Pathfinder

Certified B Corporation

Monthly Newsletter – December 2022

Review of Fund Performance and Current Events

Market Commentary

It was a tough end to 2022 for markets, reflected in the December returns across our Funds. The final month of the year saw a deluge of central bank policy meetings with hawkish updates from the Fed and ECB scaring equity investors as higher interest rates could tip the economy into a deep recession.

US Federal Reserve Chair Jerome Powell indicated that the increase in interest rates so far has not had a meaningful impact on the economy. He said the Fed felt inflation risks were still to the upside and the strength of the jobs market was still out of line and needed to correct. We are baffled, as higher inflation and the Fed's interest rate forecasts are hard to square with the improving data.

The big news in December locally was economic growth (GDP) in NZ surged 2.0% for the 3rd quarter, much higher than anyone forecast. The detail showed soft domestic demand continuing, with strong net exports the key contributor, with the return of tourism being a driving force. In saying that, GDP is a backwards looking economic indicator, and recent business confidence numbers are at record low confidence levels with higher mortgage rates only just starting to bite.

Looking back on 2022, it was a rough year for investors, although returns did vary significantly by region. In the US, after accounting for dividends, the S&P 500 market index returned -18%, dragged lower by the technology sector in particular, as the Nasdaq Tech index experienced a -32% return. The NZ market (NZX 50 index) return was -12%, while across the Tasman the Aussie market (ASX 200 index) faired much better, with a -1% return given strength across the banks and resources. While European markets returned -13%, the UK market (FTSE 100 index) bucked the trend, up 4% over 2022.

While it is early days, in contrast to last year 2023 has kicked off with a large rebound across both equity & bond markets. What has driven investor enthusiasm in early January?

Inflation has clearly peaked in most economies given high base effects, weakness in housing, and a looming recession. Looking at the US, the most recent core inflation figures continue to trend lower, supported by flattening rents, and easing labour market tightness – there are plenty of headlines around big job-cuts in the US technology and banking sectors. If inflation continues to fall at a steady pace throughout 2023 it will reduce the pressure on the Fed to keep raising interest rates. Markets are now pricing in a likely 0.25% hike at the next Fed meeting which will be watched closely at month end.

While inflation is markedly lower, so far US growth indicators have not fallen as quickly as previously expected, which could support the case for a "soft landing" in the economy/mild recession. At the same time, growth in the rest of the world is turning the corner. Economic sentiment in the euro area is improving, driven by plunging gas prices which are now well below the level prevailing before Russia invaded Ukraine. China's reopening, along with increased stimulus and more market-friendly policies, could also support global growth in 2023.

In summary, relative to beaten-down expectations, global growth could surprise on the upside in 2023. This could see stocks continue to rally early in the year and we remain 90% invested in equities across our portfolios.

The key question for 2023 in our minds is whether we will have a deep or shallow recession. A significant growth slowdown creates uncertainty for company earnings, especially for more economically sensitive businesses. As such we are actively managing exposures and holding a high weighting to defensive sectors and areas of the market which look oversold – such as being selective in technology businesses, rather than cyclical stocks overly sensitive to the performance of the economy.

Finally, bond markets are also rallying as interest rates fall, primarily on lower inflation expectations. As we have mentioned last year, we are fully invested in fixed income as an asset class, which once again provides an attractive yield and hedge for portfolios as bonds are trading on much higher interest rates than they have in recent history.

31-Dec-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	-4.1%	0.3%	-14.1%	-2.5%			**2.0%**	Sep-20
Global Responsibility Fund	-5.4%	4.0%	-13.4%	3.1%	6.2%	6.8%	**7.4%**	Oct-17
Global Water Fund	-2.3%	5.0%	-16.2%	3.6%	4.1%	6.2%	**8.2%**	Jun-10
Ethical Trans-Tasman Fund	-1.6%	2.4%	-13.4%	-3.9%	7.1%		**8.4%**	Sep-19
Global Property Fund	-4.6%	-8.7%	-24.1%	-3.3%	-8.0%	-2.1%	**0.4%**	Jul-15
Responsible Investment Fund*	-5.4%	4.3%	-13.1%	3.7%	7.4%	8.3%	**8.7%**	May-17
KiwiSaver Growth	-4.0%	0.8%	-13.7%	0.3%	7.2%		**8.1%**	Jul-19
KiwiSaver Balanced	-3.0%	0.5%	-10.0%	0.3%	4.9%		**5.1%**	Jul-19
KiwiSaver Conservative	-1.0%	0.3%	-4.3%	0.2%	2.7%		**2.7%**	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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