

Transcript

The Ideas Exchange

Episode 17: Practical tips for investing in a higher interest rate environment

June 2022

[00:00:01] **Rory Cunningham** Welcome to the Ideas Exchange by ASX connecting you with market experts, investment updates and ideas. I'm Rory Cunningham, Senior Manager of Investment Products at ASX and this is our monthly podcast covering everything from investment trends through to different ways to invest using a variety of products. Today I'm joined by Gemma Dale, Director of SMSF and Investor Behaviour at Nabtrade. In today's discussion, we're going to talk about interest rates and the impacts they're having on Australian and global markets.

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[00:01:04] **Rory Cunningham** Well, thank you all for joining us on today's podcast. I'm joined by Gemma Dale from Nabtrade. Gemma, thank you very much for joining us on the ASX Ideas Exchange.

[00:01:13] **Gemma Dale** It's a pleasure. Excited to be here.

[00:01:15] **Rory Cunningham** So Gemma, you were recently involved in ASX Investor Day, where we traveled pretty much around the country, we went to Brisbane, Melbourne and Sydney and Gemma was kind enough to do a presentation to our audience at Investor Day. Now, Gemma, if I was to summarise your presentation it would be kind of three things. One is, there was time spent talking about the current interest rate environment and in particular the rising interest rate environment. Second of all, the impacts that rising interest rates has on the market and certain asset classes. And then, last of all, what investors need to consider now when making an investment decision. So fantastic feedback about the presentation and hence why we thought we'd get you in to record a podcast about that as well.

[00:01:56] **Gemma Dale** Well, thank you. I was going to say you've pretty much covered everything I was going to talk about.

[00:02:00] **Rory Cunningham** Well, maybe for our audience to set the scene. So in May, the Reserve Bank lifted its target cash rate from 0.10% to 0.35%. Now, interestingly, it's been 11 and a half years since interest rates last rose. So that was November 2010, where they rose from 4.5% to 4.75%. One year later, interest rates started to fall. So really, it's been ten and a half years of a falling interest rate environment. So pretty much for anyone that's listening to this podcast that started investing in the last ten years, which let's be honest, is going to be most people in their twenties or early thirties, it's unlikely that they have been investing in a rising interest

rate environment. So with that as the context setting, Gemma, you talked about in your presentation the TINA principle and how it relates to what has been happening over the last number of years, ten years of declining interest rate environment, an ultra low interest rate environment. So my question is, Gemma, what is the TINA principle?

[00:03:02] **Gemma Dale** Yeah, we love an acronym, obviously. So that's an acronym and one you can probably forget about now. Now you learn what it is and then never think about it again. So TINA stands for There Is No Alternative, and it has described for investors the scenario they're facing in an environment where rates have been cut so low that holding cash or cash like assets, like term deposits. So for the Reserve Bank's purposes, even though it may not feel like it, a term deposit is cash, you are effectively getting a negative rate of return on that. You are losing money after inflation. And even though inflation, I know we're going to talk about inflation too, but inflation has been incredibly benign over really my entire adult life. Right. It's been so low. The RBA's been struggling to get it into its target band of 2 to 3%, but when you're only getting 0.1 of a per cent, if you're lucky in the bank, even a 2% inflation rate means you're getting a negative rate of return on your money. You're losing money over time in that you can buy less now than you could two or three years ago. So what investors were forced to do because holding cash and term deposits and in many cases bonds and any other interest bearing investment, they didn't feel like investments anymore. They felt like a drag on your portfolio and you were forced up the risk curve into more volatile assets and riskier assets. The sorts of things we would ordinarily classify as growth assets, but people had to move into them for income. And so we saw people who would ordinarily like to have 40% of their portfolio in term deposits and bonds and so on, have to move maybe 30%, 20% out of those categories and into equities for yield or into property. And then we found people going into all sorts of other asset classes as well. So we saw artwork and wine and every asset class you can imagine as interest rates fell further and further and further and ended up at what we call emergency levels, panic stations, we're going to do anything to stimulate this economy because it's in a crisis due to COVID. You are in a situation where there's no alternative, if you want a return on your money, than to invest in growth assets, even if you would consider yourself a fairly conservative investor. So for a long time, the tailwind for equity markets has been a flood of money into equities and into property, we've all seen the property market go mental, that would not otherwise have been there. People would have been really happy to keep it in defensive assets and get 3 or 4% in the bank. When you can't get 3 or 4% in the bank, you chase riskier assets. There is no alternative, but now there is and it's changing.

[00:05:39] **Rory Cunningham** So it is changing. And as we mentioned, interest rates have recently increased and they're likely to continue to increase. So we'll spend a bit of time talking about that. So, first question is why were interest rates increased?

[00:05:50] **Gemma Dale** I think it's worth noting they've been at emergency levels. So not just low, like stupid low. Things are extremely worrying. The economy is about to collapse low. And we've had extraordinary monetary policy, which was something that was employed in the US and also in Europe, post GFC or during the GFC when central banks cut rates to zero and realized that wasn't enough. It wasn't enough to get things going, so when you've got rates at almost zero, you're kind of out of tools. If you're a central bank, you've only got one lever to pull. So then they started making up other levers, and I'm being a bit facetious, but I do remember at university no one talked about these measures, right? They didn't exist or they were never contemplated back then. And what we found was central banks had to start taking more extreme

measures, buying bonds, trying to flood the economy with cash, as well as keeping rates super low.

[00:06:42] **Rory Cunningham** and so, Gemma, I might ask a question there. So that kind of started around the GFC period, is that correct?

[00:06:47] **Gemma Dale** It started around the GFC in the US and in Europe, and in Europe in particular, it just wasn't sufficient, really, to keep the economy going, so it continued for a long time. In the US, it continued for a long time and every time they tried to wind back stimulus measures, the stock market would throw a tantrum, called the taper tantrum, when the stock market didn't like their stimulus being withdrawn too quickly. In Australia, it took us much longer to get to those measures. So we had low rates, but we got to emergency rates during COVID. Our economy had held up relatively well and we only started quantitative easing, the extraordinary measures during COVID as well. So we had had much less extreme monetary policy because the economy was doing a bit better. Post GFC we did fine, China was buying all our stuff, which was excellent and so we found we were doing fine relatively speaking. But COVID came along and we all went to emergency measures en masse, almost globally.

[00:07:42] **Rory Cunningham** And so then we're starting to see developed countries, at least, coming out of COVID concerns and we're opening our economies back up and now we're seeing across those developed nations, Australia included, interest rates starting to increase. So is it because we're coming out of COVID or are there other factors at play as well?

[00:08:01] **Gemma Dale** I think there's a whole array of factors and sorry, I didn't quite answer your question before about why rates are rising. First of all, they've been at emergency levels and they should only be at emergency levels to stimulate the economy in a crisis. It's very clear globally now that we are no longer in a crisis, we may have a health crisis, but for sure the economy is looking actually pretty strong. So we are seeing wages starting to climb for the first time in really a decade in the US, we are seeing extremely strong employment. We're seeing GDP growth at incredible levels. It's from a very low base because it absolutely collapsed during COVID. So that's always tricky when things collapse and then they bounce right back, and you go, wow, we just had 15% economic growth in one quarter. That looks amazing. But it also contracted dramatically just before. But things are actually looking super strong. Unemployment is below 4% in Australia. Again, you go back to your university days and we were told full employment was 6%, like dramatically higher than where it is now. So things are coming back really strongly. The economy is looking really, really hot in the US and it's looking strong in most other jurisdictions and obviously you can always look through the data and find bits that don't look strong, but it's looking pretty good compared to where we thought it was going to be. The reason rates are rising, one is we don't need emergency stimulus anymore. The other is that central banks are now starting to worry that instead of needing stimulus, we need to rein things in a bit because we don't just have really quite impressive employment levels and great economic growth, we also have inflation again and we haven't seen inflation, not meaningful inflation, for decades really. And suddenly inflation has taken off. And all of last year the talk about inflation was transitory. A word that I don't know about you, but I had not heard used many times in my life, we heard transitory. We think inflation is transitory. It must be a transitory thing. Maybe it's just supply chain issues because of COVID. Maybe it's just people getting back to work. Maybe it's this. Maybe it's that. Better part of 12 months later, everyone's decided maybe it's not transitory, maybe this is real and it's sticking around. And so with inflation in the US at 8%, it was 2% three years ago. That's super hot. It's running hot in Europe, it's running really hot

here. We're above 5%. The central bank, yes, they should worry about unemployment, but their primary job is to keep a lid on inflation. They've done such an exceptional job of that, they actually haven't had to worry about it for decades. And now they're going, Oh God, we need to put a lid on inflation. And as I said, they have one tool, their one lever is interest rates. So you want to clamp down on inflation, you raise rates. You're also raising them from a super low level. So you have to raise them quite quickly. In Australia, the weird thing is the Reserve Bank has said openly, clearly and frequently, that they didn't believe the economy was strong enough to need rates higher until 2024.

[00:10:54] **Rory Cunningham** They were wrong on that.

[00:10:55] **Gemma Dale** Yeah, they've obviously had to rethink that pretty dramatically. And we had a rate rise during an election period which is almost unheard of. And the market is pricing in rate rises up to more than 3% within 12 months.

[00:11:07] **Rory Cunningham** We'll get into expectations for interest rates. But I suppose to summarise why interest rates were increased, we're seeing dramatic increase in inflation, as you mentioned in the US, it's up around 8% in Australia, around 5%. The target band for inflation, I mean what do developed countries usually aim for?

[00:11:25] **Gemma Dale** So in Australia it's a mandated target band of 2 to 3% and at varying points in the last four years, it's actually been below 2%. They're trying to push it up, it's been too low and now we're like, oh, this is different, it feels dramatically different. This time it's different. Famous last words, always, in investing, but inflation has been very low for a decade or more and there've been a whole variety of reasons for that. One of the reasons that the RBA though has been really reluctant to raise rates, not just that inflation's been so benign, but also wage growth has been really low and they've wanted to see wage growth increasing. It's still not increasing very much. It's still at, well, it's 2.7 on an annualized basis. It's nothing to get excited about. And then you find yourself in the weird situation where inflation is 5 and wage growth is 2.7. So the average worker is going pretty dramatically backwards every year and something has to change.

[00:12:16] **Rory Cunningham** Into expectations for interest rates. So, if I could ask you to look into your crystal ball, what are the expectations for interest rates in three years, five years, ten years? How do you think about that?

[00:12:27] **Gemma Dale** Well, I look at what other people think about this. It's such a good question. The really awesome thing is that people can effectively bet on what they think the cash rate is going to be. And futures markets are a great way for us to tell what the market thinks. But we also have all of the economists. So, NAB's economists have been predicting that the RBA would be forced to raise rates much earlier than they was saying. So they were saying 2025. Our guys were saying 2023. Once the numbers for inflation started moving, they were like, oh no, it's going to be this year and it's going to be later this year. They were expecting August, then they were expecting June, then they were expecting May, and May was what we got. But it's worth remembering 35 basis points, which is where we are now, 0.35% is still really, really, really astonishingly low on a historical basis. So they've got a long way to go to get back to normal. Anyone listening to this over the age of 50 will remember normal as being sort of a mortgage rate of around 7.5. Right. Not a mortgage rate of 2, 2.5. And so NAB's economists are anticipating rates to terminate, so to hit their peak level somewhere between 2.5 and 3% some time before the end of this year or early next year.

[00:13:45] **Rory Cunningham** That's a dramatic increase from where we are now.

[00:13:47] **Gemma Dale** It is a very dramatic increase and the market is pretty close to that. They're actually pricing in more aggressive rate rises, so they're looking well above 3% and they're talking in less than 12 months. So it's pretty extraordinary to anticipate that kind of hiking cycle happening that quickly. But it's worth noting in the US, and I love this, they're talking 50 basis point increases, they're already above 1% now and expecting more. And the market was so thrilled that Jerome Powell, who's the chair of the Federal Reserve, he said, oh, we're only going to do 50 basis point rises at the next two meetings. So that's in the next two months. So that's an extra 1% in the next two months. There was a massive rally in the S&P 500. Everyone was really relieved because they thought it was going to be 75 basis points.

[00:14:35] **Rory Cunningham** Yeah, there you go.

[00:14:36] **Gemma Dale** Like it's quite amazing how quickly this is changing. So from emergency levels back to what has been more than normal levels, you know, close to a decade ago is expected to happen in less than 12 months and people are cheering when it's not happening faster.

[00:14:52] **Rory Cunningham** Okay. So that's that's interest rates. So if we start to turn our mind back now to markets and asset allocation. So you mentioned at the outset the last ten years, ultra low interest rate environment and the impact that that has had on various asset classes, cash, fixed income, property into equities. Now in this high interest rate environment, from an asset allocation perspective, any thoughts or views on the impact that higher interest rates will have on those asset classes?

[00:15:17] **Gemma Dale** So there's a few things to keep in mind. One is that super cheap money, which is effectively what low interest rates are, like, you can get money to do stuff much cheaper than you could in a normal environment, even if normal happened more than a decade ago, has allowed people to invest in stuff that they ordinarily wouldn't because they would think about it a little bit more. And so people have chased stuff that's super aggressive or super speculative in many cases, and US tech stocks are probably the best example, where people were. I mean, Tesla, you can argue whether it's tech stock or not, it's obviously a car manufacturer, but it's trading on 350 times, it's multiple at one point. And then we were quite excited when it got down to 90 times. Stuff is stupidly expensive because...

[00:16:06] **Rory Cunningham** Can we just dive into that a little bit? Do you want to just talk through for our audience what that means in terms of a multiple 300 down to 90?

[00:16:12] **Gemma Dale** Yeah, sure. So it's a price to earnings multiple. The nice thing was for Tesla, it actually had earnings because there are plenty of other companies where they really didn't have any meaningful revenue or earnings. And so people were going to pay a price, so that's the share price effectively to the earnings. And they were going to be paying on sales rather than earnings because you didn't have any meaningful profit to look at. So people, your bank in Australia will trade on, say 12 to 15 times, let's say. So that means it'll take you 12 to 15 years to get your money back, assuming that the earnings are not growing dramatically. And so if a company's growing really fast, you don't mind paying more with your P/E because the earnings bit is going to grow really quickly and so you're willing to pay a higher price for it. But if your earnings are not growing very fast, then it's a reasonably stable level and then you can kind of price out how long it's going to take you to get your money back. For a

lot of investors, they're looking for a dividend. They don't care too much. But when you look at what people were willing to pay for tech, these multiples got crazy. Absolutely crazy. So you would go theoretically, if Tesla didn't grow its earnings dramatically, it would take you 350 years to get your money back. That seems like a not particularly flash investment. Even if you love the car and you think Elon Musk is a genius, that's not a great investment. So you are assuming incredibly great levels of growth in the earnings or that someone else is going to pay you more for the share. And there was a fair amount of that, that someone else is going to pay more and you'll be able to sell out. So there was a lot of assumption built in around how fast companies were going to grow, and they could because they could access really cheap capital. And there were a lot of assumptions about, well, there's no alternative, can't keep my money in the bank, so I'm just going to buy stuff that's growing quickly and that's how I'm going to make money.

[00:18:09] **Rory Cunningham** So in that Tesla example, we've gone from 350 times P/E, down to 90 times P/E. I assume that there's been not much change in earnings. So that means that the price...

[00:18:22] **Gemma Dale** Yeah, so the price has come down. I mean, Tesla's a really volatile company and it's been an extraordinary winner for a lot of people, heaps of people on Nabtrade have bought it and loved it. But it's a great example of just how much people were willing to pay. You can draw your own conclusions about whether or not it was a good idea to pay that much. People have made a fortune out of that company, a lot of them, but they've made a fortune in many cases by selling at 350, not at 90. What is happening, though, is that those P/Es are compressing. So they're falling and they're falling because the share price is falling, not because earnings are going up. So exactly as you say. And so US Tech has been absolutely smashed. The Nasdaq's down more than 20%. So that's the tech heavy index in the US. It's down more than 20%, but I think that hides a lot of the quite eye watering numbers underneath. There's a company called Zillow which is very similar to Realestate.com.au, so most people understand what it does. Except, they decided to get into flipping houses as well and they decided to do their own kind of buying up houses and flipping them and whatever. It's down more than 80% and it's not alone. Peloton is down more than 80%. You've got all of these companies that seemed like a fabulous idea at the top of the market when money was free or near to free, that now seem like a terrible idea. People are selling them all over the place and the prices have fallen way, way, way down. And as a mutual friend of ours likes to point out regularly, when tech got absolutely destroyed in 2000 in the tech wreck, the Nasdaq fell 77%. And it didn't make a new high for 15 years after that. So sometimes when this stuff happens, there's no buying the dip, right? Like it really hurts and it hurts for a long time and some of these companies go underwater completely. We're not saying that's what's happening across the board. We're just saying money's been super cheap and it's been really easy for companies with great sounding business models to get a lot of money to fund those business models. When money gets more expensive, so they have to pay more interest or it's harder to raise money in the capital markets, people are not willing to pay as much for them.

[00:20:28] **Rory Cunningham** So if I'm an investor, obviously I'm looking across my entire portfolio, I should have some of my portfolio allocated to international equities. A lot of that is going to be the US. So the kind of key take out there from an investors perspective perhaps is, you know, if I'm tracking the S&P 500, understand what makes up the S&P 500. And in the examples you're talking through there, we know that in the US there's a lot of tech stocks in the US and that they can't sell off may have an impact.

[00:20:57] **Gemma Dale** Absolutely. So you will see it already if you hold a lot of US equity. Even if you hold the S&P 500, you'll see it. There's weakness in there already. So it briefly touched a bear market and bounced back a little bit, had a nice, strong week, but it's one week, right. A lot can happen in a week in markets. So there's a lot of weakness in US equities. Don't worry too much about it. The downside of a podcast and I love podcasts, is I can't show you a chart. It's really only given back about 12 months worth of performance. And if you look at the previous five years, it's been on an extraordinary run. COVID looks like it barely happened. Right. So you haven't given up very much. It was only that things just expanded so dramatically with the extra stimulus during COVID. And I haven't even mentioned government stimulus and fiscal spending because there was that too. We saw this massive rocket underneath it. And it's given that back when people realise that there isn't quite as much money sloshing around. So you don't need to panic by any means. Have a look of what's in there, though, and have a look at what you're holding if you haven't given a lot of thought and contemplate whether all of those companies are going to perform in an environment where they don't have that massive tailwind of low rates and where also the rest of the market knows tech get sold off in a higher rate environment. So you're not alone in realising that there will be headwinds. And so you kind of sometimes have to read what everybody else is doing as well as what actually applies to your company.

[00:22:29] **Rory Cunningham** and the market, in fairness, may have priced in a lot of those interest rate hikes into the future.

[00:22:34] **Gemma Dale** There are those who argue that it's already priced in completely. There are those who think that earnings are still strong, that there's still a lot of potential in the market and that all of the rate rises are priced in. I'm not sure I agree with that, but there are absolutely people who would argue that, you know, there's starting to be value emerging in some of those places.

[00:22:50] **Rory Cunningham** Okay, let's turn our mind to Australia. So talking through a similar example there, so the S&P ASX 200 index, a lot of investors will have a home bias inside their portfolio. In a rising interest rate environment, what are the considerations for investors in the Australian market?

[00:23:07] **Gemma Dale** So one of the biggest concerns about a rising interest rate environment and this is what I'm hearing a lot at the moment, applies to the US as well as Australia, is that if rates rise too quickly and too far, that it will tip the economy into recession. So it's the idea of a soft landing versus a hard landing, and so that's the economic impact that investors are worried about, has very meaningful impacts for the market. As we know, the market and the economy are not the same thing. The market has predicted seven out of the last three recessions, is always the quote that I love. It's had a lot of dips. We haven't had a lot of recessions, but the way that the S&P ASX 200 is composed is very different to the U.S. So when you hear about volatility in the U.S. at the moment, you don't need to panic if you mostly own Australian equities. Our market's really different. Again, downside of a podcast, if I were to show you a chart, a pie chart of the S&P 500 shows that around a quarter, a bit more than a quarter of that market is in tech. And some things that you think of as tech, like Meta, which is the rebranded Facebook, you've probably heard me tell this joke a thousand times, when your company is performing really badly, just do a rebrand and everyone forgets. So, Meta is in consumer discretionary. So they've got a lot of stuff that's sort of tech related in that market. And tech is what hurts first and hardest when rates rise. In Australia we have a tiny tech sector on a relative basis. We've got a huge financial sector and we have a huge materials sector. And of the two things that may well hold up relatively well in a high inflation, and when I say high, relatively high inflation,

relatively high interest rate market, those two things actually tend not to do too badly. Again, it's all relative, but banks in particular have had their margins absolutely crushed in a low rate environment. Again, when I was at university, you would learn about net interest margin, which is the difference between what you lend at and what you borrow at. And it's supposed to be 4%. Now, you know, they're lucky if they get 1.7, 1.8% between what they price a home loan out for example, and what they pay on a term deposit or on a cash account or something. So banks have had their margins absolutely crushed and as rates rise they can build a buffer and that helps their profitability. It'll be volume impacts obviously, because you're not going to write as many loans when it's more expensive. So banks are not the worst place to be. And most of our customers hold some banks. All of your customers also hold some banks, very popular in Australia and materials are the same. So commodities tend to retain their value relatively well. A lot of people feel that commodities can be a hedge against inflation. So it's not perfect, these things, these generalisations, they don't always work out. But there are a lot of people who feel that if you hold commodities and banks, that's not a bad thing in this environment, relative to something like tech, and that's half our market.

[00:26:12] **Rory Cunningham** Now, you touched on it before. What does happen if central banks raise rates too quickly?

[00:26:17] **Gemma Dale** So the big risk is that you tip the economy into recession. I think the first couple times I gave this presentation, I said, you break stuff. A few people came up afterwards and were like, what do you mean by break stuff? And I was like, Oh, good question. One of the big issues we have, particularly in Australia, is the consumer is massively indebted. It's been the second highest level of household indebtedness in the world. It's not a great statistic. And the RBA has done research about how well Australian households can cope with rising interest rates on their mortgages. That's quite out of date that data now and as property prices have gone insane, people have borrowed more and so on. So one of the big concerns is as rates increase, it puts massive pressure on the consumer. Anyone who has a mortgage suddenly has less money to spend in the economy because more of their income goes to servicing their debt. So that's a big issue. And the consumer is the largest component of GDP growth in Australia. It's what we spend that keeps the economy afloat. Not that anyone tells you that, but it is, absolutely. And so when we have less money to go out and spend in the economy, when the average person does, that absolutely will put real pressure on the economy. So there's a risk there. There's also a risk for businesses because they have to pay more on any debt that they have. And so it has happened many times throughout history that central banks try to get a lid on inflation by raising rates, and they have to keep raising them and keep raising them and keep raising them until people stop spending money, which means you end up with a recession. It's not fun. So it's a real balancing act for the RBA and for all the central banks really, to get rates to a point where you don't have these crazy excesses where housing prices go up 30% a year but you don't completely break the consumer and suddenly they're defaulting on their mortgage. So it's a real challenge across the board, certainly getting a lot of attention. People are watching it very closely. There are some pundits out there who are suggesting we're going to see rates increase really rapidly and then fall because they've gone too far.

[00:28:21] **Rory Cunningham** Right. So for anyone listening to this and if this is the first time, I suppose, listening to this type of content about a rising interest rate environment and inflation and the risks of going too hard too soon, their head might be spinning. And we've also been walking around the world and talking about the impact on different companies. So can we try and bring it back to kind of some

practical steps, I suppose, and guidance for investors that are out there that are considering what do I do now in this current environment?

[00:28:50] **Gemma Dale** Yeah, sure. Ironically, these are the things that theoretically you should always do, except it's been boring and didn't make a lot of sense in the last few years when things have been really heady and it happens in every business cycle, we all get carried away towards the end. You know, throw caution to the wind. And it's all very exciting. And then you get a nasty shock when things fall and you start being a little bit more sensible again. So the three tips I have for any investor, whether you're starting out or you've just enjoyed a great few years and now you know, it's getting a little bit less exciting. The first thing is asset class diversification is going to matter again. TINA is over. There are alternatives to equities and property and they will start looking increasingly attractive on a relative basis. Right. So bonds are only going to give you 2, 3, 4%, they're not going to give you 11%. So if you're used to getting these really high rates of return in equities, don't expect bonds to replace that immediately. It's simply that equities probably won't give you these amazing returns either. And so you have to start looking around your portfolio going, what do I need to include in my portfolio so that if equities have a terrible year, which does happen upon occasion, then I have something else in my portfolio that's going to hold up? And that may be bonds, which, you know, I never talk about bonds. I haven't talked about bonds for years, they're terribly boring. But rates are rising. And so you may need to think about whether or not you want some floating rate credit, for example, something you probably haven't looked at in years. So asset class diversification will matter. You can't just pick one thing and assume it will run forever. It's also worth considering whether or not you have protected the downside of your portfolio. And one of the challenges of the last ten years is that cash has been a drag on your portfolio. It hasn't been seen as anything other than money waiting to be invested. Right. It wasn't giving you any return, whereas now it may be there to give you a buffer and to provide you with liquidity. Sure, it'll buy stuff when it gets cheap. But alternatively, it might be the thing that holds its value if things start falling quite seriously in value, and that can happen. The final thing is that you need to look at the quality of the investments you hold. And there have been a myriad of investments over the last few years and investments might be a generous term, to be honest with you, particularly stocks that have a great story to tell and look awesome, but they make no money and at some point, the market is going to stop rewarding that kind of behavior and stop rewarding exciting stories and start rewarding things that actually give you a meaningful return over time. And it sounds terribly boring, and none of us like investing like this, it's really serious and grown up, but it will probably stand you in good stead over the next few years.

[00:31:45] **Rory Cunningham** Fantastic. Gemma, thank you so much for coming in to talk to us and as always, look forward to having you at ASX Investor Day in the future and back on this podcast in the future as well.

[00:31:54] **Gemma Dale** Absolute pleasure. Thank you.

[00:31:58] **Rory Cunningham** It was great to have Gemma Dale from Nabtrade on the show to discuss rising interest rates and the impact that they're having on Australian and global markets. In particular, I really liked the three practical steps that she gave to help investors stay on their path on their investment journey, in reaching their investment goals and objectives. We'll be back with you next month for another episode of The Ideas Exchange.

[00:32:23] **Voiceover** Visit the ASX website, asx.com.au and register for the next CEO Connect event and hear directly from CEOs of leading ASX stocks about their business vision, strategy and company's latest achievements.