Pathfinder

Monthly Newsletter – August 2022

Review of Fund Performance and Current Events

Certified B Corporation

Market Commentary

Markets remain volatile and have retreated since mid-August, with the US market (S&P 500 index) once again down 20% year to date. For the month, the NZ market gained 0.6% through the news-flow heavy August company reporting season, while across the Tasman the ASX 200 was up 0.7% as investors also digested corporate profit announcements. Australasian markets outperformed global peers as the US market fell -3.8%, led by a reversal in technology stocks (Nasdaq index -5.1%).

It has been a rinse and repeat of movements we've seen recently with equities (shares) under pressure, global rates rising and broad support for the US Dollar. The overriding theme has been a ramp-up in EU and US monetary policy expectations, fuelled by hawkish central bank talk as they battle against the highest inflation in decades. This has dealt a blow to the equity market recovery that began mid-June.

While US exporters will not be happy to see US dollar strength, it buffers the losses somewhat for our global funds as the value of our US investments rises in NZ dollar terms. The NZ dollar usually trades weaker during "risk-off" market conditions and is currently trading below 60 cents versus the USD. The USD has been the winner in recent times as the Pound is under pressure given the UK outlook for both inflation and the fiscal deficit. The Euro is under pressure as the energy crisis highlights the cracks in the structure of the currency union with the Euro falling through 0.99 against the USD for first time in 20 years. The Yen is also under pressure as the Bank of Japan keeps the money-printing machine working overtime. The Chinese Yuan is under pressure as the economic outlook dims on the back of a severe property slowdown, cooling export orders and the continuing COVID-zero policy. The NZD and AUD are under pressure as a proxy for China risk. That leaves just one winner – the USD.

Last month we mentioned a growing view that Central Banks can take their foot off the gas when it comes to interest rate hikes, as inflation may have peaked. While our view is based on pipeline inflation which is moderating – think lower oil prices and better freight pricing, the latest data is not yet supporting that thesis.

Stronger than expected US inflation data shocked a market that was positioned for another good result. What we got were signs that inflation was broadening, capturing more of the services sector on the back of an over-stimulated economy. Services inflation is often stickier than goods inflation, meaning that any return to inflation normality is a long way off yet. The actual numbers showed headline inflation (CPI) was up 8.3% year-over-year, beating expectations of 8.1%. This is a slight deceleration from the 8.5% reading in July. Core CPI (excluding food, energy): was up 6.3%, beating expectations of 6.1%. Given the recent string of data strength and persistent inflation, the debate is now whether the US Fed will hike by 0.75% or 1.0% at its meeting this week.

Locally, in NZ 2nd quarter GDP data showed growth rebounding from the Omicron disrupted 1st quarter. Together with the news flow from offshore, this bumped up market interest rate expectations across the board, with the RBNZ now forecasting a peak OCR of 4.5%.

While markets continue to be volatile, this presents opportunities for active managers. One of our top US holdings is solar energy business First Solar (FSLR) which is up +53% year to date, in stark contrast to broader market losses. FSLR has recently benefited from Biden's $700bn climate bill being passed, and major investment houses such as Goldman Sachs forecast 30% more upside for the stock over the next year. Locally, we have a more concentrated portfolio, and for example see telco businesses Spark and Telstra as attractive income investments.

We can also make active investment decisions regionally and have a much larger weighting to the US versus Europe. We are not alone on this call - according to a global fund manager survey, investors are "super bearish" on European equities while cash levels have jumped to 6.1% from 5.7%, the highest since 9/11. Finally, we continue to hold more levels of cash than usual across the funds, to protect against downside risk and reduce fund volatility.

31-Aug-22	1 Month	6 Months	1 Year	2 Years p.a	3 Years p.a	5 Years p.a	Since Inception p.a	Start Date
Ethical Growth Fund	-2.2%	-2.8%	-7.7%				**4.4%**	Sep-20
Global Responsibility Fund	-3.0%	-4.4%	-8.1%	8.7%	9.8%		**8.1%**	Oct-17
Global Water Fund	-4.6%	-4.8%	-14.7%	8.7%	6.3%	7.8%	**8.4%**	Jun-10
Ethical Trans-Tasman Fund	-0.8%	-0.6%	-10.8%	2.7%			**10.3%**	Sep-19
Global Property Fund	-4.6%	-10.1%	-13.2%	4.2%	-4.9%	0.9%	**1.9%**	Jul-15
Responsible Investment Fund*	-3.0%	-4.3%	-7.9%	8.5%	9.9%	10.2%	**9.5%**	May-17
KiwiSaver Growth	-2.4%	-3.1%	-7.3%	7.3%	10.1%		**10.2%**	Jul-19
KiwiSaver Balanced	-2.0%	-2.2%	-5.2%	5.4%	6.8%		**6.6%**	Jul-19
KiwiSaver Conservative	-0.8%	-1.0%	-2.5%	2.1%	3.3%		**3.3%**	Jul-19

**This is a wholesale offer that is not available for retail investors. Benchmark comparison for each Fund is available on our website.* *Returns are after fees & before tax*

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