IWIinvestor
Pou Tiaki i Ngā Rawa
New Zealand's wealth advisers

IWIinvestor Investment Report:
Economic & Market Commentary, Quarter End – September 2022

Overview

5.6% p.a.	+2.0%	-5.5%	3.4%	-5.1%	21	3
Balanced Portfolio 5-year return	Balanced Portfolio 5-year performance versus peers (per annum)	Balanced portfolio return over year	Best Performing asset class: quarter (Aus Equities)	Worst quarterly performing asset class: quarter (Glbl Equities NZDH)	No. of funds on APL	Funds on watch (+1)

Key discussion points

- Market returns were mixed over the quarter. Fixed income returns were negative (other than cash), with global bonds significantly underperforming NZ bonds again this quarter. NZ, Aus and global equities were all positive, however NZD hedged global equities was the worst performing sector as the NZD's fall accelerated.
- Most of the model portfolios outperformed their respective peer group averages this quarter, the defensive model was the only one to slightly underperformed the peer group average. However, all model portfolio returns produced small negative returns over the quarter. The asset allocation decisions made over the past couple of years have, for the most part, done what they were intended to do. As a result, the model portfolios have fallen by less than they otherwise would have. The decision to reduce your bond exposure, to invest in inflation-resilient assets, and to invest in 'alternatives' has paid off. Over the quarter we reduced the short duration position from 50:50 to 25:75, which reduced the allocation to short duration strategies such as Nikko NZ Cash and Daintree.

Key discussion points (continued)

- The majority of funds on the APL continue to perform well, with Dimensional Emerging Markets Sustainability and Kernel Global Infrastructure remaining on Watch due to their short history. Dimensional Global Bond Sustainability dropped into Watch this quarter due to the recent under-performance. We have no concerns and provide more insights in this report.

- As part of our ongoing commitment to assessing the impact of climate risk in your portfolio we have provided a summary of the funds with a low-carbon focus in your portfolio and extended our greenhouse gas emissions analysis across the total growth exposure (shares, property and infrastructure). This analysis shows a material reduction in the greenhouse gas emissions of your portfolio versus a benchmark.

Market Commentary September Quarter 2022

An early recovery gave way to declines in September.

Overview

The headwinds from war, inflation, and supply-side hangovers from the pandemic continued over the September quarter. Performances were, however, more nuanced than the broad sell-off across almost all asset classes in the June quarter. Bonds suffered amongst their largest losses since records began as central banks stepped up tightening of monetary policy and communication that rates may need to be higher for longer to reduce inflation back to target levels. Equities rallied over much of July and August, only to fall back in the month of September.

A particular feature over the quarter was very large currency market swings, with the US dollar approaching record highs on its trade-weighted basis. The NZD in contrast fell around 8% over the quarter, which helped cushion returns on offshore assets held on unhedged basis. Even more dramatically, the UK pound fell around 10% intraday to record lows against the US dollar following the release of a budget seen by the market as being fiscally unsound.

As in our previous update, we don't know how much further markets could fall - nobody does - but the large decline so far this year implies much better value today, and as such, higher likely returns over the medium to longer term. In addition, cash yields on various asset classes are now back to levels last enjoyed in pre-GFC days. For example, running yields on global and NZ investment grade bonds are now around 4-5%, compared to under 1% only a year or so ago. Dividend yields are also higher. This means investors do not need to rely as much on uncertain (over the short-term) capital gains to earn a return.

Market Roundup

Developed market equities increased around 3% over the quarter in NZD terms, while NZD hedged equities fell around 5%. The difference in performance reflected the large decline in the NZD over the quarter, something we typically see in a "risk off" environment. The significant allocations in place to unhedged equities in part reflects the shock absorbing role the NZD can play in times of stress.

NZ/Aus markets also fared relatively well, rising around 2% and 3.5% respectively. Over the last 12m however there has been a large divergence, with NZ equities declining 16% and Australian equities up around 2% in NZD terms. Emerging Markets under-performed in the quarter, falling by around 3% in NZD terms.

Bonds continued their poor run. NZ bonds fell around 1% and global bonds fell around 3.7%. Year end September, international bonds returned -12% – the worst result since 1842. The silver lining now is that their cash yields are back to around 'normal' and we can expect bonds to play their traditional diversification role should inflation and growth be weaker than expected.

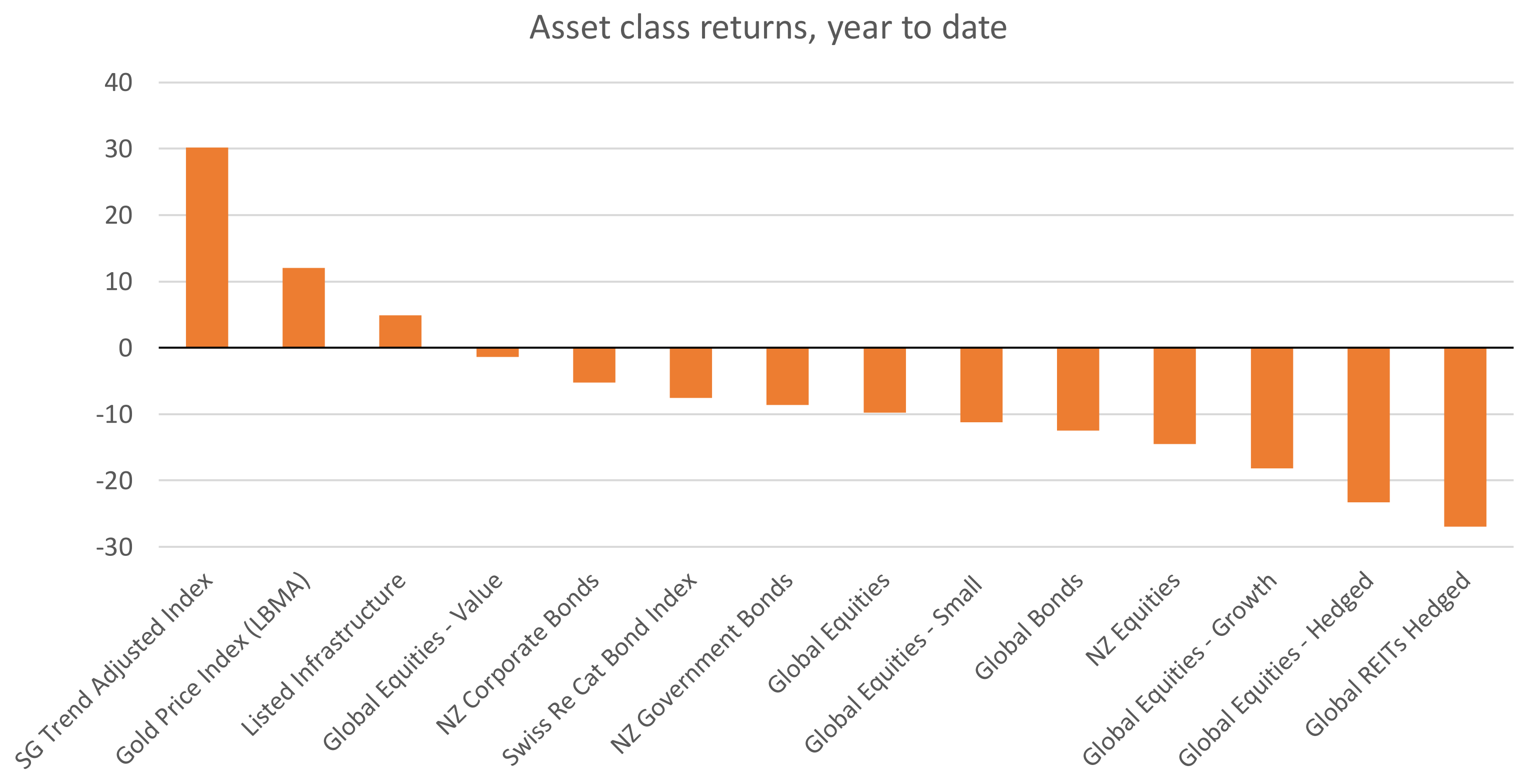
International property stocks fell around 2.8% in the quarter in NZD terms while global infrastructure fell around 1.2%. On an annual basis infrastructure increased around 14%, while global property returned around -5.8% in NZD terms. These asset classes have been relatively resilient to higher inflation, as should be expected given their income streams typically rise with inflation.

Market Commentary September Quarter 2022

Asset allocation choices provide resilience

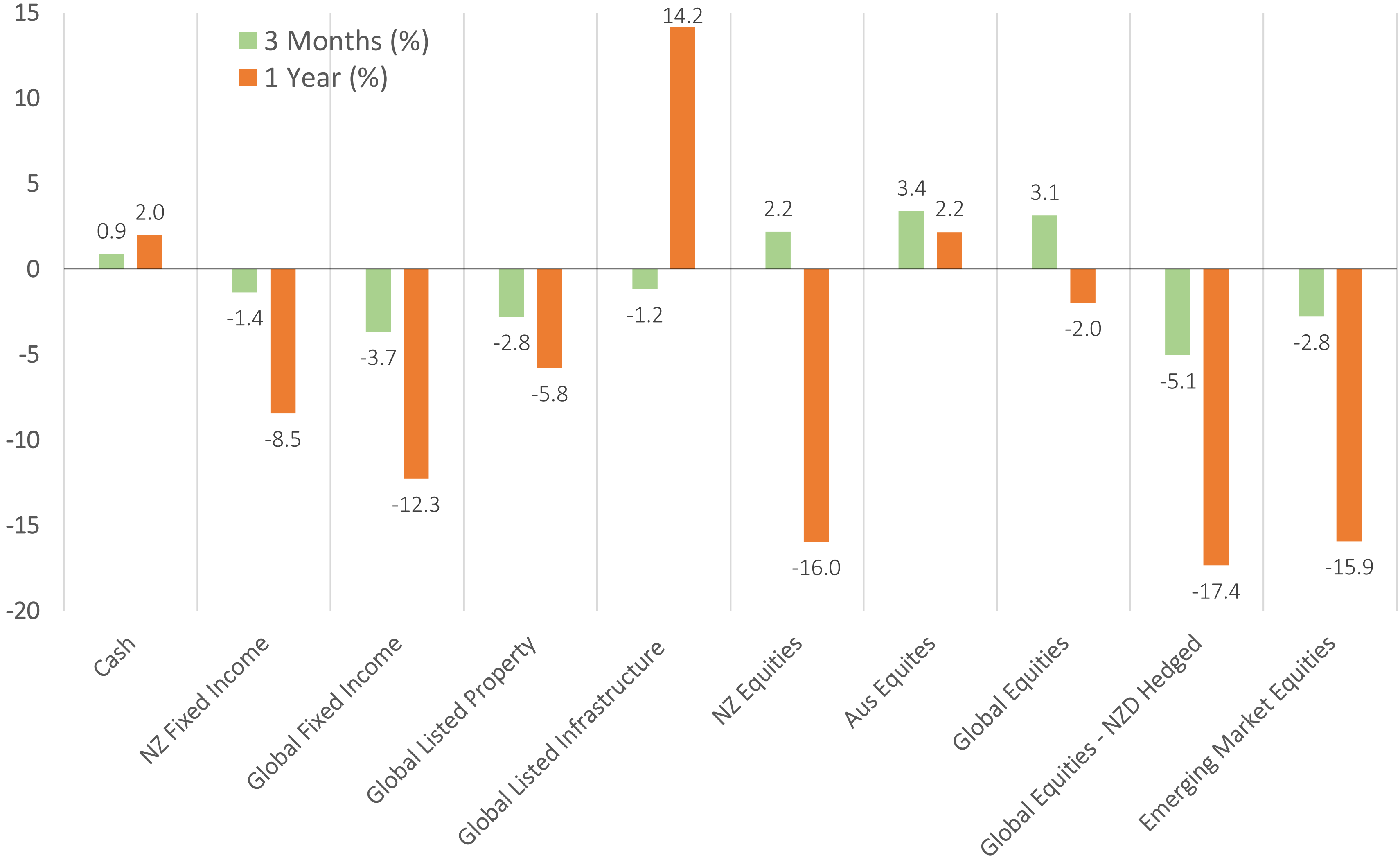
Your portfolio includes allocations to listed property and infrastructure, gold, insurance linked securities (ILS), so-called 'trend following' strategies, as well as short-duration bonds. We have begun to unwind the latter as yields rise, but the diversification benefits and potential to mitigate inflation and interest rate risks of the other assets remains relevant.

Having contributed materially earlier in the year, these assets again generally performed well in the third quarter, although Hurricane Ian affected ILS returns. Prospective returns from ILS now look particularly attractive over the next couple of years.



Financial market update

Developed market equities recovered in the quarter while defensive asset classes did poorly



The chart shows asset class returns in New Zealand dollars. The underlying indices are shown in the appendix.
Source: Morningstar Direct, MyFiduciary

Important information

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