Market Update - January 2023

It's not how you start, but how you finish. 2022 ended the year positively

Win-win

The final quarter of the year delivered good gains for both equity and fixed-interest investors, after a turbulent year. With an abundance of talk concerning a weak economic outlook around, markets had oversold themselves. Many speculators had sold equities in hopes of profiting from further falls, but this created conditions for markets to rise.

As these speculators realised that the market was going against them, they were forced to buy their positions back, which pushed the market higher.

There were also signs during the quarter that inflation may have peaked, which saw bond yields pull back from their highs. This resulted in gains for fixed interest investments.

The Investment Team

If you have any questions about your investment, just get in touch with our investment team as we are here to help - phone **0800 474 825**.

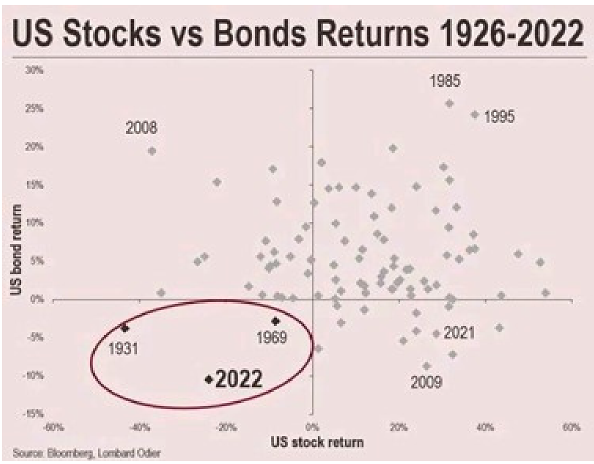
Tim, Anna, Rox, Daryl, Regan, Rennie, Brett, Nikki & Fiona

May you live in interesting times

This is an English expression that is claimed to be a translation of a traditional Chinese curse. While seemingly a blessing, the expression is normally used ironically; life is better in "uninteresting times" of peace and tranquillity than in "interesting" ones, which are usually times of trouble.

2022 has been an "interesting" year for investors. Looking at data from the U.S. markets since 1926, it was only the third time that both equities and bonds delivered negative returns. The other two times were:

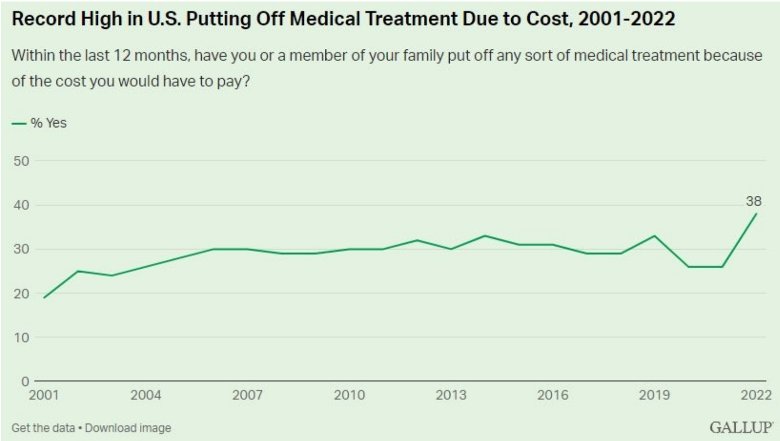
1931– at the height of the Great Depression when the Empire State Building was completed; and 1969 – the year the first human walked on the moon.



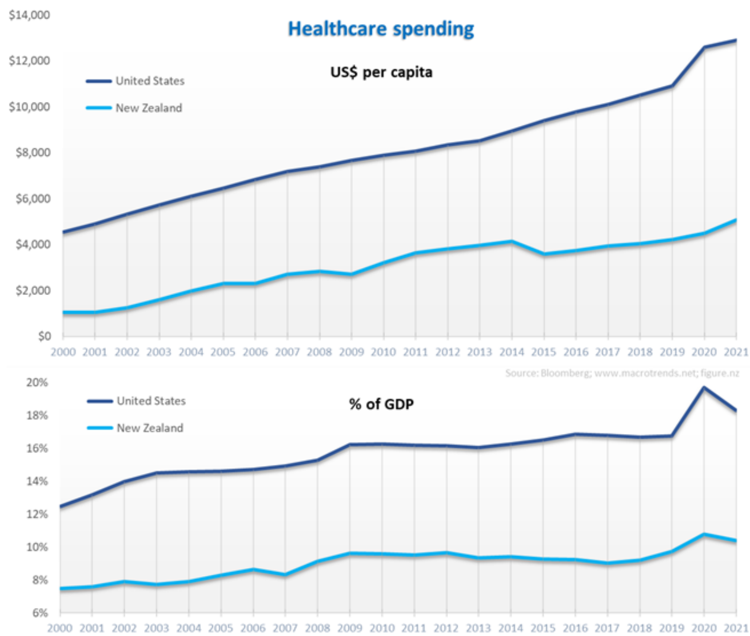
The dominant theme for the year – and the cause of the historically rare phenomenon of dual losses across equities and bonds - has been inflation, creating an unenviable backdrop for bond markets as central banks raised rates to try and combat rising inflation. Equity market valuations fell sharply adjusting to the higher cost of interest rates.

How healthy is healthcare? 3 years of COVID has put immense pressure on the global health system

The number gets bigger each year. Each December, a group of economists and actuaries in an obscure federal office emerge with a new report estimating how much the US spent on healthcare the year before. The most recent report, covering 2021, put the tab at $4.3 trillion, or about $13,000 for every American.



Though the raw numbers are plenty big enough, the context makes them seem even more staggering. That $4.3 trillion is about 18% of US gross domestic product, by far the highest share of major economies. The UK, Germany, Canada, Japan, Australia and New Zealand, by comparison, all spend between 10% and 12% of GDP on healthcare, according to World Bank data. If the US were at the same level, that would free up roughly $1.5 trillion a year for other pressing needs, like responding to climate change and bolstering social programs.



In comparison, New Zealand's healthcare system looks to be affordable by world standards, although the cost to taxpayers of our public health system doesn't reflect the long waiting lists, often for the treatment of serious conditions. Our private health system is also very efficient compared to America, where about 25% of Kiwis have health insurance as part of their financial wellbeing plan.

These trillions currently come out of all of the pockets of American taxpayers either directly, in what they pay at the doctor's office or for hospital bills, or indirectly, through insurance premiums and taxes that support government health programs. And it gets worse as high spending doesn't buy better health. US life expectancy at birth is the lowest of big wealthy countries and dropped starkly during COVID-19. The gap between the US and other countries has widened significantly since the 1980s. Of course, health spending isn't the sole or even the main determinant of health and well-being. But if not better health, what exactly are US taxpayers getting for that extra $1.5 trillion?

What's the outlook?

In the short term, risk remains elevated. The impact of higher interest rates is beginning to bite on economic activity, but it is hoped that this will result in reduced consumer demand and allow inflation to fall back down to acceptable levels. Nevertheless, with interest rates being at their current elevated level, fixed-interest investments have become very attractive, with bonds returning anywhere from 6% to 14% if held to maturity.

And their diversification benefit within an investment portfolio has already begun to reassert itself after they fell with shares for the first 6 months of the year. Additionally, we are increasingly hearing from equity fund managers that they are preparing themselves for the opportunities that 2023 will present in terms of lower buying prospects for long-term investment gains.