

JUNE 2018 // GLOBAL MARKET COMMENT

Market Overview

Australasian equities

The New Zealand equity market made strong gains, rising 7.7% as measured by the S&P/NZX 50 Index. The market was led by Fisher & Paykel Healthcare (+14.1%), Ryman Healthcare (+14.1%), and Fletcher Building (+20.4%). Underpinning these gains, in part, was the reallocation by global investors to the New Zealand market after its weight in global equity indices increased. A move away from emerging markets in the Asia Pacific region to neighbouring developed markets also benefited the local market. The largest detractor was a2 Milk which declined 7.6% with the firm announcing that sales expectations were being moderated following the introduction of new labelling.

The Australian market, as measured by the Russell Australia Index, also had a strong quarter, jumping 8.9%. Broadly positive earnings updates, further Chinese growth and stronger commodity prices propelled the market up, although further fallout from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry weighed on returns.

Global equities

Global equities, as measured by the Russell Global Large Cap Index, rose 3.1% in NZ dollar hedged terms. Strong economic and earnings data boosted investor sentiment during a volatile quarter in which geopolitical risks dominated headlines, particularly the escalation in US-China trade tensions.

The US equity market rose 3.6%, as measured by the Russell 1000 Index. The market benefited, in part, from yet another round of positive US earnings results, including major technology firms such as Netflix, Facebook, Amazon and Google parent, Alphabet. Improving US jobs data and stronger commodity prices were also welcomed by the market. However, the Trump administration's announcement to impose tariffs on Chinese exports increased market volatility with small-cap stocks outperforming large caps stocks as investors preferred companies with less dependence on global trade.

European markets rose 3.8%, as measured by the Russell Eurozone Index. The European Central Bank indicated that it will not consider raising interest rates until mid to late 2019 which saw the euro drop against the US dollar. Information technology, healthcare and energy sectors performed strongly, with energy benefiting from the higher oil price. However, signs of slowing economic growth and intensifying trade tensions dampened investor sentiment.

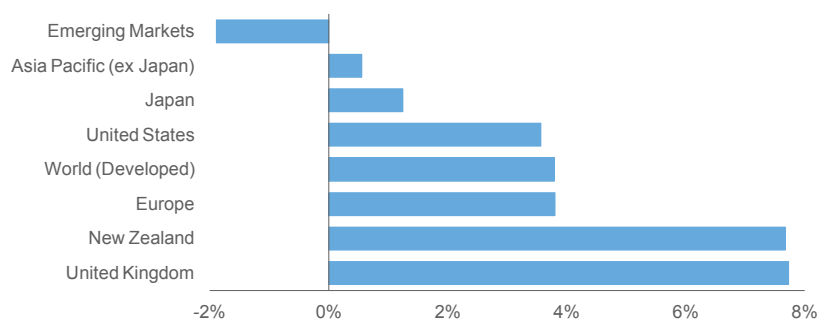
The UK market was also strong rising 7.7%, as measured by the Russell UK Index. A range of disappointing macroeconomic data saw the Bank of England reduce its 2018 growth forecast and then backtrack on an anticipated rate rise. This saw the British pound weaken which drove the share market higher, particularly the more internationally exposed large cap stocks.

Currency comment

The NZ dollar weakened as the RBNZ continued with its accommodative approach to monetary policy. NZ dollar weakness was particularly evident against the US dollar which strengthened after the US Fed reiterated its hawkish tone.

Currency	NZD % appreciation
USD	-6.1%
GBP	-0.3%
AUD	-2.6%
JPY	-2.3%
EUR	-1.1%
TWI	-2.5%

Figure 1. FTSE World Equity Indices, Local Currency Q2 2018



Source: FTSE Russell

The oil and gas sector also performed well, benefiting from the rise in crude oil prices.

The Japanese equity market edged higher by 1.2%, as measured by the Russell Japan Index. The yen fell 4% against the dollar which gave a boost to Japan's export-driven companies. However, the market also faced headwinds with news of a decline in the country's GDP and the growing trade tensions between the US, China and Europe.

Emerging markets significantly underperformed their developed peers, returning -1.9%, as measured by the Russell Emerging Markets Index in local currency terms. A strengthening US dollar acted as a headwind for markets as did the escalation in global trade tensions. Brazil was the weakest market as a truck-driver strike paralysed the economy and amplified political uncertainty. Chinese stocks also finished lower on signs of slowing momentum in the domestic economy and a deterioration in the outlook for global trade.

Global fixed interest

The Bloomberg Barclays Global Aggregate Bond Index was little changed rising just 0.2% in NZ dollar hedged terms. Longer-term government bond yields were mixed with the US 10-year Treasury yield rising from 2.74% to 2.86% in line with an improving growth outlook and the decision by the US Federal Reserve to accelerate its rate hike agenda. In contrast, yields in the UK and Europe were lower amid renewed political uncertainty in both regions, while Japanese yields closed the period relatively unchanged.

Heightened market volatility saw credit spreads on US and European investment-grade and corporate high-yield debt widen while emerging market bonds also had a difficult quarter due to the strengthening US dollar and other idiosyncratic risks.

New Zealand fixed interest

The New Zealand fixed interest market rose 1.0%, as measured by the S&P/NZX NZ Government Bond Index. The RBNZ left the official cash rate unchanged at 1.75% throughout the period. In his first meeting as governor, Adrian Orr reiterated the central bank’s view that monetary policy would remain accommodative in the near-term; though he clearly signalled a willingness for the next move in interest rates to be determined by the relative strength of key economic data. This dovish tone, alongside a ‘flight to safety’ as investors considered the implications of a trade war between the US and its major trading partners, saw yields on long-term NZ government bonds fall. The result was that by the end of the quarter the NZ 10-year government bond yield was around 20 basis points below that of its US equivalent.

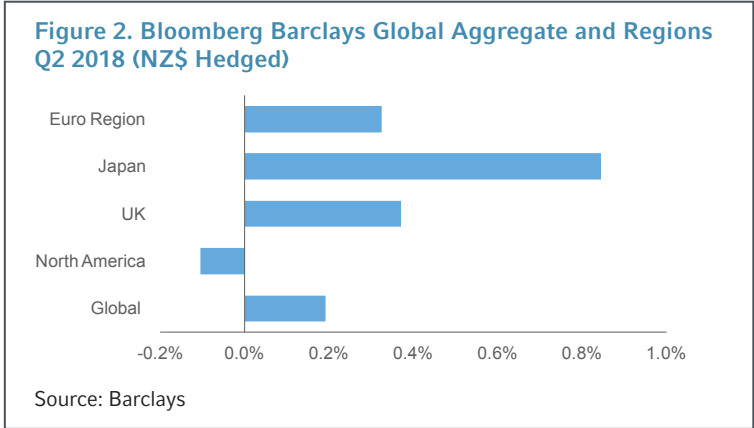
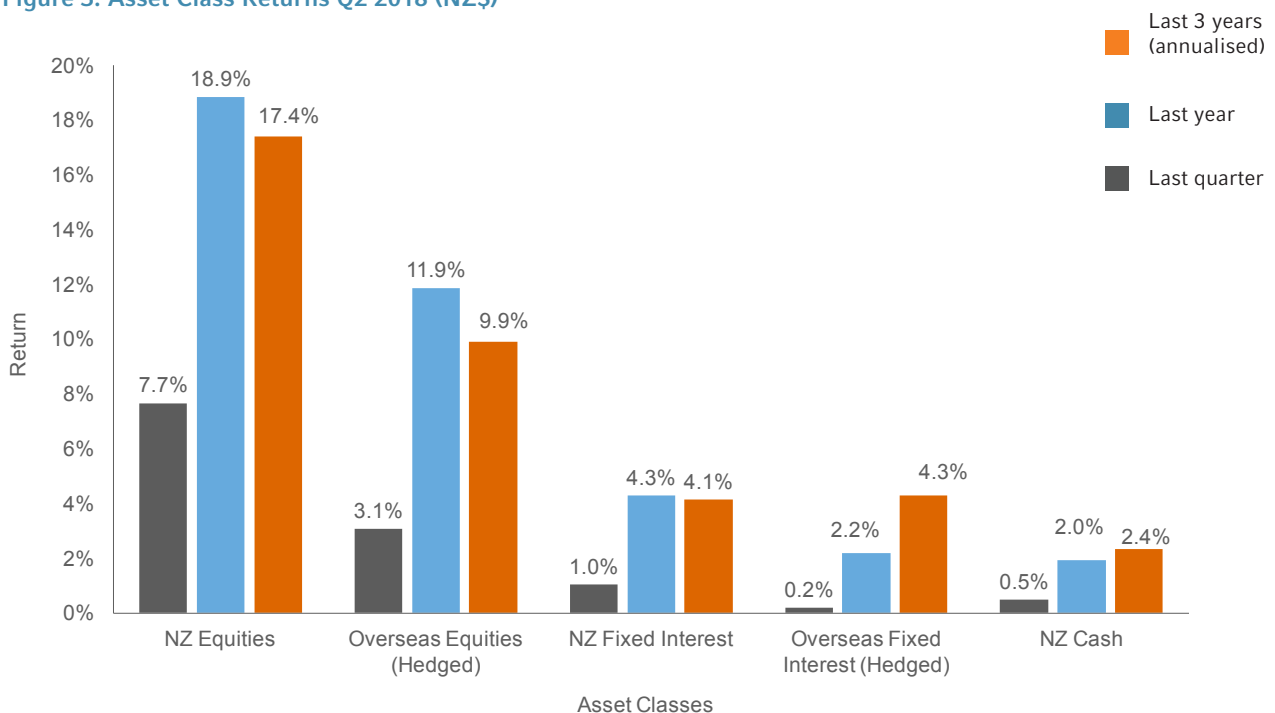


Figure 3. Asset Class Returns Q2 2018 (NZ\$)



Source: FTSE Russell, S&P, Bloomberg.

			Last Quarter	One year	Three year	Five year
Equities	New Zealand					
	S&P/NZX50 with ICs		7.67%	18.86%	17.42%	16.49%
	Global					
	Russell Global Large Cap NZD Hedged (≈ MSCI AC)		3.07%	11.87%	9.90%	12.73%
	Russell Developed Large Cap (≈ MSCI World)		3.79%	11.65%	9.33%	11.88%
	United States					
	Russell 1000		3.57%	14.53%	11.64%	13.37%
	Russell 2000		7.75%	17.57%	10.96%	12.46%
	Russell 3000		3.89%	14.78%	11.58%	13.30%
	Australia					
	Russell Australia		8.93%	13.92%	10.01%	11.09%
	China					
	Russell China		2.14%	17.87%	9.47%	13.85%
	Eurozone					
	Russell Eurozone		3.80%	5.63%	5.76%	11.28%
	Japan					
	Russell Japan		1.25%	9.88%	4.16%	10.98%
	Pacific ex Japan					
	Russell Asia Pacific ex Japan		0.55%	10.00%	8.94%	10.35%
	United Kingdom					
Russell United Kingdom		7.73%	6.02%	8.49%	8.24%	
Emerging Markets						
Russell Emerging Markets		-1.89%	9.58%	8.17%	9.57%	
Russell Frontier		-1.92%	9.90%	8.86%	9.25%	
		Yield				
Fixed Interest	S&P NZX 90-day Bank Bill Index	2.00	0.49%	1.95%	2.35%	2.72%
	S&P NZX NZ Government Bond Index	2.23	1.04%	4.31%	4.14%	4.60%
	Bloomberg Barclays Global Aggregate Index NZD Hdgd		0.20%	2.21%	4.32%	5.55%
	Citigroup World Government Bond Index NZD Hdgd		0.21%	2.68%	4.38%	5.59%
Property	Global					
	FTSE EPRA/NAREIT (NZD Hdgd)		7.52%	6.87%	7.25%	9.27%
	United States					
	FTSE NAREIT Equity REITs (USD)		8.50%	4.93%	9.14%	8.88%
Commodities	Bloomberg Commodity Index (USD)		0.40%	7.35%	-4.54%	-6.40%
	S&P GSCI Total Return Index (USD)		8.00%	30.04%	-4.37%	-9.41%
		30-Jun-18	31-Mar-18	30-Jun-17	30-Jun-15	30-Jun-13
	Gold spot price (USD)	1251.1	1323.4	1241.6	1169.4	1215.4
	Oil spot price (USD)	74.1	64.9	46.0	59.5	96.4
Currencies	USD/NZD	0.6770	0.7214	0.7322	0.6763	0.7723
	NZD/AUD	0.9164	0.9405	0.9546	0.8799	0.8437
	NZD/GBP	0.5128	0.5143	0.5637	0.4300	0.5092
	NZD/EUR	0.5799	0.5866	0.6420	0.6070	0.5941
	NZD/JPY	74.99	76.72	82.27	82.76	76.72
	Trade Weighted Index	72.47	74.31	78.44	71.29	74.03
Volatility	CBOE Volatility Index (VIX)	16.09	19.97	11.18	18.23	16.86

Index definitions

Equities

New Zealand

S&P/NZX 50 with ICs: Measures the top 50 companies listed on the New Zealand Exchange by free float adjusted market capitalisation and includes the value of imputation credits.

Global Equities

Russell Global Large Cap: The index measures the performance of the largest securities in the Russell Global Index, based on market capitalisation. The index includes approximately 3000 securities and covers 87% of the investable global market.

Russell Developed Large Cap: Offers investors access to the large-cap segment of the developed equity universe representing approximately 70% of the global equity market. The index includes the largest securities in the Russell Developed Index.

United States

Russell 1000: Measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the US market.

Russell 2000: Measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalisation of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 3000: Measures the performance of the largest 3000 US companies representing approx 98% of the investable US equity market.

Australia

Russell Australia: Measures the performance of the equity market in the Australia based on all its investable equity securities.

United Kingdom

Russell United Kingdom: Measures the performance of the equity market in the UK based on all its investable equity securities.

Japan

Russell Japan: Measures the performance of the equity market in Japan based on all its investable equity securities.

China

Russell China: Measures the performance of the equity market in China based on all its investable equity securities.

Eurozone

Russell Eurozone: Measures the performance of the equity markets located in the Eurozone, based on all investable equity securities in the region. The index covers 15% of the investable global market.

Pacific ex-Japan

Russell Asia Pacific ex-Japan: Measures the performance of the equity market in the countries in Asia Pacific, excluding Japan and including Australia and New Zealand based on all its investable equity securities.

Emerging Markets

Russell Emerging Markets: Measures the performance of the largest investable securities in emerging countries globally, based on market capitalisation. The index covers 20% of the investable global market.

Frontier Markets

Russell Frontier: Constructed using float-adjusted market capitalisation weights and represents 98% of the cumulative, liquid market capitalisation of frontier countries.

Fixed Interest

S&P/NZX 90-day Bank Bill Index: A measure of the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. The 90-day Bank Bill index is valued on a mark to market basis, i.e. valued at current market yields not at purchase yields.

S&P/NZX Government Bond Index: Tracks movement in the NZ Government bond market. Bonds are included in the index in proportion to their relative market capitalisation weights. The index calculation assumes the full amount of all coupon payments are reinvested in the index.

Bloomberg Barclays Global Aggregate Bond Index NZD Hedged: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically, Barclays Capital Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index.)

Citigroup World Government Bond Index NZD Hedged: A market capitalisation weighted bond index consisting of the government bond markets of developed countries.

Property

Global

FTSE EPRA/NAREIT: A Global Real Estate Index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposal and development of income-producing real estate. The index series covers Global, Developed and Emerging indices, as well the UK's AIM market.

United States

FTSE NAREIT Equity REIT Index: An index, with dividends reinvested, representative of tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System.

Commodities

Bloomberg Commodity Index: A futures commodity index listing 20 different commodities in the US. It is a diversified and liquid index tracking the performance of physical commodities in the US. It weights the commodities listed according to liquidity and dollar-adjusted production data. However, unlike other commodity indices, this index sets limits on its weighting so as to maintain its own diversification.

S&P GSCI Total Return Index: Measures a fully collateralised commodity futures investment that is rolled forward from the 5th to the 9th business day of each month. Currently the S&P GSCI includes 24 commodity nearby futures contracts. The S&P GSCI Total Return Index is significantly different than the return from buying physical commodities.

Gold spot price (USD): London PM fixed spot price.

Oil price (USD): Price of barrel of light, sweet crude oil as traded on the New York Mercantile Exchange (NYMEX).

CBOE Volatility Index (VIX): An index that measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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