



# Fund Watch

JANUARY 2022

## Welcome

It was a mixed quarter for investment markets. While international equity markets finished off the year strong, bond markets struggled against a backdrop of rising global interest rates. New Zealand investment markets were also on a back foot, as economic data began to show that optimism in New Zealand was starting to wane following a somewhat resilient 2021. As we have recently seen, it has been a volatile start to 2022, with equity markets declining as geopolitical concerns in Europe and the prospect of higher interest rates have dampened sentiment. In this issue, we look at how the SIL Mutual Scheme's funds have performed, and why, as well as looking ahead to what 2022 might hold.

## How has each SIL fund performed?

Performance as at 30 December 2021	3 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)
SIL Balanced Plus Fund	3.76%	12.31%	13.72%	10.33%	10.43%
SIL New Zealand Fixed Interest Fund	-1.77%	-5.58%	1.76%	2.84%	3.11%
SIL International Share Fund	6.59%	23.15%	20.96%	16.06%	14.63%
SIL New Zealand Share Fund	-2.45%	-0.73%	14.62%	13.51%	14.74%
SIL Cash Plus Fund	0.13%	0.32%	1.02%	1.49%	1.96%

Performance is after annual fund charges and before tax.

Equity markets closed out 2021 on a high note with most major indices finishing the final quarter higher as concerns around the Omicron COVID variant and central bank policy normalisation failed to stifle investor sentiment. Against the backdrop of another strong quarter for global equities, the SIL International Share Fund delivered a 6.59% return over the quarter.

However, it wasn't such a good quarter for New Zealand equities with the NZX 50 ending the quarter down 1.8%. The weakness came after the Reserve Bank of New Zealand (RBNZ) lifted the Official Cash Rate (OCR) twice, which weighed on defensive and dividend-paying companies that tend to underperform in a rising-interest-rate environments. This challenging final quarter for domestic equities saw the SIL New Zealand Share fund deliver a -2.45% return over the quarter.

Meanwhile, bond markets also had a challenging final quarter as the two interest rate hikes from the central bank (and expectations of more to come) saw bond yields rise, a scenario where bond prices tend to decline. The decline in bond prices saw the SIL New Zealand Fix Interest Fund decline -1.77% over the quarter.

## What happened in Q4?

Here are some key themes from the fourth quarter of 2021:

**Omicron variant sees COVID cases surge – but disruption tolerable:** The spread of the Omicron variant dominated the final quarter with daily cases around the world reaching all-time highs. In the US, daily cases topped 500,000, while many European countries saw daily cases also hit record highs.

However, early data showed that the variant, while more transmissible, was less severe, notably for the vaccinated population. This meant disruption to the business sector was much less than earlier waves and many sectors were able to continue to operate in some, if not normal capacity.

**US Federal Reserve prepares market for rate hikes:** After months of relatively dovish rhetoric, despite rising rates of inflation, the US Federal Reserve ('Fed') in December said it would end its bond-buying programme earlier than expected and would likely begin to raise rates in 2022.

The Fed had, for most of 2021, remained patient amid rising inflation data, but Chair Jerome Powell said "economic developments and changes in the outlook warrant this evolution" – when speaking of inflation and the improving labour market.

## Market Outlook for 2022

As we head into 2022, unsurprisingly, COVID-19 remains the major news story. While this has the potential to unsettle markets, we are optimistic about the prospects for financial markets this year, as we expect global economic growth to continue to recover.

Inflation is likely to remain one of, if not the key issue that investors will face in 2022. The prices of goods and services have risen due to supply shortages brought about by the global pandemic. While we expect these pressures to ease, inflation is expected to remain at above-average levels.

Global growth should also remain above-trend. While the threat posed by Omicron is real, the difference is that vaccine manufacturers should be able to adapt current vaccines to better target the new strain. This should be supportive of global growth – as these could be delivered as soon as the first quarter of this year.

New Zealanders have enjoyed some recent freedoms thanks to high levels of vaccination and the introduction of vaccine passports. While the outlook for the local economy looks more challenging, there remain a number of companies that we believe can continue to adapt and thrive in this ever-changing environment.

## So a challenging year ahead, but plenty of opportunities

From an investment standpoint, 2022 is shaping up as a challenging year for investment markets. Nevertheless, no matter what the year brings, we believe our active management approach – together with well diversified investment portfolios – should help to smooth out any bumps in financial markets and capitalise on the opportunities.

Just as we did before, and during the pandemic, our focus will remain on quality companies and assets that exhibit strong governance and values. This approach, we believe, will continue to serve our investors well, targeting above-average returns, on a consistent basis and over the long term.

To find out more, please be sure to check out our full **ANZ Investments 2022 Market Outlook**.

## Here to help

For financial advice, speak to your financial adviser. ANZ Investments can put you in touch with an adviser in your area if you need one. You can contact ANZ Investments on:

 0800 736 034  [service@anzinvestments.co.nz](mailto:service@anzinvestments.co.nz)  [silfunds.co.nz](http://silfunds.co.nz)

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