

## Global Market Comment

Q1 2020

### Global shares

Global share markets fell sharply in the March quarter, with the MSCI ACWI Net Index returning -10.5% in unhedged New Zealand dollar (NZD) terms. In hedged NZD terms, the Index returned -20.8%. Stocks actually began the quarter well, thanks in part to improving Sino-US trade relations and the subsequent signing of their 'phase one' trade agreement, news the US economy expanded in line with expectations in the final quarter of last year and some encouraging US and European earnings updates. However, share markets reversed direction drastically toward the end of February and continued their slide through March as the rapid spread of coronavirus globally forced governments to impose strict containment measures. This included the shutdown of all non-essential services and activities, which had the effect of bringing parts of the global economy to a near standstill. Compounding the threat posed by the coronavirus pandemic was a steep decline in oil prices, which fell almost 67% on concerns a new price war between major producers Saudi Arabia and Russia would see supply spike at a time when demand was falling.

Importantly, stocks did get something of a reprieve late in the period as governments and central banks the world over moved to implement various policies aimed at supporting growth and restoring confidence in financial markets. In the US, the Trump Administration revealed an unprecedented USD2.2 trillion relief package – equivalent to 10% of the country's gross domestic product – that included one-off payments to households, business support and an increase in unemployment benefits. At the same time, the US Federal Reserve cut interest rates to almost zero and committed to unlimited quantitative easing (QE). We also saw similar responses from the Bank of England, the European Central Bank and the Bank of Canada.

Together, these actions helped to lift global share markets off their lows for the period and contributed to a strong rally into quarter end. Nonetheless, major developed share markets, including Europe (-25.6%<sup>1</sup>), the UK (-24.8%<sup>2</sup>), the US (-20.0%<sup>3</sup>) and Japan (-20.0%<sup>4</sup>), all suffered heavy losses over the period.

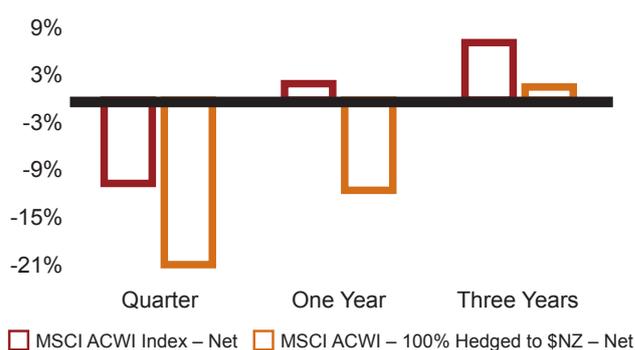
### New Zealand shares

The New Zealand share market was weaker for the quarter, returning -14.5%<sup>5</sup>. Like its global counterparts, the local market's early gains were wiped out by the uncertainty caused by the increasing spread of coronavirus worldwide and the government's ultimate decision to implement a full lockdown to try to contain it. In response to the ensuing economic disruption, the government introduced a fiscal package aimed at providing both targeted and broad-based economic stimulus, while the Reserve Bank of New Zealand (RBNZ) slashed the official cash rate to a record low 0.25%; which is where it's expected to remain for at least the next 12 months. The RBNZ also introduced QE for the first time, whereby the Bank committed to purchasing up to \$30 billion in government bonds in a bid to keep borrowing costs down and provide further support to the economy.

### Australian shares

Australian shares were materially lower in the first quarter, returning -23.4%<sup>6</sup>. From its peak on 20 February to its low on 23 March, the Australian market fell more than 36% as the Federal Government moved to shut down all non-essential services and activities. Amongst the hardest hit stocks were the country's major miners, which fell on expectations commodities demand will taper off as global growth slows. Also hit hard were the 'Big Four' banks and travel and tourism names like Qantas and Flight Centre after officials acted to limit people's movements. Helping to limit the decline was the introduction of various government and central bank policy measures aimed at propping up the economy.

Figure 1. Global Equities



## Global listed property

Global listed property fell sharply during the quarter, returning -28.4%<sup>7</sup> in hedged NZD terms. Property stocks were impacted by the general selloff we saw in global equity markets over the period. However, a combination of government and central bank intervention and lower bond yields across most major economies did provide some support.

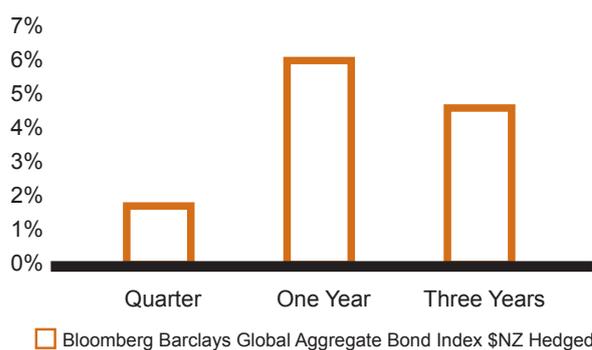
## Global listed infrastructure

The global listed infrastructure market was also weaker over the period, returning -27.9%<sup>8</sup> in hedged NZD terms. Listed infrastructure stocks got caught up in the broad selloff in global share markets we saw over the period. Like global listed property, the market's decline was limited by a flurry of fiscal and monetary stimulus and falling bond yields.

## Global fixed income

Global bonds made modest gains in the first quarter, returning 1.4%<sup>9</sup> in hedged NZD terms. Longer-term government bond yields were mostly lower (prices higher) over the period as investors, spooked by fears the rapid spread of coronavirus outside of Mainland China would push the global economy into recession, favoured the asset class's traditionally defensive characteristics. Credit markets were weaker, with spreads widening amid heightened liquidity concerns and a steep decline in oil prices.

Figure 2. Global Fixed Interest



## New Zealand dollar

The NZD was weaker for the quarter, driven largely by concerns over the spread of coronavirus and its impact on domestic (and global) growth. This forced the RBNZ to lower interest rates to near zero and introduce unconventional monetary policy like QE; neither of which is particularly good for the NZD. The currency was also impacted by sharp declines across the commodities spectrum and general US dollar (USD) strength. The NZD fell 11.2% against the Japanese yen, 11.0% against the USD, 9.4% against the euro and 5.3% against the British pound. It rose 1.3% against the Australian dollar, while the broader New Zealand Trade-Weighted Index closed the quarter down 6.8%<sup>11</sup>.

Note: all returns are in local currencies unless otherwise stated.

Figure 3. New Zealand Equities

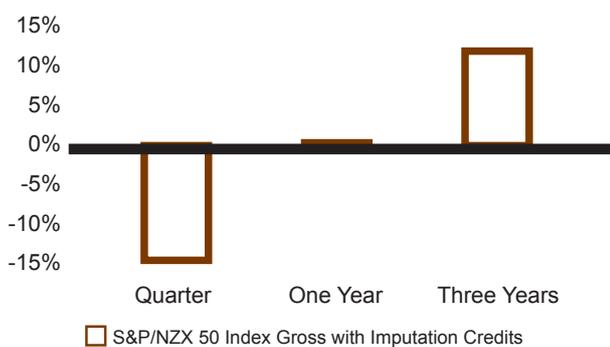
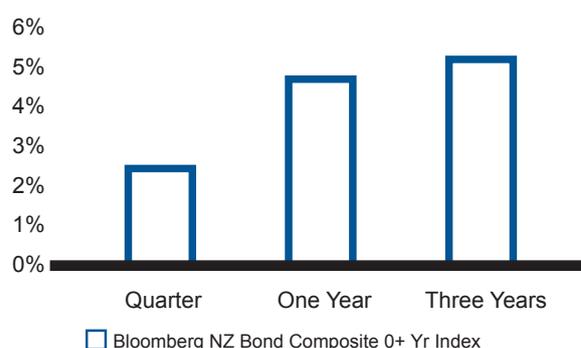


Figure 4. New Zealand Fixed Income



## New Zealand fixed income

The New Zealand bond market made reasonable gains over the period, returning 2.5%<sup>10</sup>. Domestic long-term bond yields tracked their global counterparts lower amid a 'flight to safety' in the face of rising economic uncertainty. The yield on New Zealand 10-year government bonds closed the quarter 57 basis points lower at 1.08%. Credit markets weakened as spreads widened on liquidity fears.

1. Dow Jones EuroStoxx 50 Price Index
2. FTSE 100 Index
3. S&P 500 Index
4. Tokyo Stock Exchange Tokyo Price Index (TOPIX)
5. S&P/NZX 50 Index with imputation credits
6. S&P/ASX 300 Accumulation Index
7. FTSE EPRA/NAREIT Developed Real Estate Index Net NZD Hedged
8. S&P Global Infrastructure Index (NZD hedged)
9. Bloomberg Barclays Global Aggregate Bond Index (NZD Hedged)
10. Bloomberg NZ Bond Composite 0+ Yr Index
11. The trade-weighted index for the NZD is an indicator of movements in the average value of the NZD against the currencies of our major trading partners.

		LAST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS	
<b>Equities</b>	<b>New Zealand</b>					
	S&P/NZX 50 Index Gross with Imputation Credits	-14.5%	0.4%	12.0%	12.2%	
	<b>Global</b>					
	MSCI ACWI Index – Net <sup>^</sup>	-10.5%	2.1%	7.3%	7.9%	
	MSCI ACWI Index – Net (NZD hedged)*	-20.8%	-11.4%	1.7%	3.8%	
	<b>US</b>					
	S&P 500 Index	-20.0%	-8.8%	3.0%	4.6%	
	NASDAQ Composite Index	-14.2%	-0.4%	9.2%	9.5%	
	<b>Australia</b>					
	S&P/ASX 300 Accumulation Index	-23.4%	-14.5%	-0.6%	1.4%	
	<b>China</b>					
	Shanghai Shenzhen CSI 300 Index	-10.0%	-4.8%	2.2%	-1.9%	
	<b>Eurozone</b>					
	EURO STOXX 50 Price Index	-25.6%	-16.9%	-7.3%	-5.5%	
	<b>Japan</b>					
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)	-18.5%	-11.8%	-2.5%	-1.9%	
	<b>Asia Pacific</b>					
	MSCI Asia Pacific ex Japan Index (USD)	-21.1%	-17.6%	-3.1%	-2.1%	
	<b>UK</b>					
	FTSE 100 Index	-24.8%	-22.1%	-8.2%	-3.5%	
<b>Emerging Markets</b>						
MSCI Emerging Markets Index (USD)	-23.6%	-17.7%	-1.6%	-0.4%		
<b>Fixed Interest</b>	<b>New Zealand</b>					
	Bloomberg NZ Bond Composite Index	2.5%	4.7%	5.2%	4.8%	
	S&P/NZX A-Grade Corporate Index	1.3%	4.2%	5.0%	4.9%	
	<b>Global</b>					
Bloomberg Barclays Global Aggregate Index (NZD hedged)	1.4%	6.0%	4.6%	4.4%		
<b>Property</b>	<b>Global</b>					
	FTSE EPRA/NAREIT (NZD Hdgd)	-28.4%	-24.1%	-3.6%	-1.1%	
<b>Infrastructure</b>	<b>Global</b>					
S&P Global Infrastructure Index (NZD hedged)	-27.9%	-20.5%	-3.2%	0.3%		
<b>Commodities</b>	Thomson Reuters/CoreCommodity CRB Commodity Index USD)	-34.4%	-33.7%	-13.1%	-10.5%	
		<b>31-Mar-20</b>	<b>31-Dec-19</b>	<b>31-Mar-19</b>	<b>31-Mar-17</b>	<b>31-Mar-15</b>
	Gold spot price (USD)	1,577.18	1,517.27	1,292.38	1,249.20	1,185.32
	West Texas Intermediate crude oil (USD)	20.48	61.06	60.14	50.60	47.60
<b>Currencies</b>	NZD/USD	0.5997	0.6735	0.6785	0.6991	0.749
	NZD/AUD	0.9740	0.9617	0.9574	0.9142	0.9785
	NZD/GBP	0.4862	0.5136	0.5196	0.56	0.5059
	NZD/EUR	0.5445	0.6011	0.6041	0.6543	0.6918
	NZD/JPY	65.09	73.28	75.22	78.36	89.99
	New Zealand Trade Weighted Index	68.81	73.82	73.86	76.06	78.62
	<b>Volatility</b>	Chicago Board Options Exchange Volatility Index (VIX)	53.54	13.78	13.71	12.37

<sup>^</sup> Russell Global Large Cap Index until 30 September 2018, MSCI ACWI Index – Net thereafter

\* Russell Global Large Cap Index (NZD hedged) until 30 September 2018, MSCI ACWI Index – Net (NZD hedged) thereafter

All returns in local currency terms unless otherwise stated.

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