Pathfinder

Monthly Newsletter – May 2022

Review of Fund Performance and Current Events

Certified B Corporation

Market Commentary

May was another choppy month for share markets, with a rebound late in May seeing the US market end the month flat. Closer to home, the New Zealand & Australian markets fared worse, down 4.8% (NZX 50 index) and 3.0% (ASX 200 index) respectively.

At the time of writing, the US market (measured by the S&P 500 index) has officially slipped into bear market territory, down by more than 20% since its January peak. In June, we have seen a sharp slide in markets which has been even more pronounced in the Technology sector, with the Nasdaq US tech index down 30% since December. The key driver of negative investor sentiment has once again been inflation.

There has been hope that the current high inflation rate would moderate in the second half of 2022, taking the pressure off the US Fed (and other Central Banks) to raise interest rates so aggressively, giving markets some breathing room. However, the most recent US data showed an 8.3% CPI (inflation) increase for the past 12 months, the highest level since the 1980s.

The market has moved to price in a more front-loaded and aggressive Fed tightening. The story is similar in New Zealand, with the RBNZ lifting the OCR to 2.0% with the Bank's new forecast peak in OCR lifted to 3.95% in the 3rd quarter of 2023. Across the Tasman, the RBA also increased the cash rate to 0.85%, maintaining that they are willing to do "what is necessary" to tame inflation. The Aussie dollar has spiked in response to the RBA. As active managers, we have taken the opportunity to increase our currency hedging on the NZD/AUD as the Kiwi had drifted below 90 cents versus the Aussie (hedging protects our portfolios from the Kiwi dollar strengthening versus the Aussie dollar).

Higher interest rates are like gravity for asset prices as they weigh on the valuation levels that investors are willing to pay. While equities have come under pressure this year, bond market moves have been far more severe by historical standards. After 30 years of declining interest rates, rates are moving sharply higher and the selloff in bonds has been record breaking in its magnitude and speed of decline in value. The move has meant we are now seeing attractive fixed income investments and have actively been buying NZ bonds recently. The most recent example has been an Infratil bond paying a 5.9% yield, an attractive fixed income return in the current environment.

Investor sentiment has become resoundingly negative, but what could see this turn positive? We are seeing conflicting news reports around China as to whether they are sticking with their zero COVID policy, which is prolonging supply chain issues. Any positive news here and the subsequent inflation implications would be welcomed by markets.

While lower inflation would see Central Banks slow their interest rate hike path, consumer sentiment is also worth watching, with US Consumer Sentiment recently reaching a ten-year low. The RBA governor has also said that while not worried about falling house prices, he admitted the RBA would keep a close eye on the impact on consumer spending as households feel the pinch of rising prices (particularly food and petrol) and higher mortgage rates. The consumer under pressure is clearly negative for discretionary retail, and across Australasia we own zero retail stocks, a view we have held for some time. However, we are happy to own stocks such as Woolworths which have solid pricing power, with groceries less sensitive to consumer confidence.

We also remain comfortable in our multi-year themes such as solar power, which is becoming more viable and prominent by the day. Pleasingly, our early stage solar investment, Lodestone Energy, completed an equity and debt financing raise required for it to reach production over the next couple of years, see the RNZ news link here.

31-May-22	1 Month	6 Months	1 Year	2 Years p.a	3 Years p.a	5 Years p.a	10 Years p.a	Since Inception p.a	Start Date
Ethical Growth Fund	-1.7%	-9.1%	-2.9%					**5.1%**	Sep-20
Global Responsibility Fund	0.0%	-9.5%	-0.8%	13.6%	12.5%			**8.8%**	Oct-17
Global Water Fund	-0.6%	-12.0%	-6.1%	11.9%	9.2%	7.8%	10.9%	**8.7%**	Jun-10
Ethical Trans-Tasman Fund	-3.9%	-9.9%	-4.5%	9.3%				**11.5%**	Sep-19
Global Property Fund	-5.1%	-6.6%	-2.3%	9.7%	-1.3%	2.4%		**2.8%**	Jul-15
Responsible Investment Fund*	0.0%	-9.4%	-0.4%	12.5%	13.4%	10.8%		**10.1%**	May-17
KiwiSaver Growth	-2.0%	-9.0%	0.3%	12.8%				**11.2%**	Jul-19
KiwiSaver Balanced	-1.5%	-6.8%	0.4%	9.1%				**7.2%**	Jul-19
KiwiSaver Conservative	-0.5%	-3.3%	0.0%	3.3%				**3.5%**	Jul-19

**This is a wholesale offer that is not available for retail investors.*

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