



CARE philosophy®

June 2022

CARE QUARTERLY NEWSLETTER

# EXCITING LIFE BORING MONEY

and not the other way around



## Interest rates

continue to increase in an effort to curb inflation

## Central banks have chosen

inflation over economic growth suggesting that the odds of recession (particularly in the US) increased over the period

## The prolonged invasion

of the Ukraine by Russia kept the oil price inflated and inflation high

## GLOBAL OVERVIEW

It was another very volatile quarter for financial markets as share and property markets took their lead from the interest rate market. Inflation remains highly elevated and concerns are building that the current inflation pulse could become long lasting, as pay rises adjust to reflect the high cost of living. This fear has prompted a near uniform response from central banks to tighten policy to slow demand, such that demand and supply come into better balance. Whether this is the correct policy action remains to be seen because its hard to fix supply issues using interest rates. The fact is that central banks have chosen inflation over economic growth suggesting that the odds of recession (particularly in the US) increased over the period. As the quarter unfolded, it became clear that the path to a soft economic landing was looking increasingly narrow. For most asset classes, the combination of high inflation, rising rate expectations and increased recession risk has been an unpleasant cocktail and the extent and breadth of asset market declines has been historic.

## Inflation, Invasion and Infections

Many central banks continued to tighten policy to hold back inflation whilst the prolonged invasion of the Ukraine by Russia kept the oil price inflated and inflation high. Persistent Covid infections kept workers at home with chaos raging at hospitals and airports around the world, whilst in China, a zero-tolerance policy to the virus proved very economically unfriendly. The US Federal Reserve increased the official interest rate by 0.50% in May and then by 0.75% in June bringing the official interest rate to 1.75%. Financial markets rightly expected the rise which is by no means complete. The interest rate is expected to increase again in July with market participants expecting a peak at over 3%. Whether that is realised remains to be seen as



### Emmanuel Calligeris

Chairman of the CARE Investment Committee





In Australia, the Reserve Bank increased the official cash rate to cool inflation

The Chinese economy remains weak as forced lockdowns curb spending and manufacturing

economic data like the Services PMI index, (a survey of service companies including IT, hotels, financial institutions and communications – just to name a few) is beginning to show weakness. Employment for now remains strong and commodity prices have fallen recently suggesting that economic growth will remain positive but continue to slow.

In China economic growth slowed due to Covid lockdowns in Shanghai and Shenzhen. China has been facing a new round of virus spikes in July although the economic impacts look manageable so far. Authorities appear to be adopting more targeted measures to flight flare-ups. Despite the rising cases, authorities do not intend to nationally re-impose a cross-province travel ban or re-tighten the quarantine for cross-border travellers, but rather impose mass testing and fresh restrictions on social distancing. With the Chinese border closed until March 2023, growth is likely to remain weak for the foreseeable future.

In Australia, the Reserve Bank increased the official cash rate to cool inflation that has been rising for the same reasons cited above. Although house prices are cooling, the labour market remains exceptionally tight with labour in short supply and costing more. The unemployment rate fell to a 48-year low of 3.5%. Australia's labour market is clearly in unprecedented territory, with one unemployed person per job vacancy and a record-high employment-to-population ratio. Gains over the remainder of 2022 will depend on how much further participation can rise as well as the

outlook for immigration. On the consumer and business front, the Westpac-MI consumer sentiment survey continues to signal confidence in the labour market and the longer-term economic outlook, however household's near-term personal financial outlook is of great concern given historic inflation and rapidly rising interest rates. The survey recorded a seventh consecutive fall to a level only seen during times of significant economic disruption. According to NAB's latest business survey, while business conditions continue to show strength across the economy, confidence has fallen below its long-run average. Arguably this deterioration stems from the availability and price of labour and other inputs as well as growing uncertainty over the global outlook.

Over the quarter, the Australian 10-year bond yield reached 4.20% whilst the rate for the US 10-year bond hit 3.50% resulting in further capital losses for bond investors following losses in the first quarter. To put this into context, the Australian 10-year bond was trading at just 0.71% in March 2020 as the RBA printed money to buy government bonds driving yields to historically low levels. The government used that printed money keep our population safe and fed through the lockdowns. That is over. Surprisingly, the Australian interest rate market has priced in more aggressive rate rises than the US, despite a lower inflation reading and higher consumer debt in Australia.

Importantly, in early July, as this publication went to press, investors realised that the combination of high inflation, higher gas, oil and coal prices, a lockdown in China and higher interest rates were likely to sap economic growth. The added threat of overzealous

central banks looking to re-establish their inflation fighting credentials (having fallen asleep at the wheel) could potentially throw the world's major economies into recession by raising rates too aggressively. We have subsequently seen a sizable decrease in bond rates since the June peak.

Share markets were not spared. The S&P 500 index of the largest companies in the US is down just over -20% over the last 6 months, while the technology heavy NASDAQ index is down almost -30%. The Australian share market as represented by VAS in the Core and Active portfolio (S&P/ASX 300) decreased -10.39% over the last 6 months, to be -6.78% lower over the year to June. Iron Ore was down 21.6% over the quarter as

exposure to international shares in your CARE portfolio is through the iShares Global 100 ETF- IOO, Vanguard Total US Market ETF – VTS, iShares Emerging markets ETF and the Vanguard All World ex-US ETF – VEU. There are over 3 000 international companies held within these investments. The US makes up over 50% of the global market and energy companies including Chevron Corp, Exxon Mobil and Conoco Phillips once again enjoyed strong share price increases on the back of high gas and oil prices. Health care also performed well with Merck & Co, Pfizer and Johnson and Johnson all increasing in price over the quarter. Technology companies continued to be sold heavily. Amazon's share price decreased 35% whilst Tesla decreased 38% over

### The Australian bond market

returned almost -10.5% over the year whilst the return of our managers Realm and Kapstream was -2.5% and -1.1% respectively.

### The Enhanced Australian shares portfolio

successfully produced a positive return over the year of almost 5% beating the index by 11.4%.

major consumer China imposed strict Zero COVID lockdowns which effectively stifled economic activity, albeit restrictions started easing near the quarter end. Brent Crude increased 6.4%, having run heavily in the month of May before easing back further at the end of the quarter owing to the EIA reported a build in US crude inventories, as well as a potential recession easing demand for the commodity. Australian companies that performed well over the quarter included global packaging company Amcor (+19.15%) and hospital operator Ramsay Health Care (+13.64%). Gold producer Northern Star (-34.86%) performed poorly as investors forecast that the absenteeism and bad weather that forced Evolution Mining to downgrade gold production would also affect the rest of the sector. South 32 (-25.8%) and BlueScope Steel (-24.86%) also performed poorly.

International share markets decreased by -7.7% over the quarter to be -7.66% lower over the year. The

the quarter. Also performing poorly were Apple Inc (-14.5%), Intel Corp (-16.9%), NVIDIA Corp (-39.3%) and Siemens AG (-20.7%). Technology companies within emerging markets were also sold heavily including Taiwan Semiconductor (-15.6%) Indian technology company – Infosys (-18.9%).

The Investment Committee rebalanced the portfolios throughout the quarter. In May, some VAS was sold and proceeds rebalanced towards VTS and VEU in the Core and Active portfolios. In June, as Australian shares outperformed their global counterparts, a small amount of VAS was again sold and the proceeds invested into IEM. Usually when share markets are heavily sold, the bond investments of the portfolio stabilise returns. However, every so often like in 1994, it's the interest rate increases (sell off) that cause the fall in shares. This is what has happened in 2022. The Investment Committee avoided the bond market rout



by maintaining exposure to Realm Investment House and Kapstream who run portfolios with only a short interest rate maturity also known as a short duration strategy where capital values fluctuate less than long maturity bonds. The strategy worked well relative to bond market returns broadly. The Australian bond market returned almost -10.5% over the year whilst the return of Realm and Kapstream was -2.5% and -1.1% over the same period. This is a large outperformance and a position that aided returns greatly relative to similar investments in the market.

Within the Enhanced International Shares portfolio, Insync and Hyperion's short-term performance continued to be negatively impacted by the derating of growth businesses whilst WDIV outperformed. The WDIV investment holds companies that pay a larger portion of their profits as dividends including H&R Block and Enagas SA. The market has tended to penalise these companies for their perceived lack of growth however, as technology companies were sold off, the WDIV investment performed relatively well. Hyperion underperformed the benchmark. The manager's largest holding, Tesla, remained under selling pressure again despite not being able to fulfil orders for its cars. The manager continues to hold

quality companies with strong growth prospects including Microsoft, PayPal and luxury goods brand Hermes International. Insync follows a similar strategy and the manager's investment process has been leading them towards companies including: Apple, Bookings.com and Nintendo.

The Enhanced Australian shares portfolio decreased in value by 5.31% over the quarter outperforming the ASX 200 index by a strong 6.59%. The manager successfully produced a positive return over the year of almost 5% beating the index by 11.4%. The manager used market weakness to top up the portfolio in CBA. Despite the likelihood that the bad debt cycle for banks will eventually turn, the sell-off in the bank's share price seems overdone considering that the majority of its loan book is in residential mortgages, and that the majority of those were well ahead of repayment schedules as at last reporting season, with consumers having used lock-downs to get ahead of their repayments. The manager also used weakness to top up Wesfarmers. Wesfarmers has an attractive dividend yield (at close to 4% fully franked) which provides a level of support to the company's share price. Bunnings is a dominant player in the hardware space, and has growth optionality through the company's recent

acquisition of pharmaceutical company, API, along with the chemical, fertilizer and energy divisions.

We find ourselves at the toughest part of the investment cycle where prices have adjusted lower suggesting that valuations are cheap. However, analyst expectations for future profits are yet to be revised materially lower. Share prices around the world have fallen in expectation that profits will follow over the course of 2022 and 2023. If profits don't fall much, share market valuations seem fair. However, we do know that higher input costs are affecting profit margins. The company profit reporting season has just started so we will better gauge company health in the next few weeks. Volatility remains high as markets balance the risks of recession due to higher interest rates aimed at curbing higher inflation around the world. Growth has slowed and inflation will fall with a lag. We expect inflation is likely to be higher than it was in the past decade but should settle between 2.5%-3% by the end of 2023.



# RETURNS

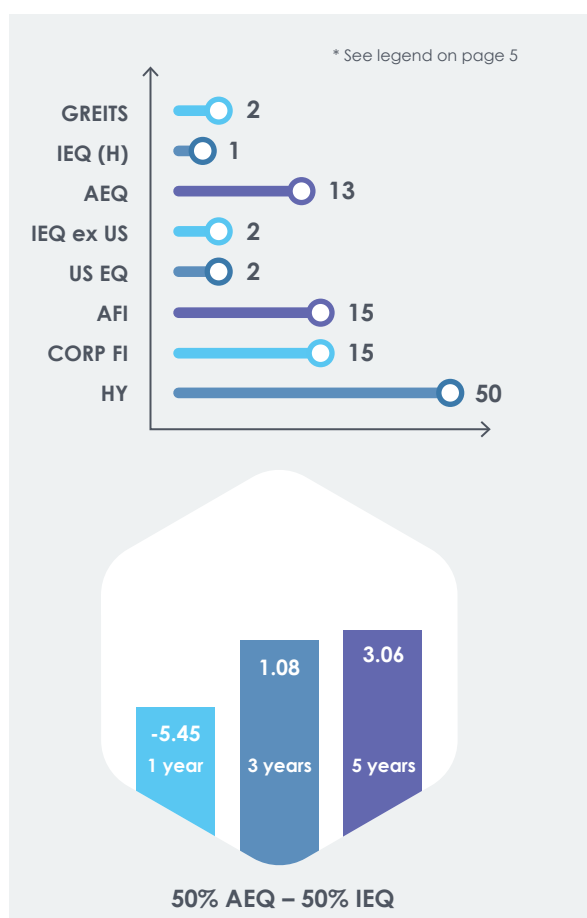
## BY CARE INVESTMENT STRATEGY

LEGEND	International Real Estate .....	GREITS	High Income .....	HY
	International Shares (Hedged) .....	IEQ (H)	International Emerging Market Shares .....	IEM
	Australian Shares .....	AEQ	International Small Companies Shares .....	Small Cap IEQ
	International Shares (ex-USA) .....	IEQ ex US	Australian Fixed Interest .....	AFI
	International Shares USA .....	US EQ	Australian Corporate Fixed Interest .....	Corp FI

## CORE PORTFOLIO RETURNS TO THE 30<sup>TH</sup> JUNE 2022

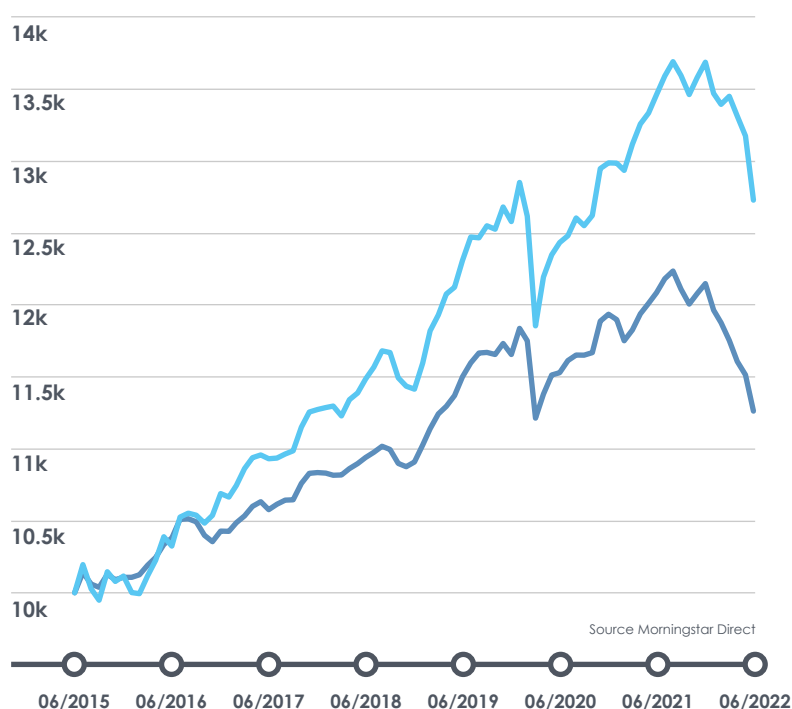
	1 Month	3 Months	6 Months	1 year	3 years	5 years	7 years
CORE Conservative	-3.22	-5.16	-6.85	-5.67	0.99	2.75	3.45
CORE Moderate	-4.29	-6.68	-8.25	-6.23	1.93	3.88	4.59
CORE Balanced	-5.35	-8.13	-9.51	-6.42	3.23	5.11	5.60
CORE Growth	-6.16	-9.64	-11.73	-7.89	3.64	5.90	6.14
CORE High Growth	-7.13	-11.24	-13.60	-9.26	3.95	6.63	6.53

## YOUR CARE PORTFOLIO CONSERVATIVE



## CARE CONSERVATIVE STRATEGY

Growth of \$10,000 over 7 years to 30 June 2022



CARE Conservative (50%AEQ - 50%IEQ)

Total Return AUD 12.73K

Multisector Conservative Investor

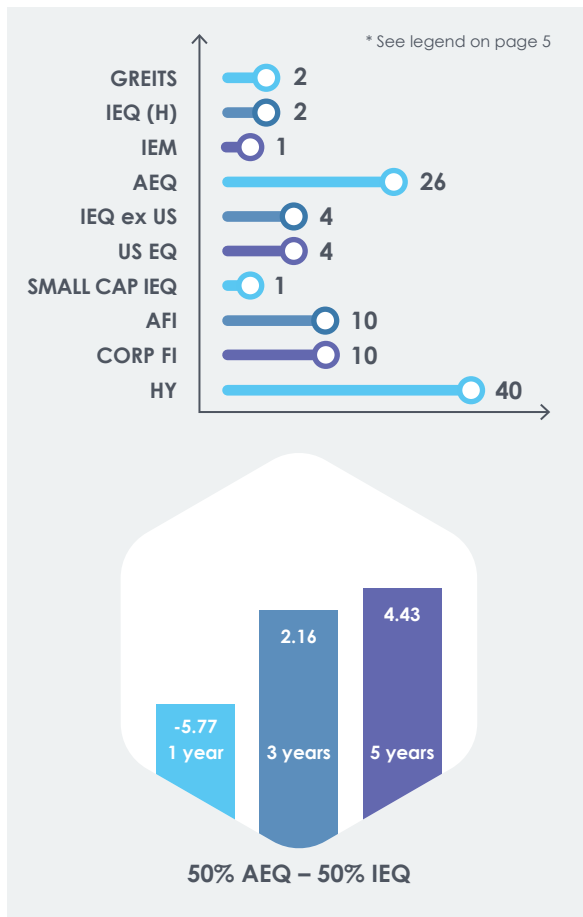
Total Return AUD 11.26K

\* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending June 2022. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.

\* The CARE portfolio Returns are before tax, Adviser fee, and Platform Fees however net of CARE Investment Committee Fee.

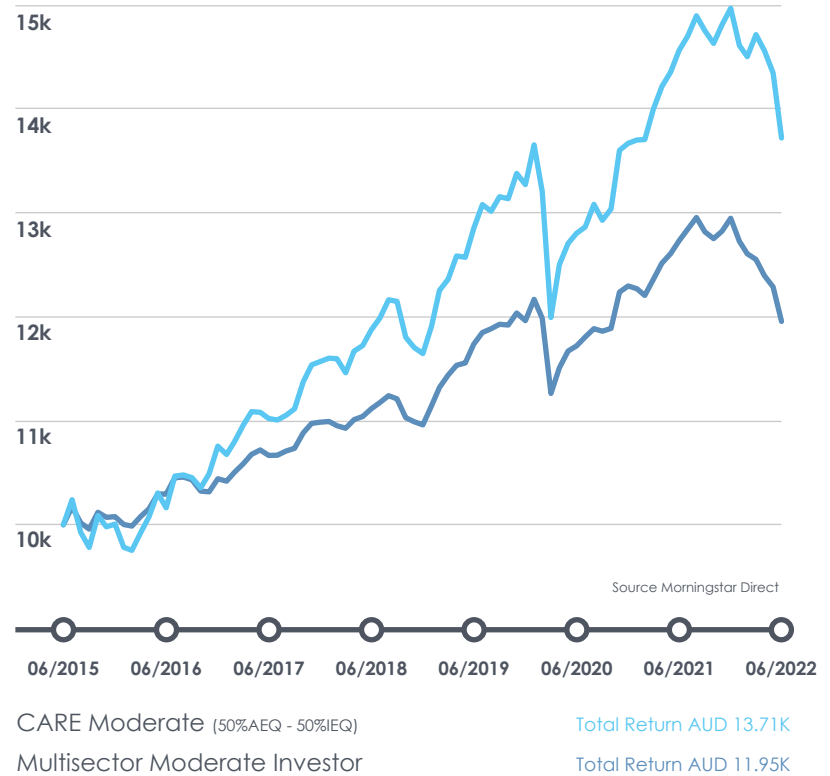
\* Returns are based on: C, A & E only – RESERVES is not factored into the return series.

## YOUR CARE PORTFOLIO MODERATE

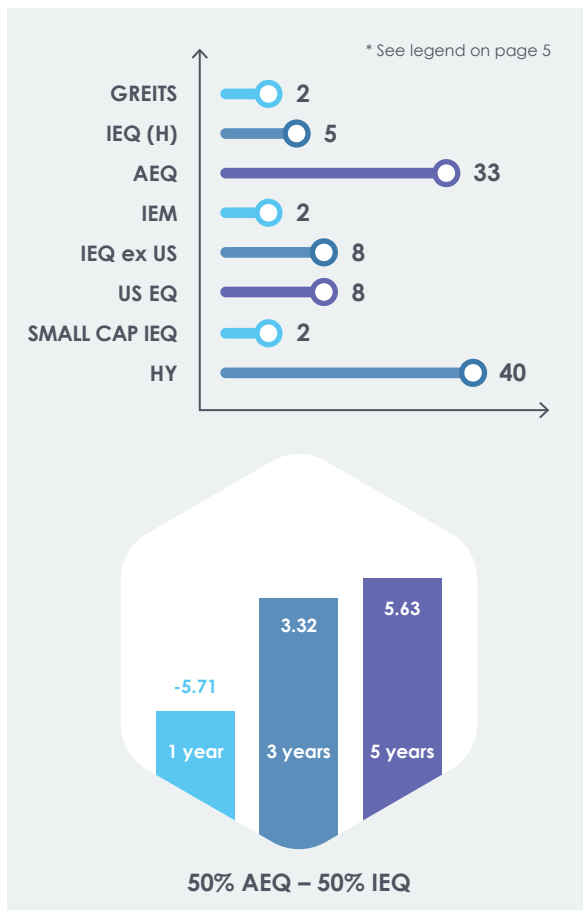


### CARE MODERATE STRATEGY

Growth of \$10,000 over 7 years to 30 June 2022

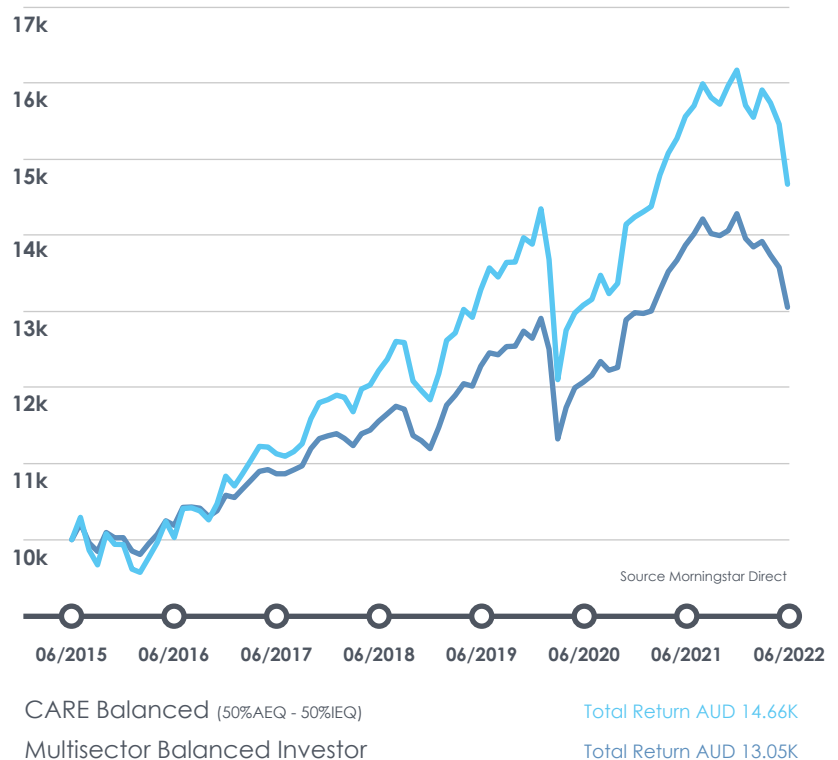


## YOUR CARE PORTFOLIO BALANCED

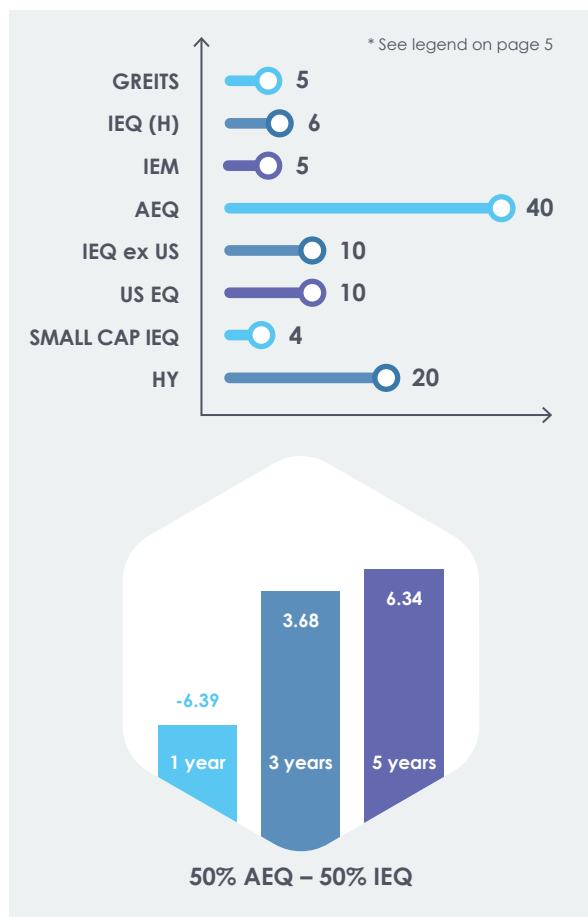


### CARE BALANCED STRATEGY

Growth of \$10,000 over 7 years to 30 June 2022

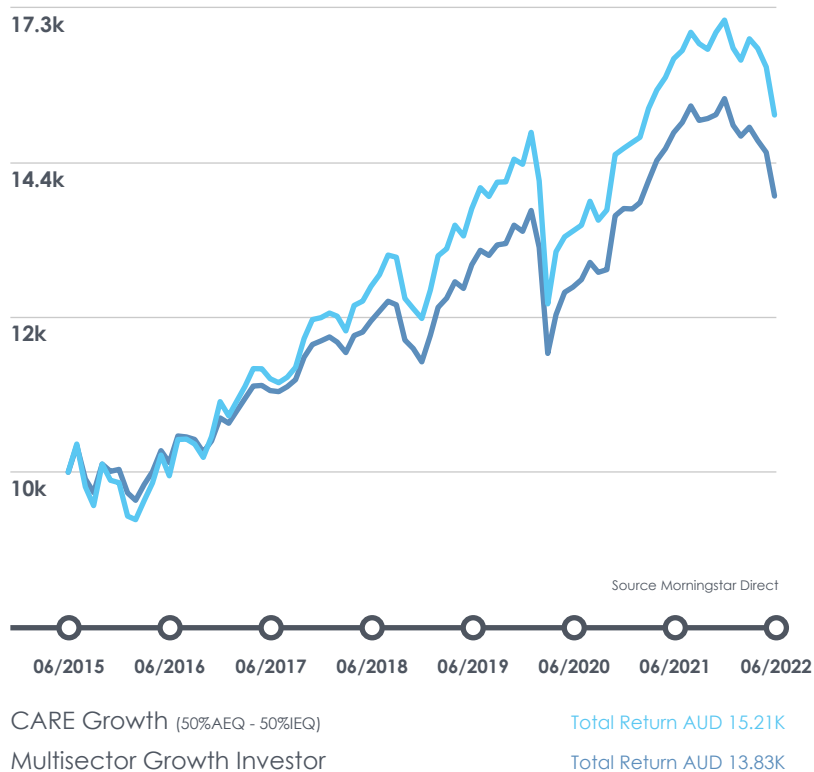


## YOUR CARE PORTFOLIO GROWTH

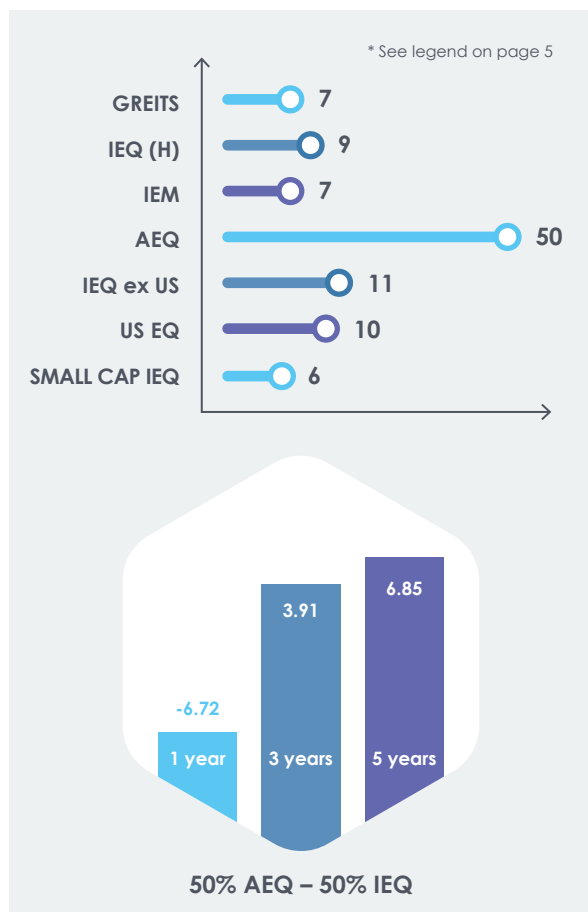


### CARE GROWTH STRATEGY

Growth of \$10,000 over 7 years to 30 June 2022

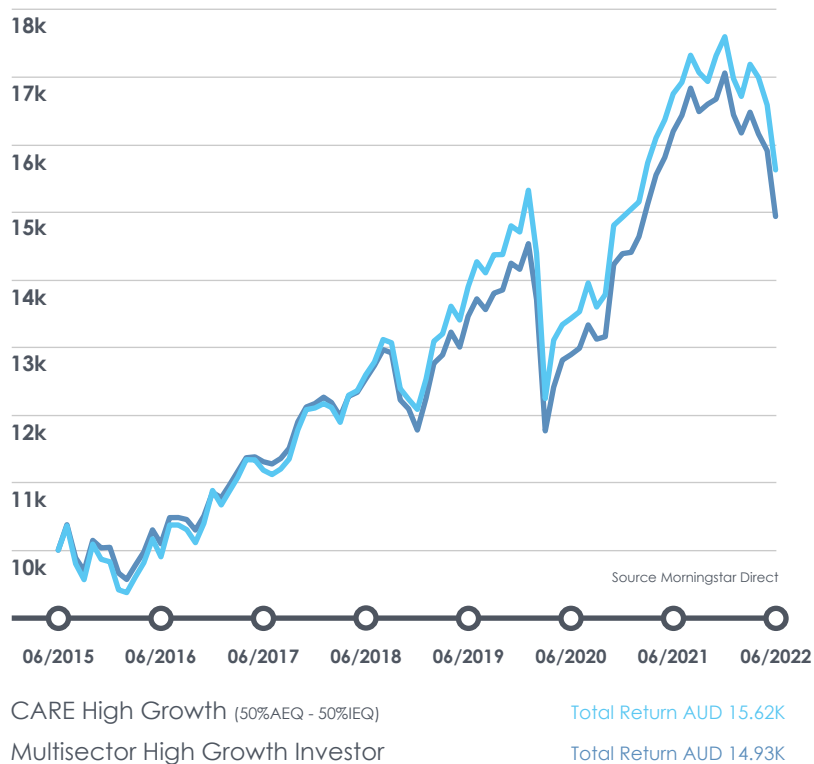


## YOUR CARE PORTFOLIO HIGH GROWTH



### CARE HIGH GROWTH STRATEGY

Growth of \$10,000 over 7 years to 30 June 2022



# MEET

## the CARE Investment Committee



**Emmanuel Calligeris**  
BEc MBus (Finance)

Emmanuel is Chairman of the CARE Investment Committee. Emmanuel holds a degree in economics and previously had 20 years' experience as Chief Investment Officer for OnePath Investments (the investment arm of ANZ Bank) and was responsible for \$13 Billion of funds under management.



**Rob McGregor**  
SIA (Aff) ADFP

Rob was a founder of GPS Wealth, developed the CARE Investment Philosophy over the last 15 years and successfully managed \$100m in clients' funds during the GFC.



**Grahame Evans**  
GAICD DipSM MBA

Grahame is the Risk and Compliance member of the CARE Investment Committee. Grahame brings over 35 years of financial service industry experience.



**Dr. Mark Brimble**  
BCom(Hons) PhD CPA FFin

Mark is an independent member of the CARE Investment Committee. Mark holds a doctorate in capital markets and is keenly interested in investor behaviour.



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