CAREphilosophy®

CARE Essentials™

Exciting life, boring money and not the other way around

Quarterly Newsletter | December 2022

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GLOBAL OVERVIEW

Welcome to the new year and our CARE update for the December quarter. **Over the December quarter bond, share and property markets continued to endure volatility however prices ended higher over the period.** Interestingly, markets are forward looking and are encouraged by signs that inflation has peaked and is starting to abate. Hence, we have seen higher returns as we go to press in early 2023. The unwinding of extremely loose monetary and fiscal policy, the invasion of the Ukraine by Russia which forced energy prices higher, overhanging supply chain issues and inflation all continued to influenced movements across all assets. The US Federal Reserve raised the official interest rate again by 0.5% to 4.25%-4.5% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007 whilst the Reserve Bank of Australia increased our rate another 0.25% to 3.10%. This was the eighth month in a row that the RBA hiked. Whilst the RBA has not ruled out further rate hikes there is an expectation by market analysts that the tightening cycle is close to a peak. It may be a bit too soon to be forecasting a peak in the interest rate cycle, but at the very least, we expect a longish pause by the RBA.

In the US investors were encouraged by statements from Federal Reserve Chair Mr. Powell that the pace of interest rate hikes will likely abate in 2023. However, investors were left slightly disappointed by clear signs from the minutes of the last meeting that the central bank would need to keep interest rates higher for longer to tame inflation. The Chairman went to length to address any misunderstandings by the market, stating that it was important to clearly communicate that a slowing in the pace of rate increases was not an indication of any weakening of the Committee's resolve to achieve its inflation goal. **Although inflation remains centre stage, the focus continues to shift towards more core measures of inflation.** Core inflation removes the headline components that can exhibit large amounts of volatility

Emmanuel Calligeris

Chairman of the CARE Investment Committee

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from month to month, including oil and food prices. It is likely that core inflation in the US will slow but unlikely to return to a desired 2.5% level for some time. The Federal Reserve increased the cash rate by 0.25% at the time of writing, with the bond and share market strength taking it as a sign that we were coming close to the end of the interest rate cycle.

In China, it is surprising how quickly policy has moved from 'zero covid" to reopening and lifting most restrictions. As China re-opens, the impact on the domestic and global economy could be significant. In the short term the rapid spread of COVID-19 is likely to be a negative for activity as cases and mortalities rise. The experience from other countries is that once the virus has passed through the population, and especially if vaccination levels can become more effective, then economic activity will rise strongly. This should be seen on numerous levels – higher consumption and private sector investment, increased volumes of foreign trade and travel, and a potential recovery in China's property market. There will be higher demand for fuel and commodities which could see upward pressure on prices and inflation in the middle to latter part of 2023.

It wasn't that long ago that markets were fretting that Germany may run out of power as it was a major importer from Russia which had sanctions put on exports including energy following the invasion of the Ukraine. It was forecast that German manufacturing would likely need to be shut down so that people wouldn't freeze over winter. This would have plunged Germany into recession and had implications for the broader Euro area. Crisis averted. The German government revised its 2023 economic forecast higher, from a fall of 0.4% to growth of 0.2%, as the negative impact of Europe's energy crisis has been less severe than originally thought.

Share investors remain jittery as good news on inflation is offset by disappointing economic data, especially in the US where the data has reignited fears of recession. Both US retail sales and industrial production declined and were worse than expected. Additionally, there were several announcements of large-scale redundancies at bellwether firms such as Microsoft and Goldman Sachs, which added to the negative sentiment. Bond investors read the data as the economy is slowing and interest rates increases will abate. Bond yields in the US (and Australia) have decreased with the 10-year yield in the US falling from 3.5% towards 3.3%, its lowest level since September. The initial driver behind the dip was the producer price inflation figure for December, which showed the annual rate falling to 6.2% – below expectations, and behind November's figure of 7.3% – as energy and food costs eased. It was the lowest figure since March 2021. The figure was down 0.5% for the month, marking the steepest monthly decline since April 2020.

Australian Shares as represented by VAS in the Core and Active portfolio increased 9.40% over the quarter as a result of the high weight to mining and energy companies as compared to other stock exchanges around the world. BHP (+18.2%), RIO (+25%) and Fortescue Metals (+21.2%) performed well on the back of the news that China was lifting its lockdown restrictions. The other company that performed well was Origin Energy which received a takeover bid by Brookfield and EIG. Shares of Origin

Energy ended 45% higher over the quarter. Pilbara Metals (-17.6 performed poorly with brokers downgrading their valuation for the lithium miner over the quarter whilst the Star Entertainment group fell (-30.9%) after the NSW treasurer increased the tax rate Star pays on poker machines.

International shares performed well over the quarter increasing by 3.95% as represented by the Morgan Stanley Capital Index (MSCI) in Australian dollar terms. US shares increased by 7.56% predominately driven by large industrial companies including JP Morgan (+24.5%), Mastercard (+19.7%) and Visa (+14.4%). Technology companies continued to lag with Google, Amazon and Apple all performing poorly. The rise in the Australian dollar by circa 3% detracted from performance. European shares jumped strongly on less bad economic news. ING increased nearly 30% whilst Siemens (+28.6%) also performed well over the quarter whilst Occidental Petroleum (-11.8%) underperformed the broader index as the oil price declined. The exposure to international shares in your CARE portfolio is through the iShares Global 100 ETF- IOO, Vanguard Total US Market ETF – VTS, Vanguard Emerging markets ETF (VGE) 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. Property trusts (DJRE) performed well over the quarter increasing by 11.7%, however lost significant ground over the year (-19.4%) due to higher interest rates.

The Investment Committee made changes to the portfolio over the quarter to reflect what we believed represented good risk adjusted opportunity in markets. Most significantly, the Australian dollar looked undervalued relative to the US dollar and the Committee sold half of the holding in US Total Market Shares (VTS) and bought more global shares WXHG (already a holding) hedged back into Australian dollars. All of IOO was sold and IHOO which is the same underlying investment hedged into Australian dollars, was bought. By doing this, the portfolios captured the increase in share prices in December and January without returning much of it through the rise in the Australian dollar. The Committee also reflected this currency view in the investment in GOLD. The Committee sold 25% of the GOLD in US dollars and bought QAU which is the Australian dollar equivalent. At other periods during the quarter, the portfolio was rebalanced from global shares excluding the US (VEU) into US shares (VTS) and Australian small companies (VSO) and Australian shares (VAS) were sold and US smaller companies (IJR) bought.

Within the defensive portfolio, the Vanguard Australian Fixed Interest Index ETF (VAF) increased by 0.38% as longer-term interest rates decreased over the quarter. The RCB investment which is made up of Australian bank issued bonds that have a much shorter maturity than those bonds held in VAF, increased 1.16%. This was a turnaround from the performance we saw to the end of September where bond markets suffered their worst return in 32 years. Government debt is now large particularly in the US and Japan. Higher bond yields mean it cost the government more to borrow and this ultimately burdens the taxpayer. Higher taxes (if they eventuate) without wage increases generally means consumers have less to spend and growth will slow consequently. Volatility remains high as markets balance the risks of recession due to higher interest rates aimed at curbing higher inflation. Growth has indeed 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.

Share investors

remain jittery as good news on inflation is offset by disappointing economic data, especially in the US.

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the portfolio over the quarter to reflect what we believed represented good risk adjusted opportunity in markets.

Within the Enhanced International Shares portfolio, the VanEck International Quality Portfolio returned 4.32% outperforming the MSCI World index by 0.42%. The performance reflected a bounce in companies which were sold off heavily earlier in 2022 including Microsoft, Apple and Nvidia. The Enhanced Australian Shares investment (AUMF) returned 9.12% over the quarter. Higher allocations (relative to the S&P/ASX 200 benchmark) to stocks including BHP, RIO Tinto, Commonwealth Bank and copper miner Sandfire Resources add value over the quarter. However mid and smaller company shares remained under pressure over the quarter. Investments in companies including Elders Ltd, Whitehaven Coal which retraced some performance from its early strong rise and IPH Ltd – a company that engages in the enforcement and management of patents, designs, trademarks and other IP in Australia and New Zealand, all detracted from performance.

As mentioned last quarter, we believe that there will be some further interest rate rises in Australia and in the US however both central banks have/will adopt a more cautious approach to monetary tightening. **Headline inflation is trending down however core inflation may stay sticky through 2023.** The discount rate being used by investors to value shares has returned to a more normal level following a period of artificially low interest rates over the last 2-3 years. Valuation risk is therefore less but analyst profit expectations may still be high, and this may limit near term gains.

RETURNS

ESSENTIALS PORTFOLIO RETURNS TO THE 31st December 2022

	1 Month	3 Months	6 Months	1 year	3 years
Essentials Conservative	-1.92	2.53	1.76	-8.65	-0.40
Essentials Moderate	-2.10	3.80	2.93	-8.52	1.15
Essentials Balanced	-2.24	4.76	3.81	-8.41	2.31
Essentials Growth	-2.38	5.72	4.69	-8.31	3.47
Essentials High Growth	-2.56	7.00	5.87	-8.17	5.02

* Returns are based on model portfolios assuming benchmark allocation. The numbers are before tax, adviser fees or platform fees but are net of the CARE Investment Management fees.

* The CARE Essentials returns are calculated assuming below allocation to the Essentials High Growth portfolio and the Essentials Defensive Portfolio:

	Essentials High Growth	Essentials Defensive
Essentials Conservative	30%	70%
Essentials Moderate	50%	50%
Essentials Balanced	65%	35%
Essentials Growth	80%	20%
Essentials High Growth	100%	0%

ESSENTIALS CONSERVATIVE

CARE Essentials Conservative
Total Return AUD 9.81K

Multisector Conservative Investor
Total Return AUD 9.64K

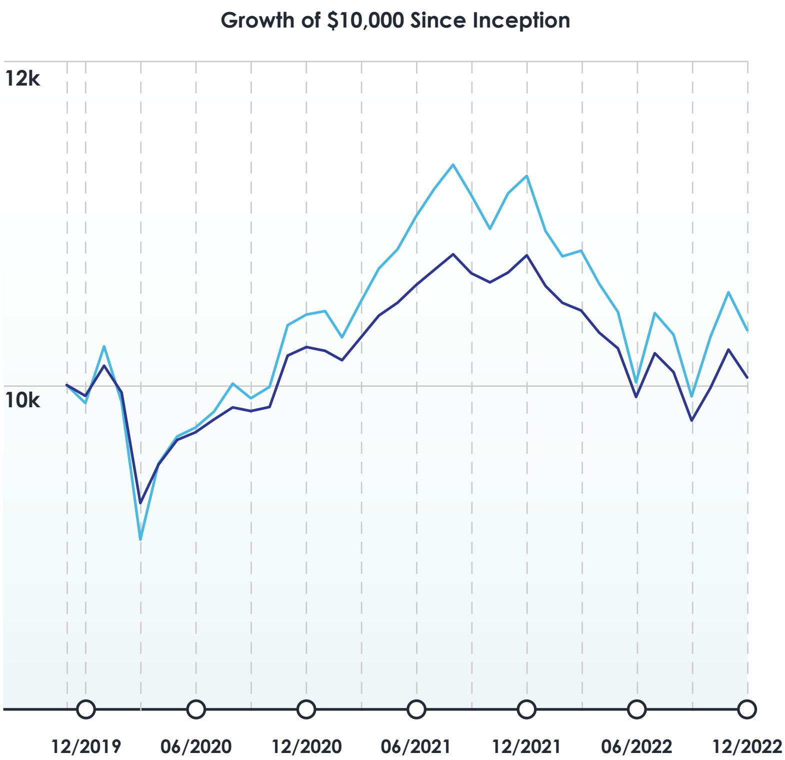
Growth of $10,000 Since Inception

Time Period: 1/12/2019 to 31/12/2022
Source Morningstar Direct

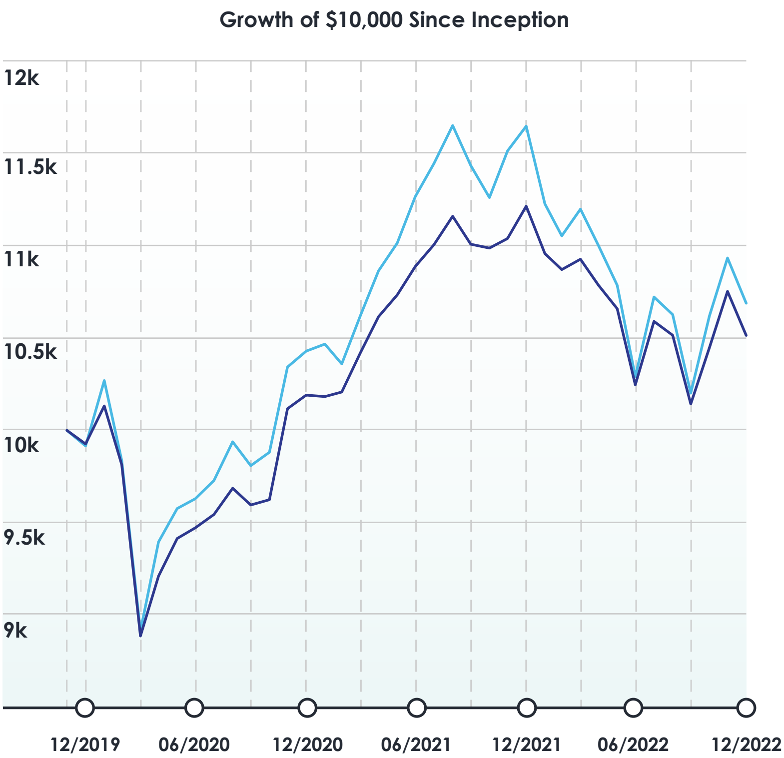
ESSENTIALS
MODERATE

CARE Essentials Moderate
Total Return AUD 10.31K

Multisector Moderate Investor
Total Return AUD 10.04K



Time Period: 1/12/2019 to 31/12/2022
Source Morningstar Direct



Time Period: 1/12/2019 to 31/12/2022
Source Morningstar Direct

ESSENTIALS
BALANCED

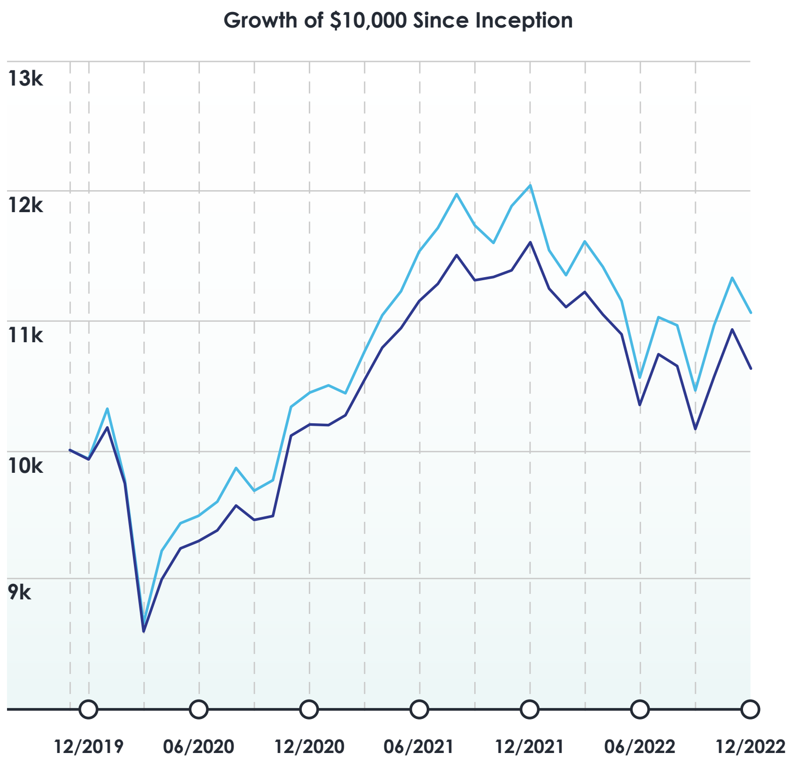
CARE Essentials Balanced
Total Return AUD 10.68K

Multisector Balanced Investor
Total Return AUD 10.51K

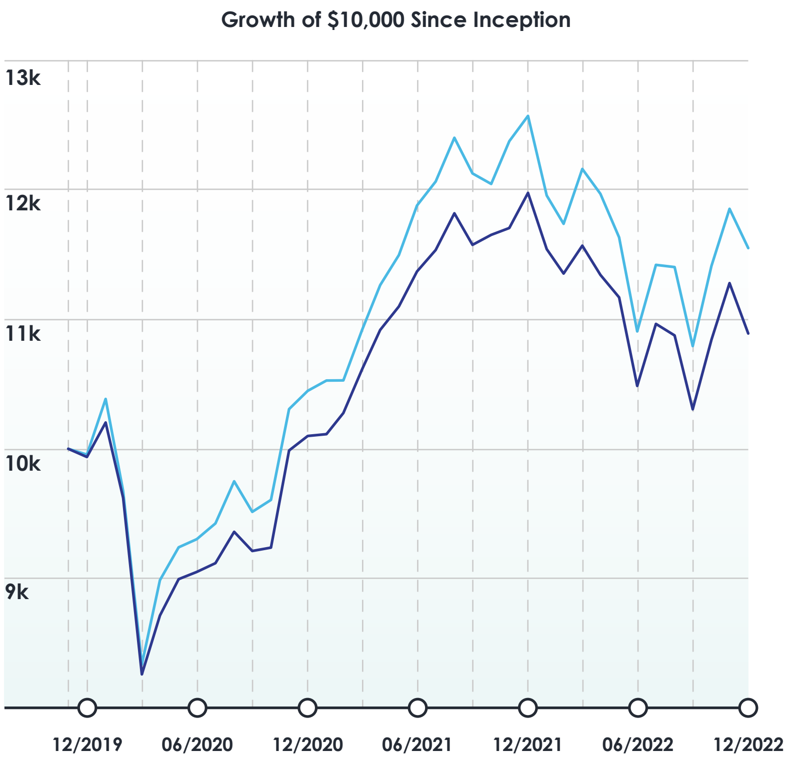
ESSENTIALS
GROWTH

CARE Essentials Growth
Total Return AUD 11.05K

Multisector Growth Investor
Total Return AUD 10.62K



Time Period: 1/12/2019 to 31/12/2022
Source Morningstar Direct



Time Period: 1/12/2019 to 31/12/2022
Source Morningstar Direct

ESSENTIALS
HIGH GROWTH

CARE Essentials High Growth
Total Return AUD 11.55K

Multisector Aggressive Investor
Total Return AUD 10.89K

Simply Sophisticated

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.

Insight
WEALTH PLANNING

Insight Wealth Planning

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