

Adviser Wrap

November 2019

ANZ Investments brings you this summary of investment markets covering the month of November 2019. Please contact your Business Development Manager if you have any questions or need further information.

Market review

Global markets

Global equity markets continued to move higher in November, with major indices in the US reaching new all-time highs, while in Europe, indices finished higher too. The gains came as major economies reported better-than-expected third-quarter growth figures, underpinning hopes that the global growth slowdown is coming to an end. Moreover, central banks show no signs of ending their accommodative monetary policy stance to abate these global growth worries.

The broad-based rally saw the MSCI All Country World Index finish the month up 2.7%, in local currency terms. Highlights from November included the following:

Economic data mostly tops expectations

It was a relatively good month for economic data in the US with growth data and employment figures topping expectations. Third-quarter GDP was revised higher to 2.1% (more than the initial reading of 1.9%), and the nonfarm payrolls report showed the US economy added 128,000 jobs in October, ahead of expectations. Also, the Bureau of Labor Statistics revised the previous two months' numbers higher.

Meanwhile, GDP data in Germany showed the economy grew at 0.1% in the third quarter, above expectations and enough to avoid a technical recession (consecutive quarterly declines in growth). It was the same in the UK, where the economy grew at 0.3% in the third quarter, a rebound from second quarter GDP, which contracted by 0.2%.

UK election campaigning in full force

As the UK December general election drew closer, leaders of the two major parties hit the campaign trail, with Boris Johnson and The Conservative Party showing a healthy lead in the polls.

Johnson is hoping to win a majority in Parliament, making it more likely he can push through his Brexit deal before the 31 January deadline.

Phase One of US-China trade deal stalled

Again, trade talks played a significant role in financial markets in November, with the 'back and forth' providing some interim volatility. In early November, there were reports that a deal had been reached, which was later debunked by a White House adviser.

Against the backdrop of the trade war impasse, geopolitical tensions in China remained elevated as the pro-democracy protestors in Hong Kong continued to rally against what they believe to be oppressive Chinese rule.

The situation was further complicated when the US House and Senate passed the 'Hong Kong Human Rights and Democracy Act', a bill aimed at protecting the human rights of the pro-democracy protestors. Then, when President Donald Trump signed the bill into law on 27 November, China condemned the act, saying they would counteract and the US bear the consequences.

New Zealand market

New Zealand equities had a strong November, finishing the month higher thanks in part to a series of better-than-expected economic data results underpinning hopes that the local economy is improving.

Retail sales for the third quarter rose 1.7%, more than market consensus, while the ANZ Consumer Confidence Index bounced back sharply, rising 16 points to -26%, the highest level of the year. The confidence report showed an uptick for farmers on the back of rising meat and dairy prices.

In another sign that the economy may be turning higher, the Reserve Bank of New Zealand (RBNZ) left the Official Cash Rate at 1%, a surprise as most had expected a 25-basis-point cut.

The unexpected decision by the RBNZ to leave rates unchanged saw the New Zealand dollar gain against most trading partners over the month, with significant gains coming against the Australian dollar.

Sector review

International shares

US shares posted another strong month, with the S&P 500 trading to another all-time high above 3,150, finishing the month up 3.4%. And it was another strong month for technology shares, with the NASDAQ 100 rising 4%.

European shares posted strong gains too; the Euro Stoxx 50 ended November up 2.8%, while in the UK, it was a volatile month for the FTSE 100 ahead of the 12 December election. The index eventually closed up 1.4%.

Elsewhere, it was a mixed month for Asian stocks. The Nikkei 225 rose 1.6%, while the Hang Seng fell 2.1% and the Shanghai Composite fell 1.9%, as the pro-democracy protests showed no signs of easing.

Australasian shares

After underperforming in October, the NZX 50 rebounded to finish November up 4.9%, making a new all-time high, above 11,300.

Strong gains were seen in the retirement sector with Metlifecare ending the month up more than 20% after news the company had received a non-binding preliminary take-over bid.

Meanwhile, shares of Ryman Healthcare rose 17% after the company upped its full-year profit forecast.

Fisher and Paykel Healthcare continued its good run, ending the month up 15.7% after the company reported a net profit increase of 24% for the half year ended 30 September. That made back-to-back double-digit monthly gains for the company.

At the other end of the spectrum, bank stocks fell as a myriad of negative news weighed on sentiment. ANZ Banking Group fell 6%, while Westpac Banking Corp. fell 11.5%.

International fixed interest

Global bond markets had a volatile November as the on-again, off-again trade war between the US and China had investors jumping in and out of safe haven assets.

In mid-November, the US 10-year government bond yield traded to around 1.95%, its highest level since early August, before closing at 1.78%, up 9 basis points on the month.

Yields in Europe also finished the month marginally higher, with the German 10-year government bond yield rising 5 basis points to -0.36% and the UK equivalent ending 7 basis points higher at 0.70%.

Australasian fixed interest

It was a volatile month for New Zealand bondholders too. After the RBNZ surprisingly left interest rates unchanged, the New Zealand 10-year government bond yield rose above 1.5% to a three-and-a-half-month high.

However, as optimism around the trade deal between the US and China waned, New Zealand bond yields tracked international markets lower and the 10-year government bond yield closed the month at 1.29%, down 2 basis points.

The pick-up in volatility saw government bonds – those deemed less risky – marginally outperform corporate bonds.

Property

The property sector underperformed major equity benchmarks across the board, with the international property sector falling 1.1%.

Locally, the New Zealand property sector fell 0.3%, with more than half of the 11 stocks in the sector benchmark ending the month lower.

Investore was the worst-performing stock in the index, falling 5.5%, while Augusta was another poor performer, ending November down 3.3%.

Across the Tasman, the Australian property sector rose 2.3%.

Outlook

We have maintained our small overweight position in international equities. While policy uncertainty and geopolitical tensions are a headwind to the global economy, our base case remains that economic growth is bottoming.

We are seeing weakness in the manufacturing sector, most of which has stemmed from the US-China trade war. However, strong US consumer data, accommodative central bank policy and modest Chinese stimulus are offsetting some weakness.

We are paying particular interest to the following areas:




- Continued progress in the US-China trade relations – most notably the Phase One deal, which has seen China demand the roll-back of existing tariffs
- The geopolitical tension between the US and China after the US signed the 'Hong Kong Human Rights and Democracy Act', a bill aimed at protecting the human rights of the pro-democracy protestors in Hong Kong
- Central bank policy, given below-trend economic growth and muted inflation pressures
- Long-term interest rates. A bounce in long-term rates would signal a rebound in growth and a pick-up in investor sentiment.





Asset allocation strategy

The following table shows how our view has changed over the month.

- We have a small overweight position in international equities. We are underweight in fixed interest (bonds) and overweight in cash.
- We remain cautiously optimistic on the global economy, believing that economic growth is likely to bottom this year and move back to trend pace in 2020.

Key:  Overweight position  Neutral position  Underweight position

Asset class	Current position	Reasoning
International shares Maintain OVERWEIGHT		<ul style="list-style-type: none">• We maintain a cautious overweight position to international equities after the positive US-China trade developments. Our current thinking is that pressure from the US election will deter significant escalations, but coming to a deal may still be a volatile and slow process.• The US economy has lost some momentum as the fiscal stimulus from 2018 fades, escalation of tariffs weighs on business confidence and activity, and earnings expectations have fallen as a result.• Global equities are around fair value, with the US expensive and the rest of the world cheaper. We view investor sentiment as being slightly bullish reflecting the current state of the US-China negotiations.
Australasian shares Maintain NEUTRAL		<ul style="list-style-type: none">• New Zealand and Australian equities have traded in a range over the last few months, but have rallied more than 20% year to date. Despite the strong performance, both economies are facing a few headwinds.• The most important risks facing the New Zealand market are subdued business confidence, rising cost pressures and the potential impact of the bank capital changes.• The Australian housing market has come back to life. However, labour market, weak wages and high household debt remain key concerns for the Reserve Bank of Australia.• Monetary policy has eased in New Zealand and Australia, with more support possible if weakness persists.
Real assets Maintain NEUTRAL		<ul style="list-style-type: none">• We remain neutral real assets (listed property and listed infrastructure), with a bias towards property over global listed infrastructure.• Real assets have performed well this year as interest rates fell, but have retreated a little in November as rates rose.• We expect investors will continue to value quality assets in good locations with low vacancy rates, providing investors with higher yields, stable cash flows and inflation protection.• Real assets are vulnerable to a sharp rise in interest rates, and valuations are slightly elevated compared to recent history.

International fixed interest		<ul style="list-style-type: none"> • Bonds yields moved higher, then reversed through November, reflecting fluctuations in views around the trade negotiations. Positioning had been stretched on the back of fears around slower growth and trade uncertainty has been partially unwound. • Central banks have shifted to an accommodative stance, and appear willing to provide more stimulus if required. For this reason, we expect short-term interest rates to remain at current levels or lower in all countries and regions we track. • Over the medium term, we would expect long-term rates to move modestly higher as economic growth prospects improve. • Corporate bonds are slightly expensive on a risk-adjusted basis.
New Zealand fixed interest		<ul style="list-style-type: none"> • New Zealand yields mirrored international movements, with the gap between US and New Zealand 10-year interest rates widening slightly to 50 basis points. • We expect New Zealand long-term rates to continue to move in line with offshore markets, as well as reflect changes in expectations around interest rate cuts and medium-term growth expectations.
NZD Moved to OVERWEIGHT		<ul style="list-style-type: none"> • The New Zealand dollar ended the month at 0.6430, close to where it started, although it fluctuated throughout the month. The main source of the volatility was the RBNZ meeting, where weak data releases led to an expectation for another rate cut, which was ultimately not delivered. • Our medium-term view is for the US dollar to weaken back towards fair value as global growth recovers. We expect a weaker New Zealand dollar against the Australian dollar and the pound sterling.
Cash Maintain OVERWEIGHT		<ul style="list-style-type: none"> • Cash is held in portfolios to maintain an appropriate level of duration in the defensive/income-oriented portion of portfolios. It is also used to provide liquidity to facilitate asset allocation in other asset classes.

As at 30 November 2019. Note: equities, fixed interest and currency hedging are managed relative to benchmark, with cash the balancing asset class.

At a glance – as at 30 November 2019

Share markets

	Index Level	Performance – local			Performance – NZD		
		1mth	3mth	1yr	1mth	3mth	1yr
MSCI All Country World Index	641.8	2.7%	6.8%	11.7%	2.0%	4.9%	19.1%
MSCI Emerging Markets	58,288.5	0.5%	4.7%	6.1%	-0.3%	4.1%	11.9%
NZX 50 Index (New Zealand)	11,316.6	4.9%	5.2%	28.3%	4.9%	5.2%	28.3%
ASX 200 (Australia)	6,846.0	2.7%	3.7%	20.8%	0.7%	2.6%	19.8%
S&P 500 (US)	3,141.0	3.4%	7.3%	13.8%	3.3%	5.8%	21.8%
NASDAQ 100 (US Technology)	8,403.7	4.0%	9.3%	20.9%	3.8%	7.7%	29.4%
Euro Stoxx 50 (Eurozone)	3,703.6	2.8%	8.1%	16.7%	1.4%	6.5%	21.7%
Nikkei 225 (Japan)	23,293.9	1.6%	12.5%	4.2%	0.1%	7.4%	15.6%
FTSE 100 (UK)	7,346.5	1.4%	1.9%	5.2%	1.1%	6.4%	14.2%
Shanghai Composite (China)	2,872.0	-1.9%	-0.5%	11.0%	-2.0%	-0.5%	17.6%

Currencies

	Rate v NZD	1mth ago	3mth ago	1yr ago	NZD Performance*		
					1mth	3mth	1yr
Australian dollar	0.949	0.930	0.940	0.942	2.0%	1.0%	0.8%
US dollar	0.642	0.641	0.633	0.687	0.1%	1.5%	-6.5%
Euro	0.583	0.575	0.574	0.608	1.3%	1.5%	-4.1%
UK pound	0.497	0.496	0.519	0.539	0.3%	-4.2%	-7.9%
Japanese yen	70.314	69.285	67.152	78.017	1.5%	4.7%	-9.9%
Chinese renminbi	4.516	4.514	4.515	4.787	0.0%	0.0%	-5.7%

* Positive number means NZD has risen

Commodities

	USD price	1mth ago	3mth ago	1yr ago	NZD Performance		
					1mth	3mth	1yr
Oil	55.17	54.18	55.10	50.93	1.6%	-1.9%	15.9%
Gold	1,465.6	1,514.8	1,523.0	1,220.2	-3.5%	-5.7%	28.5%
CRB Index	176.66	176.89	170.36	181.74	-0.4%	1.6%	4.0%

Interest rates

	Official Cash Rate %			3mth Deposit Rate %			10yr Govt Bond Yield %		
	Latest rate	1mth ago	1yr ago	Latest rate	1mth ago	1yr ago	Latest rate	1mth ago	1yr ago
New Zealand	1.00	1.00	1.75	1.45	1.36	2.26	1.29	1.31	2.56
Australia	0.75	0.75	1.50	0.86	1.00	2.01	1.03	1.14	2.59
US	1.75	1.75	2.25	1.91	1.90	2.74	1.78	1.69	2.99
Euro	-0.46	-0.46	-0.50	-0.40	-0.39	-0.32	-0.36	-0.41	0.31
UK	0.75	0.75	0.75	0.79	0.81	0.89	0.70	0.63	1.36
Japan**	-0.02	-0.03	-0.06	-0.08	-0.12	-0.12	-0.07	-0.13	0.09
China	1.62	1.62	1.62	1.10	1.10	1.10	3.18	3.28	3.38

** Changed from target to actual

New Zealand bonds

	Total returns		
	1mth	3mth	12mth
Government	0.0%	-1.1%	8.0%
Corporate A	-0.2%	-0.6%	6.8%
Corp Inv Grade	-0.1%	-0.6%	6.9%
Call Deposits	0.1%	0.2%	1.5%
90D Bank Bills	0.1%	0.3%	1.8%

Global Govt bonds (7-10yr)

	Total returns		
	1mth	3mth	12mth
US	-0.7%	-1.6%	12.3%
Eurozone	-0.9%	-2.4%	8.7%
Japan	-0.6%	-1.6%	1.5%
UK	-0.5%	-1.4%	6.4%
Australia	1.0%	-0.7%	14.6%

Source: Bloomberg

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