Synergy Investments
Newsletter

INVESTMENT REPORT
FOR QUARTER ENDING 31 DECEMBER 2021

Synergy INVESTMENTS

www.synergyinvestments.co.nz

Market Commentary

The fourth quarter of 2021 rounded out another year when developed share markets posted strong returns, despite ongoing uncertainties relating to global supply chains, inflation, interest rates and, of course, emerging variants of Covid-19.

However, markets tend to look ahead. As a result, they weren't distracted by this 'noise', and were instead driven much more by supportive economic and financial data such as positive economic growth, low interest rates and good corporate earnings.

2021 recap

Following a quite extraordinary year in 2020, which saw the unwelcome arrival of Covid-19, 2021 was a year of transition mixed with hope for a return to normalcy.

Coming out of a volatile 2020, investors sought signals as to which way the global economy was headed. The distribution of vaccines and the easing of lockdowns helped foster an economic rebound, but the emergence of new Covid variants was a constant reminder that we weren't in a post-Covid world just yet.

Despite these challenges, global gross domestic product grew strongly, completing the transition from recovery to expansion and eventually surpassing its pre-pandemic peak.

At the peak of the crisis in 2020, high unemployment looked set to be a long term issue.

However, as the economic recovery progressed in 2021 it was increasingly accompanied by labour shortages, supply chain issues and fears of rising inflation.

Prices increased rapidly in essential areas such as food and energy, and the media was filled with speculation about where inflation would go, what was causing it, how long it might last, and what could, or should, be done in response.

Supply chain update

It's too early to be definitive, but the significant supply chain disruptions in 2021, largely linked to Covid-19-related production constraints and transportation bottlenecks, may have peaked. However, if true, it may still take some time for this to eventually filter through to the prices we pay for many goods and services.

After rising significantly throughout much of 2021, both the Dry Baltic Index (dry bulk freight costs) and in the HARPEX Shipping Index (weekly container shipping rates) showed declines across November and December.

Whilst these rates are still elevated, it is at least a positive sign that supply chain disruptions could be slowly abating and freight-related pricing pressures might begin to slowly ease.

Whilst these rates are still elevated, it is at least a positive sign that supply chain disruptions could be slowly abating and freight-related pricing pressures might begin to slowly ease.

Energy prices

Whilst the global economic recovery is boosting demand for oil and gas, it is happening at a time when supply growth is static and is therefore putting upward pressure on prices.

Governments have been encouraging energy companies to spend more money on renewable energy sources, but this has often come at the expense of spending on traditional energy exploration and production. And, while renewables may be the long term future, for the immediate future it is still oil and gas that powers much of the world.

Until such time as a significant transition to renewable energy sources can be achieved, traditional energy prices look likely to stay elevated.

NZ residential property

A report from independent real estate consultancy firm Knight Frank highlighted New Zealand's residential real estate prices led the world over the last five years (up 60%), although slipping to third on the index this year.

Some of the contributing factors behind this strong performance are widely acknowledged:

- New Zealanders have historically been highly enthusiastic property investors.
- New Zealand has enjoyed strong positive net migration (up to March 2020).
- There is a relative scarcity of housing stock currently available.
- The recent availability of extremely low mortgage interest rates.
- Housing has been seen as an appealing investment option for many Kiwis unexpectedly grounded due to Covid lockdowns.

However, with interest rates in New Zealand now on the rise and pipeline building consents much higher, there are reasons to think the pace of the recent price rises could ease in 2022.

Reduced financial stimulus

In 2020, aiming to defy a potentially devastating economic outcome from Covid-19, global central banks quickly provided unprecedented levels of financial support to markets. Almost two years later, albeit with a very hefty price tag, this strategy seems to have achieved its goal.

Apart from an initial slump in February/ March 2020, markets have continued to function effectively. Many companies were able to survive or even thrive in the intervening months, and unemployment levels in key developed markets are now significantly lower than most 2020 projections.

Now however, with global economic growth indicators remaining positive and inflation currently spiking around much of the world, central bankers are reviewing the extent to which this significant financial stimulus may still be required. The higher inflation rates alone are an indicator that the patient is 'responding to the medication', and that perhaps the central banks can begin to look to reduce the dosage.

As financial stimulus programmes gradually begin to wind down and the world takes a collective step back towards a more conventional monetary policy approach, this creates another uncertainty. After years of abnormally supportive policy settings, weaning the patient off this stimulatory financial medication entirely is unlikely to be smooth transition.

What lies ahead?

We could offer you our best guess, but if we did you should be sceptical.

In spite of interpreting some of the information currently available in the markets in an effort to provide a broader context, there is no reliable link between this information and future market performance, especially in the short term. Thankfully, it's not a problem we grapple with alone. In truth, all investors, including all professional investors, suffer from the same problem.

We just don't know, and can't know with certainty, what the future holds.

Over a long term horizon, shares will always have greater performance potential than bonds, and this continues to hold true today even though share markets have generally been performing very well for a long time. With interest rates still at relatively low levels in developed markets, overall return expectations from all fixed interest assets remains more subdued, at least for the time being.

However, given the much higher variation in returns that accompanies share market investments, investors with a high exposure to shares inevitably need to navigate a fairly bumpy path. To balance out the bumps, maintaining a diversified portfolio of risk premia, including an appropriate mixture (for you) of higher risk and lower risk assets, will almost always be the best approach.

The mistake a lot of individual investors make on their own account is they often unwittingly end up taking investment risks not well suited to their needs. Chasing returns is one thing; managing risk is something else entirely. Knitting these two together is where good advice and a prudent Synergy investment portfolio sit.

Key Market Movements

The quarter started on a positive note for most share markets which, aside from a November lull, mostly ended the year strongly. It was a slightly different story in bond markets, with a weak start extending to early November, and generally a small recovery thereafter.

Developed share markets benefited from signs of economic resilience and good corporate earnings, leading to international developed market shares generating the best returns over the quarter. Economic growth continues to look relatively robust in spite of ongoing concerns about supply bottlenecks, rising inflation, potential central bank policy changes and the emergence of the Omicron variant of Covid-19. By comparison, the New Zealand share market wasn't as rewarding to investors, with consumer and business confidence both waning.

Overall, key interest rates were relatively unchanged internationally, although not without some intra-quarter volatility, as inflation fears and uncertainties about Omicron both impacted sentiment at times.

INTERNATIONAL SHARES

▲ +8.1% (hedged to NZD)

+8.7% (unhedged)

International developed share markets generally enjoyed a strong final quarter of the year.

In the USA, the flagship S&P 500 Index (total returns in USD) shrugged off an indifferent month in November and delivered an impressive +11.0% for the quarter. By year end, investors were seemingly less concerned about the rising spread of Omicron, or the potential speed of the Federal Reserve asset tapering. Instead, investors were taking their cues from robust corporate earnings reports and a generally stable/positive economic outlook. The technology sector was one of the strongest performers over the quarter, with chipmakers especially strong. Real estate companies also performed well, as investors expect e-commerce growth to drive further demand for industrial warehousing.

European markets followed a similar pattern. While a number of countries introduced restrictions on sectors such as travel and hospitality to try and reduce the spread of the new variant, the equity markets drew support from early data indicating a lower risk of severe illness. Utilities and IT companies were amongst the top performers for the quarter, along with a rebounding luxury goods sector.

The UK market also performed well, with the MSCI UK Index gaining +5.2%. This was once again slightly below the average return for the region, with the MSCI Europe ex UK Index returning +7.0%. A number of defensive areas in the UK outperformed, including some of the large internationally diversified consumer staples groups. However, domestically focused areas such as UK consumer-facing retailers and housebuilders were volatile, as speculation about changes in UK base interest rates picked up, and the share prices of travel and leisure companies were buffeted by the latest Omicron related restrictions.

Despite an increasingly positive outlook, Japan trailed all the major markets for the quarter, with the MSCI Japan Index declining by -0.9%. Japan's general election was held in October (where the ruling Liberal Democratic Party was returned with a solid majority) and there was some initial uncertainty over the new Covid variant. This may have temporarily obscured the improving economic news. In particular, the strength of the rebound in industrial production – such as automobile output - began to recover from the temporary weakness caused by the global semiconductor shortage. While the Japanese share market regained some ground in December, it was too little, too late, to salvage a positive quarter.

In New Zealand dollar terms, the MSCI World ex-Australia Index delivered a quarterly return of +8.1% on a hedged basis and +8.7% unhedged. The rolling 12 month return for the New Zealand dollar hedged index was +24.3%, while the unhedged index gained +28.3%.

Source: MSCI World ex-Australia Index (net div.)

EMERGING MARKETS SHARES

▼ -0.5%

Emerging market shares generally underperformed developed markets. Turkey was the weakest index market amid extreme volatility in the currency. The Central Bank of Turkey lowered its overnight interest rates by 4.0% over the quarter, but this only fuelled already rampant domestic inflation which ended the year at an eye-watering 36.1%. Unsurprisingly, the Turkish lira has been coming under significant pressure.

In other key emerging nations, Brazil underperformed as the central bank continued to hike interest rates in response to rising inflation; Russia lagged as geopolitical tensions with the West ratcheted up amid a build-up of Russian troops on the Ukraine border; and China finished in negative territory as concerns over slowing growth persisted.

In contrast, Egypt, Peru and UAE all posted double digit gains in US dollar terms, while Taiwan (aided by a strong performance from semiconductor manufacturers), Indonesia and Mexico all recorded solid gains and outperformed.

In unhedged New Zealand dollar terms, the MSCI Emerging Markets Index produced a quarterly return of -0.5%, culminating in a +2.7% return over the last 12 months.

Source: MSCI Emerging Markets Index (gross div.)

NEW ZEALAND SHARES

▼ -1.7%

New Zealand was one of the poorer performing global developed share markets over the quarter with the S&P/NXZ 50 Index returning -1.7%, dragged down by a general underperformance from larger capitalisation companies. This concluded a relatively subdued calendar year for the New Zealand market, with the index up a mere +0.2%, one of the worst developed markets for the year after delivering in the upper echelon in recent years.

New Zealand's economic outlook remains positive. An extremely tight labour market is providing strong job security, and third quarter GDP data released in December showed that lockdowns hadn't damaged economic activity as much as feared. Whilst Covid-19 continues to create uncertainty, New Zealand's high vaccination rates are considered a strong positive.

However, consumer and business confidence deteriorated in December. For households, high inflation is eroding purchasing power. There is an increasing awareness of higher interest rates in the pipeline and the growing challenge this might present to the housing market. For businesses, labour shortages, cost pressures and supply chain disruptions are also weighing on confidence.

On the local share market, winners and losers were quite evenly split amongst the top 50 companies for the quarter, although there was, as always, a wide dispersion of individual returns. An earnings upgrade saw Steel and Tube's share price jump +50.5% over the quarter. Similarly, Sky Network Television announced significant permanent cost savings and revenue growth, which saw its share price leap in early December, closing out the quarter with a gain of +37.8%.

Meanwhile, even though Ryman Healthcare produced a solid enough profit result for the first half of the year in trying conditions for the sector, it experienced a gradual decline in share price. Ryman ended the fourth quarter -18.3% lower, effectively giving up its gains from the previous quarter.

Source: S&P/NZX 50 Index (gross with imputation credits)

AUSTRALIAN SHARES

+3.6%

The Australian share market (ASX 200 Total Return Index) returned +2.1% for the quarter in local currency (returns to unhedged New Zealand investors were increased by a small appreciation in the Australian dollar over the quarter).

While all parts of the market contributed positively, it was the mid capitalisation companies (those ranked 51 to 100 in the index) which performed the strongest, gaining +5.8%.

The materials and utilities sectors both produced positive double digit results, while energy companies, information technology and - to a lesser extent - financials, all struggled.

Fortescue Metals rebounded from a horror third quarter by gaining +28.4%, on the back of a more than 20% rally in iron ore prices from mid-November. Also aiding sentiment was news that subsidiary Fortescue Future Industries (FFI) will become the largest supplier of green hydrogen to the United Kingdom, after signing a multi-billion pound deal.

A notable underperformer during the quarter was Magellan Financial Group which forecast a 6% decrease in its fiscal 2022 revenues, after a UK-based wealth manager ended a contract with the company. The mandate, Magellan's largest, accounted for an estimated 12% of its revenues, and news of its departure sent Magellan's shares to their sharpest fall on record, closing the quarter down -40.0%.

The 2021 calendar year return was a robust +16.2% in New Zealand dollars.

Source: S&P/ASX 200 Index (total return)

INTERNATIONAL FIXED INTEREST

-0.4%

Bond markets were buffeted over the quarter by concerns of persistent elevated inflation, hawkish central bank policy shifts and the emergence of the Omicron Covid-19 variant.

Overall, 10 year government yields were largely unchanged. Yields had been drifting downwards for most of the quarter before reversing in the final weeks of the year. Yield curves also tended to flatten in this process, with shorter-dated bonds hit harder as central bank rhetoric increasingly suggested an earlier reduction in existing financial stimulus and/or earlier action on interest rate hikes. Most notably, the US Federal Reserve policy committee suggested in December that its tapering of asset purchases could be accelerated.

The US 10 year treasury yield overall was little changed for the quarter, moving from 1.49% to 1.51%. However, it reached a high of 1.71% in October amid elevated inflation and expectations of policy tightening, then a low of 1.34% in early December amid fears over the Omicron Covid-19 variant. The US two year yield increased from 0.28% to 0.73% over the quarter.

The UK 10 year yield fell from 1.02% to 0.97%, dropping sharply in early November as the Bank of England unexpectedly elected not to raise rates. It did, however, raise rates in December. Germany's 10 year yield was little changed, from -0.19% to -0.18%, but this reflected a late surge, with the yield having fallen below -0.40% in December.

Corporate bonds lagged government bonds for the quarter. Within the investment grade bond universe, the US market saw modestly positive total returns (local currency), but Europe weakened.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) returned -0.4% for the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) returned +0.2%. This meant a negative year for global bonds with returns of -0.7% and -1.2% respectively.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)

NEW ZEALAND FIXED INTEREST

-1.4%

At both its 6 October and 24 November meetings, the Reserve Bank of New Zealand (RBNZ) elected to increase the official cash rate by 0.25%, taking this benchmark rate from 0.25% to 0.75% over the quarter.

At its November meeting, the committee noted that global inflation had increased due to the rapid recovery in global demand, combined with significant supply chain bottlenecks and labour shortages in some sectors. Ongoing higher government spending and monetary policy stimulus in many countries were contributing to strong demand. However, there was also considerable uncertainty about the persistence of global inflationary pressures. The committee noted it expected inflation to remain high in the near term, before returning to the midpoint of its target band over the next two years.

Investors largely held with the view that the RBNZ would continue to steadily hike the official cash rate in 0.25% increments until August 2022, before continuing with hikes at a slower pace. Over the quarter, the New Zealand 10 year government bond yield climbed from 2.02% at the beginning of October to a peak of 2.68% on 12 November, before easing back to close the year at 2.33%, a yield increase of 0.31% over the quarter. The New Zealand two year government bond yield followed a similar pattern, opening the quarter at 1.03% and ending the year at 1.98%, a yield increase of 0.95%.

Similar to the effects seen overseas, this flattening of the local yield curve and rising yield environment overall, generally meant negative short term returns for bonds of all durations.

The S&P/NZX A-Grade Corporate Bond Index fell -1.4% for the quarter and -4.4% for the year, while the longer duration but higher quality S&P/NZX NZ Government Bond Index fell -1.8% for the quarter and -6.2% for the year.

Source: S&P/NZX A-Grade Corporate Bond Index

Table 1: Asset class returns to 31 December 2021

ASSET CLASS	INDEX NAME	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	10 YEARS
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	-1.7%	+0.2%	+14.8%	+14.7%	+16.1%
Australian shares	S&P/ASX 200 Index (total return)	+3.6%	+16.2%	+14.1%	+10.3%	+8.5%
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	+8.1%	+24.3%	+20.6%	+14.4%	+14.7%
	MSCI World ex Australia Index (net div.)	+8.7%	+28.3%	+21.1%	+15.5%	+14.3%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	-0.5%	+2.7%	+10.6%	+10.6%	+7.2%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	-1.4%	-4.4%	+2.0%	+3.2%	+4.1%
International fixed interest	FTSE World Government Bond Index 1-5 Years (hedged to NZD)	-0.4%	-0.7%	+1.9%	+2.0%	+3.0%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	+0.2%	+0.4%	+0.8%	+1.2%	+2.0%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging markets shares are invested on an unhedged basis, and therefore returns from these asset classes are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

5 tiniest (yet seriously impactful) strategies to upgrade your life in 2022

You don't need new year's resolutions. You need strategies to reach your goals.

New year resolutions are a time waster. They look glamorous and achievable. But, hey, whom am I kidding! As the year progresses, those resolutions start to fade away into oblivion.

According to research from the University of Scranton, only 19% of people actually achieve their New Year's resolutions, with most people giving up by the middle of February. This fact proves there is nothing wrong with us; the fault is with the tradition as a whole.

I don't make New Year's "resolutions" anymore because they excite you for a short time due to the hype and pressure surrounding them. And then, they vanish..

Resolutions sound "demanding" and convey a sense of urgency — "You have to do this!" It's an artificial and unwanted pressure we put on ourselves that leaves no space for error. And when we fail, we feel embarrassed and dissatisfied in ourselves — even humiliated. Instead, I adopted certain micro changes that led to macro results.

I would be lying if I said that I succeeded in every micro change I planned to execute. But, at least failing in small tasks didn't pinch as hard as failing in a monstrous new year resolution.

So, here are 5 small ways you can easily practice to upgrade your life in 2022. In addition, you don't need gargantuan willpower or commitment to practice them.

1. Every day, get rid of only "three" items

We, humans, tend to amass a lot of unnecessary clutter.

Your attitude and drive to achieve your big aspirations might be affected if you have an overly crowded home. But, getting rid of items frees up space in your life for the new things you desire (both literally and figuratively).

So, begin by getting rid of only two-three things a day if you have excess clutter. Remember to surround yourself with things that make you feel good to be your most productive and creative self.

Marie Kondo's book, "The Life-Changing Magic of Tidying Up," is all about innovative cleaning methods — I learned many unimaginable ways to purge the clutter.

If you aren't a book reader, check out her Netflix series — "Tidying Up with Marie Kondo."

2. Amp up your bedtime routine

Morning routines are outdated, overrated, and extremely challenging.

I say this because we have been using the wrong productivity key. What you do in the evening dictates your next day's productivity.

Regardless of your way of living, your nightly routine may greatly influence the quality of your sleep and hence your following day's productivity. Your nighttime activities greatly influence your capacity to fall asleep more quickly and recharge your energy tank for the morning.

Success is not how you start; it's how you end.

What can you do at the end of the day to make your next day more positive?

If you're plagued by worry and insomnia, creating a bedtime routine might be a lifesaver for you.

Having a nighttime routine is just as important as having a morning routine since it may help you relax and wind down for the night.

A regular bedtime can also help promote early mornings and give you a boost of energy after waking up.

What you can consider for your bedtime routine:

- A 5-minute reflection: Consider what went well today and what made you proud of yourself.
- Breathing exercises: Take a deep breath for four counts, hold it for seven, and exhale for eight. Dr. Andrew Weil created the 4–7–8 breathing method as a "natural tranquiliser for the nervous system."
- Journalling: A brain dump is a great way to cleanse your thoughts and achieve better quality sleep if you suffer from worry.
- Read a little bit, but not too much!
- Adopt a "no phone after 9" policy.

3. Use the 1st of each month to unlock your high performing version

The first day of a new month is a terrific opportunity to start fresh and re-energise for the month ahead. The first day of every month is an unmissable time to invest in yourself — halt, reflect, reconnect with yourself, and set key goals for the upcoming month.

"A goal without a strategy is simply a wish" is a well-known saying.

If you're a couch astronaut who fantasises about going to space but never takes action, it's time, to be honest with yourself. Y-O-U is all that stands between you and the life of your dreams.

So, set out a few minutes on the first day of each month to plan and set shorter goals.

Using a series of successful rituals that I follow on the first day of every month, I've been able to maintain a sense of organisation, productivity, and control over my life!

What you can do:

- Add reminders and tasks to your phone calendar: The recurring reminders ensure that they're done without procrastination.
- Take on any 30-day monthly challenge — fitness, cleanliness, journalling, reading a book, no phone after 9 p.m, limiting screen time to 30 minutes a day, etc.
- Introspection: Reflecting on the past month's gains and losses enables you to make a controlled improvement plan.
- Make a monthly meal plan: It saves time and money and prevents frequent grocery visits!
- Organise the digital media: Taking backups, deleting unwanted junk, unsubscribing to useless newsletters, etc.

4. Ask yourself these open-ended questions every day

Asking provocative open-ended questions and writing your guts out may help you explore your hidden self.

Even though it may be awkward at first, you are the best person to assist you in figuring out what's going on. Despite what you may believe or want, no one else has the answers.

What questions should you ask yourself to stay controlled?

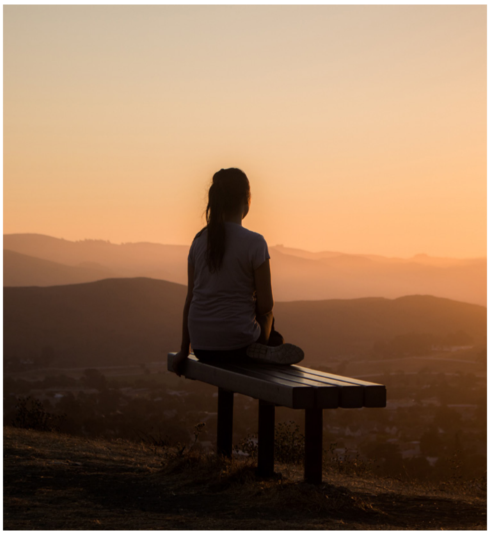
- What makes me happy and puts a grin on my face?
- What do I hope people will remember me for after I'm gone?
- What drives me forward?
- At the moment, what's stopping me?
- How am I now feeling about my life? What makes you happy?

These questions will help keep things in perspective when adversities strike. You'll also be able to track better what really matters!

5. Prioritise self-care

Self-care is free!

Self-care routines do not need a significant time or money commitment. Self-care doesn't work at all if it causes us to worry about missing out on work and spending money.



A self-care practice is an activity that you can do anywhere and at any time that involves minimal effort yet provides significant benefits in terms of peace, relaxation, vitality, and enjoyment.

If you take care of yourself, your relaxed self will take care of your life!

What You Can Do to Regain Your Physical, Mental, and Emotional Wellness:

- Go to a pleasant place by closing your eyes and using imaginative powers
- Take a stroll in nature
- Stretch out a little bit
- Watch a funny video
- Watch some motivational content

A final word

Stock markets contain all of the publicly traded companies out there. Every company has an incentive to do better. Investing in human potential across a broad range of companies is more likely to pay off than trying to predict which individual company is going to perform best. You can do well without having to outguess the market.

We're at the beginning of a new year, and it can be easy to get stuck in making resolutions for erasing old habits.

But if you think about how this coming year could be different than all the years before, you'll realise that resolutions are not the way to upgrade life!

We didn't grow up in a day — We underwent many phases of life: infancy, the toddler years, childhood, puberty, older adolescence, adulthood, etc., taking micro-steps. Likewise, your life also improves when you take baby steps each day for 12 months.

That might sound crazy now, but taking micro-steps every day will look drastically different when January 1st rolls in 2023!

Source: https://betterhumans.pub/upgrading-life-in-2022-with-micro-changes-3ebe82536646

Synergy Investments

info@synergyinvestments.co.nz
www.synergyinvestments.co.nz
0800 4 synergy

209 Cambridge Terrace
PO Box 1106
Christchurch 8140