

# Market Overview

## Global Market Comment

Q2 2020

### Global shares

Global share markets made strong gains in the June quarter, with the MSCI ACWI Index – Net returning 9.8% in unhedged New Zealand dollar (NZD) terms. In hedged NZD terms, the Index returned 17.9%. Much of the gains were driven by expectations economic activity would pick up amid a further loosening of coronavirus containment measures and ongoing fiscal and monetary policy support globally. With more and more countries emerging from their virus-induced lockdowns, investors bet that the worst of the pandemic had passed and that growth would likely begin to accelerate through the second half of the year. At the same time, governments and central banks worldwide continued to build on the unprecedented levels of financial aid they deployed at the height of the pandemic, with fresh stimulus seen in the US, Europe and China. Stocks also benefited from intermittent reports that a vaccine may be close (though an effective vaccine ultimately failed to materialise) as well as a strong rebound in oil prices. Limiting the advance was news the US economy shrank 4.8% in the year to 31 March and a spike in US unemployment to levels not seen since the Great Depression. Stocks were also impacted by news Japan and Germany entered technical recessions in the first quarter and heightened Sino-US tensions. Sentiment was further impacted by growing concerns a potential second wave of coronavirus infections could derail the global recovery. Countries such as China, Japan and Germany all reported an increase in new cases during the period, while the virus death toll in the US surpassed 122,000 even as many states were easing restrictions.

US stocks performed very well over the period, with the benchmark S&P 500 Index climbing 20.0% for the quarter; its best quarterly performance in over two decades. Stocks were also higher in Europe (16.0%<sup>1</sup>), China (13.0%<sup>2</sup>), Japan (11.1%<sup>3</sup>) and the UK (8.8%<sup>4</sup>).

### New Zealand shares

The New Zealand share market performed well over the period, returning 16.9%<sup>5</sup>. Like its global counterparts, the local market's gains were driven by a further easing of lockdown restrictions and continued fiscal and monetary policy support. This included the Reserve Bank of New Zealand's announcement in May that it would almost double its bond-buying program to \$60 billion. The Bank's previous limit was \$33 billion; comprising \$30 billion of government bonds and \$3 billion of local authority paper. Sentiment was further

buoyed by a surge in retail spending and evidence business confidence continues to improve; though both readings remain well below pre-pandemic levels. Gains were limited by disappointing first-quarter growth data, with the local economy contracting 1.6% in the three months ended 31 March. The outcome marked the worst growth reading in 29 years and was driven in large part by weakness across the services sector. Stocks were also impacted by rising unemployment and second wave virus concerns after several new domestic cases were reported toward the end of the period.

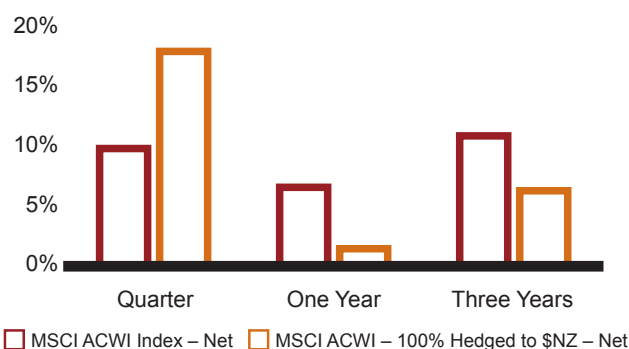
### Australian shares

Australian shares were stronger in the second quarter, returning 16.8%<sup>6</sup>. Australian stocks benefited from expectations economic activity would continue to pick up as federal and state officials rolled back more of the virus-induced restrictions that brought the economy to a near standstill in recent months. Sentiment was also buoyed by the Reserve Bank of Australia's commitment to keep funding costs low for as long as required and strong performances from the major miners and 'Big Four' banks. Limiting the market's gains were a series of softer economic data; notably a contraction in first-quarter growth and a jump in the unemployment rate. Stocks were also impacted by news China's economy shrank 6.8% in the year to 31 March and renewed virus fears following a late spike in new cases in Victoria.

### Global listed property

Global listed property posted good gains in the June quarter, returning 8.9%<sup>7</sup> in hedged NZD terms. However, listed property stocks underperformed the broader equity market over the period. Australia posted the biggest gains for the quarter, driven in part by

Figure 1. Global Equities



strong performances across the retail and industrial sectors. US retail names also performed well as easing lockdown restrictions helped drive foot traffic higher.

### Global listed infrastructure

The global listed infrastructure market was also stronger over the period, returning 11.1%<sup>8</sup> in hedged NZD terms. However, like global listed property, listed infrastructure stocks underperformed the broader equity market. Infrastructure assets continued to be impacted by low levels of travel and trade; however, this was more than offset by further central bank policy support, a strong rebound in oil prices and a gradual pivot toward the reopening of businesses.

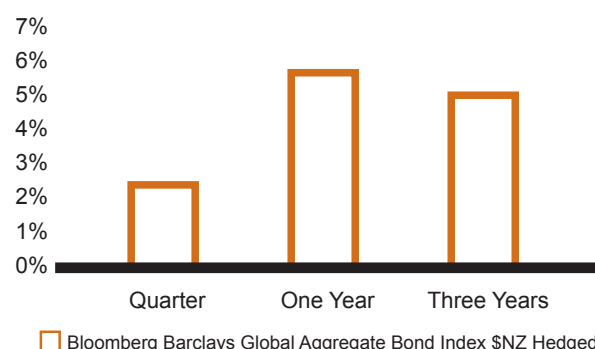
### Global fixed income

Global bonds made reasonable gains in the second quarter, returning 2.4%<sup>9</sup> in hedged NZD terms. Longer-term government bond yields were mixed against a backdrop of competing positive and negative influences. Bonds benefited from a series of disappointing economic data, rising US-China tensions and second wave virus fears. Offsetting these factors was the general 'risk on' tone that permeated financial markets throughout the period. Credit markets performed well, with spreads narrowing amid easing lockdown measures and additional central bank stimulus.

### New Zealand fixed income

The New Zealand bond market also made reasonable gains over the period, returning 2.4%<sup>10</sup>. Domestic long-term government bond yields fell (prices rose) to multi-year lows though the first half of the quarter when the country remained in coronavirus-induced lockdown.

**Figure 2. Global Fixed Interest**



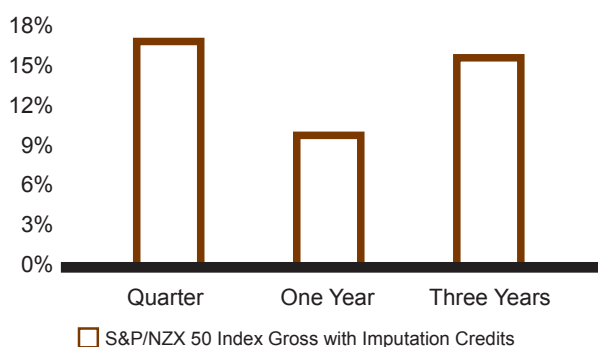
However, yields drifted higher from there as investors, encouraged by the lifting of lockdown restrictions and hopes of a quick recovery, favoured riskier assets. The yield on New Zealand 10-year government bonds eventually closed the quarter 16 basis points lower at 0.93%. Credit markets were stronger, with spreads narrowing on improving investor optimism.

### New Zealand dollar

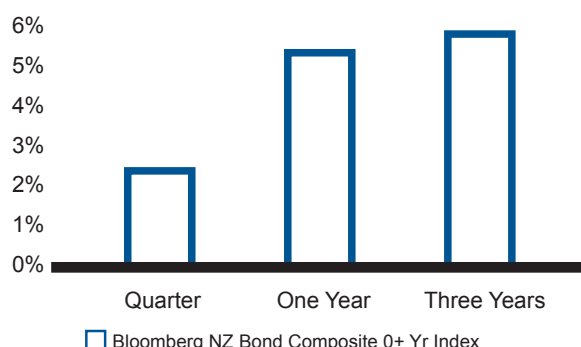
The NZD was stronger for the quarter, benefiting largely from improving risk appetites, stronger commodity prices and general US dollar (USD) weakness. Limiting the currency's advance was softer first-quarter growth and fresh virus concerns. The NZD rose 7.4% against the British pound, 7.2% against the USD, 6.3% against the Japanese yen and 4.9% against the euro. It fell 4.1% against the Australian dollar, while the broader New Zealand Trade-Weighted Index closed the quarter up 3.7%<sup>11</sup>.

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

**Figure 3. New Zealand Equities**



**Figure 4. New Zealand Fixed Income**



1. Dow Jones EuroStoxx 50 Price Index
2. Shanghai Shenzhen CSI 300 Index
3. Tokyo Stock Exchange Tokyo Price Index (TOPIX)
4. FTSE 100 Index
5. S&P/NZX 50 Index with imputation credits
6. S&P/ASX 300 Accumulation Index
7. FTSE EPRA/NAREIT Developed Real Estate Index Net NZD Hedged

8. S&P Global Infrastructure Index (NZD hedged)
9. Bloomberg Barclays Global Aggregate Bond Index (NZD Hedged)
10. Bloomberg NZ Bond Composite 0+ Yr Index
11. 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	16.9%	9.9%	15.7%	16.1%
	<b>Global</b>				
	MSCI ACWI Index – Net <sup>^</sup>	9.8%	6.5%	10.9%	7.6%
	MSCI ACWI Index – Net (NZD hedged)*	17.9%	1.4%	6.3%	7.3%
	<b>US</b>				
	S&P 500 Index	20.0%	5.4%	8.6%	8.5%
	NASDAQ Composite Index	30.6%	25.6%	17.9%	15.1%
	<b>Australia</b>				
	S&P/ASX 300 Accumulation Index	16.8%	-7.6%	5.2%	6.0%
	<b>China</b>				
	Shanghai Shenzhen CSI 300 Index	13.0%	8.8%	4.3%	-1.4%
	<b>Eurozone</b>				
	EURO STOXX 50 Price Index	16.0%	-6.9%	-2.1%	-1.1%
	<b>Japan</b>				
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)	11.1%	0.5%	-1.1%	-0.9%
	<b>Asia Pacific</b>				
	MSCI Asia Pacific ex Japan Index (USD)	17.6%	-2.8%	0.5%	1.5%
	<b>UK</b>				
	FTSE 100 Index	8.8%	-16.9%	-5.5%	-1.1%
	<b>Emerging Markets</b>				
	MSCI Emerging Markets Index (USD)	18.1%	-3.4%	1.9%	2.9%
<b>Fixed Interest</b>	<b>New Zealand</b>				
	Bloomberg NZ Bond Composite Index	2.4%	5.4%	5.6%	5.0%
	S&P/NZX A-Grade Corporate Index	3.4%	5.8%	5.7%	5.3%
	<b>Global</b>				
<b>Property</b>	Bloomberg Barclays Global Aggregate Index (NZD hedged)	2.4%	5.7%	5.0%	5.2%
	<b>Global</b>				
<b>Infrastructure</b>	FTSE EPRA/NAREIT (NZD Hdgd)	8.9%	-17.0%	-1.5%	2.0%
	<b>Global</b>				
<b>Commodities</b>	S&P Global Infrastructure Index (NZD hedged)	11.1%	-15.6%	-0.9%	3.1%
	Thomson Reuters/CoreCommodity CRB Commodity Index USD)	13.3%	-23.8%	-7.6%	-9.5%
<b>Currencies</b>		<b>30-Jun-20</b>	<b>31-Mar-20</b>	<b>30-Jun-19</b>	<b>30-Jun-17</b>
		<b>30-Jun-15</b>			
	Gold spot price (USD)	1,780.96	1,577.18	1,409.55	1,241.61
	West Texas Intermediate crude oil (USD)	39.27	20.48	58.47	46.04
	NZD/USD	0.6426	0.5997	0.6694	0.7326
	NZD/AUD	0.9340	0.9740	0.9561	0.9508
	NZD/GBP	0.5220	0.4862	0.5284	0.5626
	NZD/EUR	0.5713	0.5445	0.5889	0.6403
<b>Volatility</b>	NZD/JPY	69.21	65.09	72.08	82.03
	New Zealand Trade Weighted Index	71.39	68.81	73.20	78.44
	Chicago Board Options Exchange Volatility Index (VIX)	30.43	53.54	15.08	11.18
					18.23

<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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