CAREphilosophy®

June 2023

CARE QUARTERLY NEWSLETTER

# EXCITING LIFE BORING MONEY

and not the other way around

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**The RBA opted to keep** the official cash rate steady at its last meeting however despite the “on hold” decision we have yet to observe a shift in consumer and business sentiment.

**The Chinese recovery** continues to underwhelm with GDP growth forecasts reduced following industrial output and retail sales both missing forecasts.

## GLOBAL OVERVIEW

Welcome to our CARE update for the June quarter 2023. It was another eventful quarter for financial markets which began with further nervousness over the collapse of US regional banks and political brinkmanship over the US debt ceiling. The US Federal Reserve (Central Bank) added cash to the financial system to ensure that there were no further systematic risks to banks and the debt ceiling was raised allowing markets to again concentrate on the economic fundamentals. The Australian share market returned 1.01% over the quarter whilst international shares increased by 7.63% as represented by the MSCI, one of the indices that represent the make-up of the world’s major share markets.

Despite the strong rise in international shares over the quarter, the increase was narrow, driven predominantly by global technology giants including Alphabet, Microsoft and Amazon. Nvidia - a dominant supplier of artificial intelligence hardware and software, receive “incredible orders” for its chips and software used in data centres to power the computing-intensive requirements of generative AI. The increasing popularity of applications, such as Chat-GPT and Bard, has led to the remarkable growth in orders. The other source of return for global shares was the Japanese share market which increased by nearly 20% over the year. Ongoing monetary support from the new Bank of Japan (BoJ) Governor and a weaker yen have made Japanese stocks an attractive proposition for investors. Japan’s ultra-lose monetary policy allows for ample access to credit while the yen depreciation improves company profitability and makes Japanese stocks cheaper to buy for foreign buyers.

**Emmanuel Calligeris**

Chairman of the CARE Investment Committee

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As we rebalanced the portfolios to increase Australian shares in the quarter, we introduced Betashares A200 as a more cost-effective exposure relative to the Vanguard Australian Shares ETF – VAS

In the United States, there has been a clear divergence between confidence data and the economic data sets that shows what consumers, businesses and government are actually doing. Both business and consumer confidence are poor, however data on employment shows resilience and headline inflation has moderated significantly. Average hourly wages were 4.4% higher over the year. This was the same rate of growth as in the previous two months and suggests that wage inflation is stabilising at a rate slightly above the most recent rate of inflation. If this continues, it will make it more difficult for the Federal Reserve to further suppress inflation, especially if productivity growth remains low. From the Federal Reserve's perspective, there could be a need to weaken the labour market, thereby reducing wage pressure. Interestingly, the latest inflation data was positive. The annual headline and core CPI outcomes were 3.0% and 4.8%, materially below the 2022 peaks of 9.1% and 6.6%. Inflation for goods excluding energy and food was also lower recording a rise of 2.6% compared to 13.9% at the peak. This greatly lessens the pressure on further interest rate rises. We saw the US dollar weaken following the release of the inflation data.

Australian economic growth slowed to a tepid 0.2% in the first quarter to be 2.3% over the year as the headwinds of high inflation and rising interest rates led to a decline in household disposable income after adjusting for inflation and a resulting deceleration in consumer spending. Government spending rose and remains at an elevated share of GDP, albeit off the highs reached during the pandemic. Slower Australian economic growth was not enough to keep Australian bond prices from falling by -2.95% over the quarter. Our bond market retreated in line with the US bond market on stronger economic data there.

The RBA opted to keep the official cash rate steady at its last meeting however despite the "on hold" decision we have yet to observe a shift in consumer and business sentiment. According to the Westpac-MI Consumer sentiment survey, sentiment remains at the deeply pessimistic levels that have prevailed for just over a year. The Index plunged 17% over the first half of 2022 and has barely moved since then. The main drags on sentiment have been the surging cost of living and sharply higher interest rates. The latest NAB business survey indicated a decline in business conditions in May, driven by a decrease across all three subcomponents, however, they remain just above their long-run average.

**The decision to hold on the monetary policy front was likely the pleasing inflation report which showed a sharp fall in Australia's headline inflation** to 5.6% in May from 6.8% in April. The fall was largely due to volatile items (fruit, vegetables and fuel) and holiday travel. Annual inflation excluding volatile items and holiday travel fell only marginally from 6.5% to 6.4%, while the monthly increase in this measure lifted from 0.2% in April to 0.5% in May. Fuel provides a clear example of the risks involved with relying on monthly moves without adjusting for volatile items. Fuel prices fell 7.6% in May but were up 6.4% in June.

House prices exhibited further recovery during June, driven by a lack of housing supply and a high immigration rate. A sizeable pipeline of work is holding up housing construction but the weak trend in dwelling approvals suggests housing construction activity will decline over the coming year. Housing supply is therefore likely to remain constrained to end–2024 and beyond, supporting the level of both prices and rents. On the job front, the unemployment rate remains low and jobs growth has hardly slowed since the tightening cycle began suggesting the economy should continue to hold up in the near term. The economy benefitted from strong migration, and robust corporate balance sheets, which facilitated the retention of labour.

The Chinese recovery continues to underwhelm with GDP growth forecasts reduced following industrial output and retail sales both missing forecasts. It prompted the Bank of China to cut the interest rate on its one-year medium-term lending facility, the first easing in 10 months, paving the way for cuts in the benchmark loan prime rates. We expect more stimulus to follow. Retail sales - a key gauge of consumer confidence - rose 12.7%, missing forecasts of 13.6% growth and slowing from April's 18.4%. Consumer prices (inflation) were flat in June and pushed the reading to its lowest level since February 2021. It was driven mainly by falling pork and energy prices. More importantly core inflation, which excludes more volatile food and energy prices, actually fell 0.1% from a year ago in June suggesting China has a deflation problem. Even looking at wholesale prices, the producer price index recorded -5.4% and was the sharpest decline in more than 7 years. The reading was largely a result of “a sharp decline” in raw materials prices and waning demand from manufacturers. When growth slows in China, fixed asset investment often rescues the economy with government stimulus programmes boosting infrastructure spending. However, fixed asset investment growth is still slowing. The slowing in real estate investment is doing most of the damage and is worse than analysts forecast. Infrastructure investment is helping to offset the drag from property but seems to be losing the battle, not helped by weak local government finances.

Interest rate expectations shifted in both directions as analysts attempted to determine whether the economic data, particularly on inflation, employment and housing was the beginning of a new trend lower as it will have ramifications for when interest rates might stop rising. Investors grew more confident in the view that rates were at or near their peak particularly in the US following the lower inflation reading. This caused a sharp bounce in share markets around the world. The International Share markets index has almost 60% exposure to the US which was driven by Nvidia (+51%), Broadcom (+35%), Meta Platforms (+35%), Tesla (+34%) and Adobe (+29%). These were very large returns for just one quarter especially coming off the back of very large returns in the first quarter as the AI frenzy continued. On the negative side of the ledger were retailer Target Corporation (-21%), pharmaceuticals chain store Walgreens (-20%) and biopharmaceutical company AbbVie (-16%). In Europe the market moves were not so lopsided as in the US. Bank shares had a strong quarter rebounding from the disruption in the first quarter following the forced sale of Credit Suisse by UBS AG. UniCredit, an Italian Bank was the best performing of the Dow Jones Euro Stoxx 50 index. Also performing well was Industria de Diseño Textil SA -

**The CARE Enhanced Australian Shares** portfolio performed well over the quarter.

**Despite the volatility in financial markets** in the June quarter, there was little changed in terms of our outlook.

parent of retail clothing store ZARA. The company increased by 17% over the quarter. InBev maker of Corona, Foster's Larger and Budweiser beers fell over the quarter on news that its profit growth was below expectation. These Companies are held in VEU, IHOO, VTS and WXHG investments in the Core and Active portfolios.

In Australia Information Technology was by far the strongest sector of the share market, rising +18.4% as tech stocks rallied in line with overseas markets. Consumer-facing sectors struggled as interest rates continue to bite. We have already seen some the knock-on effect to corporate cash flows via profit downgrades by Best and Less Group, Baby Bunting, Domino's Pizza and Adairs, and it is expected that the sector will remain under pressure and the outlook statements heavily scrutinised this profit reporting season. Allkem a lithium and chemicals company was the strongest performing large company increasing by 36% over the quarter, AGL increased by 32% whilst technology company Xero increased 31%. Xero announced price rises in Australia (+15% on average) and NZ (+9% on average), effective from September 2023. It is expected that prices will also be raised in its overseas businesses. This supports revenue growth into FY25 and should drive further profit upgrades. Fortescue Metals increased 14.5% in June on hopes of further stimulus in China, whilst BHP and RIO Tinto increased almost 7%. Mineral Resources announced a positive oil and gas drilling result, reinvigorating its fledgling gas business following the failure of their second Perth Basin well in April. While further drilling will be required, the result was encouraging. In other company news, IAG performed well. At its investor update, management did express some caution and reduced the medium-term margin target from 15-17% to 15%. However, this is potentially conservative given the strongest premium price rises in at least ten years, moderating claims inflation and a shift in the weather cycle. These shares are held within the Vanguard Australian Shares exchange traded fund (VAS) and Betashares A200.

Investments were closely monitored and were carefully reviewed by Investment Committee members throughout the period. We are always looking for the most cost-efficient investments to implement the CARE Investment Philosophy. **As we rebalanced the portfolios to increase Australian shares in the quarter, we introduced Betashares A200 as a more cost-effective exposure relative to the Vanguard Australian Shares ETF – VAS.** We have not switched investments as this likely would trigger disadvantageous tax liabilities and will gradually increase exposure as portfolios are rebalanced in the future. The Investment Committee sold international shares following the run up in prices to rebalance to Australian shares.

The Investment Committee rebalanced the Core portfolios over the quarter by buying Australian Shares (A200), Australian Fixed Interest (VAF) and selling a small amount of hedged international shares (WXHG) and a small amount of Kapstream short dated fixed interest. In the Active portfolio, the Investment Committee bought a small amount of GOLD following the price fall and sold a small amount of hedged international shares (IHOO). The other rebalance was in the Enhanced International shares portfolio where the exposure to the Hyperion Global growth strategy was decreased following a stellar performance and this rebalanced to the Insync Global Quality fund. The Hyperion portfolio once again had an encouraging quarter as it responded well to a strong rise in structurally resilient, highly profitable businesses that produce positive free cash flows like Salesforce, luxury brands company Hermes and music streaming company, Spotify. Hermes has industry leading margins (70% gross margin in 2022) and near unparalleled pricing power in the personal luxury goods industry.

The Insync portfolio increased by 6.5% over the quarter. Insync also concentrates on investing in quality companies using global megatrends to identify investment opportunities. The manager's largest holding is Booking Holdings the company that operates Booking.com. Another holding that performed well for the portfolio was luxury goods brand Louis Vuitton Moet Hennessy (LVMH).

**The CARE Enhanced Australian Shares portfolio performed well over the quarter.** The manager, Joseph Palmer and Sons, sold James Hardie and REA Group from the portfolio following the rise in both company's share price. James Hardie performed well since being added to the portfolio in September 2022. Shares have increased from around $32 to just over $40 per share during that time. The company recently provided a solid 4th quarter profit result and guided for 1st quarter in 2024 to be ahead of analyst expectations. Shares have increased around 17% since that report. REA Group was also a beneficiary of the recent rally in growth stocks, and like James Hardie, has produced very solid returns since being introduced to the portfolio. The manager sold the shares at the $138 level. With national listings below last year and unlikely to rebound strongly anytime soon, its hard to justify that share price.

AGL shares were the standout performer in June, up 15.12%. The company continues to its recent strong run, with elevated wholesale electricity prices leading the company to raise its fiscal 2023 underlying profit guidance to A$255m-A$285m, from A$200m-A$280m, whilst also raising 2024 profit to between $580m - A$780m. Sustained periods of higher wholesale electricity pricing, along with higher customer margins (ie price gouging!) has enabled the company to provide the improved outlook. Its good for us as investors but not as consumers. Amongst laggards in the portfolio, Link share price came under pressure after the company announced the loss of its contract with pension fund Hesta. Hesta advised that they plan to transition out of the contract in the 2nd quarter of 2025.

**Despite the volatility in financial markets in the June quarter, there was little changed in terms of our outlook.** We continue to anticipate a further slowdown in global economic activity and remain cautious that the breadth of the rise in the US share market is very narrow as it was in the late 1990's technology company induced stock market rally. It would appear from the recent data that we are at the tail ending of the tightening cycle both in Australia and the US. Whilst the near-term outlook is challenging, stock markets are forward looking and sensing a pause in the interest rate cycle, have increased strongly. Despite headline inflation easing markedly, core inflation remains elevated. It is unlikely that the market appreciates the longevity of the inflation issue given recent moves in bonds and shares. The US Central Bank's number one priority is to return inflation back within target range of 2-3%. It is prepared to risk weaker economic growth or a recession to achieve this outcome. The good news on this front is that the continued strength in the labour market and in several other indicators suggests that a deep recession is unlikely.

# RETURNS

## BY CARE INVESTMENT STRATEGY

LEGEND

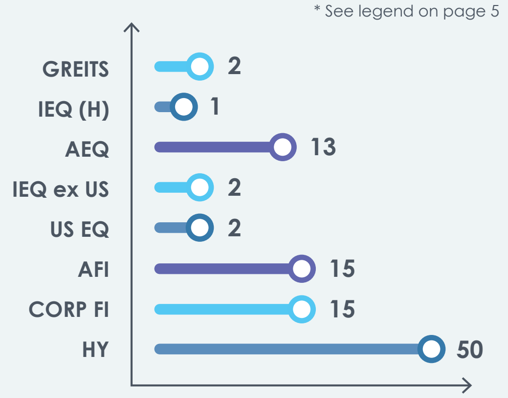
| | | | |
|---|---|---|---|
| International Real Estate | GREITS | High Income | HY |
| International Shares (Hedged) | IEQ (H) | International Emerging Market Shares | IEM |
| Australian Shares | AEQ | International Small Companies Shares | Small Cap IEQ |
| International Shares (ex-USA) | IEQ ex US | Australian Fixed Interest | AFI |
| International Shares USA | US EQ | Australian Corporate Fixed Interest | Corp FI |

## CORE PORTFOLIO RETURNS TO THE 30TH JUNE 2023

| | 1 Month | 3 Months | 6 Months | 1 year | 3 years | 5 years | 7 years |
|---|---|---|---|---|---|---|---|
| CORE Conservative | 0.48 | 0.91 | 3.51 | 6.41 | 2.51 | 3.10 | 3.59 |
| CORE Moderate | 0.88 | 1.37 | 4.28 | 8.32 | 4.55 | 4.16 | 5.02 |
| CORE Balanced | 1.61 | 2.49 | 5.71 | 10.94 | 7.27 | 5.47 | 6.69 |
| CORE Growth | 1.76 | 2.65 | 6.25 | 11.75 | 8.64 | 5.99 | 7.60 |
| CORE High Growth | 1.89 | 2.63 | 6.53 | 12.46 | 9.97 | 6.43 | 8.48 |

## YOUR CARE PORTFOLIO CONSERVATIVE

* See legend on page 5

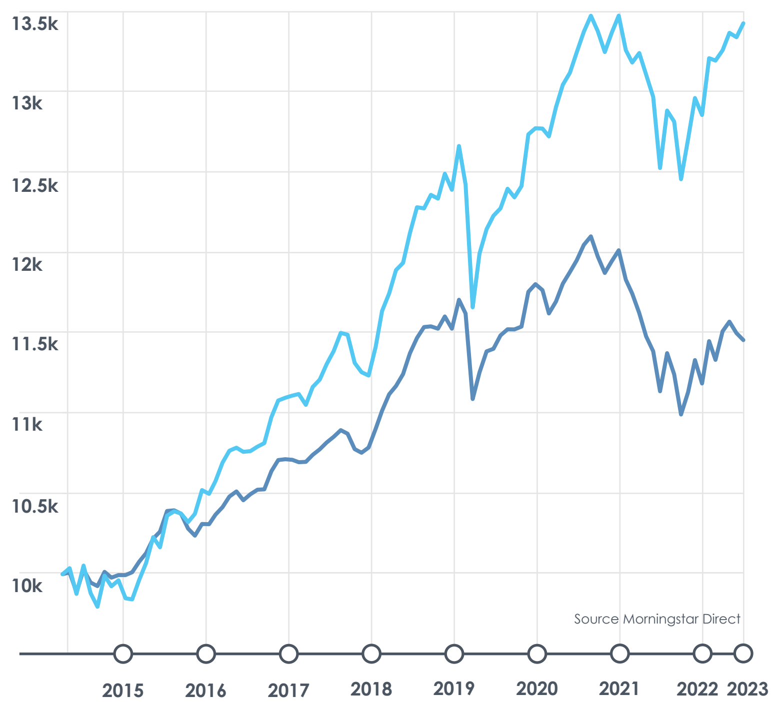




50% AEQ – 50% IEQ

### CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 7 years to 30 June 2023



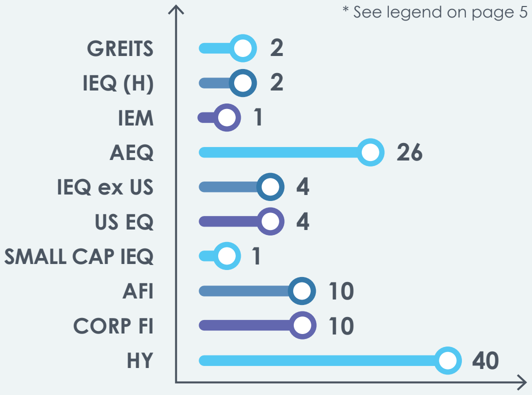

CARE Conservative (50%AEQ - 50%IEQ) — Total Return AUD 13.42K

Multisector Conservative Investor — Total Return AUD 11.45K

* Returns are based on model portfolio, benchmark allocation & assumes investment over 1, 3 & 5 years ending June 2023. The E (enhanced) component is assumed to be 50% Australian Equities & 50% International Equities. Past Performance is not indicative of future performance.
* The CARE portfolio Returns are before tax, Adviser fee, and Platform Fees however net of CARE Investment Committee Fee.
* Returns are based on: C,A & E only – RESERVES is not factored into the return series.

# YOUR CARE PORTFOLIO MODERATE

* See legend on page 5

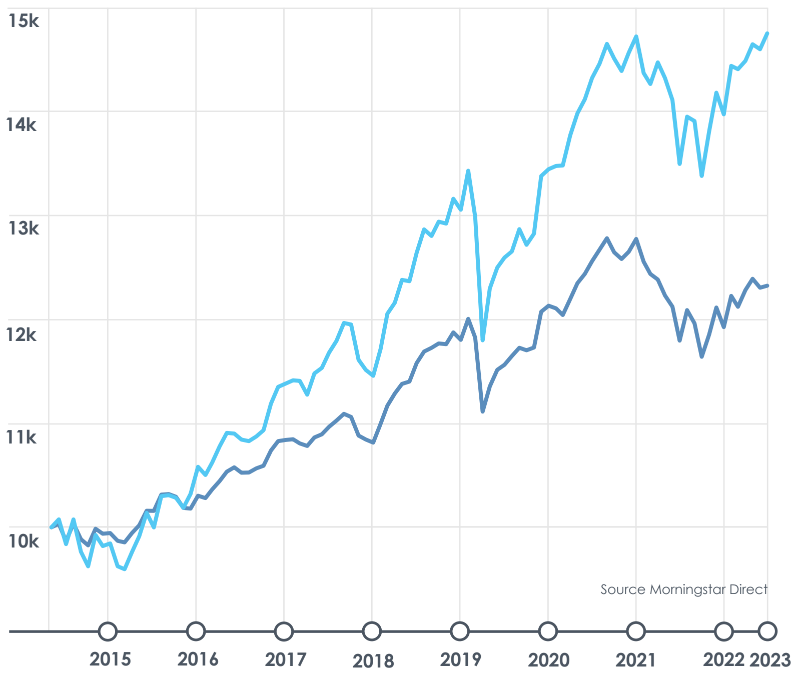




50% AEQ – 50% IEQ

## CARE MODERATE STRATEGY

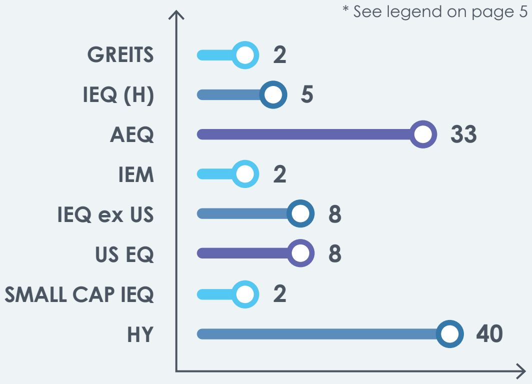
Growth of $10,000 over 7 years to 30 June 2023




| | |
|---|---|
| CARE Moderate (50%AEQ - 50%IEQ) | Total Return AUD 14.75K |
| Multisector Moderate Investor | Total Return AUD 12.32K |

# YOUR CARE PORTFOLIO BALANCED

* See legend on page 5





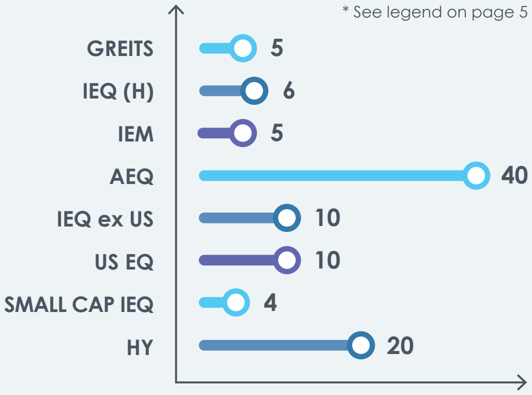
50% AEQ – 50% IEQ

## CARE BALANCED STRATEGY

Growth of $10,000 over 7 years to 30 June 2023


| | |
|---|---|
| CARE Balanced (50%AEQ - 50%IEQ) | Total Return AUD 16.06K |
| Multisector Balanced Investor | Total Return AUD 13.81K |

# YOUR CARE PORTFOLIO GROWTH

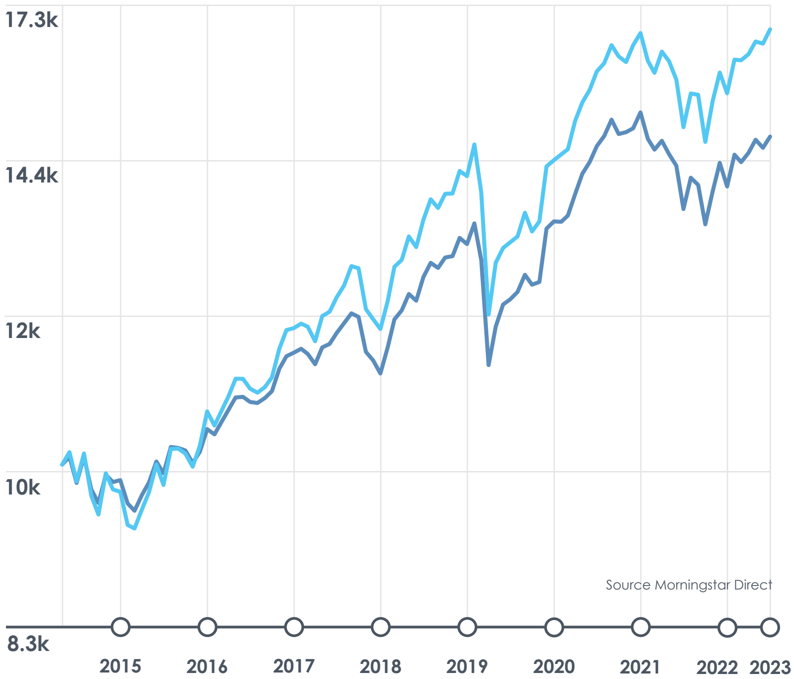




50% AEQ – 50% IEQ

## CARE GROWTH STRATEGY

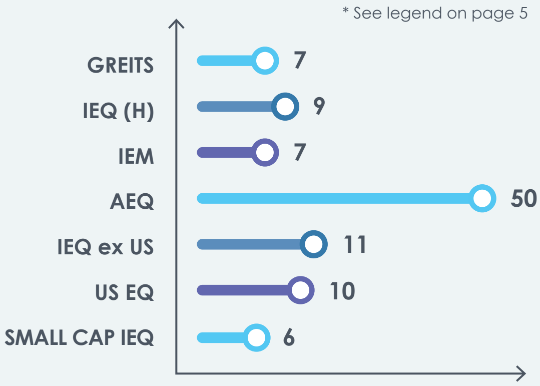
Growth of $10,000 over 7 years to 30 June 2023




CARE Growth (50%AEQ - 50%IEQ) Total Return AUD 16.74K

Multisector Growth Investor Total Return AUD 14.74K

# YOUR CARE PORTFOLIO HIGH GROWTH

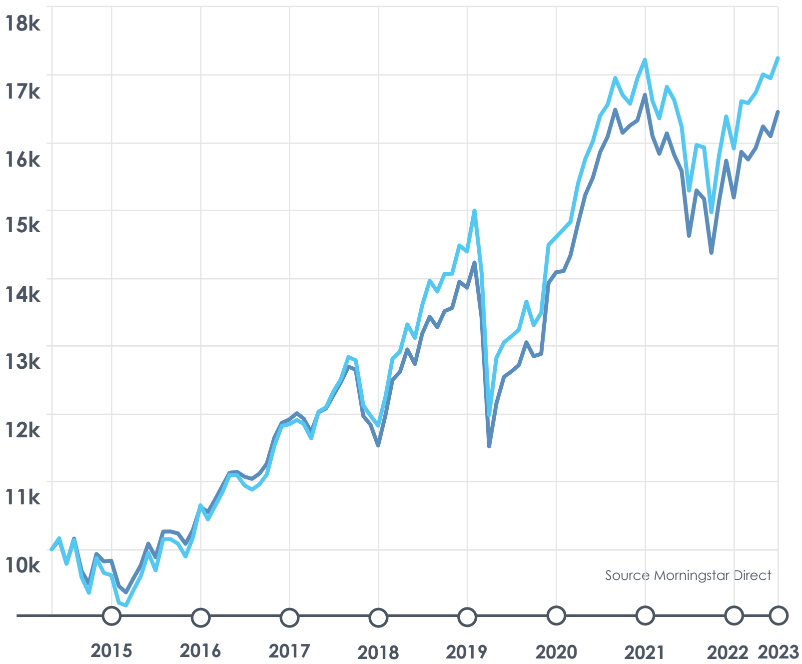




50% AEQ – 50% IEQ

## CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 7 years to 30 June 2023




CARE High Growth (50%AEQ - 50%IEQ) Total Return AUD 17.24K

Multisector High Growth Investor Total Return AUD 16.45K

# MEET 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.

BLUE CHIP Wealth Management

## Blue Chip Wealth Management Pty Ltd

Blue Chip Wealth Management Pty Ltd is a Corporate Authorised Representative (404974) of GPS Wealth Ltd | AFSL 254 544 | ABN 17 005 482 726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