Market Update - July 2022

"The future's uncertain and the end is always near,"
sang Jim Morrison in Roadhouse Blues

Do you remember the 1970s?

The top 500 US companies (S&P 500) have posted their worst first half year since Richard Nixon's Presidency. The index was down 21% since the beginning of the year, amid expectations that a toxic mix of high inflation and a hawkish Federal Reserve will tip the US economy into a recession. The last time the S&P 500 had fallen this much during the first six months of any year, was in 1970. So, let's look back to the 1970s and see if there is anything we can learn about the markets.

1970 wasn't a year of major events

- Apollo 13 (Jim Lovell, Fred Haise, Jack Swigert) is launched toward the Moon
- Diana Ross & The Supremes perform their farewell live concert together at the Frontier Hotel in Las Vegas
- The United States gets its first female generals: Anna Mae Hays and Elizabeth P. Hoisington
- U.S. President Richard Nixon signs the Voting Rights Act Amendments of 1970, a measure lowering the voting age to 18
- The first New York City Marathon begins
- Walt Disney Productions' 20th feature film, The Aristocats, is released. It is the studio's final film that Disney personally approved before his death.

Certainly, things were happening in 1970, but there wasn't a huge amount of note. What we couldn't find, was reference to the markets at that time having a poor year. Given we are currently in the midst of a similar negative run-on markets and what we are hearing now is a constant bombardment of bad news, one would think there should be a significant amount of historical data.

The current environment is more akin to the 1970s, in that inflation is the primary problem. However, in the 1970s inflation was the result of growing pains. There was a population bubble trying to enter the economy and the economy couldn't absorb all the new participants instantaneously, so there was high unemployment. These days, there is low unemployment and the inflation we are seeing is largely because of supply problems.

So, while this is top of mind for investors right now, it won't be what is etched in history when we look back on 2022.

RIVAL Wealth portfolio returns

	Conservative Portfolio	Balanced Portfolio	Growth Portfolio
Quarter return	-6.2%	-8.0%	-10.0%

Returns are before tax and after fees as at 30 June 2022

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Rainy day funds

Consumers have spent $980 billion of their COVID savings in developed countries, but there is still $4 trillion in personal bank accounts which has been saved over the last 2 years of COVID. We have to remember that most of the world was in level 3 lockdown for 18 months while we in New Zealand had relative freedoms.

These are phenomenal numbers when New Zealand borrowed $60 billion in total to fund our COVID recovery.

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The Dirty Word - Recession

There is growing talk of the risk of an economic recession amongst economists. However, there is also a high degree of variance in their opinion of the potential severity of such an event - if it happens at all. The rapid rise in inflation that the world has experienced, has caused a sharp rise in interest rates, which has resulted in share markets being repriced lower. It's what happens next where there is uncertainty. Some argue that much of the bad news has already been priced-in to markets through higher interest rates and lower equity markets.

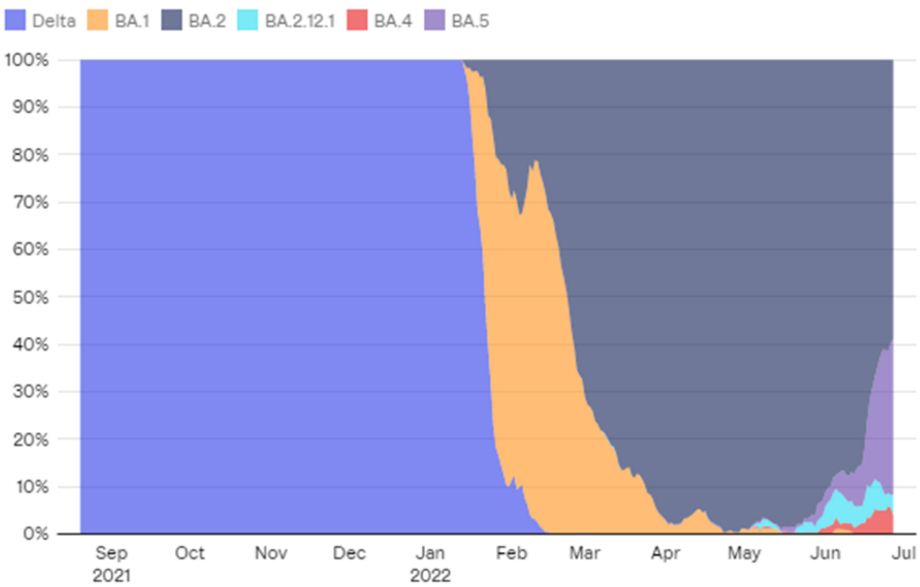
In NZ, the Chief Economist at ANZ, our biggest bank, says that New Zealand won't go into a recession. Further afield in America, large banks Morgan Stanley, Wells Fargo, JP Morgan and Goldman Sachs have all raised their dividends for the coming 6 months.

We don't think that they would be doing this if they felt there was a large downturn coming and therefore needed to store cash for the pending storm. Again, in America last week, inflation figures were announced to a two-decade high, yet the markets barely went down.

This leads us to believe that at this point, the bad news has been priced into markets and when current sentiment turns, we will see a rebound in prices back to assets fundamental values. Data suggests that household balance sheets are in a healthy place and savings are also strong. Such a buffer gives reason to be optimistic that we could avoid the worst of the potential outcomes.

Let's not forget about COVID

The early numbers suggest it is those who haven't had COVID yet who are most at risk in the current wave of BA.5. In total, reinfections make up only 1% of all New Zealand's 1.5 million confirmed COVID cases, but in recent times this has risen to 4% of cases.



COVID test results that have been genetically sequenced by ESR show how Delta was swiftly replaced by Omicron and its variants, with BA.5 now on the rise

A one in 50-year event

Despite experiencing the worst start to a year in 50 years, a diversified investment portfolio remains hard to beat – especially now that interest rates have backed up to levels where they offer a good yield plus the potential for capital gain in a downturn. Even though portfolios are diversified, that doesn't mean it is static i.e. a 'set and forget' affair.

So, when we look back on 2022...

This will be the year Costa Rica robbed New Zealand for the last remaining spot at this year's Football World Cup in Qatar, the Super Rugby final between the Crusaders and Blues attracted the first full house of 43,000 people as we saw large crowds return after COVID, international travel resumed letting Kiwis spread their wings once more and Matariki was celebrated with our first public holiday to mark the occasion.