

## Global market comment

Q2 2019

### Global shares

Global sharemarkets made good gains in the June quarter, with the MSCI ACWI Index – Net returning 5.2% in unhedged NZD terms (or 3.1% in hedged NZD terms). Much of the gains came after central banks turned more dovish in the face of rising global growth concerns. Growth fears intensified throughout the period amid a series of softer global macroeconomic data, falling bond yields and heightened geopolitical risks; notably an escalation in Sino-US trade frictions. Both the US Federal Reserve (Fed) and the European Central Bank signalled their willingness to adjust monetary policy to boost growth should it be needed, while the Reserve Bank of New Zealand (RBNZ) and the Reserve Bank of Australia (RBA) went one step further and lowered their respective cash rates to all-time lows. Stocks in the US (3.8%<sup>1</sup>) rose as investors bet that the Fed will deliver a rate cut at the end of July. Sharemarkets in Europe (3.6%<sup>2</sup>) and the UK (2.0%<sup>3</sup>) were also stronger for the quarter, though ongoing uncertainty surrounding Brexit kept the latter's gains in check. Japanese stocks (0.3%<sup>4</sup>) posted only modest gains over the period, while China's sharemarket (-1.2%<sup>5</sup>) weakened as trade talks with the US deteriorated.

### New Zealand shares

The New Zealand sharemarket was stronger for the quarter, returning 6.8%<sup>6</sup> and hitting further record highs in the process. Local stocks benefited largely from the RBNZ's decision to cut the official cash rate to a new low of just 1.50% in May. The move came in the wake of a series of softer domestic economic data and slowing global growth, which the Bank conceded was impacting demand for the country's goods and services. Expectations of a rate cut had increased since March, when the RBNZ adopted a clear easing bias. Whilst the Bank elected to leave interest rates unchanged in June, officials nonetheless noted that lower interest rates may be needed over time.

### Australian shares

Australian shares performed very well in the second quarter, returning 8.0%<sup>7</sup>. Much of the gains can be attributed to the mounting speculation that softer

employment, wages and inflation data would force the RBA to cut interest rates; which it ultimately did in June (and again in early July). Stocks also benefited from the Coalition's surprise election win in May, further corporate activity and good gains across the 'Big Four' banks and major miners.

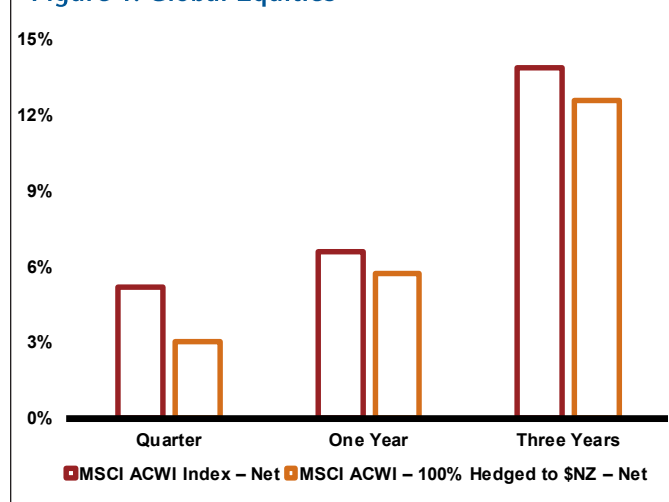
### Global listed property

Global listed property securities were slightly weaker for the quarter, returning -0.5%<sup>8</sup> in hedged NZD terms. Property stocks fell despite the decline in long-term bond yields we saw over the period. Much of the market's weakness could arguably be attributed to investors' preference for more cyclical names as well as an element of profit taking after what was a very strong first quarter.

### Global listed infrastructure

The global listed infrastructure market made good gains in the second quarter, returning 5.0%<sup>9</sup> in hedged NZD terms. Listed infrastructure stocks rose as investors favoured 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 rising global growth concerns and ongoing geopolitical risks.

Figure 1. Global Equities



## Global fixed income

Global bonds posted reasonable gains for the quarter, returning 2.7%<sup>10</sup> in hedged NZD terms. Longer-term government bond yields were lower (prices higher) over the period amid dovish central bank rhetoric, softer global macroeconomic data and heightened geopolitical uncertainty. Meanwhile, expectations of lower interest rates, stabilising oil prices and late hopes of renewed US-China trade talks contributed to tighter credit spreads over the quarter.

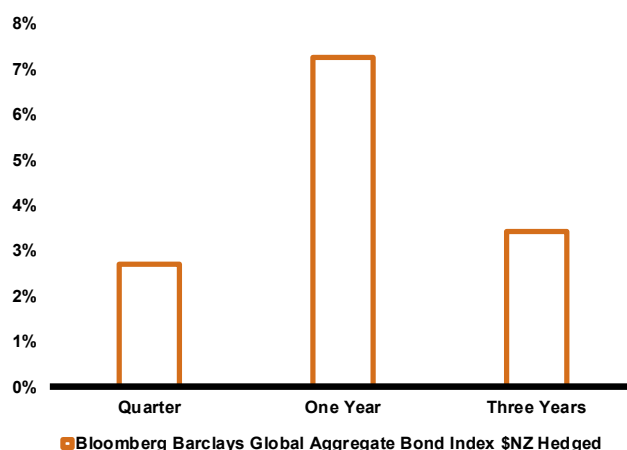
## New Zealand fixed income

The New Zealand bond market also made reasonable gains over the period, returning 1.9%<sup>11</sup>. Domestic long-term bond yields tracked their global counterparts lower over the quarter, driven largely by the RBNZ's decision to cut interest rates in May 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 24 basis points lower at 1.57%.

## New Zealand dollar

The New Zealand dollar (NZD) fell over the quarter as domestic interest rates reached new lows, commodity prices weakened, and global growth concerns

Figure 2. Global Fixed Interest



intensified. The NZD fell 4.2% against the Japanese yen, 2.5% against the euro, 1.3% against the US dollar and 0.1% against the Australian dollar. It rose 1.7% against the British pound, while the broader New Zealand Trade-Weighted Index closed the quarter down 0.9%<sup>12</sup>.

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

Figure 3. New Zealand Equities

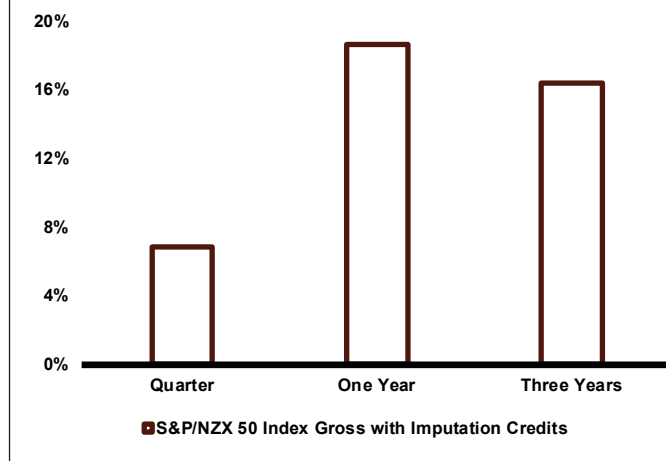
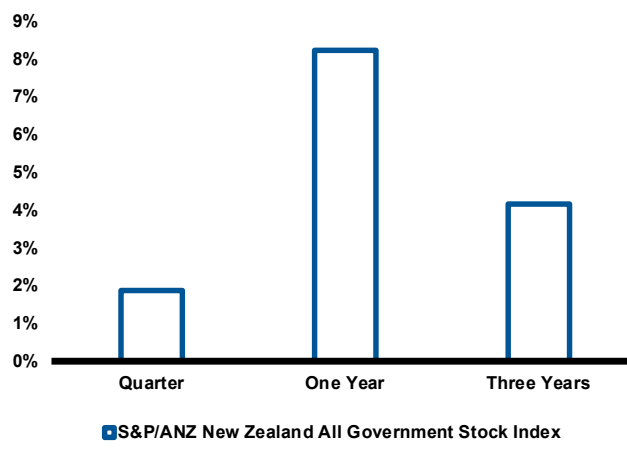


Figure 4. New Zealand Fixed Income



- 1 S&P 500 Index
- 2 Dow Jones EuroStoxx 50 Price Index
- 3 FTSE 100 Index
- 4 Tokyo Stock Exchange Tokyo Price Index (TOPIX)
- 5 Shanghai Shenzhen CSI 300 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 The New Zealand bond market's measure comprises 75% S&P/NZX New Zealand Government Bond Index and 25% S&P/NZX Corporate A-Grade Bond 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	6.8%	18.6%	16.4%	16.8%	
	<b>Global</b>					
	MSCI ACWI Index – Net <sup>^</sup>	5.2%	6.6%	13.9%	12.0%	
	MSCI ACWI Index – Net (NZD hedged)*	3.1%	5.8%	12.6%	9.3%	
	<b>US</b>					
	S&P 500 Index	3.8%	8.2%	11.9%	8.5%	
	NASDAQ Composite Index	3.6%	6.6%	18.2%	12.7%	
	<b>Australia</b>					
	S&P/ASX 300 Accumulation Index	8.0%	11.4%	12.8%	8.9%	
	<b>China</b>					
	Shanghai Shenzhen CSI 300 Index	-1.2%	9.0%	6.6%	12.1%	
	<b>Eurozone</b>					
	EURO STOXX 50 Price Index	3.6%	2.3%	6.6%	1.5%	
	<b>Japan</b>					
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)	-2.5%	-10.4%	7.6%	4.2%	
	<b>Asia Pacific</b>					
	MSCI Asia Pacific ex Japan Index (USD)	-0.3%	-2.1%	8.4%	1.3%	
	<b>UK</b>					
	FTSE 100 Index	2.0%	-2.8%	4.5%	1.9%	
<b>Emerging Markets</b>						
MSCI Emerging Markets Index (USD)	0.6%	1.2%	10.7%	2.5%		
<b>Fixed Interest</b>	<b>New Zealand</b>					
	S&P/ANZ New Zealand All Government Stock Index	1.9%	8.2%	4.2%	5.8%	
	S&P/NZX A-Grade Corporate Index	1.8%	6.8%	4.8%	n/a	
	<b>Global</b>					
Bloomberg Barclays Global Aggregate Index (NZD hedged)	2.7%	7.3%	3.4%	5.4%		
<b>Property</b>	<b>Global</b>					
	FTSE EPRA/NAREIT (NZD Hdgd)	-0.5%	7.8%	5.8%	7.9%	
<b>Infrastructure</b>	<b>Global</b>					
S&P Global Infrastructure Index (NZD hedged)	5.0%	13.6%	10.3%	9.0%		
<b>Commodities</b>	Thomson Reuters/CoreCommodity CRB Commodity Index USD)	-1.5%	-9.7%	-2.0%	-10.1%	
		<b>30-Jun-19</b>	<b>31-Mar-19</b>	<b>30-Jun-18</b>	<b>30-Jun-16</b>	<b>30-Jun-14</b>
	Gold spot price (USD)	1,409.55	1,292.38	1,252.60	1,317.35	1,313.36
	West Texas Intermediate crude oil (USD)	58.47	60.14	74.15	48.33	105.37
<b>Currencies</b>	NZD/USD	0.6694	0.6785	0.6741	0.7100	0.8776
	NZD/AUD	0.9561	0.9574	0.9180	0.9540	0.9319
	NZD/GBP	0.5284	0.5196	0.5158	0.5296	0.5152
	NZD/EUR	0.5889	0.6041	0.5828	0.6391	0.6432
	NZD/JPY	72.08	75.22	74.46	72.89	89.02
	New Zealand Trade Weighted Index	73.20	73.86	72.47	76.03	82.68
<b>Volatility</b>	Chicago Board Options Exchange Volatility Index (VIX)	15.08	13.71	16.09	15.63	11.57

<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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