2022 Q2 Report

Victoria Student Fund
Charitable Trust

Contributors and Disclaimer

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- Any information we provide is current at the time of writing and is not financial advice.
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Word from the Trustee’s

In the last three months, there has been lots of work going on behind the scenes at the Victoria Student Fund Charitable Trust. We have been busy preparing our education presentation, which is now ready for presentation in schools, and this is something we are very excited about.

Furthermore, we ran our first valuations workshops with fund analysts and analysts in the apprenticeship programme, getting a presentation from Guy Hooper on how you can go about valuing a company. Additionally, we ran an open tutorial on valuation where we went through the discount cash flow template we had created. It was great to have over 20 students attend this event and to be able to make these resources available for everyone online.

We have also run our first stock pitch competition. It was good to see some solid attempts for the competitors who all tried a discount cash flow model. We had planned to invest in the winning stock, but given the market volatility over the last three months, we decided to remain all in cash and not to start investing in the market.

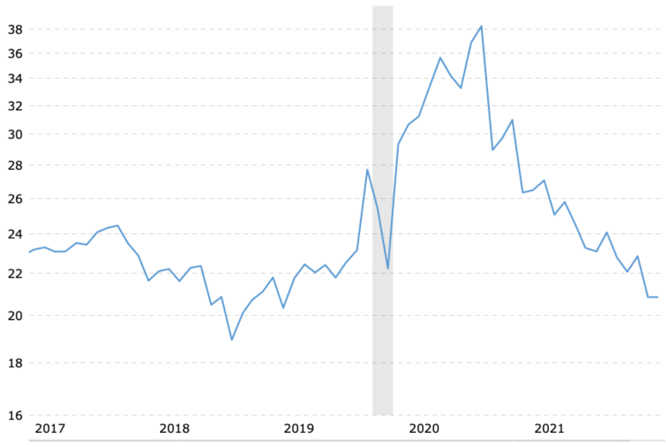
The exciting news is that given the recent drawbacks in P/E ratios, as seen in the graph coupled with market gains, we feel the time is right to enter the market. We have all been waiting for this, and we look forward to hearing pitches from students soon and having our first investment committee meeting.

Lastly, our annual report will be out soon. We hope you enjoy this update on the fund's progress and our analyst's views.

Thanks,

Dillon, Lachie & Oliver

S&P 500 P/E ratios last 5 years



Source: https://www.macrotrends.net/2577/sp-500-pe-ratio-price-to-earnings-chart

Financials

Profit and Loss

Victoria Student Fund Charitable Trust
For the 3 months ended 31 July 2022

	MAY-JUL 2022
Trading Income	
Interest Income	12.01
Total Trading Income	**12.01**
Gross Profit	**12.01**
Operating Expenses	
Consulting & Accounting	160.44
Total Operating Expenses	**160.44**
Net Profit	**(148.43)**

Balance Sheet

Victoria Student Fund Charitable Trust
As at 31 July 2022

	31 JUL 2022
Assets	
Bank	
Payments	139.56
Savings	12,716.05
Total Bank	**12,855.61**
Total Assets	**12,855.61**
Net Assets	**12,855.61**
Equity	
Current Year Earnings	4,560.17
Retained Earnings	8,295.44
Total Equity	**12,855.61**

Macroeconomic Update

The second quarter of 2022 witnessed a series of interesting macroeconomics and geopolitical news.

Inflation continues to rear its ugly head around the world. Central banks have been increasing rates at an unprecedented speed to battle inflationary expectations. For the first time in a decade, the ECB increased rates by 50 basis points. On the 28th of July, the Fed increased rates by another 75 basis points. However, the forward statement by Jerome Powell seems to indicate that the pace of hikes might slow. That said, it remains a difficult balancing act as there has to be concrete data to show that inflation pressures are slowing down.

Interestingly, there has been increasing chatter amongst prominent economists that we have reached or gone beyond 'peak inflation'. The inverted yield in the bond markets is already pointing towards a recession ahead. This indication is strongly backed by the fact that US GDP has fallen in two consecutive quarters. Concurrently, commodities, especially the oil markets, have already crashed 20% beyond their peak in the first quarter of 2022.

A special mention of the political and economic Implosion in Sri Lanka

The recent upheaval political leadership of Sri Lanka was primarily due to macroeconomics mismanagement by the previous Rajapaksa administration. Foreign reserves went from 8 billion to practically zero in a matter of months. Soaring inflation and exorbitant fuel prices drove the country's economy to a virtual standstill. Negative public sentiment turned into mass riots forcing the Rajapaksa government to collapse. Although Sri Lanka's economic malaise is relatively small by global standards, it serves as a reminder that (mismanagement) macroeconomics factors can have negative political and social ramifications. The risk of systemic contagion spreading to other 3rd world countries is relatively low at this point but not impossible.

China, unfortunately, continues to pursue its zero Covid policy and never-ending lockdowns (restrictions etc.) despite paying a huge economic price. It is apparent that the leader of the CCP, Xi Jin Ping, is more concerned about securing his nomination as party leader in the upcoming party congress than controlling the epidemic and/or socio-economic wellbeing of the Chinese people.

There has also been an unsettling development in the Chinese banking and property sector. Liquidity concerns have prompted a run on four regional banks in the Henan province, and this may just be a canary in the coal mine for the whole overexposed banking sector. Although the PBOC has recently stepped in with a property rescue fund of $44 billion to kick start the construction sector, it may just be a step too little too late.

Macroeconomic Update Continued

Update on the war in Ukraine. Western alliances have been increasing the advanced weapons supply. Despite this, Russia has managed at significant costs to overrun Ukrainian defences and capture the entire region of Luhansk oblast. Fighting is now focused on the
Donetsk oblast and Southern Kherson region. Recently, there has been a tri patriate (Russia, Ukraine and Turkey) agreement to allow grain exports from the port of Odessa, which is significant in itself to head off spirally food prices globally.

Russia is also on a charm offensive in the Middle East and Africa to fend off attempts by the Western nations to isolate Russia from the global geopolitical scene. The continuous sanctions on Russia so far have not had any material effect on the Russian economic front, although looking forward, the damage may have yet to materialise. On the flip side, the Russian Rouble continues to strengthen in spite of sanctions as the balance of payments continues to show a huge surplus driven by sky-high energy prices and the reduced imports due to the sanctions. In the currency markets, the King dollar continues to show strength but may be near the peak with the looming recession. The Euro had hit parity and was expected to go below $1. The Pound and Yen continue to show weakness. Aussie and Kiwi weakened significantly due to yield differences in sovereign bonds markets and the threat of recession which does not bode well for commodities currencies.

On the equity front, there are no signs of capitulation yet. Markets are in a push-pull mode. On the one hand, fears of a recession may hurt earnings, but at the same time, being forward-looking may be viewed as a positive as the Fed is expected to stop increasing rates as recessionary threats should end the inflationary cycle.

Forward-looking thoughts:

Inflation has peaked. A recession is already on our shores, with the US having two consecutive quarters of negative GDP. The question remains as to how deep it will be. There are two canaries in the coal mine. One, the inverted yield curve and second, plunging commodities prices. Inflation numbers will subside in the 4th quarter of 2022. Weak GDP numbers will prompt central banks to reverse their current policy stance. On the geopolitical front, new world order is brewing with Western Nations on one end and the Russia-China alliances on the opposite end. Globalisation as we know it will continue to decouple until an unnerving balance is found.

Australasian Equites Market Update

What's happened in the past quarter

The second quarter of the year has seen the Australasian markets severely affected by decade-high inflation rates of 6.1%, which is the fastest annual increase in over 20 years. High inflation rates and the risk of a recession heightening have influenced monetary policy tightening taking place as a result of the COVID–19 pandemic. The pandemic has left a range of supply disruptions and continued sickness and isolation periods in its wake. This has combined with the ongoing tensions in Ukraine with Russia, which has further disrupted supply, leading to a climb in prices and record levels of inflation.

In the past quarter, the Australian Reserve bank has been hiking the OCR as a tool to help control the high levels of inflation that are being seen. This has led to the interest rates climbing to 1.35% over the quarter. The increases in OCR are seeing a loss in consumer confidence, and more households are saving their income as a result.

The ASX and NZX have slumped throughout the last quarter and continue to follow the negative market trend that Q1 set. The S&P/ASX 200 index has fallen 11.9% in the last quarter, which is closely followed by the S&P/NZX 50 index, which displayed similar patterns and fell 10.2%.

The Australian energy sector has shown some resistance and small positive gains driven by AGL Energy Limited (5.63%) and Viva Energy Group (23.5%). Conversely, the Australian technology sector suffered severe losses from Atlassian Corporation PLC (-38.71%) and REA Group Limited (-14.08%).

New Zealand's healthcare sector was amongst the worst performing sectors in the last quarter, with Fisher & Paykel Healthcare Corp Ltd having significant losses (-18.45%) as well as Summerset group holdings (-17.9%).

Our thoughts on what's next

The macro-environment that the Australasian market is currently in is nothing like ever seen before. The supply disruptions and all-time high inflation levels are influencing the market through price increases and loss of consumer confidence. It is going to be a shaky next quarter for the Australasian markets as the Australian Reserve Bank attempts to navigate the return to "normality".

Fixed Income Market Update

The second quarter of the year has sung very much to the same tune as Q1, with inflation raging to a 32-year high, with the CPI rising 1.7% for the quarter to an annual rate of 7.3%. The RBNZ continue to respond with monetary tightening heading into Q3, revising the OCR up 50bp to 2.5% in July. Looking at Australia, we see very similar trends. Australia recorded annual CPI inflation of 6.1% in Q2, up 1.8% for the quarter, prompting the RBA to continue tightening with a 50bp increase to the cash rate, bringing it to 1.35%.

High inflation figures in the June quarter have continued to erode bond returns in real terms. However, many investors share the sentiment that inflation has reached its peak, with many expecting it to ease at the tail end of the year and into 2023. These expectations have been clearly reflected in bond yields. Long maturity New Zealand government debt yields reached their peak so far this year in June as investors expected inflation to hit its highest point midyear. Coming into Q3 long maturity yields have dipped (see table 1), the 10yr yield going from a high of 4.26% mid-June to 3.4% in July, whilst short maturity yields have continued to rise, bonds with 1-month to 6-month maturities rising across the board. A flattening of the yield curve, as long maturity yields fall and short maturity yields rise, signals that the market believes inflationary pressures will ease and that the RBNZ's aggressive monetary policy should be softened.

Australian yields are painting a different picture. Australian government bond yields also peaked in late June, the 10yr yield peaking at 4.057% in mid-June and falling to 3.202% in early Q3. The rise in yields in the June quarter suggests that Australian investors also anticipate inflation to ease coming into the back half of the year, with many believing inflation figures have inched as high as they can go. Yields have subsequently fallen early in Q3. However, despite this fall, they have continued to trend upwards overall, with bonds of all maturities following the trend, maintaining an upward sloping yield curve.

There is a general outlook that, in both Australia and New Zealand, inflation has reached its peak and will begin to ease into the second half of the year, as has been reflected in bond yields. The flattening of the NZ yield curve suggests investors believe the RBNZ has overshot monetary tightening, whilst across the ditch, a normal yield curve suggests the market supports the RBA's cash rate.

Table 1

Residual Maturity	Yield			ZC Price			Last Change
	Last	Chg 1M	Chg 6M	Last	Chg 1M	Chg 6M	
1 month	2.820%	+40.0 bp	+195.0 bp				29 Jul
2 months	3.010%	+35.0 bp	+201.0 bp				29 Jul
3 months	3.170%	+28.0 bp	+204.0 bp				29 Jul
4 months	3.300%	+22.0 bp	+209.0 bp				29 Jul
5 months	3.430%	+17.0 bp	+214.0 bp				29 Jul
6 months	3.570%	+13.0 bp	+220.0 bp				29 Jul
1 year	3.280%	-7.0 bp	n.a.	96.82	+0.06 %	n.a.	29 Jul
2 years	3.285%	-20.7 bp	+114.1 bp	93.74	+0.40 %	-2.20 %	29 Jul
5 years	3.288%	-40.0 bp	+82.4 bp	85.06	+1.94 %	-3.93 %	29 Jul
7 years	3.318%	-44.2 bp	+78.6 bp	79.57	+3.03 %	-5.21 %	29 Jul
10 years	3.398%	-46.7 bp	+79.3 bp	71.59	+4.60 %	-7.41 %	29 Jul
15 years	3.505%	-43.9 bp	+86.0 bp	59.65	+6.56 %	-11.76 %	29 Jul
20 years	3.750%	-43.2 bp	+82.0 bp	47.89	+8.67 %	-14.68 %	29 Jul

Last Update: 29 Jul 2022 20:15 GMT+0

http://www.worldgovernmentbonds.com/country/new-zealand/#:~:text=Yield%20Curve%20is%20flat%20in,probability%20of%20default%20is%200.40%25.

Global Market Update and Mutual Fund Ideas

The second quarter of 2022 has been a stimulating and rather challenging time for investors globally, as the markets are combating shifts in interest rates, supply chain conflict, inflationary pressures and ongoing geopolitical challenges. There have been sell-offs in equities and bonds at one point, pushing the S&P 500 and NASDAQ down for seven straight weekly losses, which is the longest stretch since the dot-com bubble burst, while the Dow Jones Industrial Average fell for eight consecutive weeks, it's longest streaks since the height of the Great Depression in the 1930s.

US consumer inflation reached its highest level in over four decades, up 8.6% over one year, driven by surging energy prices. The inflation rates globally are following similar trends, with the UK up to 9.4% and NZ reaching a 30-year high of 6.9 as of March 2022. While oil and gas prices slightly decreased towards the end of June, they continue to put upward inflationary pressure on the production and transport of other goods and services. Economic data and aggressive Fed activity have many market participants nervously watching for signs of a recession.

As the market begins to fall due to economic turbulence and recessions beginning, understanding the concepts and strategizing investment will allow for investors to collapse on potential gains and the 'forward looking' as markets are, we will see a positive climb before the economy officially recovers.

Using history and following market trends, longer-term investors can be comfortable knowing that the optimal strategy has been to endure economic downturns, ignore talk of recessions, and stay focused on maintaining broad-based diversification across investment portfolios. Mutual funds and ETFs are an adequate investment during a recession as a fund tends to be less volatile than a portfolio of a few stocks. US investors are wagering less on any single stock than they are on the economy's return and a rise in market sentiments during these times. Keeping that in mind, I recommend a hold option on all current investments as the markets progress into the Q3 of 2022.

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