

# Market and Economic Review

## September 2022



### Patience is a virtue

August was a volatile month with global share prices moving sharply higher, and then lower as the month progressed. As we wrote last month, we were sceptical of the recent strength in share markets and have maintained a cautious position in our funds, reducing exposure even further during August. For this reason, monthly fund returns are only modestly negative despite significantly weaker share and bond markets.

Whilst the outlook remains challenging, we continue to find good quality companies with reasonable outlooks and attractive valuations. Owning these companies has helped us outperform broader share markets, even if these companies' shares will continue to be buffeted by broader market volatility.

Last month, strong performance of safe (even slightly boring) companies boosted returns. Companies such as Contact Energy (+3.0%) and Spark (+6.3%) in NZ helped anchor portfolios against broader volatility. Elsewhere, strong monthly returns of natural gas companies such as Cheniere (+7.3%) and Santos (+9.7%) helped offset weakness in some of the growth orientated parts of the market.

Corporate bond prices were offering some attractive returns in June. Since then, strong performance has diminished the near-term outlook. We are also wary that low government bond yields have yet to reflect the reality of persistently higher inflation and held less exposure to interest rates as a result. With corporate bond issuance picking up over the next few weeks we are in a good position to add to our positions at attractive levels.

The outlook is highly uncertain. In the short term, headline inflation looks to be moderating and economic growth is holding up reasonably well. But slow growth in China and a building cost-of-energy crisis in Europe is adding to the broader global headwinds facing both consumers and businesses. Rising wages will also likely threaten corporate profitability over the next year. September usually heralds some market volatility; our funds are in a strong position to benefit from this due to their large cash holdings. We continue to look for opportunities to put this cash to work in company shares or bonds at more attractive valuations over the next few months.

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