

---

## The Year that Wasn't

Jim Parker  
Vice President

Dec 05, 2022

As an eventful year in markets nears its close, analysts are being asked about their expectations for 2023. The media uses these surveys to generate eye-catching headlines, but rarely does anyone go back to look at what they forecast last year.

Speculative articles about the future can be an entertaining diversion. But however educated the guesses in these articles may be, these are still guesses and subject to random and unpredictable events. Recent history has proved that repeatedly.

In January 2020, none of the dozens of forecasters interviewed by newswire Bloomberg had a global pandemic on their bingo card of what might move markets that year.<sup>1</sup> In the equivalent survey in January 2022, virtually no-one cited a land war in Europe.<sup>2</sup>

Back in late 2021, the enthusiasm for cryptocurrencies was a big story. Market leader Bitcoin had reached record highs above \$US68,000. One investment bank predicted it was headed for \$150,000 as it competed with gold as an alternative currency.<sup>3</sup>

The fortunes apparently on offer in cryptocurrencies were no more evident than in coverage of up-and-coming crypto exchange owner Sam Bankman-Fried, hailed by one publication in late 2021 as "the world's youngest mega-billionaire", at just 29.<sup>4</sup>

Less than a year later, however, Bankman-Fried's \$32 billion empire had collapsed with his own substantial personal wealth almost entirely wiped out.<sup>5</sup> Bitcoin was down near \$20,000 and regulators were calling for greater scrutiny of the sector.<sup>6</sup>

Economic and interest rate forecasting is a tough business as well, and one that does not appear to be getting any easier, judging by last year's predictions.

Each year, the academic website 'The Conversation' asks a panel of esteemed Australian economists for their individual forecasters for key economic and market variables for the year ahead.<sup>7</sup>

The big debate this time a year ago was what would happen to official cash rates in 2022, with inflation rising around the world.

Even so, two thirds of the 24-member forecasting panel expected the Reserve Bank of Australia to leave cash rates at historically low levels, near zero, at least until the first

quarter of 2023. Some did not expect any move until 2024, as the RBA itself had said.

Of course, we now know that inflation kept rising, confounding the expectation of central banks that it would be transitory. As a result, the RBA began raising cash rates in May 2022 and did so another handful of times over the year, while warning of more to come. As forecasting errors go, this was remarkable.

But it didn't stop there. Perhaps reflecting their bad call on cash rates, the economists' panel was convinced that underlying inflation, the measure targeted by the Reserve Bank, would stop short of the top of its 2-3% target band in 2022.

As it turned out, however, inflation kept on rising and by the September quarter was above 6% in underlying terms, twice as high as the economists' year-end target.<sup>8</sup>

On currencies, the forecasters saw the Australian dollar staying roughly where it was back in late 2021 in the low 70s against the US dollar. Wrong again, unfortunately. The AUD kept falling through 2022, as the USD rose, hitting lows near 62c in mid-October.

On bonds, the panel was fairly sanguine, expecting Australian government 10-year bond yields to edge up slightly over the year to 2.5% from 1.7%. Another miss here, too, as yields kept rising through the year to reach around 4.2% by mid-October.

On the share market, macro economists tend to avoid making forecasts and about a third of the panel declined to make a prediction. But of those who did there was a significant dispersion in individual calls for the S&P/ASX 200 index, ranging from a gain of 10% to a loss of 45%! The local market was down about 3% as of late-November.

On the economy generally, the economic forecasters were too pessimistic. Few of the panellists expected Australia's unemployment rate to fall much below its then historic lows of 4.2%. But by mid-2022, the jobless rate had plunged to around 3.5%.<sup>9</sup>

None of this is intended to disparage the skills or professional standing of these economists. Many are highly respected in the field. But they would be the first to admit there is little science in forecasting financial markets or economies.

One can make assumptions about the future. But as we have seen many times over the years, unexpected things can happen – wars, pandemics, inflation, recessions – that mess up even the most carefully considered projections.

For the ordinary investor, the lessons here are familiar. The future is inherently uncertain. Not even the experts are particularly good at predicting it. This means that basing your investment strategy on somebody's opinion, hunch or wish about what might happen next year or the year after is not a sustainable or reliable approach.

The good news is you don't need the powers of prediction to have a good investment experience. You just need a financial plan that's made for you and your goals, one that is highly diversified and that makes allowances for periods like we have seen in 2022.

We know that over the long term, the share market has delivered a reasonable rate of return, but it is not the same every year. Some years are much worse, some years are much better. So to get that average you need to stick with it.

Humanity faces some challenges, it is true. But the flipside of challenge is opportunity and the chance to create innovative solutions to the problems we face. Being a long-term investor gives you the chance to share in the wealth created by innovation.

And you can do all of that without making a forecast.

- 
1. 'Here's (Almost) Everything Wall Street Expects in 2020', *Bloomberg*, 2 Jan 2020.
  2. 'Here's (Almost) Everything Wall Street Expects in 2022', *Bloomberg*, 3 Jan 2022.
  3. 'Bitcoin Surges to Record High of More than \$68,000', *The Guardian*, 9 Nov 2021.
  4. 'Inside the Hectic Life of Sam Bankman-Fried', *Business Insider*, 17 Dec 2021.
  5. 'FTX Collapse Being Scrutinized by Bahamas Authorities', *Reuters*, 13 Nov 2022.
  6. 'FTX Collapse Exposed Weaknesses in Crypto: Janet Yellen', *Yahoo Finance*, 14 Nov 2022.
  7. 'Top Economists Expect RBA to Hold Rates Low in 2022', *The Conversation*, 30 Jan 2022.
  8. Consumer Price Index, *Australian Bureau of Statistics*, 26 Oct 2022.
  9. Labour Force Survey, *Australian Bureau of Statistics*, 20 Oct 2022.

---

The information in this material is intended for the recipient's background information and use only. It is provided in good faith and without any warranty or representation as to accuracy or completeness. Information and opinions presented in this material have been obtained or derived from sources believed by Dimensional to be reliable, and Dimensional has reasonable grounds to believe that all factual information herein is true as at the date of this material. It does not constitute investment advice, a recommendation, or an offer of any services or products for sale and is not intended to provide a sufficient basis on which to make an investment decision. Before acting on any information in this document, you should consider whether it is appropriate for your particular circumstances and, if appropriate, seek professional advice. It is the responsibility of any persons wishing to make a purchase to inform themselves of and observe all applicable laws and regulations. Unauthorized reproduction or transmission of this material is strictly prohibited. Dimensional accepts no responsibility for loss arising from the use of the information contained herein.

This material is not directed at any person in any jurisdiction where the availability of this material is prohibited or would subject Dimensional or its products or services to any registration, licensing, or other such legal requirements within the jurisdiction.

"Dimensional" refers to the Dimensional separate but affiliated entities generally, rather than to one particular entity. These entities are Dimensional Fund Advisors LP, Dimensional Fund Advisors Ltd., Dimensional Ireland Limited, DFA Australia Limited, Dimensional Fund Advisors Canada ULC, Dimensional Fund Advisors Pte. Ltd., Dimensional Japan Ltd. and Dimensional Hong Kong Limited. Dimensional Hong Kong Limited is licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) regulated activities only and does not provide asset management services.

## RISKS

**Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.**

### AUSTRALIA

This material is issued by DFA Australia Limited (AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, to the extent this material constitutes general financial product advice, investors should, before acting on the advice, consider the appropriateness of the

advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and the target market determination (TMD) that has been made for each financial product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to [dimensional.com/funds](https://dimensional.com/funds) to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

#### NEW ZEALAND

This material is issued by DFA Australia Limited (incorporated in Australia, AFS License No. 238093, ABN 46 065 937 671). This material is provided for information only. This material does not give any recommendation or opinion to acquire any financial product or any financial advice product, and is not financial advice to you or any other person. No account has been taken of the objectives, financial situation or needs of any particular person. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. Investors should also consider the Product Disclosure Statement (PDS) and for the Dimensional Wholesale Trusts the target market determination (TMD) that has been made for each financial product or financial advice product either issued or distributed by DFA Australia Limited prior to acquiring or continuing to hold any investment. Go to [dimensional.com/funds](https://dimensional.com/funds) to access a copy of the PDS or the relevant TMD. Any opinions expressed in this material reflect our judgement at the date of publication and are subject to change.

[dimensional.com](https://dimensional.com)



02/22/2023

<https://my.dimensional.com/the-year-that-wasnt>