

Global Market Comment

Q4 2019

Global shares

Global share markets made impressive gains in the December quarter, with MSCI ACWI Index – Net returning 7.5% hedged NZD terms. Much of the gains were driven by a de-escalation in US-China trade frictions after the two sides finally agreed on a ‘phase one’ trade deal that will see China increase its purchases of US energy, farm and manufactured goods and the US reduce some tariffs on Chinese products. The agreement also addresses US concerns over its trade and technology secrets, with China agreeing to better protect American intellectual property rights. Share markets also benefited from the US Federal Reserve’s decision to cut interest rates again in October, tentative signs of ‘green shoots’ in the global manufacturing sector and hopes of an orderly Brexit following the Conservative Party’s win in the UK general election. Stocks in the US (8.5%¹), Japan (8.7%²), China (7.4%³), Europe (4.9%⁴) and the UK (1.8%⁵) were all higher for the quarter.

New Zealand shares

The New Zealand share market was stronger over the period, returning 5.3%⁶ and hitting further record highs in the process. Local stocks benefited largely from positive US-China trade developments, a series of encouraging domestic economic data and an uptick in corporate activity, including Kathmandu’s acquisition of surfing brand Rip Curl for around \$370 million. Stocks were also well supported by evidence of improving global manufacturing activity and easing Brexit concerns.

Australian shares

Australian shares made modest gains in the fourth quarter, returning 0.7%⁷. Gains were driven by easing (global) trade and political uncertainty, the Reserve Bank of Australia’s decision to lower interest rates in October and news the central bank considered cutting rates again in November. Stocks also benefited from strong gains across the major miners and further corporate activity, including an \$8.6 billion bid from Canada’s Alimentation Couche-Tard for Caltex Australia.

Global listed property

Global listed property also made modest gains for the quarter, returning 0.7%⁸ in hedged NZD terms. Property stocks benefited from the general ‘risk on’ tone that permeated global equity markets over the period. However, gains were kept in check by higher long-term bond yields, which rose amid encouraging US-China trade and Brexit developments.

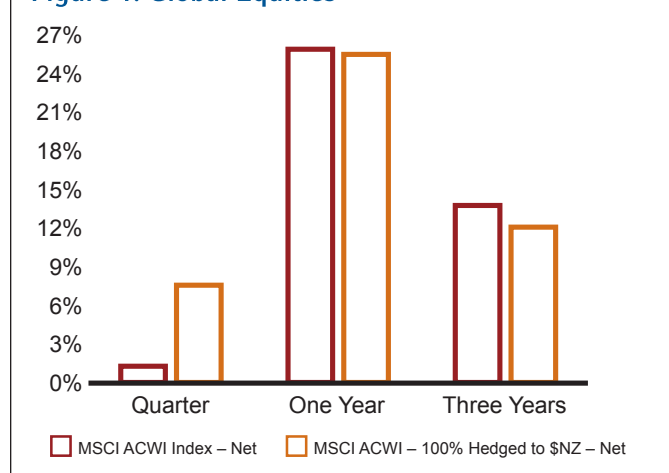
Global listed infrastructure

The global listed infrastructure market recorded good gains in the fourth quarter, returning 3.0%⁹ in hedged NZD terms. Listed infrastructure stocks got caught up in the broader rally in global share markets we saw over the period. However, like global listed property, the market’s gains were limited by rising bond yields

Global fixed income

Global bonds were weaker over the period, returning -0.6%¹⁰ in hedged NZD terms. Longer-term government bond yields were higher (prices lower) for the quarter as investors tended to favour riskier assets amid an easing in US-China trade hostilities and renewed optimism regarding the global growth outlook. Credit markets performed well as spreads narrowed over the period.

Figure 1. Global Equities



New Zealand fixed income

The New Zealand bond market was also weaker in the fourth quarter, returning -2.0%¹¹. Domestic long-term bond yields tracked their global counterparts higher over the period; driven in part by improving US-China relations and news the local economy expanded by more than expected in the third quarter. The yield on New Zealand 10-year government bonds closed the quarter 56 basis points higher at 1.65%.

New Zealand dollar

The NZD made strong gains over the quarter, benefiting from the Reserve Bank of New Zealand's decision to leave interest rates on hold, some encouraging domestic economic data and stronger commodity prices. The NZD rose 8.2% against the Japanese yen, 7.3% against the US dollar, 4.7% against the euro and 3.6% against the Australian dollar. The currency gained a more modest 0.6% against the British pound, while the broader New Zealand Trade-Weighted Index closed the quarter up 5.1%¹².

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

Figure 2. Global Fixed Interest

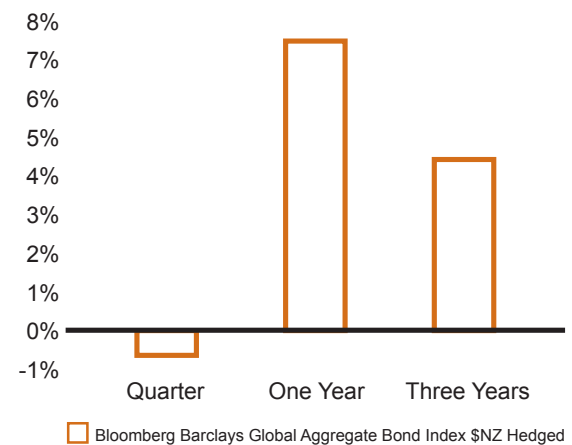


Figure 3. New Zealand Equities

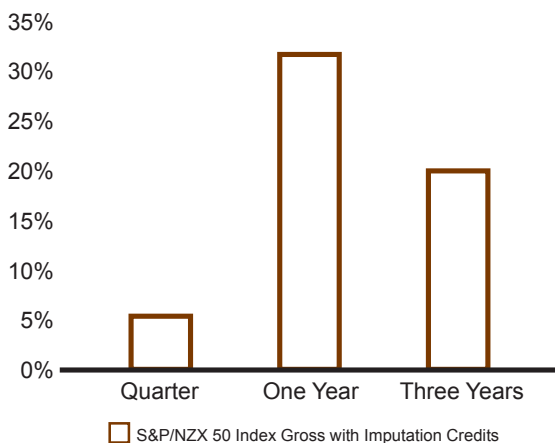
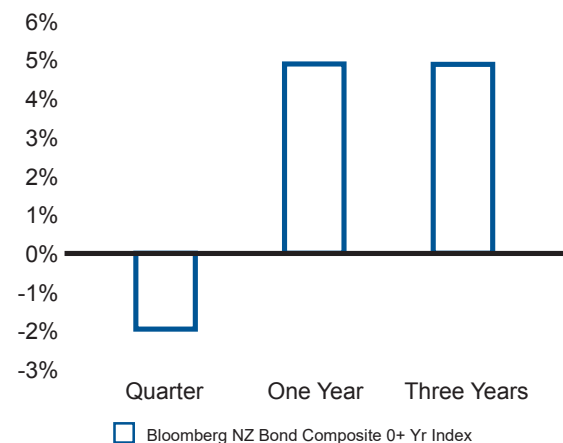


Figure 4. New Zealand Fixed Income



- 1 S&P 500 Index
- 2 Tokyo Stock Exchange Tokyo Price Index (TOPIX)
- 3 Shanghai Shenzhen CSI 300 Index
- 4 Dow Jones EuroStoxx 50 Price 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
Equities	New Zealand				
	S&P/NZX 50 Index Gross with Imputation Credits	5.3%	31.6%	19.9%	16.9%
	Global				
	MSCI ACWI Index – Net [^]	1.3%	25.8%	13.7%	11.7%
	MSCI ACWI Index – Net (NZD hedged)*	7.5%	25.4%	12.0%	9.9%
	US				
	S&P 500 Index	8.5%	28.9%	13.0%	9.4%
	NASDAQ Composite Index	12.2%	35.2%	18.6%	13.6%
	Australia				
	S&P/ASX 300 Accumulation Index	0.7%	23.8%	10.3%	9.1%
	China				
	Shanghai Shenzhen CSI 300 Index	7.4%	36.1%	7.4%	3.0%
	Eurozone				
	EURO STOXX 50 Price Index	4.9%	24.8%	4.4%	3.5%
	Japan				
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)	8.4%	15.2%	4.3%	4.1%
	Asia Pacific				
	MSCI Asia Pacific ex Japan Index (USD)	10.1%	15.8%	9.0%	3.4%
	UK				
	FTSE 100 Index	1.8%	12.1%	1.8%	2.8%
Emerging Markets					
MSCI Emerging Markets Index (USD)	11.8%	18.4%	11.6%	5.6%	
Fixed Interest	New Zealand				
	Bloomberg NZ Bond Composite Index	-2.0%	4.9%	4.9%	4.8%
	S&P/NZX A-Grade Corporate Index	-1.2%	5.2%	5.1%	5.1%
	Global				
	Bloomberg Barclays Global Aggregate Index (NZD hedged)	-0.6%	7.5%	4.4%	4.7%
Property	Global				
	FTSE EPRA/NAREIT (NZD Hdgd)	0.7%	21.5%	8.3%	7.2%
Infrastructure	Global				
S&P Global Infrastructure Index (NZD hedged)	3.0%	25.5%	10.6%	8.1%	
Commodities	Thomson Reuters/CoreCommodity CRB Commodity Index USD)	6.8%	9.4%	-1.2%	-4.2%
		31-Dec-19	30-Sep-19	31-Dec-18	31-Dec-16
	Gold spot price (USD)	1,517.27	1,472.49	1,282.54	1,147.50
	West Texas Intermediate crude oil (USD)	61.06	54.07	45.41	53.72
Currencies	NZD/USD	0.6735	0.6277	0.6713	0.6968
	NZD/AUD	0.9617	0.9287	0.9520	0.9622
	NZD/GBP	0.5136	0.5106	0.529	0.5671
	NZD/EUR	0.6011	0.5739	0.5865	0.66
	NZD/JPY	73.28	67.73	74.09	80.99
	New Zealand Trade Weighted Index	73.82	70.23	73.48	77.77
					31-Dec-14
Volatility	Chicago Board Options Exchange Volatility Index (VIX)	13.78	16.24	25.42	14.04

[^] 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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