

## Global Market Comment

Q3 2019

### Global shares

Global share markets made strong gains in the September quarter, with the MSCI ACWI Index – Net returning 7.1% in unhedged NZD terms. In hedged NZD terms, returns were more modest (0.9%). Much of the gains can be attributed to expectations slowing global growth and ongoing trade disputes will force more central banks to cut interest rates. During the period, we saw further evidence global manufacturing activity is weakening, with the latest flash purchasing manager indices in the US, Europe and Japan continuing to underwhelm. At the same time, a lack of meaningful progress in US-China trade negotiations sparked fears that a protracted trade war could eventually push the global economy into recession. In response, the US Federal Reserve (Fed) cut rates twice, while both the Reserve Bank of New Zealand (RBNZ) and the Reserve Bank of Australia (RBA) lowered their respective cash rates to record lows. Elsewhere, the European Central Bank reduced its deposit rate and introduced fresh stimulus measures; notably the resumption of quantitative easing. Stocks in the US (1.2%<sup>1</sup>) hit further highs on the back of looser monetary policy and the Fed's commitment to act as appropriate to sustain the country's current expansion. Share markets in Europe (2.8%<sup>2</sup>) and Japan (2.3%<sup>3</sup>) were also positive for the quarter, while stocks in China (-0.3%<sup>4</sup>) and the UK (-0.2%<sup>5</sup>) weakened, albeit modestly. China's share market was impacted by evidence the country's trade war with the US is hurting growth, while UK stocks struggled as Brexit uncertainty reached new heights.

### New Zealand shares

The New Zealand share market was stronger for the quarter, returning 4.4%<sup>6</sup> and hitting a record high in the process. Local stocks benefited largely from the RBNZ's decision to cut the official cash rate to a new low of just 1.00% in August. The move came as the Bank conceded that growth had slowed over the past year and that a lower cash rate was necessary to continue to meet its employment and inflation objectives. Stocks were also supported by better-than-expected June quarter inflation data and news the unemployment rate fell to an 11-year low of 3.9% over the same period. The market had expected the unemployment rate to rise to 4.3% or 4.4%.

### Australian shares

Australian shares performed well in the third quarter, returning 2.6%<sup>7</sup>. Gains were driven by the RBA's decision to cut interest rates in July (plus speculation of more to come) and looser monetary policy globally. Stocks also benefited from some positive US earnings results and news the economy added three-times as many jobs as anticipated in July; though this was offset by a modest uptick in the unemployment rate in August.

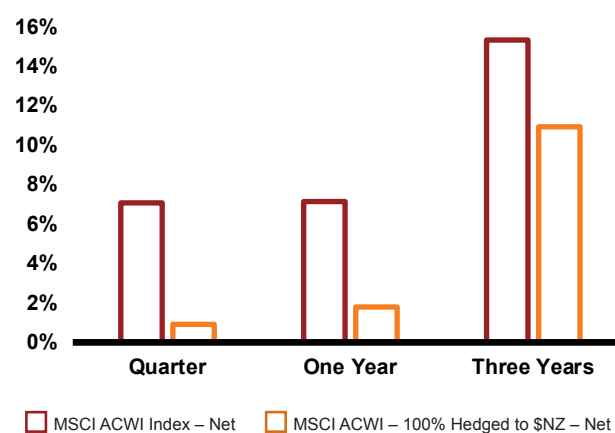
### Global listed property

Global listed property made strong gains for the quarter, returning 5.8%<sup>8</sup> in hedged NZD terms. Property stocks benefited from a further decline in longer-term bond yields as well as their traditionally defensive qualities in the face of heightened geopolitical risks; notably ongoing Sino-US trade frictions and Brexit uncertainty.

### Global listed infrastructure

The global listed infrastructure market recorded good gains in the third quarter, returning 2.6%<sup>9</sup> in hedged NZD terms. Listed infrastructure stocks rose as investors continued to favour higher-yielding assets against a backdrop of declining long-term bond yields. The asset class also benefited from its traditionally defensive characteristics in the face of heightened growth and trade uncertainty.

Figure 1. Global Equities



## Global fixed income

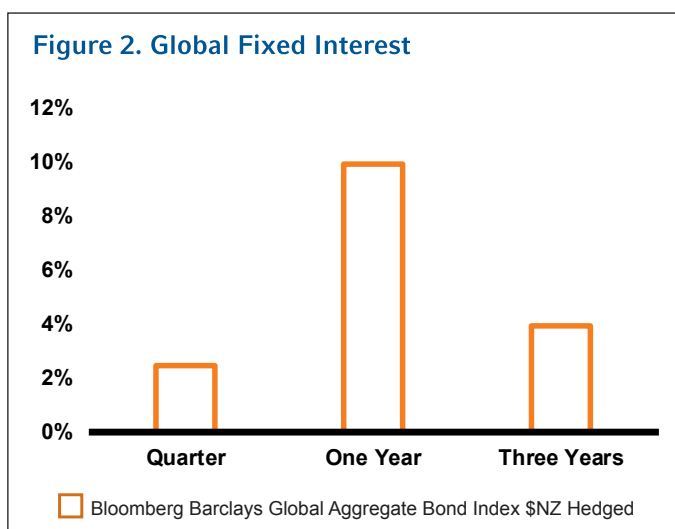
Global bonds posted good gains for the quarter, returning 2.5%<sup>10</sup> in hedged NZD terms. Longer-term government bond yields were lower (prices higher) over the period as more and more central banks moved to cut interest rates in response to slowing growth and the ongoing risks associated with US-China trade negotiations. Credit markets were mixed.

## New Zealand fixed income

The New Zealand bond market also made good gains over the period, returning 2.4%<sup>11</sup>. Domestic long-term bond yields tracked their global counterparts lower; driven largely by the RBNZ's decision to cut interest rates in August and a broad 'flight to quality' in the face of heightened geopolitical risks. The yield on New Zealand 10-year government bonds closed the quarter 48 basis points lower at 1.09%.

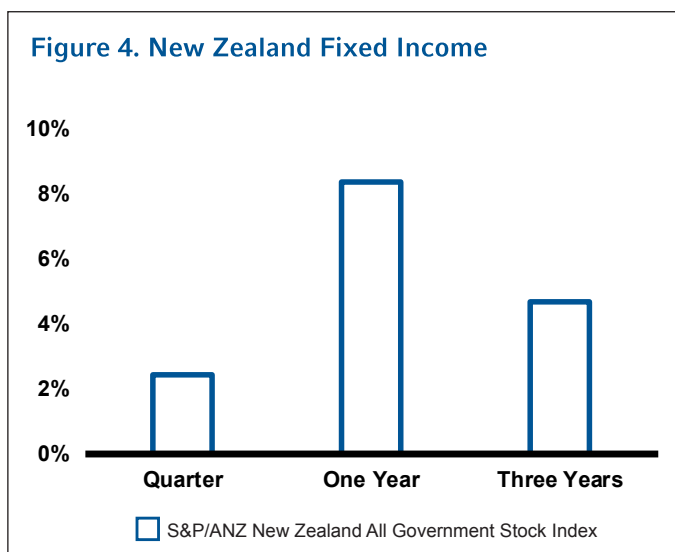
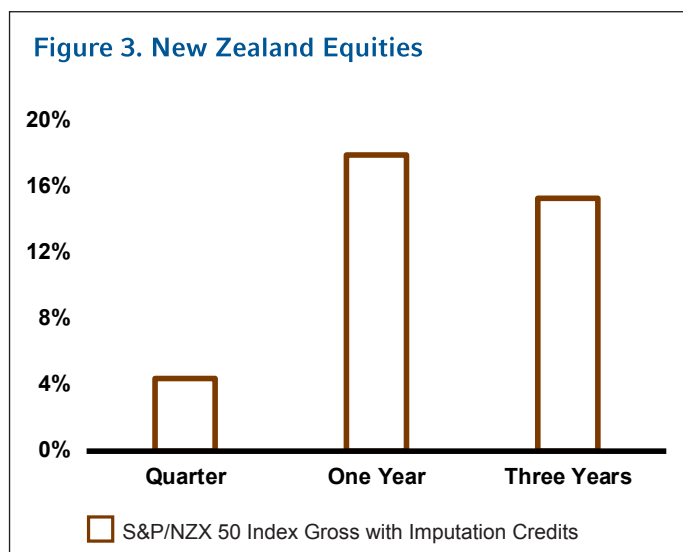
## New Zealand dollar

A combination of falling interest rates, softer domestic growth and weaker commodity prices contributed to a sharp decline in the New Zealand dollar (NZD) over the quarter. The NZD fell 6.2% against the US dollar, 6.0%



against the Japanese yen, 3.4% against the British pound, 2.9% against the Australian dollar and 2.5% against the euro. The broader New Zealand Trade-Weighted Index closed the quarter down 4.1%<sup>12</sup>.

Note: all returns are in local currencies unless otherwise stated.



1 S&P 500 Index

2 Dow Jones EuroStoxx 50 Price Index

3 Tokyo Stock Exchange Tokyo Price Index (TOPIX)

4 Shanghai Shenzhen CSI 300 Index

5 FTSE 100 Index

6 S&P/NZX 50 Index with imputation credits

7 S&P/ASX 300 Accumulation Index

8 FTSE EPRA/NAREIT Developed Real Estate Index Net NZD Hedged

9 S&P Global Infrastructure Index (NZD hedged)

10 Bloomberg Barclays Global Aggregate Bond Index (NZD Hedged)

11 Bloomberg NZ Bond Composite 0+ Yr Index

12 The trade-weighted index for the NZD is an indicator of movements in the average value of the NZD against the currencies of our major trading partners.

		LAST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS	
<b>Equities</b>	<b>New Zealand</b>					
	S&P/NZX 50 Index Gross with Imputation Credits	4.4%	18.0%	15.3%	17.1%	
	<b>Global</b>					
	MSCI ACWI Index – Net <sup>^</sup>	7.1%	7.2%	15.4%	11.5%	
	MSCI ACWI Index – Net (NZD hedged)*	0.9%	1.8%	11.0%	9.2%	
	<b>US</b>					
	S&P 500 Index	1.2%	2.2%	11.1%	8.6%	
	NASDAQ Composite Index	-0.1%	-0.6%	14.6%	12.2%	
	<b>Australia</b>					
	S&P/ASX 300 Accumulation Index	2.6%	12.6%	11.9%	9.5%	
	<b>China</b>					
	Shanghai Shenzhen CSI 300 Index	-0.3%	10.9%	5.4%	9.2%	
	<b>Eurozone</b>					
	EURO STOXX 50 Price Index	2.8%	5.0%	5.9%	2.0%	
	<b>Japan</b>					
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)	2.4%	-12.6%	6.3%	3.7%	
	<b>Asia Pacific</b>					
	MSCI Asia Pacific ex Japan Index (USD)	-4.9%	-4.5%	3.6%	1.2%	
	<b>UK</b>					
	FTSE 100 Index	-0.2%	-1.4%	2.4%	2.3%	
<b>Emerging Markets</b>						
MSCI Emerging Markets Index (USD)	-4.2%	-2.0%	6.0%	2.3%		
<b>Fixed Interest</b>	<b>New Zealand</b>					
	S&P/ANZ New Zealand All Government Stock Index	2.4%	8.4%	4.7%	5.8%	
	S&P/NZX A-Grade Corporate Index	2.2%	7.8%	5.0%	n/a	
	<b>Global</b>					
Bloomberg Barclays Global Aggregate Index (NZD hedged)	2.5%	10.0%	3.9%	5.5%		
<b>Property</b>	<b>Global</b>					
	FTSE EPRA/NAREIT (NZD Hdgd)	5.8%	13.7%	7.2%	9.4%	
<b>Infrastructure</b>	<b>Global</b>					
S&P Global Infrastructure Index (NZD hedged)	2.6%	18.0%	10.2%	9.4%		
<b>Commodities</b>	Thomson Reuters/CoreCommodity CRB Commodity Index USD)	-3.9%	-10.9%	-2.3%	-9.0%	
		<b>30-Sep-19</b>	<b>30-Jun-19</b>	<b>30-Sep-18</b>	<b>30-Sep-16</b>	<b>30-Sep-14</b>
	Gold spot price (USD)	1,472.49	1,409.55	1,192.52	1,315.87	1,207.26
	West Texas Intermediate crude oil (USD)	54.07	58.47	73.25	48.24	91.16
<b>Currencies</b>	NZD/USD	0.6277	0.6694	0.6616	0.7231	0.7767
	NZD/AUD	0.9287	0.9561	0.9169	0.9490	0.891
	NZD/GBP	0.5106	0.5284	0.5058	0.5582	0.4782
	NZD/EUR	0.5739	0.5889	0.5682	0.6453	0.6121
	NZD/JPY	67.73	72.08	75.10	73.10	85.01
	New Zealand Trade Weighted Index	70.23	73.20	72.08	76.97	75.96
<b>Volatility</b>	Chicago Board Options Exchange Volatility Index (VIX)	16.24	15.08	12.12	13.29	16.31

<sup>^</sup> Russell Global Large Cap Index until 30 September 2018, MSCI ACWI Index – Net thereafter

\* Russell Global Large Cap Index (NZD hedged) until 30 September 2018, MSCI ACWI Index – Net (NZD hedged) thereafter

All returns in local currency terms unless otherwise stated.

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