

Market and Economic Review

November 2022



Opportunity knocks

Fund performance was broadly positive in October, building on the positive returns seen since mid-year. This performance has come despite ongoing weakness in financial markets over the past few months.

October returns were boosted by strong returns from our key stock picks. The global healthcare and energy sectors have been key areas for investment this year. October's earnings releases saw healthcare stocks deliver strong stock price gains, with notable performances from Elevance Health (+20.4%), HCA Healthcare (+18.3%) and Intuitive Surgical (+31.5%). The energy sector also continued its strong year to date performance, with returns from EOG Resources (+22.9%) and Occidental (+18.1%) also helping performance. Technology stocks have been weak this year and our decision to reduce exposure to companies such as Amazon (-9.3%) and Alphabet (-1.5%) was validated as earnings released from these companies in the month disappointed expectations.

Australian shares also had a good month, with the large cap market up 6%. NZ shares were more muted in comparison but still delivered modest gains.

Our bond funds have weathered the generational bond bear market this year and delivered positive returns in October, helped by the more attractive yields now on offer.

Ten months into a protracted negative return period in bonds and shares, many are asking when will this be over? The honest answer is we don't know, there are a range of potential outcomes. We are monitoring the signals closely. We think the risks still skew to the downside, hence our cautious positioning where we own less shares than we otherwise would. We think this is a prudent approach, but this prudence is tempered by a growing set of investment opportunities.

Valuation starting points now for bonds and shares are broadly more attractive than at any point since the global financial crisis. This augurs well for longer-term returns. Yields available on much of the bond universe are higher than at any time since 2009. Share market valuations have fallen, but more importantly there are a large number of themes such as climate change and deglobalisation that offer up a vast array of durable investment opportunities for us to tap into.