

Greytown District Trust Lands Trustees

March 2022

Market Comments

February was dominated by increasing expectations of a more aggressive central bank response to higher inflation, before we saw Russia invade Ukraine adding to the risk-off tone. European shares were impacted by the Ukraine situation, which saw them finish February 4.1% lower, while the S&P 500 in the US was down 3.1%. The UK fell a marginal 0.1%. Closer to home, the ASX 200 rose 1.1% and the local NZX 50 was up 0.7%, benefitting from a solid corporate reporting season during February.

In February the Bloomberg Commodity index rose another 6.2% for the month and oil prices gained another 10.7%, pushed higher by uncertainty over the conflict in Ukraine over the second half of the month. Commodity prices have been extremely strong, with oil up more than 50% this year and the Bloomberg Commodity index having risen 28.1%.

Inflationary pressures look more persistent than many had expected, and the response from central banks is likely to be more significant. Inflation is 5.9% in NZ, the highest since 1990. The inflation rate in the US is expected to increase to 7.8% later this week, which will be the highest since 1982. Price pressures have become increasingly broad based, rather than being driven solely by pandemic-related factors.

If some of the supply-side issues fade (from oil prices retreating and supply chain blockages freeing up) and demand pressures also wane (as higher interest rates take the heat out of activity and the labour market), we could see inflation fall back in late 2022 and into 2023. This represents the positive scenario for markets.

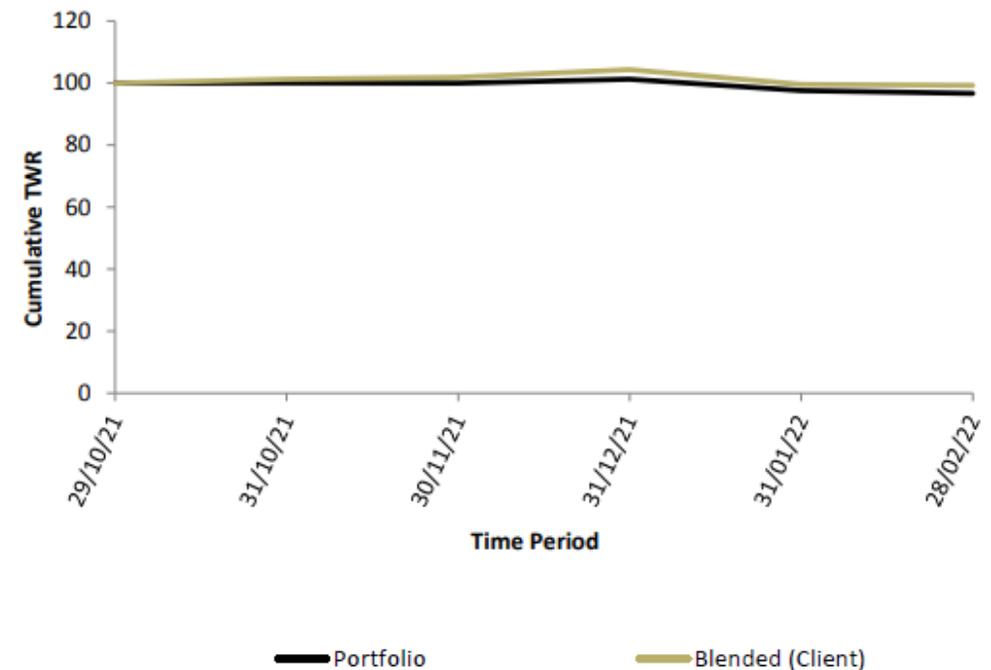
Financial markets were still getting to grips with the prospect of rising interest rates, and now they have an increasingly tense geopolitical situation to consider as well. It is extremely difficult (if not impossible) to predict how the war in Ukraine will develop from here, or the flow-on effects of the associated sanctions and shortages. An already problematic inflation spike is likely to be made worse as rising commodity prices lead to higher fuel costs for consumers and rising input costs for many businesses. The situation could also push the world a little further toward deglobalisation, which tends to be an inflationary force.

Portfolio valuation and performance

Net contributions have been \$3.4m.

Portfolio Value (9 March 2022)	\$3,228,104
Forecast Income Yield	2.3% or approximately \$73,150
Portfolio Performance for 1 year	NA
Portfolio Performance since inception (29/10/21) p.a.	(4.5)%

TWR Performance Relative To Benchmarks



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Asset Allocation

The asset allocation for Greytown's investments is a Growth Portfolio as illustrated below:

Asset class	Current Portfolio %	Target Portfolio %	Minimum %	Maximum %
NZ Equities	16	25	15	35
Australian Equities	17	22	12	32
Global Equities	20	28	18	38
Property	0	0	0	8
Total Growth Assets	53	75		
Fixed Interest	34	22	12	32
Cash	13	3	0	30
Total Income Assets	47	25		

Fixed Interest

As expected, the Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) by 0.25% last month, which takes it to 1.00%.

Interest rates continued to rise during February, both here and offshore. The US two-year Treasury yield increased from 1.18% to 1.43%, while the 10-year yield increased from 1.78% to 1.83%.

Domestically, the five-year swap rate increased from 2.78% to 2.97%, hitting 3.00% for the first time in almost five years late in the month. Bonds and fixed income held up better than many equity markets, with the Bloomberg US Treasury index falling just 1.5% and the NZX Corporate Bond index down only 0.7%.

Top Ten Equity Holdings

Top Ten Equity Holdings	% of Equity Portfolio	% of Total Portfolio
CSL	3.3%	1.7%
Ryman	2.7%	1.4%
Ebos	2.7%	1.4%
Summerset	2.6%	1.4%
Macquarie Group	2.6%	1.3%
Infratil	2.3%	1.2%
Ramsay Healthcare	2.2%	1.2%
Mainfreight	2.2%	1.1%
Freightways	2.2%	1.1%
Cleanaway	2.1%	1.1%
Total % of Equity Portfolio	24.8%	13.0%

Equity Sector Allocation

