

When a plan comes together

The quarter ending September 2024 saw the returns achieved in RIVAL Wealth client portfolios lead the market of diversified portfolio investments. This is quite an achievement and is testament to our forward-looking approach and dynamic portfolio management across the investment cycle.

There were a number of factors that contributed to this result, two of the primary ones were our long-touted increased allocation to bonds and having currency hedging in place to offset the impact of a rising New Zealand Dollar on the value of international equity investments.

Investing is a journey, not a destination

We often find ourselves focused on certain events to the exclusion of all else. For example, as new parents we attend antenatal classes to prepare for the birth of our first child and forget about the subsequent 20 years until we get home and think, "What do we do now? How do you raise a child?"

In our investing journey, we often focus on building a nest egg by the time we reach retirement, but do we think about how to transition from having a regular income to living from savings for an unknown length of time? How do we navigate the risks and uncertainty?

There are two main risks that face us as investors in retirement:

- Sequencing risk: which is the risk of a substantial fall in markets in the early years of our retirement.
- Longevity risk: which is the risk that we outlive our savings.



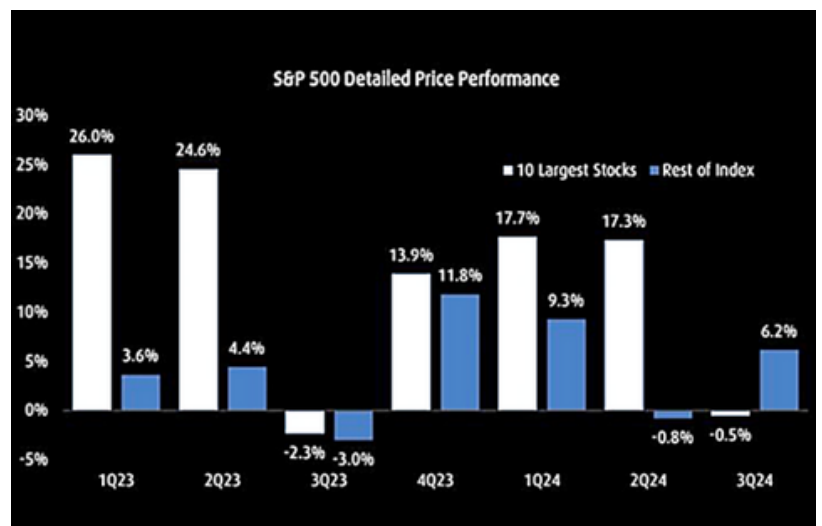
RIVAL Wealth employs a dynamic method of managing clients investments complemented by a holistic approach to finances:

- We regularly review client risk profiles, which change over time.
- In investment portfolios, we alter the mix of income and growth assets across the investment cycle.
- To manage sequencing risk, we increase income assets and to manage longevity risk, we increase growth assets.
- Independent of an investment portfolio, we encourage clients to maintain a rainy-day fund to cover 3 months' worth of expenses.

Market goings-on

Here's a selection of things that have been happening in financial markets:

- Since early in 2023, the U.S. share market has been led by a handful of the very largest companies who were seen as the main beneficiaries of the emergence of Artificial Intelligence (AI) technology.
- More recently however, these leaders have stepped back and the broader share market has taken over, continuing to push international shares higher.



Market goings-on (cont.)

- The outcome of the upcoming U.S. election has potential implications for markets. There are 3 key risks we are monitoring:
 - First, tariffs. The dirty little secret of international trade economics is that moderate tariff rates do not have large growth effects. The U.S. has already been in a limited trade war since 2018, and it hasn't been a systemic event for markets yet. However, Donald Trump has muted 60% tariffs on all imports from China which would be consequential.
 - Second, corporate taxes. Democrat Kamala Harris is proposing to increase the corporate tax rate from 21% to 28%, while Republican Donald Trump is proposing to decrease it to 15%. Corporate tax changes of this magnitude either way would have an impact of future U.S. corporate earnings.
 - Third, the fiscal trajectory of the United States. Both major political parties have run unsustainably large fiscal deficits in recent decades and neither party is talking about trimming this.
- Chinese equities jumped 24% in the last week of the quarter including posting their best day since 2008. This was on the back of China's central bank announcing a reduction in short-term interest rates and that Chinese banks could hold lower levels of reserves, both of which aim to encourage greater lending activity. This stimulus was provided to aid China's economy, which has struggled since the Chinese government introduced policies to curb property speculation as a cornerstone of China's economy.



Market outlook



Like most central banks around the world, the U.S. Federal Reserve has begun reducing interest rates. This is encouraging talk of a "soft landing", which is a situation where higher interest rates don't result in a recession. However, the reason for this action has been due to rising unemployment, which signifies weakening economic conditions. In short, it's too soon to say we are out of the woods yet, and it will be another year or so until central banks have finished their lowering of interest rates.

Until interest rates have dropped sufficiently and employment conditions have stabilised, we remain cautious on the outlook for growth assets and will retain a higher allocation to fixed interest investments which continue to give exceptional compensation.

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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