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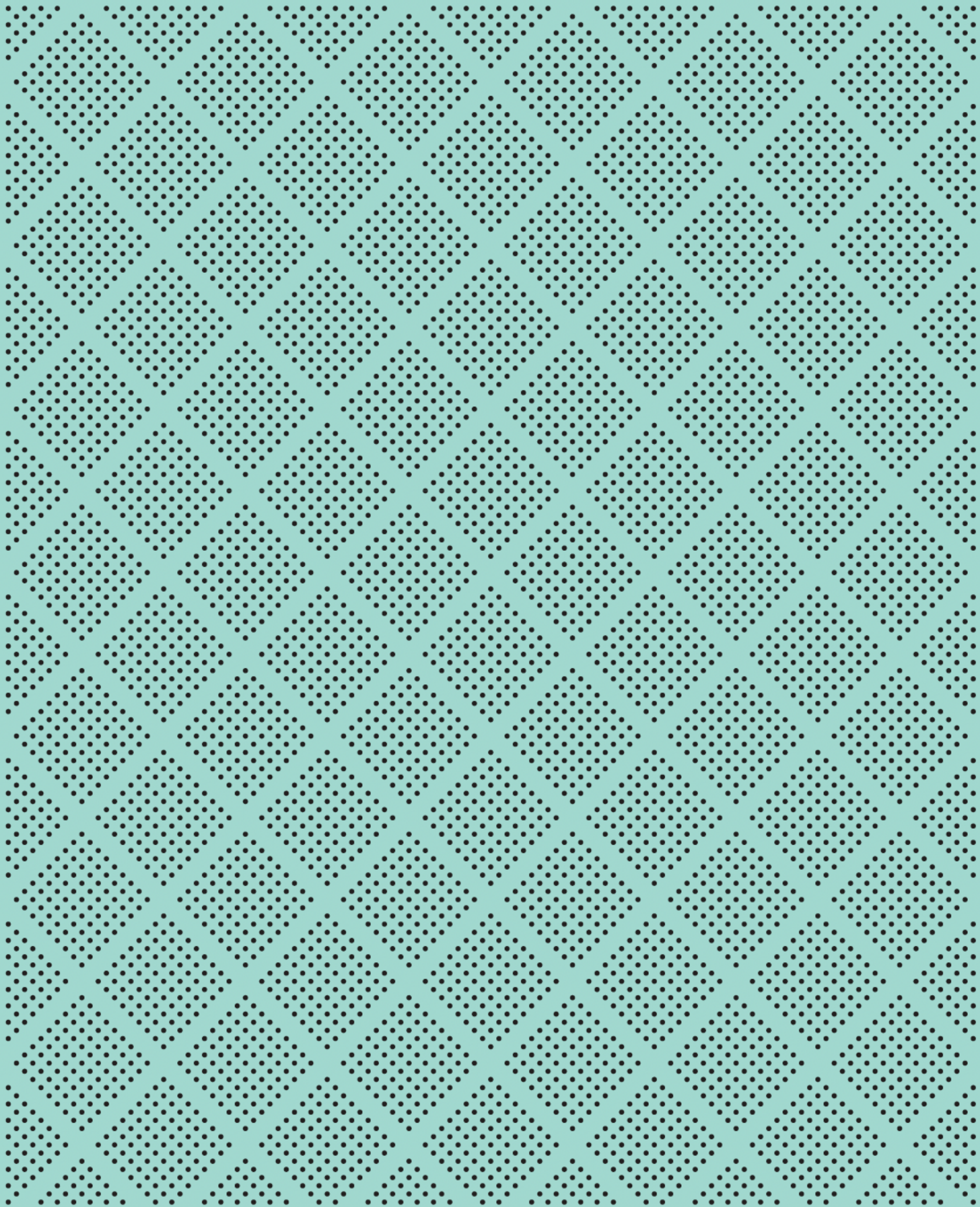
Quarterly Fund Report:
Mint Diversified Growth Fund



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DIVERSIFIED FUNDS

Mint Diversified Growth Fund

Investment Objective

This is a multi-asset class Fund that offers a diversified portfolio and aims to provide capital growth over the long term. The Fund invests primarily in New Zealand and international equities (including listed property if held) but will also hold cash and fixed interest securities. The objective of the Fund is to deliver returns in excess of the Consumers Price Index (CPI) by 4.5% per annum, before fees, over the medium to long term.

Market developments

Risk assets continued their strong start to the year in Q2, with pockets of dispersion developing across the global economies as markets fretted over the path for monetary policy easing. The bellwether S&P500 was up 4.4% for Q2, hitting an all-time high in June at 5487, with Technology stocks marching on.

Technology (+8.8%), Communication Services (+5.2%) and Utilities (+4.7%) were the big winners in Q2. The latter benefitting from their defensive characteristics going into a slowing economy, with some investors appreciating the bond like qualities of the underlying companies cashflow profiles. NVIDIA continued to be the 'it' name in the Tech sector, (+36.7%). Other standout names included Apple (+23%) and Alphabet (+20.8%) – 'a rising (AI) tide lifts all associated boats.' Materials (-4.5%) saw the biggest decline in the quarter - a function of the mixed performance of commodity prices and general concerns on the outlook for the industrial and manufacturing sectors going into a cyclical slowdown.

In global bonds, we saw some dispersion in the respective outcomes for different bond portfolios, with short-dated bonds tending to outperform their long-dated counterparts. This was due in part to the steepening of the yield curve, as short end rates rallied, and the long end of the curve drifted higher as investors rebased their view on the final resting point for interest rates. This benefitted corporate bonds more so than holders of government bonds given corporate bonds tend to be shorter dated on average than government bonds. The Bloomberg Global Aggregate index (mix of government and corporate bonds) was down (-0.9%), with the Global Government Bond index down (-1.7%).

The S&P/NZX 50 Index fell 3% over the quarter leaving it down 0.5% year-to-date. A few sectors did manage to net positive returns – consumer staples, information technology and healthcare ended the quarter up. However, the more interest rate sensitive parts of the market struggled with real estate and communication services declining. Extremely hard hit was the consumer discretionary sector, down 25%.

In NZ, we witnessed a further tightening of credit spreads, with S&P/NZX Corporate index coming in at +1.2% for the quarter.

The Diversified Growth Fund was down 0.6% over the quarter, largely driven by the Australasian Equity component of the portfolio. We had some stocks wins in the form of Telix – an Australian biotechnology company with a focus on cancer treatment. Additionally, our lack of exposure to names like Fletcher and Ryman helped performance on a relative basis. Within our global equity portfolio, we had strong gains from Novo Nordisk and Boston Scientific in the Healthcare sector. Additionally, Analog Devices, Oracle and Netflix contributed positively to our returns.

Our long duration position benefitted our bond allocation as despite the RBNZ rhetoric, the market didn't buy into it and both domestic and global interest rates fell.

How the quarter unfolded

The beginning of the quarter saw several strong economic data releases out of the US and stoked concerns that rates would continue to remain high. However, by quarter end, these concerns had abated with US inflation data coming in lower than expected at 3.3%. The core PCE deflator – the Fed's preferred inflation measure also fell and buoyed equity markets. The US unemployment rate rose to 3.9% suggesting that the US labour market was showing signs of slack. This release coincided with a research report from Goldman Sachs that showed migration (in the US and globally) had actually reduced wage inflation because it increased labour supply in the food services and hospitality sector – a part of the market most affected by labour supply shortages.

In New Zealand, Q1 GDP data came in at +0.2%, pulling us out of the (second) technical recession. However, GDP per capita had declined 4.3% from its recent peak (Q3-22) – a worse peak-to-trough decline than Kiwi's experienced during the Global Financial Crisis. Other economic data also painted a negative picture – the unemployment rate increased to 4.3%. Domestic banks reported a rise in non-performing loans, with agriculture and construction the sectors most under pressure. Counter to that, retail sales bucked the negative trend to post a positive result in Q1albeit coming on the back of eight consecutive quarters of contraction.

Despite this lacklustre backdrop, the RBNZ did not acknowledge the weakness in the economy but in a statement that defied expectations, showed a higher OCR target (to 5.65% by end 2024) and no cuts until H2 2025!

Across the ditch, Australian CPI came in hot at 3.6% with market participants coming to the uncomfortable realisation that the RBZ may have not done enough to slay inflation.

Outlook moving forward

We remain confident in our 'soft landing' outlook – a view we have held for some time. Soft landing implies an environment of moderate growth and falling inflation, and this continues to be borne out in the data.

With inflation continuing to decline globally, and interest rate cuts starting to appear more solidly on the horizon - we believe that equities and bonds should be in for an accommodative period whereby they can achieve strong positive returns for 2024. The path of normalising inflation has not been a straightforward one, but with each incremental release we gain more conviction in our view that monetary policy of central banks has managed to achieve what it set out to.

Our funds positioning is poised to benefit directly from an easing in interest rates. Within fixed income, being long-duration means we benefit from this decline. In our equity portfolio, our robust security selection process means we are biased to high quality and growth factors. With Growth equities particularly, they are expected to move higher as interest rates decline and economies avoid a deep recession.

Risks to our view are twofold, the first being that if inflation reaccelerates or remains sticky at these levels, we will see a reversal in any decline in interest rates. Second, geopolitical risk, (particularly in the US with the fraught election situation) could cause a spike in realised volatility. Finally, we continue to monitor commodity prices particularly with developments in the Middle East and Europe, as an increase in spot prices for oil/gas could reverse the deflationary progress made over 2024.

We remain positive on markets, are fully invested and with our fund positioning in growth and quality equities and long duration within fixed income – we will navigate through this economic cycle well poised to benefit from the realisation of our views.

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Portfolio Manager, Marek Krzeczkowski

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Marek has over 16 years' experience in the investment sector focusing primarily on quantitative analysis, investment research and financial modelling. He arrived in New Zealand in 2016 from Edinburgh where he managed the Investment Research Team at Tcam Asset Management and was responsible for helping to formulate and implement the firm's investment strategy.

At Mint, Marek is the Portfolio Manager for the Multi-asset class funds. He is also responsible for Strategic and Tactical Asset Allocation.

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