

## Global Market Comment

Q4 2018

### Global shares

Global share markets fell sharply in the December quarter, with the MSCI ACWI Index – Net closing the period down 13.6% in unhedged NZD terms (or -12.7% in hedged NZD terms). Stocks in the US closed the period 14.0%<sup>1</sup> lower amid rising interest rates, some softer-than-expected manufacturing activity and ongoing trade frictions with China. Share markets in the UK (-10.4%<sup>2</sup>) and Europe (-11.7%<sup>3</sup>) were also weaker for the quarter. In the UK, stocks struggled as uncertainty surrounding Brexit continued to weigh on sentiment, while European markets fell after both key economic data and corporate earnings mostly disappointed. Elsewhere, Japanese stocks fell 17.8%<sup>4</sup> as renewed fears of a global slowdown hit the country's exporters, while China's share market lost 12.5%<sup>5</sup> amid further evidence economic growth in the country is slowing; suggesting that its trade war with the US is beginning to bite.

### New Zealand shares

The New Zealand share market tracked its global counterparts lower over the quarter, returning -5.6%<sup>6</sup>. Contributing to the decline was an early spike in bond yields, ongoing geopolitical risks and some disappointing domestic economic data, including weaker business confidence and a dip in job advertisements. Limiting the decline were some positive shareholder updates and further corporate activity, including competing offers for the country's largest online marketplace operator, Trade Me.

### Australian shares

Australian shares also struggled in the fourth quarter, returning -8.4%<sup>7</sup>. Stocks traded lower throughout the period, beginning with an early spike in bond yields, weakness across the major miners and the 'Big Four' banks, and ongoing US-China trade uncertainty. Stocks were also hindered by a series of mixed shareholder updates, some disappointing third-quarter growth data and evidence China's economy is slowing. Sentiment was further impacted by another tepid inflation reading, rising US interest rates and heightened domestic political uncertainty.

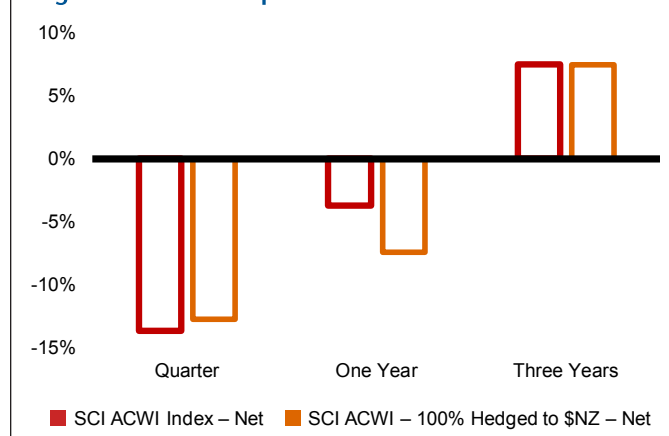
### Global listed property

Global listed property securities were weaker over the period, closing the quarter down 5.7%<sup>8</sup> in hedged NZD terms. Much of the decline can be attributed to the general equity market sell off we saw throughout the period, which was driven by ongoing trade and political uncertainty. Property stocks were also impacted by the US Federal Reserve (Fed)'s decision to raise interest rates in December and renewed concerns over the global growth outlook.

### Global listed infrastructure

The global listed infrastructure market was weaker in the December quarter, returning -3.9%<sup>9</sup> in hedged NZD terms. Listed infrastructure stocks got caught up in the global rout we saw over the period. However, infrastructure assets performed much better than the broader equity market as investors favoured their stable, long-life characteristics and predictable cashflows in what was a volatile market environment.

Figure 1. Global Equities



### Global fixed income

Global bonds made good gains in the fourth quarter, returning 1.7%<sup>10</sup> in hedged NZD terms. Longer-term government bond yields were lower (prices higher) as investors favoured the asset class's traditionally defensive characteristics in the face of heightened geopolitical risks. Yields were also pressured by a series

of disappointing European earnings updates, some softer-than-expected European and Chinese economic data, and fresh fears of a global slowdown. Meanwhile, credit spreads widened as risk aversion dominated for much of the period.

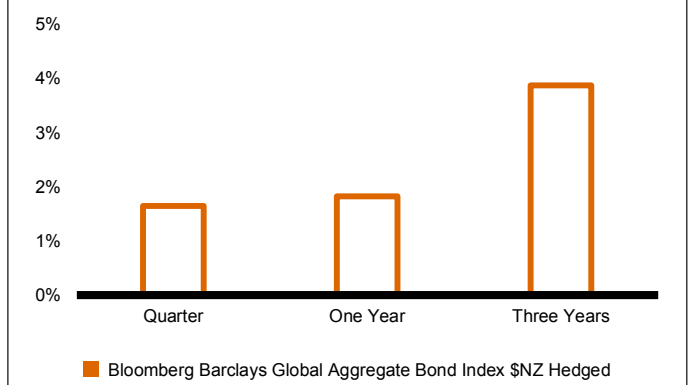
### New Zealand fixed income

The New Zealand bond market made reasonable gains in the fourth quarter, returning 1.4%<sup>11</sup>. Domestic long-term bond yields tracked their global counterparts lower over the period amid a series of disappointing economic data, expectations local interest rates will remain on hold for some time and signs global growth may be moderating. The yield on domestic 10-year government bonds closed the quarter 25 basis points lower at 2.37%.

### New Zealand dollar

The NZD was stronger in the December quarter; the local currency benefiting in part from some encouraging domestic earnings updates, further merger and acquisition activity and a narrowing in the yield differential between New Zealand and US government

Figure 2. Global Fixed Interest



debt. The NZD rose 4.6% against the British pound, 3.8% against the Australian dollar, 3.2% against the euro and 1.5% against the US dollar. It fell 1.3% against the Japanese yen, while the broader New Zealand Trade-Weighted Index closed the quarter up 1.9%<sup>12</sup>.

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

Figure 3. New Zealand Equities

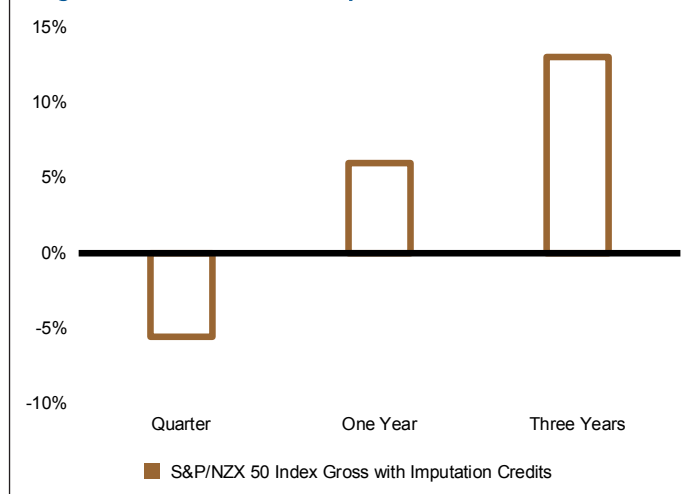
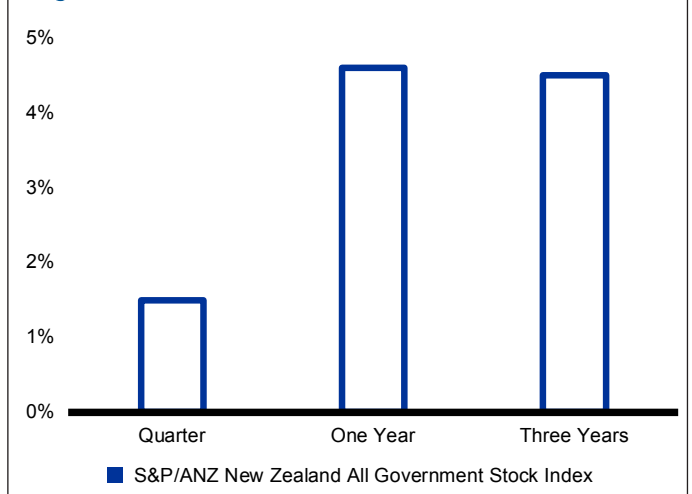


Figure 4. New Zealand Fixed Income



- 1 S&P 500 Index
- 2 FTSE 100 Index
- 3 Dow Jones EuroStoxx 50 Price 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
- 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	-5.6%	6.0%	13.0%	14.6%
	<b>Global</b>				
	MSCI ACWI Index – Net <sup>^</sup>	-13.6%	-3.7%	7.5%	8.8%
	MSCI ACWI Index – Net (NZD hedged)*	-12.7%	-7.4%	7.5%	7.5%
	<b>US</b>				
	S&P 500 Index	-14.0%	-6.2%	22.6%	35.6%
	NASDAQ Composite Index	-17.5%	-3.9%	32.5%	58.9%
	<b>Australia</b>				
	S&P/ASX 300 Accumulation Index	-8.4%	-3.1%	21.3%	31.3%
	<b>China</b>				
	Shanghai Shenzhen CSI 300 Index	-12.5%	-25.3%	-19.3%	29.2%
	<b>Eurozone</b>				
	EURO STOXX 50 Price Index	-11.7%	-14.3%	-8.1%	-3.5%
	<b>Japan</b>				
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)	-17.8%	-17.8%	-3.4%	14.7%
	<b>Asia Pacific</b>				
	MSCI Asia Pacific ex Japan Index (USD)	-9.3%	-16.2%	16.0%	1.9%
	<b>UK</b>				
	FTSE 100 Index	-10.4%	-12.5%	7.8%	-0.3%
<b>Emerging Markets</b>					
MSCI Emerging Markets Index (USD)	-7.8%	-16.6%	21.6%	-3.7%	
<b>Fixed Interest</b>	<b>New Zealand</b>				
	S&P/ANZ New Zealand All Government Stock Index	1.5%	4.6%	4.5%	5.4%
	S&P/NZX A-Grade Corporate Index	1.2%	4.4%	4.8%	n/a
	<b>Global</b>				
	Bloomberg Barclays Global Aggregate Index (NZD hedged)	1.7%	1.8%	3.9%	5.4%
<b>Property</b>	<b>Global</b>				
	FTSE EPRA/NAREIT (NZD Hdgd)	-5.7%	-3.6%	3.7%	7.5%
<b>Infrastructure</b>	<b>Global</b>				
S&P Global Infrastructure Index (NZD hedged)	-3.9%	-5.5%	8.3%	8.4%	
<b>Commodities</b>	Thomson Reuters/CoreCommodity CRB Commodity Index USD)	-13.0%	-12.4%	-3.6%	-39.4%
		<b>31-Dec-18</b>	<b>30-Sep-18</b>	<b>31-Dec-17</b>	<b>31-Dec-15</b>
	Gold spot price (USD)	1,282.54	1,192.52	1,302.80	1,062.55
	West Texas Intermediate crude oil (USD)	45.41	73.25	60.42	37.04
<b>Currencies</b>	NZD/USD	0.6713	0.6616	0.7097	0.6848
	NZD/AUD	0.9520	0.9169	0.9096	0.9396
	NZD/GBP	0.5290	0.5058	0.5278	0.4621
	NZD/EUR	0.5865	0.5682	0.5942	0.6261
	NZD/JPY	74.09	75.10	80.12	82.49
	New Zealand Trade Weighted Index	73.48	72.08	74.32	74.40
<b>Volatility</b>	Chicago Board Options Exchange Volatility Index (VIX)	25.42	12.12	11.04	18.21

<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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