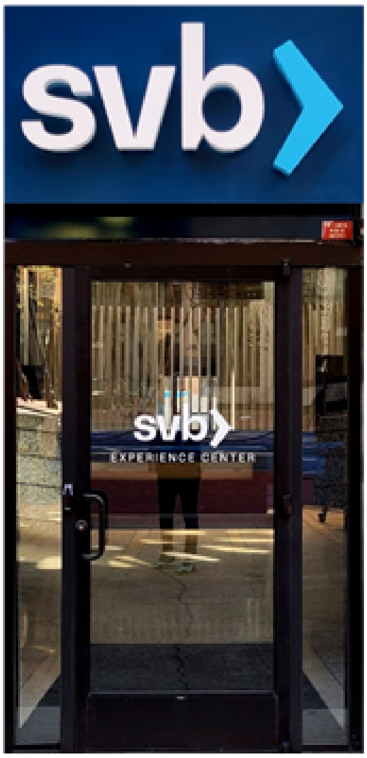
Market Update - April 2023

Share markets have climbed a wall of worry in the first quarter of 2023 to post healthy gains on the back of a strong January. While it seems like we are all waiting for the 'next bad thing' to happen, we have short memories when it comes to global events. There is always some issue at play and there will always be another event around the corner.

Wall of worry

Climbing a wall of worry is a well-known phrase and is a reference to investor behaviour during general periods of market gains. The phrase refers to the market's ability to show resilience in the face of economic or corporate news that might otherwise spark a selloff and instead keep pushing securities higher.

The psychology behind markets climbing the wall of worry is as follows: bad news abounds, which has investors nervous, so they sit on the side-lines waiting for better levels to enter the market. However, the market rises little by little and continues to do so as businesses continue to operate and generate profit. Slowly but surely, those sitting on the side-lines realise they are missing out (creating FOMO - Fear Of Missing Out) on market gains in addition to dividends and interest income, so they enter the market at now higher levels. As each incremental investor comes to this realisation and re-enters the market it adds to the upward pressure, so the market rises some more. In essence, money that is intended to be invested is not being put to use and that creates conditions for a rising market.



Not an experience people want - poor risk management practices that threaten the loss of savings

Both equity markets and bond markets posted positive returns during the first quarter of 2023. This was despite news that caused an increase of investor nervousness. We had the demise of Silicon Valley Bank (SVB) in the U.S., which threatened to cause a run of withdrawals from other U.S. banks. This shock in the U.S. banking system triggered the sudden demise of Switzerland's second largest bank, Credit Suisse, a systemically important bank – i.e., the collapse of an institution of this magnitude has the potential to cause devastation across the global financial system. In both cases, regulators stepped in within days to arrange for the failed entities to be acquired by other banks. In the case of SVB, the U.S. government also said they would guarantee depositors funds to allay depositor fears and avert the risk of panic across other banks.

These banking sector events come on top of an environment of high inflation with central banks hiking interest rates to slow the rise in prices, plus a rising risk of economic recession. The rise in interest rates is having an impact on inflation with March data confirming inflation in the U.S. has fallen to 5.1%. All combined, this has given people plenty of material to build a wall of worry that gave the market a good foothold to climb.

BREAKING NEWS

Major banks post impressive results

Of the 30 S&P 500 companies that reported results so far, 90% have trounced earnings per share estimates while 73% beat market expectations on sales.

That marks the best upside surprise in the first week of a reporting period going back to 2012, thanks largely to impressive results from major banks - JPMorgan Chase & Co. (JPM), Citigroup Inc (C) and Wells Fargo & Co.

What's the outlook?

As we said last quarter, risk remains elevated in the short-term in share markets. The impact of higher interest rates is slowing economic activity significantly, which will cause inflation to fall back down to more normal levels, as we have seen recently in the U.S.

Share fund managers remain positive on the investment thesis for the shareholdings in their portfolios and are prepared for the opportunities that 2023 could present in terms of lower buying prospects for long-term investment gains. Fixed-interest investments are attractive at current interest rates and the prospect of a slowing economy is likely to add reasonable capital gains on top of the interest they pay in the coming 6-9 months of 2023.

How about that weather

There's no denying it, the North Island had a terrible summer, but we shouldn't complain because some had it much worse and are still in the process of recovery from Cyclone Gabrielle and other extreme weather events. To add insult to injury, the impact of the cyclone is that we are seeing further price increases on top of the widespread inflation we've already experienced. This has given the Reserve Bank of New Zealand enough confidence to surprise everyone and raise the Official Cash Rate by 0.50% to 5.25% as they attempt to dampen consumer spending and bring the rate of inflation down.

As investors, the current tension between the economic environment and official policy response has created the most favourable conditions for fixed-interest investments that we've seen for many, many years. The beauty of a diversified investment portfolio is that it carries a degree of insurance which provides some relief during challenging times. Just as having insurance doesn't stop damage occurring during extreme weather events, but provides financial support during difficult times. A diversified portfolio has components that will perform better across various parts of the investment cycle, supporting each leg of your journey toward your long-term investment objectives. Investors need to remember that their investment objectives haven't changed just because their investment has gone down.

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

The future of downtowns - breaking the 'urban doom loop'

In 2019, the skylines of many American downtowns were sparkling with new construction. Hudson Yards in New York, the Frost Tower in San Antonio, San Francisco's Salesforce Tower and the futuristic Amazon Spheres in Seattle, were all part of the more than 100 million square feet of new office space built in the United States just before the onset of the COVID-19 pandemic. Demand for city office space seemed stronger than ever.

Flash forward four years. COVID-19 has claimed the lives of over 1 million Americans and raised new questions about another potential casualty: Is the pandemic, particularly its impact on the nature of work, taking down the American city? Nowhere is this fear more pronounced than in the nation's 'superstar' cities and their shiny downtowns. This spectre of an office real estate apocalypse, the "urban doom loop" or "ghost towns" is filling some urban observers with existential dread. So too are reports of rising crime and unsheltered homelessness in downtowns. However, this fear is not new.

Only a generation ago, 'white flight' and 'suburban sprawl' left many cities as partial ghost towns. Anti-city rhetoric around inner-city crime was used to justify the most negative aspects of urban renewal and later, the war on drugs, which had significant consequences for the economic and social fabric of American cities. Suburbanization spread growth out over more land area, while public and private sector abandonment of centre cities both concentrated poverty and increased the overall cost of services - weakening city economies and exacerbating racial and economic segregation. The negative sentiment of American city centres began to reverse in the mid-2000s as highly educated young workers returned, lured by proximity to jobs, amenities and a sense of atmosphere that downtowns offered. The share of the regional population living in the commercial core grew between 2000 and 2020, in 35 of the top 45 U.S. downtowns by job count.

Over the last three decades, city centres went from being perceived as dangerous and declining, to increasingly trendy and exciting, to being 'dead' once again with the global pandemic, due to the retreat and slow return of office workers, increasing business closures and fear of crime and unsheltered homelessness. While the pandemic did not create the origins of downtowns' current challenges, in its wake, the persistent and structural weakening of downtowns' productivity could become a reinforcing cycle: a doom loop.