Hatch Financial Planning

Quarterly Update SEPTEMBER 2019

EXCITING LiFE
Boring Money
.... and not the other way around

CARE QUARTERLY NEWSletter

GLOBAL OVERVIEW

- ECONOMIC DATA AROUND THE WORLD WAS WEAKER IN THE THIRD QUARTER AND THIS WAS REFLECTED IN LOWER INTEREST RATES.
- IN THE US, ECONOMIC GROWTH IS LIKELY TO RECORD 2%. THIS IS BELOW THE GOVERNMENT'S TARGET OF 3% BUT STILL RESPECTABLE.

EMMANUEL CALLIGERIS
Chairman of the CARE Investment Committee

Financial markets ebbed and flowed over the quarter in line with news on the trade war between the US and China. Fears that economic data around the world was weaker were reflected in lower interest rates. In the US, the economy has certainly lost speed as the stimulus from the $1.5 trillion tax-cut package and a government spending fade. However, a recession in the near term is unlikely as stronger retail sales and higher monthly wages confirm that consumer spending will keep the economy afloat. Growth is likely to record 2%. This is below the government's target of 3% but still respectable. Despite robust consumer confidence, business confidence continues to weaken thanks to the trade war and will negatively impact investment. Manufacturing sentiment weakened again with readings of activity in that sector dropping further into contractionary territory. This weakness appears to be spreading into the service economy. Recent data on housing permits and starts suggests that a strengthening trend may be at hand. Stronger demand underpinned by falling mortgage rates may be behind the trend. This improvement should help offset some of the softening in consumer spending or non-residential business investment.

Last quarter, we highlighted that the Chinese economy had lost some momentum amid the escalating trade war with the United States. China's economy remains soft as the government's reflation efforts have been

DESPITE ROBUST CONSUMER CONFIDENCE, BUSINESS CONFIDENCE CONTINUES TO WEAKEN THANKS TO THE TRADE WAR AND WILL NEGATIVELY IMPACT INVESTMENT.

weaker than anticipated amid the impact of the trade war. Investment spending, industrial profits and industrial production have come in weaker than expected however there may be a light at the end of the tunnel. The Purchasing Manager's Index, a survey of manufacturing activity, has seen some recent upside surprises. Fiscal tools have already been activated, including tax cuts and subsidies, as well as infrastructure spending financed by local government bond issuance. Monetary policy levers have also been added and incremental nudges to policy accommodation are ongoing. The net conclusion remains that the trade war is hurting China's economy, and it is taking a substantial policy effort to keep things moving forward.

A decline in Japan's economic growth is expected in the fourth quarter mainly due to a negative payback caused by shoppers who brought forward their purchases to beat

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- CHINA'S ECONOMY REMAINS SOFT AS THE GOVERNMENT'S REFLATION EFFORTS HAVE BEEN WEAKER THAN ANTICIPATED AMID THE IMPACT OF THE TRADE WAR.
- A DECLINE IN JAPAN'S ECONOMIC GROWTH IS EXPECTED IN THE FOURTH QUARTER MAINLY DUE TO A NEGATIVE PAYBACK CAUSED BY SHOPPERS WHO BROUGHT FORWARD THEIR PURCHASES TO BEAT THE VAT (GST) HIKE FROM 8% TO 10%.
- IN AUSTRALIA THE RESERVE BANK CUT THE OFFICIAL CASH RATE TO JUST 0.75% AND IMPORTANTLY THE TRAJECTORY IS FOR STILL LOWER RATES. THE TREND FOR A SOFT ECONOMY IS LIKELY TO CONTINUE.

the VAT (GST) hike from 8% to 10%. Business conditions are steady with a subdued sentiment among manufacturers and a more resilient one for non-manufacturers. Sentiment in the manufacturing sector continues to be disproportionately affected by the uncertainty regarding the future international trade conditions and the economic momentum in China which is 19% of Japanese exports. Company investment plans for fiscal year 2019 remained broadly stable at a trend-like +2.4% year-on-year despite pessimistic expectations regarding their profits.

In Australia the Reserve Bank cut the official cash rate to just 0.75% and importantly the trajectory is for still lower rates. Survey data, for Australia suggests that the trend for a soft economy is likely to continue. Business confidence is well below average. Notably, the NAB survey points to weak confidence curbing business investment intentions. The employment component of the NAB survey points to job gains averaging 18 thousand per month, down from 28k per month recently. The survey highlights that the unemployment rate has the potential to move higher from 5.3% over the coming year. This will likely ensure that wage pressures remain low and in turn keep a lid on inflation.

The Westpac–Melbourne Institute survey of consumer sentiment provided a disappointing update on the consumer despite the interest rate cuts. Interest rate reductions are usually a positive for sentiment, however, the starting point for debt is high and consumers remain concerned that world is looking uncertain with the US/China trade war, Japan and Korean trade dispute, soft manufacturing in Europe, the Middle East unrest, Hong Kong civil unrest and Brexit. Although these global developments remain a negative for sentiment, wages growth is the more pressing issue for consumers. Weak wages growth is also weighing on consumer confidence. On the housing front, the market has bounced, with recent price gains expected to continue in the short term. House price expectations are now up 5.4% since May 2019 and has led strong investor interest. The Australian Bureau of Statistics' housing finance data showed a strong 10% pickup in the value of investor loans over July/August. Interestingly though, 'time to buy a dwelling' declined in October to be below its long-run average. Affordability is clearly an issue for owner occupiers, particularly in NSW and Victoria.

Although interest rates have been reduced in Australia, it is widely understood that monetary policy (interest rates) alone cannot fire up the economy nor get inflation back into the 2 to 3% target band. Fiscal policy will need to be eased through further tax cuts and infrastructure spending. To this end, tax cuts have been passed by Parliament which should help boost consumer spending in the near term. Our outlook for the Australian economy is for low and steady growth.

The Australian share market increased 2.4% over the quarter to be 12.5% higher over the year. The Australian stock market return ending the year to October was even better, recording an increase of 19.3%. Much of this was thanks to drop off poor returns at the end of 2018, but even accounting for this, 10-year returns are a solid 8.1%. The CARE portfolios gain exposure to the Australian share market through the VAS and SMLL investments. Interest rate sensitive companies performed strongly as too those with overseas profits. Those companies with overseas profits were helped by the lower Australian dollar over the quarter. Australian Property trusts increased by 1.1% whilst international property trusts increased 2.8% over the quarter, to be 16.5% higher over the year. The CARE portfolios obtain their exposure to international property via the DJRE investment which reflects this international property return. The asset classe includes such companies as Prologis a multinational logistics real estate investment trust headquartered in San Francisco, US mall operator Simon Property Group and Japanese property operator Mitsui Fudosan.

International share prices increased by 4.7% over the quarter and 9.1% over the year. Alphabet (the parent company of Google) climbed after sales growth in the second quarter rebounded from a sluggish first quarter and the company announced a US$25 billion share buyback. Apple gained after its management forecast robust sales growth from the new iPhone models and Starbucks performed well after better-than-expected sales in the US and China helped the coffee chain record its fastest global sales growth in three years of 6% on a same-stores basis. SAP, a German multinational software company fell after it reported lower margins and a decline in growth in new cloud bookings for the second quarter. HCA Healthcare dropped after the US hospital chain's earnings report for the second quarter disappointed due to an unfavourable shift in the medical surgical mix of operations and more political uncertainty was priced into health stocks as Democratic presidential candidates offered different proposals to improve the US health system. Facebook slid on the increased scrutiny from federal lawmakers and federal and state regulators. These companies are held in the VTS investment in the CARE portfolios and within the Enhanced international share portfolio managed by Magellan.

> ALTHOUGH INTEREST RATES HAVE BEEN REDUCED IN AUSTRALIA, IT IS WIDELY UNDERSTOOD THAT MONETARY POLICY (INTEREST RATES) ALONE CANNOT FIRE UP THE ECONOMY NOR GET INFLATION BACK INTO THE 2 TO 3% TARGET BAND.

Other companies that performed well for the portfolio included US Retailer Target (23%) and parcel delivery service UPS (16%) over the quarter. Companies that performed poorly include Netflix (-28%) and drug manufacturer Pfiser (-18%). Pfizer sales declined as too did the company's profit growth.

The WDIV index which seeks to invest in high dividend yielding companies globally returned 4.9% quarter and 10.9% over the year. The income produced by this investment was 5.4% over the year consistent with its methodology. The largest holding is Swedish fashion retailer H&M 1.9%, telecommunications company AT & T Inc 1.7% and Greene King 1.36% the UK's largest pub retailer and brewer.

Within the Enhanced Australian Shares portfolio Joseph Palmer and Sons remained defensive with a relatively high weight in cash as they wait for opportunity to buy into a better value share market. In your managed portfolio the shares of Link Administration, Wesfarmers, NAB and Santos performed well for the quarter, whilst Woodside, Brambles, Amcor and InvoCare were the laggards. The portfolio structure strategy remains an approximately equal mix between economically cyclical 'value' stocks, and faster growing, but often more expensive 'growth' stocks, all selected from within the top 200 Australian Companies.

The CARE Investment Committee rebalanced the CORE portfolios over the quarter by decreasing Australian Shares (VAS) and increasing the portfolio's exposure to international emerging market shares (IEM) and international developed market shares outside the US (VEU). In the Active portfolio all asset classes remained fully invested. Gold performed particularly well due to the instability caused by trade war rhetoric. However, at the time of writing, Gold began to weaken again as the US and China moved closer to a trade settlement of sorts. The other rebalance was within the international shares portfolio where the Investment Committee rebalanced the portfolio towards WDIV, the exchange traded fund that seeks to invest in the top dividend growing companies around the world. This investment performed particularly well in September and again in October. These rebalances are in line with the CARE Investment Philosophy that it is good practice to move back to the long-term strategic asset allocation of the portfolio when short term asset prices deviate from their long term expected returns.

All asset markets – shares, property and bonds, have reacted to the lower for longer interest rate theme globally. This is likely to persist through to the end of the year, but we would not be surprised if we see intermittent price corrections between now and then. We maintain the view that investing requires a rational approach and an appropriate investment time horizon. Financial markets will become obsessed over monetary policy settings, recession fears, trade wars and geopolitics. Opportunities will avail themselves to increase investment at good valuations such as that presented in the last quarter of 2018. Recession could occur at some point but only if interest rates become restrictive. The economic indicators in the US are still firm and do not suggest that the interest rate settings there are likely to cause recession in the near term. The same is true for Australia. Employment growth is strong and the official interest rate set by the Reserve Bank of Australia is low and shows no sign of rising any time soon, government spending is strong and investment intentions are also firm.

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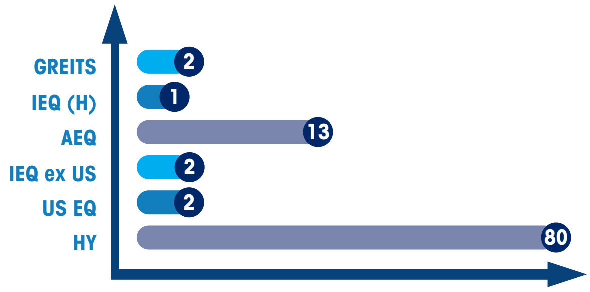
RETURNS TO THE 30TH SEPTEMBER 2019

by CARE Investment Strategy

GPS CORE PORTFOLIO RETURNS TO THE 30TH SEPTEMBER 2019

	1 year	3 Years	5 Years
CORE Conservative	7.11	5.34	5.21
CORE Moderate	7.50	6.94	6.49
CORE Balanced	7.07	8.49	7.61
CORE Growth	7.78	10.01	9.04
CORE High Growth	8.52	11.50	10.26

YOUR CARE PORTFOLIO CONSERVATIVE



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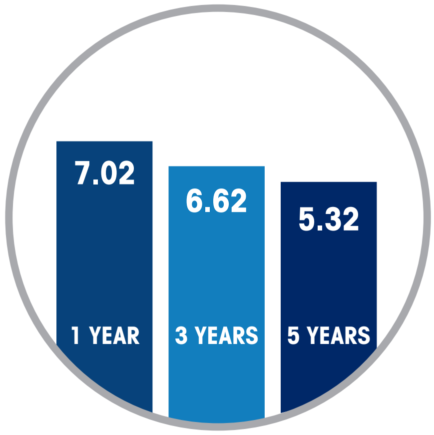
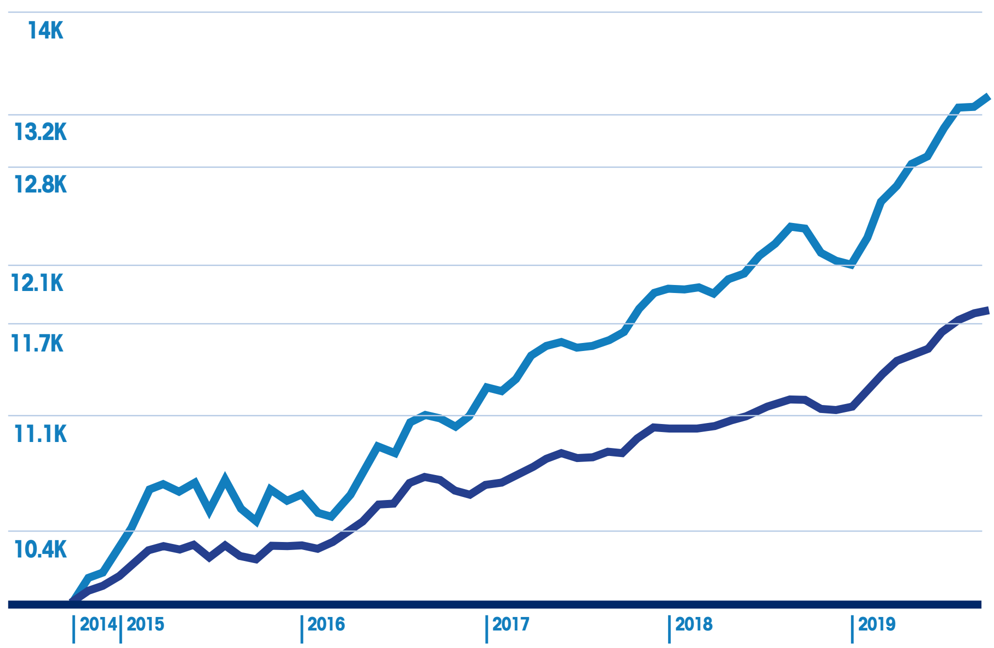


50% AEQ – 50% IEQ

CARE CONSERVATIVE STRATEGY

Growth of $10,000 over 5 years to 30 September 2019



INVESTMENT NAME	VALUE
CARE Conservative (50% AEQ - 50% IEQ) (Total Return, AUD13.33K)	Multisector Conservative Investor (Total Return, AUD 11.97K)

Source Morningstar Direct

LEGEND

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

* Returns are based on model portfolio, benchmark allocation & assumes investment over 1 , 3 & 5 years ending 30th September 2019. 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.

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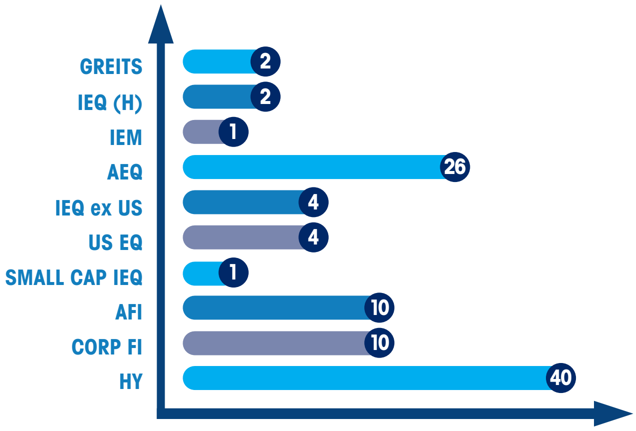
YOUR CARE PORTFOLIO MODERATE



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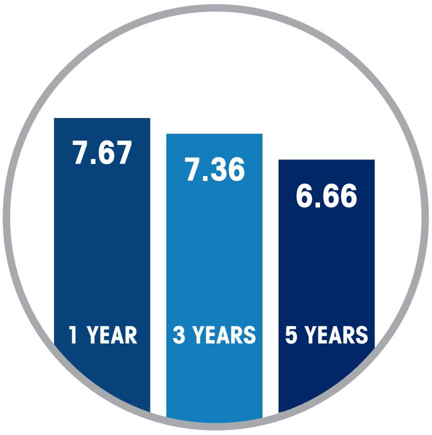
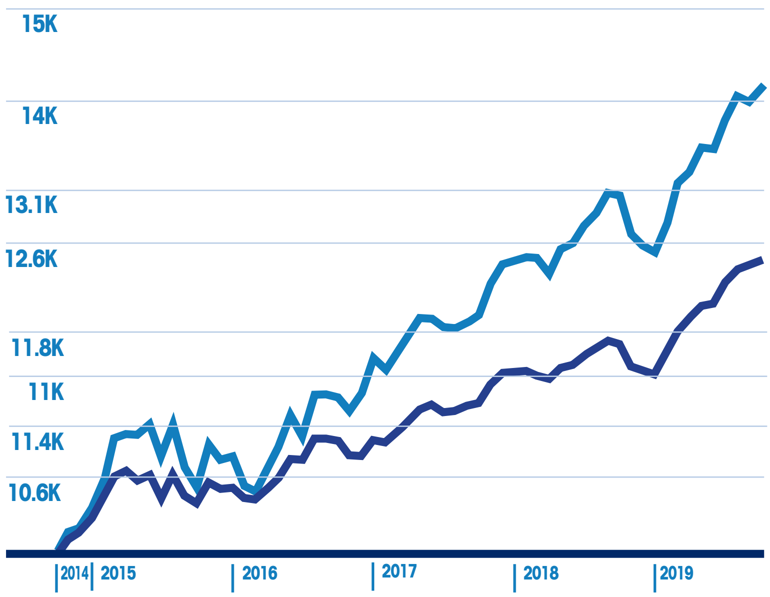


50% AEQ – 50% IEQ

CARE MODERATE STRATEGY

Growth of $10,000 over 5 years to 30 September 2019

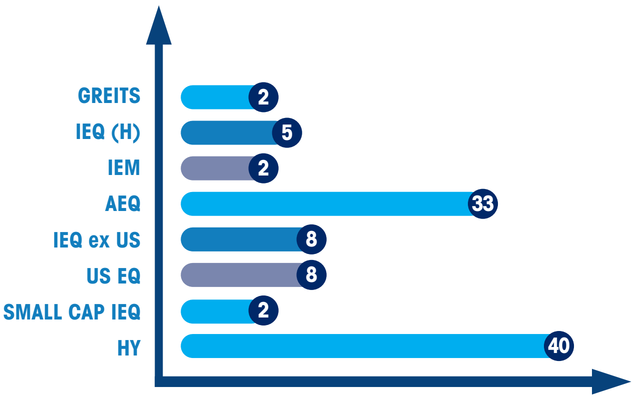


INVESTMENT NAME **VALUE**

CARE Moderate (50% AEQ - 50% IEQ) (Total Return, AUD 14.14K) Australia Fund Multisector Moderate (Total Return, AUD 12.44K)

Source Morningstar Direct

YOUR CARE PORTFOLIO BALANCED



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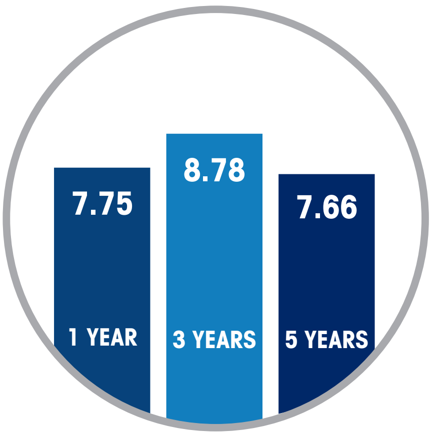
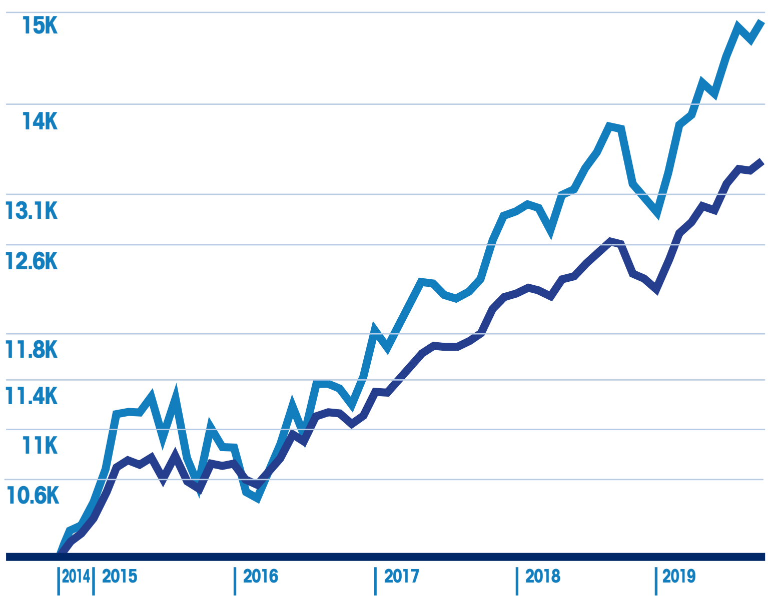


50% AEQ – 50% IEQ

CARE BALANCED STRATEGY

Growth of $10,000 over 5 years to 30 September 2019

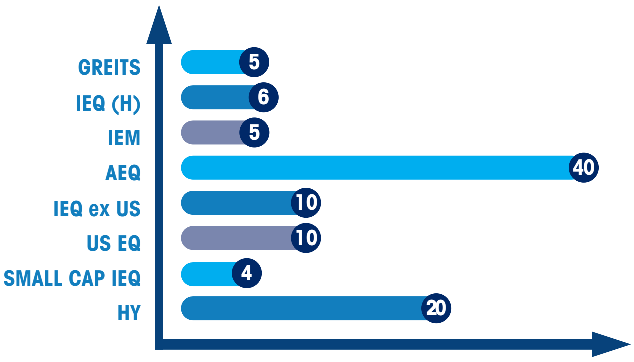


INVESTMENT NAME **VALUE**

CARE Balanced (50% AEQ - 50% IEQ) (Total Return, AUD 14.89K) Multisector Balanced Investor (Market Return, AUD 13.42K)

Source Morningstar Direct

YOUR CARE PORTFOLIO GROWTH



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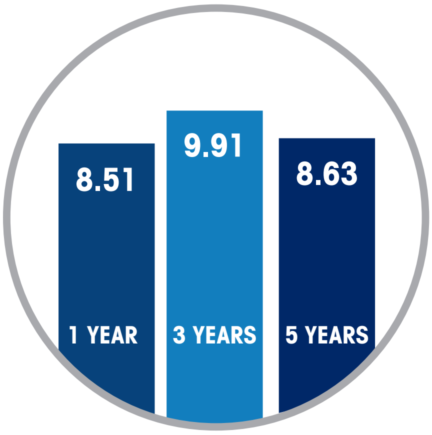
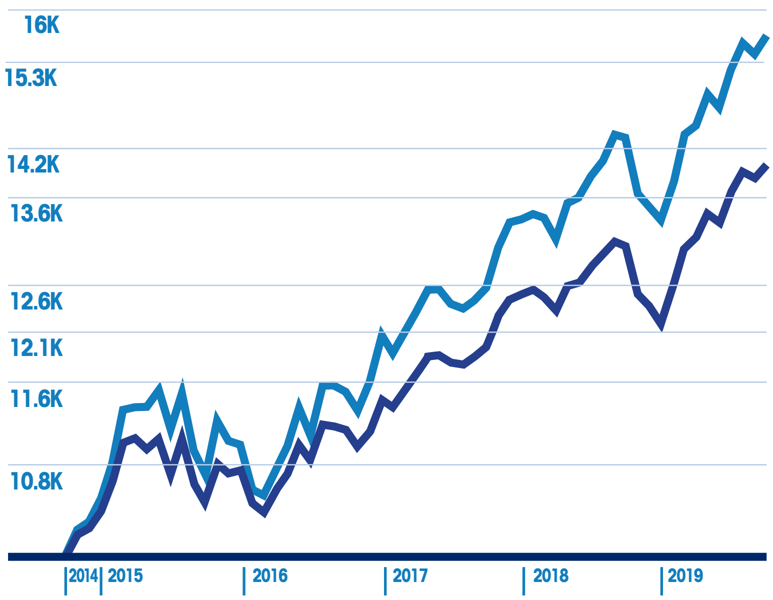


50% AEQ – 50% IEQ

CARE GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 September 2019

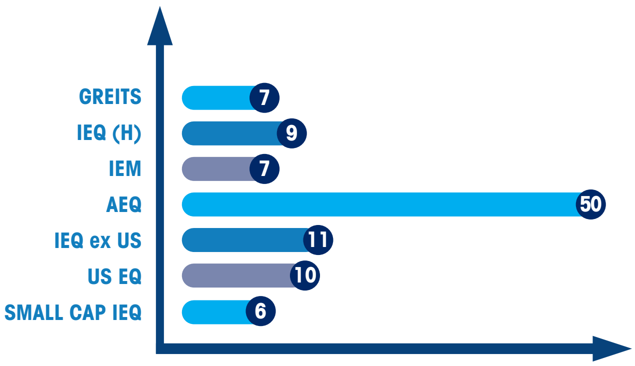


INVESTMENT NAME **VALUE**

CARE Growth (50% AEQ - 50% IEQ) (Total Return, AUD 15.65K) Australia Fund Multisector Growth (Total Return, AUD, P ..14K)

Source Morningstar Direct

YOUR CARE PORTFOLIO HIGH GROWTH



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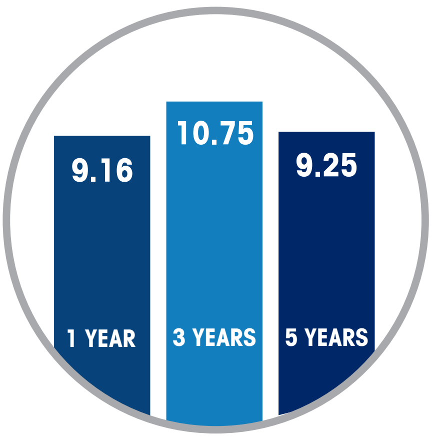
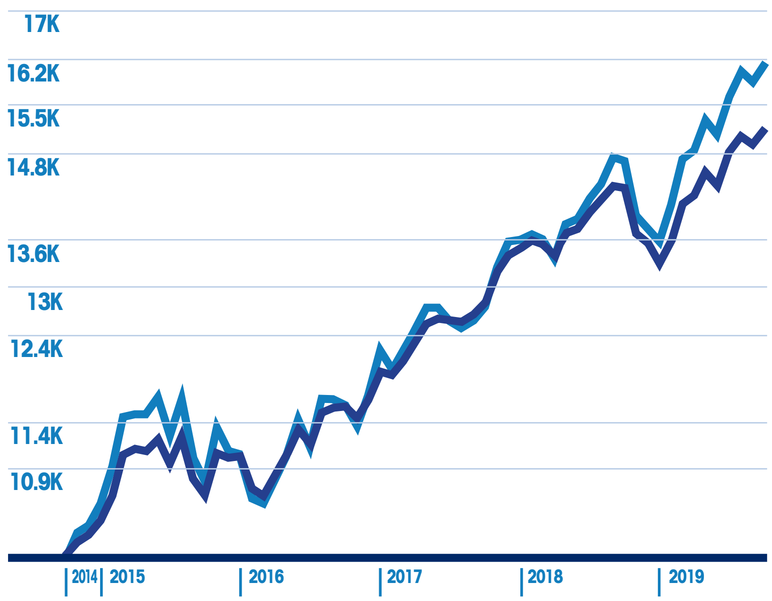


50% AEQ – 50% IEQ

CARE HIGH GROWTH STRATEGY

Growth of $10,000 over 5 years to 30 September 2019



INVESTMENT NAME **VALUE**

CARE High Growth (50% AEQ - 50% IEQ) (Total Return A..16.15K) Multisector Aggressive Investor(Market Return, AU.. 15.15K)

Source Morningstar Direct

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.

Hatch Financial Planning

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