shares the day a cheap, but than they were a few days ago, sort of thing, or a month ago, that's a far better way of looking at it.

Dr. Shane Oliver (15:14):

So they're the things that I try and do to stay focused and also recognise, be humble. Realise that no matter how much you say you won't necessarily be fantastic at timing the market, you want to put a lot of effort in, yeah, you got to devote 24/7 or whatever it is. Eight days a week to trying to time the even then you're going to have struggle at times people say, "Oh, there's going to be a crash. There's going to be a massive boom," whatever. A lot of the time people get this wrong. Sometimes they get lucky, but a lot of the time they just get that wrong, try and avoid thinking. You are going to perfectly time the market and focus on the long term. Yeah. If you want to put the effort in, it's a great thing to do, pick stocks and what have you. It's a great thing to do, but just approach it degree of humility.

Helen (15:52):

First of all, it's great to speak to a fellow fan of Gilmore Girls. And that's also comfort show that I turn to in times of need.

Dr. Shane Oliver (16:01):

Oh, that's good. I've watched it a few times myself.

Helen (16:04):

Oh, you have.

Dr. Shane Oliver (16:06):

I have, I'm not just glued to old great runs of the Brady Bunch.

Helen (16:10):

So there's a bit fuss as still it is as well. So whilst you're not checking your phone as much, you're turning to other screens. I think what you've just said about being humble is very important and staying levelheaded and just understanding how markets work. And I think how you've explained it, hopefully will resonate with some of our listeners as well. When you're thinking about your own portfolios, we are constantly bombarded by a lot of noise and that's in the sense of the 24 hour news cycle. And there's just so many sources that you can turn to when it comes to getting information about investing. So I think this is definitely something to think about when you're thinking about your own investments and just trying to stay focused and put things in perspective. So I think what would be helpful is what were you just said about the compound interest that is fascinating.

Helen (17:00):

And I think it is something that has been tried and true for a very long time. And I think might be helpful to turn to the Aussie share market recently, just what we've been reading about in the news. So first of all, we've got news coming from BHP looking to delist from the London market to a solo listing on the Australian Exchange. And so now for most of us, we probably also own BHP without knowing that you own BHP and that's through your superannuation fund. So Shane, what's your take on that and how would that change per Austral share market?

Dr. Shane Oliver (17:34):

That's a good thing. BHP is a great company, has a massive history, it's versions of it been in Australian share market almost since the beginning of Australian share market. So that structure it had was I think, suitable for the merger with Billiton 20 years ago, but it's gone by, it's use by date. So I think it makes sense to delist from the UK and just focus on Australia. Now, what it will mean is that the waiving of BHP in the market will go up. That's my understanding of it. That's not necessarily a bad thing. We've seen these things come and go before [inaudible 00:18:05] used to be here and everyone says, "Oh, gee, it's going away. It's going to be in the U.S.," but it has an impact on our market. I think these resource companies have evolved in a way that's pretty positive over the years, they've had their wings up and down, but I wouldn't be too fast if the market gets a little bit more dominated by resources stocks.

Dr. Shane Oliver (18:21):

On the one hand, you can say, "Well, coal might face a more difficult future with climate change," but I reckon the demand for steel and iron ore will remain as strong as ever. And also mining companies like the [inaudible 00:18:34] of the worlds with exposure to metals are going to do very, very well. We all know the story there. If we're transitioning to a cleaner world, that probably means electric cars and electric cars use some multiple of the number of metals, amount of metals, slight copper and aluminium. And so on that are regular internal combustion engine car would. So that demand there, I think is going to be very strong for a long time to come. So I don't think Australia should be fearful of BHP's weight going up. I think it's actually a good thing. And to have a company more focused on one share market rather than having the split between two is also a good thing.

Helen (19:09):

Yeah. And certainly would be waiting and watching to see that play out. Shane, as you know, that technology shares have taken a hit in the last month. So what do you make of the news of after pays acquisition by shares?

Dr. Shane Oliver (19:20):

Look, I think it's disappointing to be honest with you when Australian tech companies end up being taken over by foreign tech companies. I mean, it shows that they've come up with something good, but then it also takes them out Australian share market. Invariably. So that's not such a good thing. But by the same token, if you look at a big picture sense, there's usually lots of other companies that come along behind. So I don't think we should be overly concerned about that. I think we should allow that the pandemic was actually good for tech stocks because we were stuck at home using technology. And so they were seen as pandemic winners. And then now we're going into world where people are coming out from under the donor, a little bit more, two steps out and one step back. But of course, generally getting out there a little bit more eventually going on overseas holidays again, and doing more of the things they used to do, even though some things will be permanently changed.

Dr. Shane Oliver (20:09):

And it sends the reason that some of the pandemic winners will become lagers. And then of course, those tech stocks were also a beneficiary of low interest rates because tech stocks tend to be, or they tend to be high PE stocks or long duration stocks. It takes years for the full payoff to occur and low interest rates and low bond yields benefits, those investments. So that's also weighing on the tech stocks and we are seeing that the U.S., I think the tech NASDAQ has fallen by almost, but not quite double the fall that the broader U.S. share market had. So that's a feature here. It happens every so often. One sector has a huge, rather than it has a bit of a correction relative to the broader market. And that I think is what we're seeing in tech stocks at present. They had a good run.

Dr. Shane Oliver (20:51):

Now we are coming out from under the doona and interest rates are starting to rise. And of course that's taking away some of the tailwind for the tech stocks making a bit harder for them, but other parts of the market will take over more cyclical parts, I think will be more, yeah. Be bigger beneficiaries. I mean, how many times have we seen the travel stocks pick up only to fall again, much supporters are closed or there's disruptions, but I reckon at some point that will pay off when the travel stocks will be on a bit of a screamer as things start to return. So it's not the end of the world. It's just the way the market works. It goes through swings and roundabouts, not just in terms of the broad cycle of the market, but also beneath surface. You go through phases where one sector outperforms for a while, and it has a bit of a pullback in a relative sense.

Helen (21:33):

And Shane, speaking of coming out of the doona, I think there is certainly something that's been top of mind for many investors. And that's the crypto mania that you spoke to earlier. Now, cryptocurrency, blockchain technology. What's your view on that? Do you see potential in crypto and in blockchain? We would be very interested to hear your view.

Dr. Shane Oliver (21:56):

To be honest with you. I think there's huge potential in blockchain and distributed ledger technology and all that sort of stuff. And it's tied up with many of the cryptos. Ethereum is probably the one most tied up, but also some of the others, because people will end up using their blockchain. I think about a year ago, the Reserve Bank of Australia was looking at digital currency for commercial transactions or institutional digital currency. And I think they were talking about using the Ethereum blockchain. So there is potentially. The problem is that it's all tangled up with the crypto mania. And it's very hard. With a lot of these things, there's often a grain truth. You think about the tech boom of the late '90s, there was a huge great truth there. One of the things that was said I would be able to do on my phone and what we're doing right now was predicted back then and it's happened.

Dr. Shane Oliver ([22:40]):

It's been a huge benefit to everybody on social media's bit of a distraction, but generally it's speaking, it's been a huge benefit. Now you don't have to go to the video store anymore. You got a world of stuff to watch at home, but you can also work from home. So huge productivity benefits from that. But it got ahead of itself. And I think with crypto, it's hard to work out the full, fundamental benefit of it. I think there's a lot of hot air there. I can't see many of the cryptos ever become transactional currencies because they're too slow. They're too expensive to transact in. They're too volatile. When you look at them now the bulk of the activity, transactional activity in those currencies, not with merchants buying and selling things, because they don't really work that well. It's actually with either speculation or illicit activity. I don't know if you've ever get ransomware, they send out these things for everyone these days, trying to get some money from you and guess where you've got to make time-

Helen ([23:29]):

They say it takes a bait.

Dr. Shane Oliver ([23:32]):

Yeah. You got to avoid taking bait, but it's trying to see you takes the bait, but the means of payment is often Bitcoin or something similar. So that I think is a big negative for them. And at some point governments will respond to this with more regulation. So I would be a little bit cautious about it. I think there is value in there with the blockchain, what they call these things, non-fungible tokens, but it's also tangled up with the crypto obsession. You wonder whether people are actually buying the digital art in the NFTs because they're betting that it will benefit from the ongoing boom in crypto. And what happens if the crypto boom goes away, maybe a lot of the interest in digital art might start to fall.

Dr. Shane Oliver (24:11):

So there's all sorts of convoluted issues going on in there. And the problem is that if it's not going to be, if it's not going to be a digital currency, there's almost 10,000 cryptos at the moment, very hard to work out which one will work and which one won't. That's another challenge for investors, but if it's not going to be a digital currency, trying to place a value on it is really hard. If I buy a share, I can work out some means to put a valuation on it. It hopefully will generate earnings over time by providing a service or a good, and I can work out what that means in economic terms apply some sort of valuation tool to it, much as I can with the house, which generates rents, because they open of buy services. Whereas with a lot of these cryptos, they don't do that.

Dr. Shane Oliver (24:48):

It just means of speculating and there, what you've got to figure out is, "If I buy it now, will I be able to offload it to someone else down the track at a higher price?" And that becomes very iffy. So they're very hard to value. And that's another challenge in all of this. The other thing to note for share market investors is that so often yeah, when the share market has a bit of a turmoil well it comes down 7%. Guess what? You can load the crypto space and they've fallen 50%. So it seems to be a high-

Helen (25:15):

I think I saw that...

Dr. Shane Oliver (25:16):

We did just see that just now the volatility in Bitcoin, I think it's fallen almost 50% from its high. So you sort of think, "Well, if I put-"

Helen (25:25):

Trillion dollars being wiped from the market.

Dr. Shane Oliver (25:28):

That's right. So if I put my money, I've got some shares over here. If I put some money in crypto that maybe that'll sort of smooth out my share market portfolio, but then you find when you have a fall in the share market, the cryptos come down by even more and just lead to more volatility. So there's a bunch of issues there, I think for investors to be skeptical. And if you can find some cryptos, which just give good leverage to the development and the growth of blockchain and distributed ledger technology, then maybe you focus on them, but you probably want to have a well-diversified portfolio, but just bear in mind. This is a highly speculative asset class far from proven. What happens if governments do their own digital currencies, then what then happens to the Bitcoins? There's a lot of issues around all this now of course someone says, "Oh, well, El Salvador adopted it, surely everyone else is going to adopt it."

Dr. Shane Oliver (26:12):

Well, El Salvador doesn't really have its own currency. It's got half its population living somewhere else, mostly in the U.S. And guess what? It costs a lot of money to send money back from the U.S. to the family in El Salvador. What better way to look for, put your baseball cap on backwards as the president of El Salvador does and say, you're going to make Bitcoin legal tender, but he's really doing it just to look cool. And because it is a cheaper way to send that money back to El Salvador. But if you're in Australia where you've got your own strong currency or most other countries in the region around the world, you're not going to be adopting Bitcoin as your currency. So I don't think I Salvador tells us anything much.

Helen (26:50):

Yeah, that's interesting to hear your views on this Shane. And so switching from the very hotly debated topics and I can think of another one and that's climate change. There's been lots of countries around the world. And over the last year everyone's been talking about the changing policies on climate change and the focus on net zero, which is to have efforts to reduce carbon emissions and using more renewable energy. So how do you think, just maybe just looking at the Australian economy, how do you think this will impact us?

Dr. Shane Oliver (27:23):

It's going to have a huge impact, but it's not going to be as negative as some people try to tell us, Australian economy has evolved over the years. Right now we are seeing electricity prices come down a little bit in Australia, depending on where you are, but we've been seeing a bit of a fall if you're over there in Europe and China and elsewhere, they've gone up. And why is that? Because there's been more sustainable energy introduced into the mix in Australia, which is cheaper. It's more solar in there, more wind power coming into the system in Australia, partly to deal with climate change, not so much from the government end, but businesses are doing this.

Dr. Shane Oliver (27:53):

So what's happened over time is that the cost of sustainable energy has been doing that. The cost of dirty energy has been doing that. We're now getting to a point where there is a crossover and that along with the desire to move to net zero is putting a bit of a question mark out of a coal, if we can develop technologies for coal, which capture the carbon emissions well and good, but it's unlikely that the cost of coal power is going to do that, which is what's happening with all the other sustainable sources of energy.

Dr. Shane Oliver (28:21):

So I reckon we will adjust. I think that the sooner we do it the better. I reckon a market sometimes go wrong. That's why we have economists talk about externalities. And you could argue that when I drive my car, I pay the cost of the petrol and all that sort of stuff, but I'm not paying the full cost of the damage I'm doing to the environment when I drive that car and arguably I should be. So I was a bit of a supporter for some price on carbon emissions being imposed. But anyway, that wasn't to be that I think the world is moving in that direction anyway, where you're going to see more electric vehicles, we're going to be seeing more sustainable energy, more people becoming conscious of this. I used to go to the supermarket shelves and I would see hardly any stuff, which is vegetarian meat.

Dr. Shane Oliver (29:03):

I mean, I don't know why you've got to be vegetarian pretend to be getting meat, but it's kind of nice for me because Paul McCartney had this thing, was it? Monday meet free? I think. Did he-

Helen (29:15):

Meat free Mondays? Yeah.

Dr. Shane Oliver (29:16):

Meat free Mondays. Anyway, he helped promote it. Because he's vegetarian and has been for a while influenced by his formal wife and pointed out that if you go meat free on Monday, then it's equivalent of not driving your car for a month to year or something like that terms to the saving for the environment. So anyway, now I go to the supermarket there's heaps of meat free alternatives in there, which gives you those options and I think that's just the way the world's going to go. I've got nothing against farmers, but they're also producing the stuff that goes into the meat free stuff.

Dr. Shane Oliver (29:44):

So I think the farm sector will benefit immensely from this be massive growth in those industries, which are designed to combat climate change. And that's where the opportunity is on the share market. You've got to be a little bit cautious about businesses, which are producing a lot of pollution, which depend on coal and so on, but I reckon there will be a huge transition to alternatives and we're already seeing that and that will benefit the share market. So it's really just something I think for investors to keep an eye on. And I think we're going beyond the point where you would do it because you just want to do the right thing for the environment. Now getting the point where you've probably got to do it, because you want to do the right thing, your investment returns, or if you're in institutional investor, do the right thing for your clients.

Dr. Shane Oliver (30:25):

You've got to have a focus on the environment, because this is the way the world's going. Whether you believe in climate change or not, it is an issue. So I think it's probably one of the biggest challenges of our time to deal with climate change. I do recall 15, 16 years ago, Rupert Murdoch actually saying he doesn't know whether it's happening for sure, but it makes sense to take out some insurance. That always seemed to me the best response to this. We don't know for sure. Someone might come to me and say, "Well the last couple of summers in Sydney have been pretty, way heaven what happened to global warming?" We're all told the bush fires were going to be permanent. It's like, no, well that doesn't prove anything. You've got to look at the trend over time. And the trend has been towards high temperatures, but cutting away from all of that, if there's some chance, even if it's a 40% chance that this is happening, it still makes sense to take some insurance against it and try and move an opposite direction to reduce that carbon emission.

Dr. Shane Oliver (31:16):

So I'm quite happy that the world this going down this path, it's just that I would've preferred to see it happen 15 years ago and then Australia would benefit more. But Australia has a lot of advantages in terms of these technologies in solar, we are still one of the world's leaders on that front and in agriculture, I think that's another area where we can show the way after the rest of the world. So I don't think it's something people should be negative about. I think something people should be positive about, but you've got to be aware of it when you're looking at portfolio that companies which are in a negative sense, climate change may be adversely affected over time.

Helen (31:47):

Yeah. And I think certainly something for investors to keep in mind when they're shopping around for their portfolio. Now speaking of shopping around, I think Shane, obviously we've just heard you talk about, who's had the greatest influence on your work and you are also a very important influence to many in Australia as one of our highest profiled economists and very rightly so. I just wanted to know that if you had a spare $10,000 this year, how would you look to invest that money?

Dr. Shane Oliver (32:16):

I'm not a stock figure, I'll be honest here. I'm not a stock figure. I did attempt to do some of that and then realise, no, there's not my area of expertise. I have macro, it can all make expertise or macro market expertise. And I think over the years, I've put a lot of effort into working out how the market works. And I love long-term charts. I love the fact that the ASX started. You go looking for it. You can get it back to 1870 something, 1871 or thereabouts. I love that. I love this long-term, but I love seeing the swings. But yeah, don't get me to try and pick stocks. I would put it in like most of my money outside super earnings super is in shares, but I either go via managed funds increasingly were using ETFs and that's a good low cost way for an investor get into the market.

Dr. Shane Oliver (32:57):

So if I got an extra $10,000, I would allocate it to the share market. Though I see share market is a little bit easier. You don't need to go from a managed fund or you can get an ETF which tracks global funds. But I would do it through the share market and I would do an ETF on the broad market. And I reckon that would pay off over the period I would be interested in, which is the long-term. No guarantees about the next 12 months. But I would say, if you are worried about the short-term, this might sound stupid and financial planners say this all the time, the best way to do it is to average in. So you've got your $10,000. You're worried about the next six months. You just read that someone said there's going to be a crash.

Dr. Shane Oliver (33:34):

I reckon there's always some mistakes, so say someone saying there's going to be a crash. You just read that. So you're a little bit cautious, but the market it's still down 7%. So well, I'll put in $2,000 today. And in another bunch of time, I'll put in another $2,000 and then that way you are averaging in, if the market does keep going down, you're averaging it through that because you can bet your bottom dollar. You're not going to predict the bottom. And if you just sit on it by the time you get in the market will probably be well above where it is now.

Helen (33:58):

Well, they have it. That's Shane's shopping list. If he had the $10,000 to spend this year. Now looking forward and I know many people and you are often quoted in the media as well to give a forecast on things to watch and what people should be aware of. And would you like to share with us a couple of things that's on your watch this year?

Dr. Shane Oliver (34:21):

Well, obviously how coronavirus is, I wish it wasn't, becoming a drag, this coronavirus thing, but I don't know, 9:00 every morning. I'm seeing what the numbers are in New South Wales or Victoria and the other one's coming out through the day. At least they're coming down-

Helen (34:32):

As we all are.

Dr. Shane Oliver (34:36):

Those numbers coming down, which I think is really good news. They're coming down and hospitalisations and deaths are starting to come down as well. And hospitalisations and deaths are well down relative to the number of new cases compared to previous waves. So the odds of ending up in hospitals a lot less than it was in previous waves, but anyway, keeping an eye on coronavirus biggest risk. There is probably a new media strain comes out of an emerging country and I would love it if the rich country said, "We are going to help all the world get vaccinated," that would really make me happy if they did that. So coronavirus, inflation obviously have to keep an eye on that.

Dr. Shane Oliver (35:05):

Just point out on inflation. It's gone up, it's highest levels in 40 years in the U.S. It's on the way up in Australia to a lesser degree, far less than the U.S. But just bear in mind there's a lot of the impact of the pandemic here. People took their money away from going on overseas holidays bought lots of goods, houses, cars, blah, blah, blah. At a time when many of them couldn't go to work or production was delayed. And so naturally prices went up. Once we get through the pandemic, some of those price pressures will become more subdued, but obviously it's gone on for longer than expected. And then that brings me to the third thing to keep an eye on, which is interest rates. I reckon we're going to see rate hikes in the U.S. probably by the time you listen to this, it might have already happened because the Fed makes this week, there is some chance they could raise rates next this week.

Dr. Shane Oliver (35:48):

More likely though in March that they'll start to move in Australia. I think we probably won't see rate hikes till around August. I was thinking now [inaudible 00:35:57] brought that forward to August, but just bear in mind, we're probably going to go from 0.1% to 0.25% with the first move. So yeah, it's still going to be pretty low. It's not going to have a huge impact on things. And by the end of the year, we may have gone to 0.5% on the official cash rack still pretty low.

Helen (36:15):

So you think it'll be a gradual increase?

Dr. Shane Oliver (36:15):

I think it will be gradual. A lot of people say, "Well, if inflation's going up surely interest rates are going back to where they were when we last had inflation at 4% or whatever the number is." It's not going to work that way because the level of household debt today is a lot higher. So you don't need to raise interest rates as much as you did in the past to control an inflation problem that the bang for the buck, the potency of interest rate hikes is a lot more, is a lot greater today than it used to be because of higher debt levels. So we're not going to see rates going back to 9%. We're not going to see 9% mortgage rates like we did prior to the GFC. I don't think we're going to get much, may struggle even get 5% mortgage rates. But anyway-

Helen ([36:50]()):

Yeah, that'll be the day.

Dr. Shane Oliver ([36:52]()):

Yeah, they will go up a bit, but spare me, a lot of people have more debt these days. They go up too much. It'll cause a massive problem. The RBA knows that they're not going to cause a crash in the economy because they raise a too much, that's the last thing they want to do. So there's those things. I keep an eye on Russia and geopolitical tensions, the Russia Ukraine issue. I can't see Europe going to war with Russia over this, but they might, if they do invade, they will impose restrictions so on Russia. And that could mean that the gas shortages in Europe will become more intense.

Dr. Shane Oliver ([37:24]()):

So that could be a bit of a negative economic impact beyond just the invasion of the Ukraine, which I think would be a horrible thing. But you also got to think about in terms of the impact on markets, headline, invasion of Ukraine negative, but the real impact would come economically if gas prices are in Europe have go higher because Russia says, "Weren't going to supply your gas anymore because they're putting sanctions on us." So that could cause a bit of volatility. You've also got issues around China. Obviously everyone worries about China deciding to take Taiwan and take Taiwan back into the PRC.

Dr. Shane Oliver ([37:52]()):

That's something to keep an eye on. I don't think they will, but they keep talking about it. So that's obviously a risk. And in Australia and if you have place, we've got elections this year in France in May, I think Macron will sneak back in the U.S. later this year in November, the mid-terms, they're probably going to see the Democrats lose control of maybe the House probably also the Senate. And so we're back to divided government in the U.S., which historically in terms of share market performance is not necessarily a bad thing because divided of government keeps tabs on the president doing too many extreme things, much like the Senate in Australia stops the prime minister doing extreme things. And then finally we got an election in Australia, either in March. More likely May just bear in mind that the differences between both sides of politics are nowhere near as extreme as they were back in 2019 when

Labor was a bit more to the left and proposing significant tax hikes on various things or reduction in tax concessions, such as negative gearing capital gain tax.

Dr. Shane Oliver (38:49):

I think they wanted a deficit levy on higher income earns and so on and so forth changes to franking credit those things aren't on the table this time around, or at least not so far. So therefore a change of government in Australia, if it does occur at the next election, wouldn't have as much economic impact as say it would've at the 2019 election. So they're the things to keep an eye on, coronavirus, inflation, interest rates, geopolitical tensions, and elections.

Helen (39:12):

Thank you, Shane, that's just a few things to watch on top of everything else. I just wanted to know that certainly we haven't really spoken about this just yet. The two of us as we're recording remotely here, we've been in lockdown several times over the last two years, so we haven't really been able to travel anywhere or do anything that previously we would enjoy doing. And I know that, I read in maybe one of the things that you've been quoted is about household savings level is that, no we've hit at least 200 billion last year. Just 25 billion alone in July. So I just wanted to know Shane, what are you excited about this year? Something light to end on, something positive, bit more energetic to learn on?

Dr. Shane Oliver (39:55):

Yeah. It's not all doom and gloom. There is that saving around there that people were locked up, couldn't spend as much and they're sitting on a pool of savings that they wouldn't have otherwise had. I think the number is about $250 billion in Australia in the U.S. it's just over 2 trillion. So you don't want to get too gloomy given that pool of excess savings, which is around. What am I optimistic about? I'm optimistic about going on a holiday with bit more freedom. I mean, I did manage to squeeze in holidays last year, but they were all in New South Wales. I made it as far as Norfolk Ireland on a plane, which is really a nice place to go, certainly worth looking at. I'm looking forward to eventually going more broadly around Australia and globally. So I haven't been able to do that now for two years.

Helen (40:33):

Well, I do hope that after running through a couple of these things that Shane has just talked to, that we've got an idea of what to look out for this year. And I think it's important to remember that it's not all doom and gloom as Shane said. And Shane, you are often deem as the optimist in a lot of economic issues. And I think it's important to put things in perspective. And that's what

I've gathered from our conversation is that you can run through the list of worries, year on year. And as you say, it's all about being focused and have a long-term investment horizon.

Dr. Shane Oliver (41:03):

It's been my pleasure to have this conversation. I as you get older, I mean, when you're young, you feel gun ho, you can make lots of money out of crypto or get the right stocks all the time. And as you get older, you realise that's a little bit harder than you thought. So that's how I arrived at this philosophy. Trying to put things in perspective, focus on the long-term, don't get blown off by the cycle, turn down the noise. And the more I think about those things, the more I think it's right. We all feel nervous when we go through periods like right now when share markets are under pressure and then suddenly the front page stories about billions wiped off the market. They never tell you when billions are put back on because they come on more slowly, you go down through the elevator and you go up the stairs.

Dr. Shane Oliver (41:47):

But the media, the entertainment industry and the media never tell you these things, they always want to say, "Oh, billions were wiped off, worst day, worst week since whenever" is if it's a new thing. So that's why I think it's really important to try and put things in context. People don't want to do that. They just want to do the quick boat stuff and make a lot of noise. And you want to get clicks these days. You want to sell your newspaper. You have bad news and that always gets clicks far more than trying to put things in perspective or good news. But I think people just need, investors really need to be aware of that. That the way media arranges things, whether it's social media or regular media is designed to get you to make the clicks. And they will exaggerate the bad news over the good news and the same applies to financial information.

Dr. Shane Oliver (42:34):

But it's just become worse. Bad news sell is an old saying, but it's become a lot worse for social media. And social media is making us a lot short term. For example, I used to wait for the Financial Review to come out tomorrow. Now there's going to be an update of Financial Review in here in my email thing. And then I'll be tempted to go and look at that. And then that'll distract me for the next little while think, well, gee, blah, blah, blah, blah. Whereas reality is, I was probably better off just waiting for the Morning Edition and going through it in one go. I would say the same for any other newspaper. Or if a boring moment, rather than read a book now those you swipe left. I'm not on Tinder. You swipe to the right or the left. And you read the top stories.

Helen (43:12):

Just good to clarify.

Dr. Shane Oliver (43:15):

I got to clarify that you read the top stories, but the top story isn't always bad news. And then you get distracted by that. So you got to find a way to turn all this stuff about otherwise we're all going to become stupid.

Helen (43:27):

There's something to be said about turning down the noise, amidst all the sensationalized headlines. I think you've just reminded us again, it's important to stay focused. Thank you very much for having this conversation with me. I really enjoyed learning from you.

Dr. Shane Oliver (43:40):

Oh, my pleasure.

Helen (43:40):

It's always a pleasure to hear from you.

Dr. Shane Oliver (43:42):

Thank you.

Helen (43:42):

I think it's important for people to try to make sense of these headlines and not feel too overly worried at the start of the year and try to set your own goals and look at things that might suit your objectives. So we've come to the end of episode. So thank you very much for listening. And Shane, thank you once again.

Dr. Shane Oliver (43:59):

Been my pleasure and thanks for having me on the program, Helen.

Helen (44:02):

There, you have it. I really enjoyed talking to Shane and seeing his views on recent events. How he'd to invest $10,000 and how to stay optimistic, despite the war of worries that we've seen at the start of the year. He reminds us that it's important to stay focused. We have the world to first buy pot volume.

Voiceover (44:19):

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