# Market Update - January 2024

*The last quarter of 2023 delivered gains that were higher than what would be expected in a normal year. This was a welcome uplift, after a long wait to regain the losses of 2022. The old rule finally started to ring true – 'the most successful investor is the most patient investor'.*

## The great bond reset has begun season

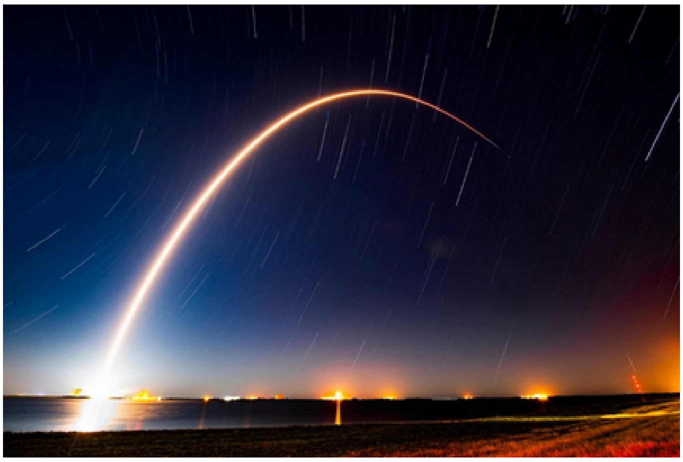
Markets finished the year strongly. We've been talking about it for most of 2023 and have prepared client portfolios accordingly. On the 1st of November, the US Federal Reserve Chairman announced that interest rates would stop increasing, and on the 1st of December he announced they were starting to discuss when interest rates would start to fall. These events had significant impact on both fixed interest bond and share markets. Falling interest rates are good for bonds as people want to pay more for existing bonds that have higher rates and equities have less pressure from a higher cost of borrowing.

The last quarter of 2023 delivered what we expect to be just the beginning for fixed-interest investments as long-dated government bonds outperformed the share market. That's quite an achievement considering that equities also delivered strong returns during the quarter.


Remember that shares and bonds are very different investments. Equities are where you will share in profits, either higher or lower, which will impact the price of a company. A fixed-interest bond is when you lend money to a company or government with an expected future return.

## Out of this world investment

Space Exploration Technologies Corporation (SpaceX) is a privately owned company founded by Elon Musk. SpaceX makes most of its revenue from launching satellites into orbit for government and corporate customers, but it continues to invest in future growth. It is possibly best known for its Starlink service that many rural New Zealander's use to access the internet. You may have even seen the long string of lights in the night sky as Starlink satellites pass overhead.

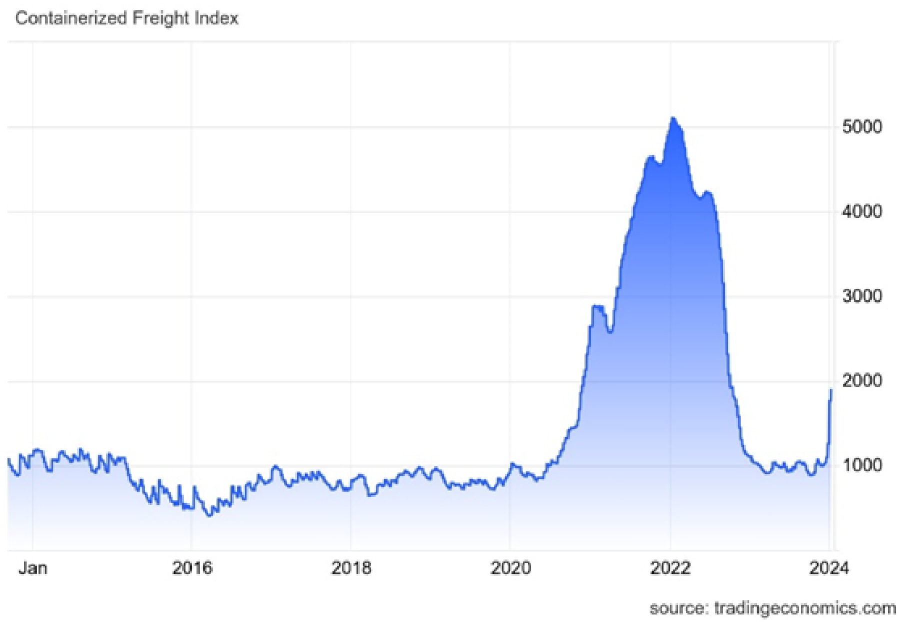


In addition to providing rural coverage, Starlink has partnered with airlines and cruise ships and has even enabled entire countries experiencing outages to get back online.

About twice a year, SpaceX allows insiders such as staff to sell some of their shares. In the most recent round of transactions, the shares changed hands at a price that valued SpaceX at US$180 billion. That places it just behind huge global companies McDonalds and Nike and just ahead of Boeing, Pfizer and Caterpillar in terms of current valuation. However, being a privately owned company, few investors get the opportunity to own a piece of SpaceX.

## Challenging trading conditions

If there is one thing that recent years have taught us is that it never rains but it pours. During the Covid-19 lockdowns, supply chains struggled as excess consumer demand that could no longer be funnelled into services such as travel found its way into capital goods, which led to surging inflation. This has resulted in interest rates being raised to curb inflation. Now we have a new twist being added to global supply chains.




Global shipping is being simultaneously impacted in three of its major waterways.

In the Americas, the Panama Canal is experiencing drought conditions, causing a backlog of vessels due to low water levels and restricted shipping capacity.

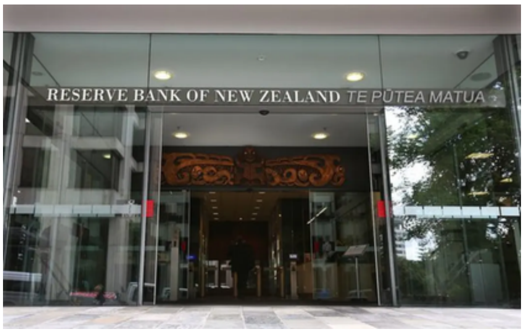
In the Middle East, Houthi terrorist activity is threatening shipping via the Suez Canal and Red Sea. In Asia, China’s build up of military bases in the South China Sea is escalating geopolitical tensions.

Some shipping companies are choosing to divert their vessels and travel the long way around continents, incurring higher costs in the process, rather than risk passing through dangerous waters or waiting in queues for uncertain periods as other companies pay millions to jump the queue.

The cost of container shipping has jumped by 80% in recent weeks with all these events. It is too early to say whether this is a temporary and one-off adjustment or whether we will potentially experience new inflationary pressures just as central banks think that the war against inflation is won. As always though, we take a long-term view so, as we know, that these factors are always short-term events in the bigger picture of history.

## Market outlook

Economic risk remains elevated in the short-term and the possibility of a recession has not gone away. The impact of higher interest rates is slowing economic activity, causing inflation to fall to more normal levels. We have positioned the portfolio for this with a higher weighting to fixed-interest bonds.




However, central banks will not reduce any pressure until they are certain inflation is no longer a risk, which will likely be reflected via higher unemployment.

Fixed interest bonds remain attractive at current interest rates and the prospect of a slowing economy is likely to continue adding to the capital gains that we saw from bonds in late 2023 across most of 2024.