Pathfinder

Monthly Newsletter – October 2022

Review of Fund Performance and Current Events

Certified B Corporation

Market Commentary

Despite the divergence and volatility across markets, October has been much more positive than the past few months. The US S&P500 index was up 8.1% and the NASDAQ technology index gained 3.9% for the month. Closer to home, the Australian market ASX 200 was up 6.0% and the NZX 50 index gained 2.5% following a jump at month end.

A key exception to the generally positive tone in equity markets remains China, with both the local Chinese and Hong Kong markets slumping further in October. Investors digested President Xi's reshuffle of his Politburo leadership team, with the consensus being that any shift to the country's zero-Covid policy is now some way off. We do not own Chinese equities for a number of reasons, particularly the opaque nature of Chinese market regulation and governance concerns (governance standards is a core factor to consider in ESG screening).

There has been a large variance of return across regions and individual stocks as well. The latest quarterly reporting season has seen widely divergent company profit results and management outlook commentary. Industrial stocks handily outperformed, while the growth sector was dragged down by some steep declines in the likes of Amazon (which is down 46% in 2022) and Meta (formerly Facebook) which has lost a whopping 73% of its value this year, as advertising spend and engagement levels on its Apps falls. On the flipside, Apple has been the standout in terms of earnings in the technology space, and its shares are "only" down 23% year to date. The 2022 performance of the mega cap technology companies has been a clear opportunity to add value through active management and stock selection - as for example we do not own Meta or Amazon, which has clearly helped portfolio performance.

The big story this year remains the record breaking move higher in interest rates across the globe, but the market narrative that central banks have passed the point of 'peak hawkishness' has gained further momentum. The European Central Bank raised rates as expected, but markets interpreted their statement as cautious around further aggressive tightening. The Bank of Canada also unexpectedly raised rates by 0.50% instead of the widely accepted 0.75%.

Across the Tasman, the Reserve Bank of Australia also appears to be taking its foot off the gas, most recently Increasing its cash rate by 0.25% and commenting that they expect to increase interest rates further, determined by the incoming data and the outlook. The RBA Board recognizes that monetary policy operates with a lag and that the full effect of the increase in rates is yet to be felt in mortgage payments.

The same rhetoric has not been endorsed locally by the Reserve Bank of NZ, with markets pricing a 5.25% OCR peak in 6 months' time, meaning a couple of big hikes at the next 2 meetings. NZ mortgage rates are about to bite those with mortgages, with floating interest rates now above 7%. September quarter labour market data for NZ unexpectedly showed an increase to actual employment of 1.2%, as we have an incredibly labour force participation rate (the amount of the population in the labour force and looking for work) in a global context. In addition, there were large private sector wage increases. On the face of it this would reinforce a "higher for longer" interest rate track.

Markets had rallied into the latest US Fed decision, on the assumption that the language around pace of interest rate hikes would be moderated. This initially appeared to be the case and markets rallied on comments that smaller hikes would soon be the norm. However, Chairman Powell's press conference had a different tone – highlighting a higher peak interest rate than previously and emphasising the fact they "weren't even thinking about pausing" interest rate hikes.

As touched on above, the technology sector has been hit hard this year, primarily as the interest rate move reduces the valuation multiples investors are willing to pay for such stocks. However, we are seeing value in selected tech stocks, and the recent takeover offer of NZ tech company Pushpay, a company we have backed for some time, highlights we are not alone in this view.

US mid-term elections have just taken place. The expected Republican sweep did not occur, though it seems likely the Republicans will control the house, and the Democrats the Senate. This may be a positive for markets, if results in legislative gridlock and therefore decreased fiscal stimulus, which would ultimately help lower inflation.

31-Oct-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	2.8%	-4.1%	-11.0%	1.4%			**2.8%**	Sep-20
Global Responsibility Fund	6.2%	-0.9%	-9.8%	9.8%	7.9%		**7.8%**	Oct-17
Global Water Fund	5.3%	-0.4%	-11.2%	8.2%	5.0%	6.3%	**8.4%**	Jun-10
Ethical Trans-Tasman Fund	2.1%	-6.9%	-13.2%	-0.5%	8.9%		**8.7%**	Sep-19
Global Property Fund	1.3%	-17.9%	-20.0%	1.4%	-8.3%	-1.2%	**0.6%**	Jul-15
Responsible Investment Fund*	6.3%	-0.7%	-9.5%	9.2%	8.2%	8.2%	**9.1%**	May-17
KiwiSaver Growth	2.5%	-4.3%	-10.2%	5.5%	8.9%		**8.9%**	Jul-19
KiwiSaver Balanced	2.1%	-3.1%	-7.3%	4.1%	6.1%		**5.7%**	Jul-19
KiwiSaver Conservative	0.3%	-0.9%	-3.0%	1.2%	3.1%		**2.9%**	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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