Market Update - April 2024

With another great quarter of returns under our belts for growth assets, our focus turns to fixed-income bonds that will continue to deliver strong capital gains as interest rates fall. In every market disruption is an opportunity and the rates on offer in the bond market have been exceptional in recent times. But it is the New Zealand economy that is on everyone's mind at present.

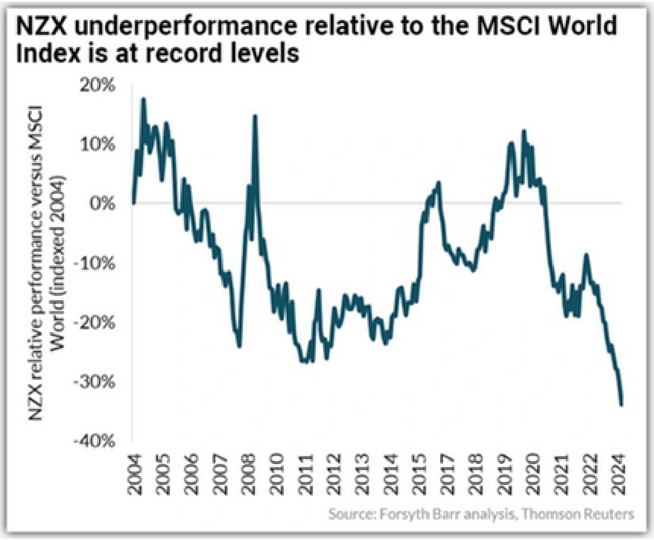
New Zealand stock exchange underperforming

The buzz word in New Zealand is the big R – 'Recession'. But rest assured we have had minimal exposure to the New Zealand Stock Market (NZX) since April 2019 and the NZX has been underperforming ever since. This divergence has now reached record levels.

Over the years, the MSCI New Zealand Index has exhibited varying returns. These fluctuations highlight the volatility of the New Zealand market, which is small by world standards making up only 0.2%. The MSCI World Index represents global equity markets and includes companies from developed countries worldwide. It provides a broader perspective on market performance. In 2023, the MSCI World Index posted a positive return of 24.4%, outperforming the New Zealand market which produced only 3.5%.

The underperformance of the NZX relative to the MSCI World Index can be attributed to several factors;

- Sector composition: New Zealand's market is heavily skewed toward specific sectors, such as utilities and health care. These sectors have performed as strongly as others globally in recent years, such as technology.
- Economic factors: New Zealand's economy is relatively small and dependent on specific industries like agriculture and tourism. Both sectors have been underperforming in the last few years.
- Market sentiment: Investor sentiment, geopolitical events and global economic uncertainties can influence market performance.



While the NZX has its unique opportunities and risks, the underperformance relative to the broader global market warrants attention from investors.

What is happening now New Zealand is offically in a recession?

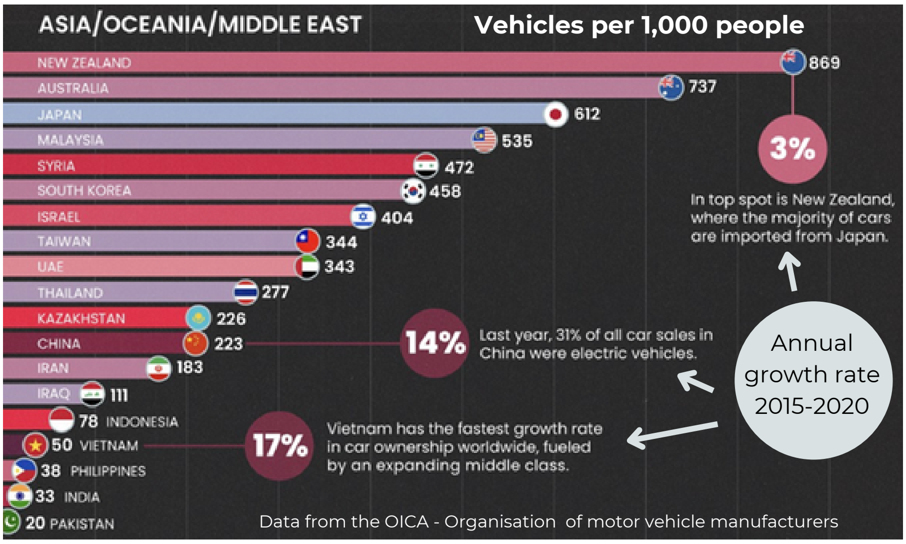
The word recession is a term that often evokes anxiety and uncertainty. But the fact is that when recessions hit (and this is a small one), the economic tides are already turning, not getting worse. We believe that there will be a continual improvement in data over the coming year. New Zealand faces a delicate balance between managing high inflation and mitigating the recession's impact. So how do we tread the tightrope?

- Inflation Control: The Reserve Bank aims to bring inflation back within the 1% to 3% target range. Higher interest rates encourage saving and reduce spending, which helps tame inflation.
- Economic Stabilisation: The recession's depth depends on behaviour. If businesses and workers can absorb costs, recovery will be swifter. If not, a deeper recession looms.
- Fiscal Policy: The government's spending decisions play a crucial role. Balancing priorities and adjusting taxes can influence consumer behaviour.

An economist recently described this as a 'controlled burn off' rather than a 'wild fire'.

Do we need to look back to be able to move forward?

It's no secret that the cost of living is hurting. People look to save costs in all budget areas, but do we need to dig even deeper? Are we willing to return to the days of being a single-car family? New Zealand has an astounding statistic of owning more vehicles per capita than any other nation, so the concept of relying on just one family car could certainly challenge people's thinking about where they can cut costs.



Should we look at what other items have become "necessities" in our modern lives? Coffee, streaming services, branded products? There's no hiding the fact that the more we own, the more it costs to maintain.

Are we willing to simplify and streamline our lives to align with our essential and core values? Not only could this cut costs but could this change improve our quality of life because we don't have to spend so much money on our 'escapes' from life's stresses.

Food for thought...

Market outlook

The world is facing similar themes across the board in 2024. Firstly, for growth assets, 85% of the world by market capitalisation is going or gone to the polls this year. This was started by Russia recently with President Putin, receiving 87% of the vote – a new record for him! Throughout the year, India, the UK, South Africa and Taiwan, are all going to the polls, ending with the second Tuesday in November with Trump vs Biden in the US. While this will create some uncertainty over 2024, the last term of the presidency for Donald Trump saw a 50% rise in sharemarkets.

The IMF's World Economic Outlook Update for January 2024 indicates that global growth is projected to be 3.1% in 2024 and 3.2% in 2025. This forecast is 0.2 percentage points higher than the October 2023 projection due to greater-than-expected resilience in the United States, several large emerging market economies, and fiscal support in China.

Secondly, for income assets, inflation figures are tumbling around the world and the pressure is coming on Central Banks to lower interest rates, which will hurt bank deposit holders. This will happen at a pace faster than people think, as Central Banks don't want to fall into the deflation trap. Why is deflation bad, how about this quote from former US Federal Bank Chairman, Ben Bernanke – 'Deflation is in almost all cases a side-effect of a collapse of demand. A drop in spending so severe that producers must cut prices on an ongoing basis to find buyers.' Inflation may be bad for consumers, but deflation is very bad for businesses.

Get in touch

If you have any questions about the world of investments, just get in touch as we are here to help.

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