Adviser Wrap

December 2019

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

Market review

Global markets

International equity markets continued their stellar run, ending the final quarter of 2019 higher, with major indices in the US again making new all-time highs. The continued rise in equity markets came as the fears of slowing global growth, and even recession chatter that dominated 2019 headlines, failed to eventuate.

The good showing saw the MSCI All World Country Index finish the final quarter up 7.3%, taking its year-to-date gains to 23.7%.

Highlights of another prosperous quarter included:

More record highs: After receding early in the quarter, US benchmark indices recovered and marched on to make fresh all-time highs. The S&P 500 rose above 3,200 and the Dow Jones Industrial Average surpassed 28,000. Meanwhile, tech shares continued to outperform, with the NASDAQ gaining 12.7% over the quarter.

UK election: On 12 December, the Conservative Party in the UK comfortably won the general election, winning 365 seats and dealing Labour its worst election showing in the post-1945 era. The result should allow Boris Johnson to pass his Brexit bill and head to Brussels to negotiate a formal exit before 31 January. From here, trade talks will begin and the UK has until 1 January 2021 to negotiate deals, which if not reached could mean the prospect of tariffs on its exports to EU countries.

Bond yields rebound: After falling to historic lows during most of 2019, bond yields across the globe bounced as the broader economic outlook improved, with growth data in major economies topping expectations. Additionally, central banks, while remaining accommodative, hinted that further cuts were, at this stage, unlikely.

Meanwhile, the political uncertainty in the US continued when on 18 December, President Donald Trump became just the third US president to be impeached. The president was charged with abuse of power and obstruction of Congress. Democrats accused Trump of pressuring Ukraine to open an investigation into political rival and former vice president, Joe Biden. Additionally, they also charge that the president obstructed the investigation by refusing to comply with several subpoenas.

From here, the articles of impeachment are expected to be passed to the Senate where Trump will face trial on the two charges. A two-thirds majority vote is required in the Senate to remove a president from office.

New Zealand market

After dipping in the middle of October, the New Zealand share market regained its footing and went on to reach new all-time highs in the final quarter. However, some negative news early in the quarter – namely the announcement that the Tiwai Point aluminium smelter was up for review – saw New Zealand shares underperform global counterparts.

The overarching theme in the final quarter was the improvement in business sentiment. After ending the third quarter at a 10-year low, the ANZ Business Confidence rose over three consecutive months to a net -13.2%. The rise was aided by the 75 basis points of cuts by the Reserve Bank of New Zealand in 2019, lowering borrowing costs to businesses.

Elsewhere, GDP data showed the New Zealand economy grew at 0.7% in the third quarter, mostly in line with expectations and retail sales figures topped expectations.

In currencies, the upbeat quarter saw a sharp rebound in the New Zealand dollar, which ended the period up 7.6% versus the US dollar, 3.4% versus the Australian dollar and 4.5% versus the euro.

Sector review

International shares

US share markets continued their great run, rising to new all-time highs over the quarter. The S&P 500 ended the quarter up 8.5%, taking its 2019 gains to around 30%, its best year since 2013. Meanwhile, tech stocks surged higher, which saw the NASDAQ 100 rise more than 10%.

In sector performance, there were strong gains in financials, with US banks – including Citigroup, Bank of America and JPMorgan Chase – posting double-digit gains over the quarter.

In Europe, share markets flourished too, with the benchmark Euro Stoxx index rising 4.9%. In the UK, the comprehensive victory for the Conservative party helped UK shares, which erased early-quarter losses to finish up 1.8%.

Meanwhile, Asian share markets rebounded late in the quarter to post solid gains despite the ongoing trade dispute and geopolitical tensions. The Shanghai Composite and the Hang Seng both gained 5%, while the Nikkei 225 gained more than 8%.

Australasian shares

Share markets down under lagged their global counterparts. In New Zealand the NZX 50 rose 5.2% in the final quarter, while the ASX 200 was one of the few indices to record a loss over the three-month period, closing down 0.1%.

There were strong gains in the retirement village sector, with Metlifecare the standout, rising more than 50% over the quarter after the news that the company had received a non-binding preliminary take-over bid in November.

International fixed interest

Bond yields moved higher over the quarter as a raft of better-than-expected economic data saw investors scale back the chance of further rate cuts by central banks.

In the US, the Federal Reserve left interest rates unchanged in December, adding that policy is "appropriate to support sustained expansion of economic activity". Over the quarter, the 10-year government bond yield gained 26 basis points and traded above 1.9% for the first time since early August.

In Europe, the quarter began with the European Central Bank cutting rates for the first time since 2016. The central bank said it sees "continued prominence of downside risk" to the global economy. However, the initial decline in European bond yields reversed as better-than-expected growth data saw the German 10-year government bond yield trade to its highest level in more than six months, ending the quarter up 38 basis points.

New Zealand fixed interest

It wasn't a good quarter for local bond investors after the Reserve Bank of New Zealand, somewhat surprisingly, left interest rates unchanged at its December meeting. Despite no change, RBNZ Governor Adrian Orr said the central bank will maintain its accommodative stance for a "prolonged period of time," adding "if circumstances change, we will act".

The bond market sell-off saw the New Zealand 10-year government bond yield rise 56 basis points over the quarter and up more than 60 basis points from its quarterly low near 1%.

Over the quarter, corporate bonds fell 1.2%, while government bonds fell 2.9%.

Property market

The property sector had a weak final quarter of the year as interest rates rose off record lows, making defensive and steady cash-flow assets less attractive.

Over the quarter, the New Zealand listed property sector fell 0.4% and the international sector fell 0.3%, both underperforming broad equity indices.

Still, property stocks had a bumper 2019 with the New Zealand listed property sector gaining more than 30% and the international property sector rising 18.9%, thanks to successive rate cuts from central banks in the early-to-middle parts of the year.

Asset allocation strategy

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

- We have maintained our overweight position in international equities as we see signs of forward progress in the US-China trade negotiations.
- We remain cautiously optimistic on the global economy, believing that economic growth is likely to bottom this year.

Key: ▲ Overweight position — Neutral position ▼ Underweight position

Asset class	Current position	Reasoning
International shares Maintain OVERWEIGHT	▲	• We maintain our 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 significant phase two deal may be out of reach in the near term. The US economy has lost some momentum as the fiscal stimulus from 2018 fades, while the earlier tariff escalations weighed on business confidence and activity. Global equites are slightly above fair value, with the US expensive and the rest of the world cheaper. We view investor sentiment as being bullish reflecting the current state of the US-China negotiations, but not at the extremes seen in early 2018.
Australasian shares Maintain NEUTRAL	—	• Australian equities rallied nearly 20% in 2019, with New Zealand equities rising more than 30%. Despite the strong performance, both economies are facing a few headwinds. The most important risks facing New Zealand market is subdued business confidence and rising cost pressures. The Australian housing market has come back to life, however, labour market, weak wages and high household debt remains key concerns for the Reserve Bank. Monetary policy has eased in NZ and Australia, with more support possible if weakness persists.
Real assets Maintain NEUTRAL	—	• We remain neutral real assets (listed property and listed infrastructure), with a bias towards property over global listed infrastructure. Real assets performed well this year as interest rates fell, but have retreated slightly 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 Maintain UNDERWEIGHT	• Bond yields moved slightly higher in December, reflecting the improvement in sentiment from 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 Maintain UNDERWEIGHT	• New Zealand yields mirrored international movements, with the gap between US and New Zealand 10-year interest rates narrowing slightly to 25 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 UNDERWEIGHT	• The New Zealand dollar ended the month at 0.6740, rising close to 8% over the quarter. Positive developments around the trade negotiations as well as US dollar weakness has helped elevate the kiwi in recent months. Our medium-term view is for the US dollar to weaken back towards fair value as global growth recovers. We expect a weaker NZ dollar against the Australian dollar and the pound sterling.
Cash Maintain OVERWEIGHT	• 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 31 December 2019. Note: equities, fixed interest and currency hedging are managed relative to benchmark, with cash the balancing asset class.

At a glance – as at 31 December 2019

Share markets

	Index	Performance – local			Performance – NZD		
	Level	1mth	3mth	1yr	1mth	3mth	1yr
MSCI All Country World Index	658.2	2.6%	7.3%	23.7%	-1.5%	0.8%	23.4%
MSCI Emerging Markets	61,467.4	5.5%	9.1%	15.1%	2.1%	3.5%	15.1%
NZX 50 Index (New Zealand)	11,491.9	1.5%	5.2%	30.4%	1.5%	5.2%	30.4%
ASX 200 (Australia)	6,684.1	-2.4%	-0.1%	18.4%	-3.4%	-3.4%	17.6%
S&P 500 (US)	3,230.8	2.9%	8.5%	28.9%	-2.0%	0.9%	28.5%
NASDAQ 100 (US Technology)	8,733.1	3.9%	12.7%	38.0%	-1.0%	4.7%	37.5%
Euro Stoxx 50 (Eurozone)	3,745.2	1.1%	4.9%	24.8%	-1.8%	0.4%	21.8%
Nikkei 225 (Japan)	23,656.6	1.6%	8.7%	18.2%	-2.4%	0.6%	19.1%
FTSE 100 (UK)	7,542.4	2.7%	1.8%	12.1%	0.5%	2.1%	16.3%
Shanghai Composite (China)	3,050.1	6.2%	5.0%	22.3%	2.3%	0.3%	20.6%

Currencies

	Rate	1mth	3mth	1yr	NZD Performance*		
	v NZD	ago	ago	ago	1mth	3mth	1yr
Australian dollar	0.960	0.949	0.928	0.953	1.1%	3.4%	0.7%
US dollar	0.674	0.642	0.626	0.672	5.0%	7.6%	0.3%
Euro	0.600	0.583	0.575	0.586	3.0%	4.5%	2.5%
UK pound	0.508	0.497	0.509	0.527	2.2%	-0.3%	-3.6%
Japanese yen	73.145	70.314	67.689	73.705	4.0%	8.1%	-0.8%
Chinese renminbi	4.686	4.516	4.478	4.622	3.8%	4.6%	1.4%

* Positive number means NZD has risen

Commodities

	USD	1mth	3mth	1yr	NZD Performance		
	price	ago	ago	ago	1mth	3mth	1yr
Oil	61.06	55.17	54.07	45.41	5.4%	4.8%	33.8%
Gold	1,523.1	1,465.6	1,465.7	1,281.3	-1.0%	-3.5%	18.3%
CRB Index	185.79	176.66	173.94	169.80	0.1%	-0.9%	8.9%

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	1.27	1.53	2.05	1.65	1.09	2.37
Australia	0.75	1.00	1.50	1.00	1.00	2.25	1.37	1.02	2.32
US	1.75	2.00	2.50	1.91	2.09	2.81	1.92	1.66	2.68
Euro	-0.63	-0.46	-0.43	-0.38	-0.42	-0.31	-0.19	-0.57	0.24
UK	0.75	0.75	0.75	0.79	0.76	0.91	0.82	0.49	1.28
Japan**	-0.07	-0.06	-0.06	-0.05	-0.10	-0.07	-0.01	-0.21	0.00
China	1.62	1.62	1.62	1.10	1.10	1.10	3.14	3.14	3.31

** Changed from target to actual

New Zealand bonds

	Total returns		
	1mth	3mth	12mth
Government	-1.9%	-2.9%	4.9%
Corporate A	-0.6%	-1.2%	5.2%
Corp Inv Grade	-0.6%	-1.1%	5.3%
Call Deposits	0.1%	0.3%	1.4%
90D Bank Bills	0.1%	0.3%	1.7%

Global Govt bonds (7-10yr)

	Total returns		
	1mth	3mth	12mth
US	-0.7%	-1.2%	8.5%
Eurozone	-0.9%	-2.8%	6.7%
Japan	-0.6%	-1.9%	0.2%
UK	-0.9%	-2.4%	4.8%
Australia	-2.4%	-2.2%	9.5%

Source: Bloomberg

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ANZ New Zealand Investments Limited 01/20