

GENERAL UPDATE

Dear Clients,

Welcome to the latest edition of the Principal Partners Regular Update for 2022. After experiencing some beautiful weather throughout Autumn and the long weekends, we are heading into a true Melbourne style winter with three seasons in any given day.

We have well and truly hit the ground running into 2022 and cannot believe how quickly the year is flying by as we approach the start of June already. The challenges of the past two years are feeling like a distant memory and it has been great seeing the CBD hustling and bustling again as a sense of normality returns and we are able to connect with friends and family through dinners at restaurants, football and events like the Grand Prix held recently in Melbourne. As you would expect, our investment committee is remaining agile and continuously adapting to changes in the local and international market with a view of generating strong returns for our clients.

Please stay tuned as we continue to announce more exciting developments and progress within our Specialised Property projects space and upcoming events which will see clients and our team being brought together face to face after nearly two years of zoom catchups and phone calls.

We thank you for your ongoing support and trust in the Principal Partners team, and we look forward to providing further updates throughout 2022.



**Matthew
Morley**
Director

SPECIALISED PROPERTY INVESTMENTS



HAYFIELD

The Hayfield development is making positive sales progress with Stages 1-8 almost completely sold out as only 14 lots remain on the market. In the past 12 months, Hayfield has contracted/reserved 108 lots and settled 74 generating almost \$60 million in settlements to date. These figures equate to 96.5% of released lots either being settled or sold/reserved and almost \$90 million in total sales to date which is a huge achievement for the overall project and for our development partner Goldfields.

SPECIALISED PROPERTY INVESTMENTS



COFFS HARBOUR

The Coffs Harbour development is a two story office building located in Coffs Harbour, New South Wales. This project has made significant progress in the past 18 months and is now underway having achieved Development Approval (DA), entered into a building contract with Becon, and with construction about to commence, RFG Coffs Harbour has signed an exclusive leasing agreement with a local agent who has already been approached by multiple parties regarding the site.



AWAKEN, ROODING

Sales at the Rooding Street development continue to progress with 7 of the 13 residences sold to date. This is a strong achievement for the project given Brighton has over 300 townhomes and apartments currently for sale. Sales and interest in the project have remained consistent and despite a deep market pool of available stock, all residences sold to date have achieved list price or above.

PRINCIPAL PARTNERS CHARITY INITIATIVE



This month, Principal Partners hosted an 'Australia's Biggest Morning Tea' in the office for our team to raise money for the Cancer Council - an organisation close to many of our hearts.

We encourage everyone to gather friends, family or colleagues this May and join the 18,000+ groups already booked to host a morning tea.

Link: www.biggestmorningtea.com.au

TRADITIONAL INVESTMENTS

INFLATION

Understanding inflation is crucial to investing as it can reduce the value of investment returns and affects all aspects of the economy, from consumer spending, business investment and employment rates, to government programs and interest rates.

What is Inflation?

Inflation is a sustained rise in price levels; moderate inflation is associated with economic growth, while high inflation can signal an overheated economy. In the growth stage of an economic cycle, demand typically outstrips the supply of goods, and producers raise their prices.

How is Inflation Measured?

The two most widely monitored indicators are:

- **Producer Price Index (PPI):** previously called the Wholesale Price Index, the PPI measures prices paid to producers, usually by retailers. Reported monthly, three quarters of the index measures prices of consumer goods, while capital goods prices account for the rest. The PPI picks up price trends relatively early in the inflation cycle.
- **Consumer Price Index (CPI):** more widely followed, the CPI reflects retail prices of goods and services, including housing costs, transportation, and healthcare.

Causes of Inflation

Rising commodity prices often cause inflation. When commodities rise in price, the cost of basic goods and services generally increase. Higher oil prices especially can have an inflationary impact. Higher oil prices mean that petrol prices will rise, which pushes up the prices of all goods and services that are transported by truck or ship. Jet fuel prices go up, raising the prices of airline tickets and air transport. Heating oil prices also rise, hurting consumers and businesses. Over the long term, currencies of countries with higher inflation rates tend to depreciate relative to those with lower inflation. Because inflation erodes the value of investment returns over time, investors may shift their money to markets with lower inflation.

Investment Returns and Inflation

Inflation poses a threat to investors because it chips away at real savings and investment returns. Most investors aim to increase their long-term purchasing power. Inflation puts this goal at risk because investment returns must first keep up with the rate of inflation in order to increase real purchasing power. For example, an investment that returns 2 per cent before inflation in an environment of 3 per cent inflation will produce a negative return (-1 per cent) when adjusted for inflation.



ECONOMIC UPDATE CONT'D

Some Assets Rise in Price as Inflation Rises:

- Shares have often been a good investment relative to inflation over the long term because companies can raise prices for their products when their costs increase. Higher prices may translate into higher earnings. However, over shorter time periods, stocks have often shown a negative correlation to inflation and can be especially hurt by unexpected inflation and the economic uncertainty it creates. This can lead to lower earnings forecasts for companies and lower equity prices. Rotating stock selection is important in this environment and something our investment committee is consistently monitoring and adjusting to.
- Commodity prices generally rise with inflation. Commodity futures, which reflect expected prices in the future, might therefore react positively to higher inflationary expectations.

Controlling Inflation

Central banks, including the Reserve Bank of Australia (RBA), attempt to control inflation by regulating interest rates. The RBA can lower short-term rates, which encourages banks to borrow from the RBA and each other, effectively increasing the money supply. Banks make more loans to businesses and consumers, which stimulates spending, which pressures inflation higher.

Raising short-term rates has the opposite effect: it discourages borrowing, decreases the money supply, dampens economic activity and subdues inflation (the RBA are undertaking these measures currently).

Governments at times attempt to fight inflation through fiscal policy, dampening economic activity by raising taxes or reducing spending. Conversely, they can try to combat deflation with tax cuts and increased spending which is designed to stimulate economic activity.

Having an understanding of inflation is crucial in understanding the world of investing, if you have any questions about inflation or how this affects our traditional investments please reach out to your adviser today.



John Brady
Director