Quarterly Fund Report:
Mint Diversified Income Fund

DIVERSIFIED FUNDS

Mint Diversified Income Fund

Investment Objective

This is a multi-asset class Fund that offers diversification by investing across a number of asset classes both in New Zealand and internationally. The objective of the Fund is to deliver a total return (through a combination of income and capital growth) in excess of the Consumers Price Index (CPI) by 3% per annum, before fees, over the medium to long term.

Market Trends

The first quarter of 2025 started strongly, with major indices hitting fresh highs. However, the hope of tax cuts and deregulation under the new Trump administration was dashed by unpredictable tariff threats and renewed trade tensions. What sparked such a dramatic pivot? Primarily, the surprise resurgence of protectionist measures and tariff announcements sowed doubt about global supply chains. The Federal Reserve (Fed) held rates steady at roughly 4.5% through Q1, maintaining a cautiously dovish tone. Other major central banks likewise hinted at flexibility, underpinning equity and bond prices despite the swings.

Global equities finished the quarter mixed. The S&P 500 ended Q1 down -4.3%, marking its first negative quarter in nearly three years, while the Nasdaq Composite plunged over 10% as lofty growth names bore the brunt of the sell-off. Yet pockets of strength emerged elsewhere: energy, industrials and financials logged solid gains amid the rotation away from big tech. International stocks outperformed US peers: European markets rallied on attractive valuations and fresh fiscal spending plans, and Emerging Markets advanced on firm commodity prices and improving local fundamentals. Safe-haven assets also saw robust demand; gold price climbed to highs, while US Treasury yields eased (boosting bond prices) even as European yields increased on accomodating fiscal policy settings. Beneath the surface, economic fundamentals held up: corporate earnings and consumer spending remained resilient and unemployment stayed low.

Insights

Markets kicked off the year buoyed by post-election euphoria. In January, the S&P 500 reached new records on expectations of business-friendly policies and sustained economic growth. Yet even amid the rally, the seeds of a rotation were being sown. China's DeepSeek unveiled an AI model rivalling US incumbents, prompting investors to reassess the lofty valuations of the "Magnificent Seven." Capital quietly shifted into value-oriented and cyclical names (industrials, materials) as European indices climbed on fresh inflows.

From a data perspective, in the US, unemployment fell slightly to 4.1% in January, and CPI, though well above target, remained within expectations. In New Zealand, the Quarterly Survey of Business Opinion provided evidence of a gradual growth rebound as business optimism increased. Disinflation signs emerged as only 10% of firms raised prices, compared to 35% facing higher costs, and domestic Q4 CPI held at 2.2% despite a weaker NZD at the end of 2024. Global yields climbed as the final step toward a 2% inflation target proved challenging, with US growth remaining strong. Our short duration positioning from late December proved prescient when Kiwi yields initially rose before later retracing some moves.

We then watched for signs that might challenge our thesis of continued strong global growth and a rebound in New Zealand. What began as isolated worries morphed into a full-blown risk-off swing in February. The US administration floated a flurry of new tariff proposals, reviving memories of past trade wars. Each fresh tariff threat, or contradictory presidential tweet, triggered sharp pullbacks, only to be followed by brief relief rallies when talks hinted at compromise. Tech and consumer discretionary stocks stumbled, accelerating the shift into domestically focused firms and commodity producers. European equities extended their gains, buoyed by a pro-business German government vow of infrastructure and defence spending.

Markets largely dismissed the inflationary impact of these tariffs, viewing them as more detrimental to growth, as breakeven inflation rates remained steady, and US nominal interest rates fell. In the US, whispers of federal budget cuts heightened anxiety (via the infamously named DOGE -Department of Government Efficiency), leaving indices deeper in the red by month-end.

Domestically, news was mixed: NZ unemployment increased to 5.1%, meeting market expectations without the feared blow-up, and sales volumes grew by 0.9% for the quarter, suggesting resilient consumer spending. Even after the RBNZ delivered its anticipated 0.5% OCR[1] cut, long-end Kiwi rates rose amid positive growth news, and our short duration positioning continued to pay off. Tapestry (+17%) emerged as February's top performer after holiday sales exceeded expectations, with Coach handbags particularly in focus. Towards the end of the quarter, despite a broad Q4 NZ GDP surprise (+0.7% versus the 0.4% expected), global growth concerns began to surface.

These worries were amplified by news that the Trump administration was considering 'reciprocal tariffs' on a loosely defined 'Liberation Day' in April., Markets snapped: the S&P 500 and Dow plunged into correction territory faster than in early 2020 as the fear from the impact of potential tariffs peaked. Tech giants led the decline, while investors flocked to safe havens: gold reached its highest levels in over a year, and Treasury prices spiked. Yet the US economic data painted a more encouraging picture: jobs continued to tick higher, and consumer outlays held firm, only overshadowed by soft sentiment indicators. Additionally, there was something of a 'regime shift' in Germany as the newly elected government relaxed long held fiscal rules which saw 10Y Bund yields jump over 0.4% over 2 days, injecting even more volatility into markets. The Fed's March meeting held rates at 4.5% and struck a cautious tone, with Chair Powell pledging action if conditions worsen. That assurance and hints of a moderated trade stance helped markets claw back losses late in the month. We shifted to a neutral duration stance at the start of March as US rates dropped amid fears that trade war risks could trigger a recession, with the view to tactically add long exposure once trade policy directions for April became clearer. By quarter-end, US stocks had recovered some ground, though they remained negative, while European and emerging equities closed firmly in positive territory. US investment-grade bonds edged up modestly as yields fell, even as euro-area bonds were flat to slightly down on rising local yields.

Outlook Moving Forward

Looking ahead, we expect elevated volatility to persist in the next quarter as trade and tariff uncertainty linger. Negotiations over tariffs and international agreements will likely keep investors on edge. Inflation may stay elevated in the short run as tariff-related costs filter through, testing central bank patience. Yet, whilst risk of the global recession increased, we do not see it as a base-case scenario in 2025. Global growth, albeit slowing, remains solid.

Beyond the next few months, we remain optimistic for H2 2025. Central banks have signalled readiness to pivot toward easing if growth falters, offering a potential backstop for markets. We also anticipate a gradual de-escalation in the trade saga via negotiated compromises, which should remove a key overhang on risk assets. The Q1 rotation has trimmed excesses in high-flying growth stocks and broadened leadership to sectors and regions with stronger value characteristics. Investors may renew their interest in equities as valuations outside mega-caps look more compelling and yield pick-up opportunities emerge. If corporate profits rebound later in the year and inflation cools after the one-off tariff impact, markets could regain an upward trajectory.

In summary, the recent adjustment is a healthy recalibration rather than the start of a prolonged downturn. We're selectively adding to positions in areas with solid fundamentals and attractive valuations, remaining active in fixed income to combat policy volatility and recession risk and we are confident that calmer conditions in the second half of 2025 will allow the markets to regain a foothold and make up for lost ground derived from policy volatility.

[1] Official Cash Rate

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.

Signatory of:

PRI Principles for Responsible Investment

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riaa Responsible Investment Association Australasia

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