

Greytown District Trust Lands Trustees

June 2022

Market Comments

Sharemarket investors got a bit of a reprieve last week, with a fall in commodity prices and lower interest rates providing some optimism and spurring a strong rebound across many of the major indices. The S&P 500 in the US gained 6.5%, just its second positive week of the last 12. The index is still down 17.9% so far this year, and with just four trading days to go in the June quarter the S&P 500 is on track for its worst first six months of a year since 1970.

May and June was another volatile period for global sharemarkets, with heightened volatility in the first half of June where markets saw considerable weakness.

Economic indicators in most regions (with the exception of China) are still holding up well. However inflation hasn't abated much at all, implying there are still plenty of interest rate hikes to come. The Federal Reserve in the US increased its policy rate by another 0.50% this month, taking it to 1.50% and markets expect the Fed Funds Rate to finish 2022 at 3.00%. Closer to home, the OCR is currently 2.00%, the highest since 2016, and markets expect it to increase to 3.50% by the end of 2022. UK inflation is 9.1%, the strongest since 1982, while in the Eurozone it is 8.1%, the highest in the bloc's history.

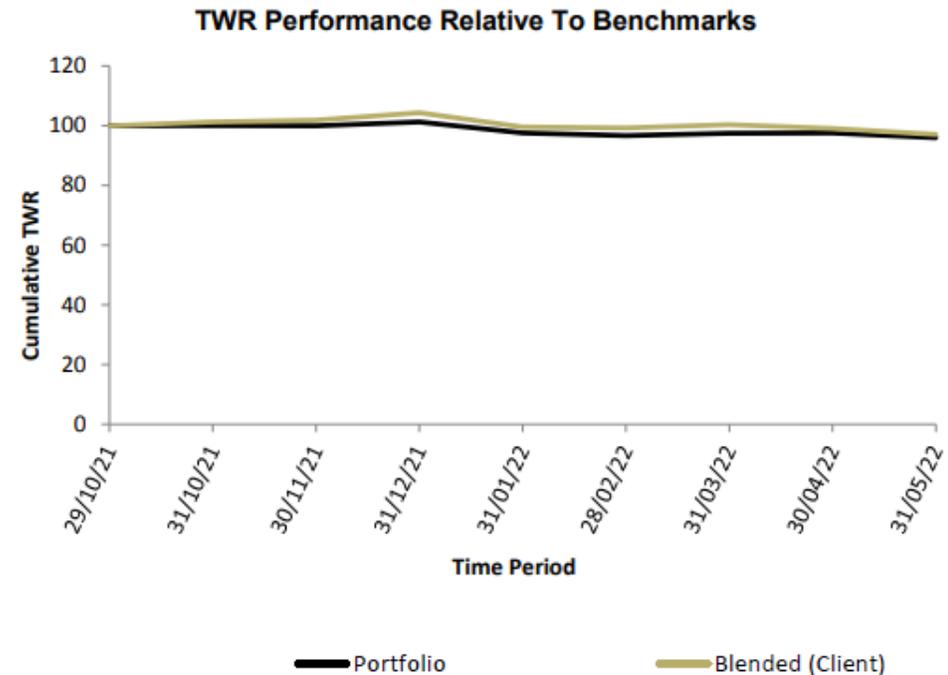
It is difficult to pinpoint how much of this anticipated tightening (or its flow on effects) is priced into markets, or exactly where "fair value" is right now. We've seen a bit of stability return to financial markets recently, after an extended period of weakness. Having been 18.9% below their November peak in mid-May, world shares have rebounded 5.5% over the last few weeks. While we expect the rate of inflation to decline over the balance of the year, we suspect it will remain stubbornly higher than central banks are comfortable with.

It is important that investors have an exposure to companies, sectors and regions that have traditionally held their own during periods of high inflation (such as infrastructure, real estate and commodities). Businesses with structural growth tailwinds remain attractive from a long-term perspective, and these remain a very important part of portfolios. However, companies that trade at higher valuations could remain under pressure as investors rethink what they are willing to pay for assets as monetary policy continues to tighten.

Portfolio valuation and performance

Net contributions have been \$5.9m.

Portfolio Value (27 June 2022)	\$5,630,051
Forecast Income Yield	3.1% or approximately \$170,924
Portfolio Performance for 1 year	NA
Portfolio Performance since inception (29/10/21) p.a.	(6.7)%



Greytown District Trust Lands Trustees

June 2022

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	15	25	15	35
Australian Equities	19	22	12	32
Global Equities	13	28	18	38
Property	0	0	0	8
Total Growth Assets	47	75		
Fixed Interest	28	22	12	32
Cash	25	3	0	30
Total Income Assets	53	25		

Fixed Interest

Central banks have continued to withdraw monetary stimulus in response to higher inflation. The Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) by 0.50% last month, and another 0.50% this month, taking it to 2%. This was the first upward move of this magnitude since 2000, and it highlights the desire of the RBNZ to move swiftly toward neutral. The RBNZ is expected to increase the OCR further this year, and by the end of 2022 market pricing suggests an OCR as high as 3.50%.

Investors should note that they are receiving the income stream on the fixed income securities they own, while the silver lining of higher interest rates is the opportunity to reinvest at much more attractive levels going forward.

We have taken this opportunity to fill out the fixed interest portfolio as new, attractive bonds come to market.

Top Ten Equity Holdings

Top Ten Equity Holdings	% of Equity Portfolio	% of Total Portfolio
Transurban	2.9%	1.2%
CSL	2.9%	1.2%
Ebos	2.7%	1.1%
Mainfreight	2.7%	1.1%
Infratil	2.7%	1.1%
Macquarie Group	2.6%	1.1%
Rio Tinto	2.6%	1.1%
BHP Group	2.5%	1.0%
Summerset	2.4%	1.0%
Cleanaway	2.4%	1.0%
Total % of Equity Portfolio	26.4%	10.8%

Equity Sector Allocation

