

SEPTEMBER 2017 // GLOBAL MARKET COMMENT

Market Overview

Australasian equities

The New Zealand equity market rose 4.7%, as measured by the S&P/NZX 50 Index. Secular growth stocks, such as a2 Milk (+60.8%) which provided a further upgrade to profit forecasts following continued strength in Chinese demand for infant formula, Fisher & Paykel Healthcare (+11.6%) and Xero (+22.6%), were key contributors this quarter. The largest detractors included Auckland Airport (-9.7%) and Trade Me (-11.6%), with the results season again highlighting structural challenges at Sky Television (-16.6%).

The Australian market, as measured by the Russell Australia Index, had a relatively weak quarter rising just 1.1%. The telecom, utilities and healthcare sectors were the worst performers with the company reporting season proving lacklustre as earnings forecasts underwhelmed investors. The resources sector was the largest contributor to overall market performance benefiting from firmer commodities prices and enhanced profitability in the mining sector.

Global equities

Global equities, as measured by the Russell Global Large Cap Index, rose 4.5% in NZ dollar hedged terms. A strengthening economic backdrop and positive earnings releases drove markets higher. This despite escalating geopolitical tension on the Korean peninsula and tropical hurricanes Harvey and Irma hitting the US. On a sector basis, energy was the best performer owing to favourable energy prices, whilst dynamic growth sectors such as technology also continued to dominate.

The US equity market recorded new highs during the quarter, rising 4.5%, as measured by the Russell 1000 Index. Corporate earnings continued to improve while additional tailwinds were provided by weakness in the US dollar and generally positive macroeconomic data. Specifically, non-farm payroll figures continued to point towards a healthy jobs market while news that economic growth was strong in the second quarter was also welcomed by the market. Sentiment was not impacted greatly by increased political uncertainty amid rising tensions with North Korea and the ongoing failure of the Trump administration to realise its policy goals.

European markets continued to surge, with the Russell Eurozone Index returning 4.3%. European equities benefitted from improved economic activity, accelerating corporate earnings growth and diminishing political uncertainty. In Germany, Angela Merkel won a fourth term as German chancellor, which was welcomed by investors.

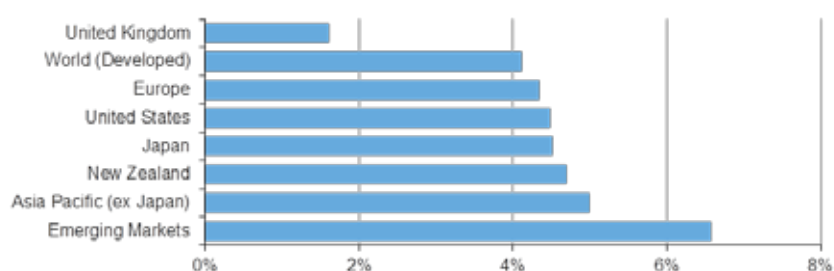
The UK market rose 1.6%, as measured by the Russell UK Index. While a stable global growth outlook underpinned the UK market's performance, a strengthening British pound provided a significant headwind, particularly to the internationally diversified sectors of the market. The resources sector performed well as did the oil and gas sector against a backdrop of higher crude oil prices.

Currency comment

Domestic political uncertainty alongside comments from major central banks hinting at tighter monetary policies in the future saw the NZ dollar decline against key currencies.

Currency	NZD % appreciation
USD	-1.3%
GBP	-4.4%
AUD	-3.5%
JPY	-1.1%
EUR	-4.7%
TWI	-2.7%

Fig 1. Russell World Equity Indices, Local Currency Q3 2017



The Japanese equity market continued to rally, rising 4.5%, as measured by the Russell Japan Index. The market responded favourably to Prime Minister Shinzo Abe's decision to dissolve the lower house and call for a snap election. Abe said that he would run on a platform that included strengthening Japan's economic foundations, a tough stance on the missile threat from North Korea and increased spending for education.

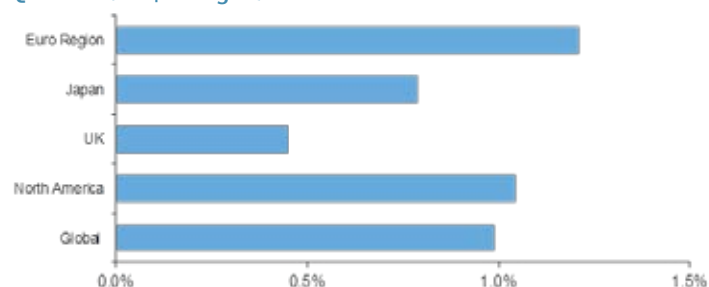
Emerging markets performed strongly, rising 6.6%, as measured by the Russell Emerging Markets Index in local currency terms. At a country level, China outperformed despite Standard & Poor's downgrading the country's sovereign credit rating to A+ from AA-, citing higher financial risks. However, economic data remained healthy. Russia climbed in a strong period for the energy sector, whilst Brazil rebounded from a weak second quarter to be the standout performer this period.

Global fixed interest

The Bloomberg Barclays Global Aggregate Bond Index returned 1.0% in NZ dollar hedged terms. During the quarter, the US Federal Reserve indicated that it would begin reducing its balance sheet at a rate of \$10 billion a month from October while the European Central Bank gave indications that it was preparing to taper its quantitative easing process. These central bank announcements along with changes in investor risk appetite saw the bond yields of major markets track up and down during the quarter, and broadly finished the quarter where they began. The US 10-year Treasury yield finished the quarter at 2.33% rising just 0.02% while the yield on the German 10-year bund was virtually unchanged at 0.46%.

The one exception to this was in the UK where the Bank of England adopted a more hawkish tone by openly discussing rate rises which led the benchmark 10-year Treasury yield to finish the quarter 0.10% higher at 2.36%. This occurred against a backdrop of above-target inflation and low unemployment. This rhetoric from the Bank of England was a key factor in the strengthening of the British pound during the quarter.

Fig 2. Bloomberg Barclays Global Aggregate and Regions Q3 2017 (NZ\$ Hedged)

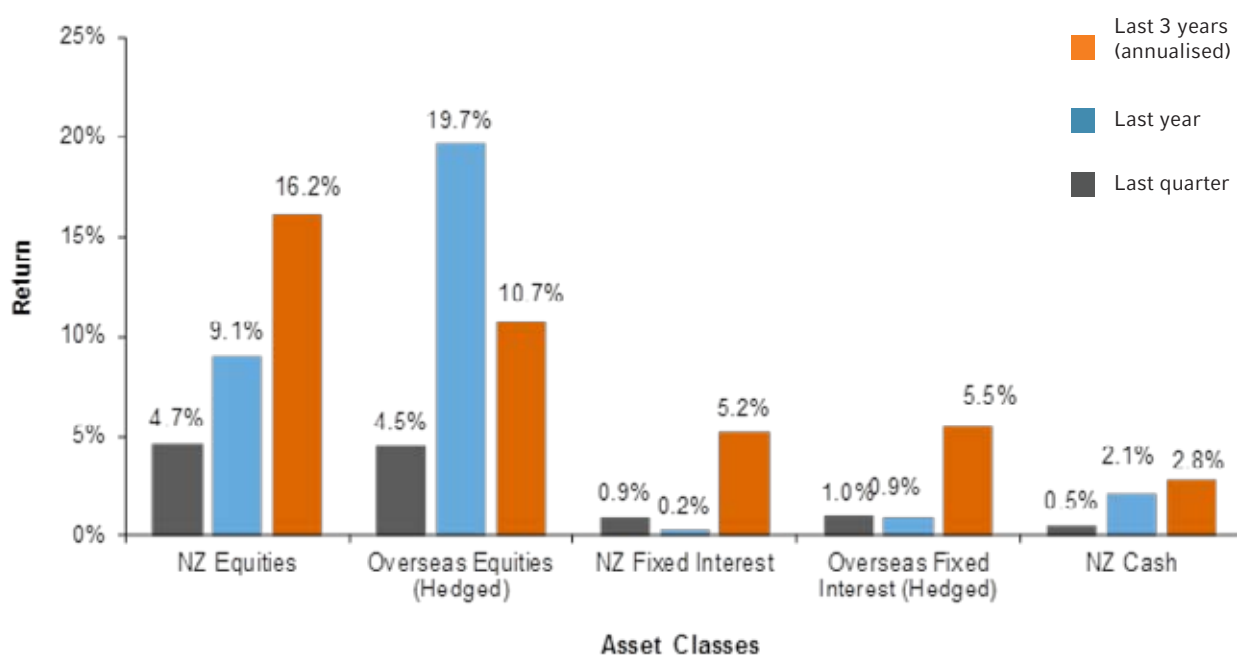


Corporate bonds outperformed government bonds with the spreads on investment grade and high-yield bonds tightening on the back of higher energy prices.

New Zealand fixed interest

The New Zealand fixed interest market returned 0.9%, as measured by the S&P/NZX NZ Government Bond Index. Yields on longer dated NZ government bonds were little changed over the quarter although there was a small reduction across shorter maturities, which generated a slight steepening of the yield curve. The economy continues to grow at a reasonable pace, but without generating tangible inflationary pressure. With this backdrop, the Reserve Bank of New Zealand kept the official cash rate at 1.75% and again indicated that there would be no change in monetary policy "for a considerable period".

Fig 3. Asset Class Returns Q3 2017 (NZ\$)



			Last Quarter	One year	Three year	Five year
Equities	New Zealand					
	S&P/NZX50 with ICs		4.69%	9.07%	16.18%	17.14%
	Global					
	Russell Global Large Cap NZD Hedged (≈ MSCI AC)		4.53%	19.68%	10.73%	14.27%
	Russell Developed Large Cap NZD Hedged (≈ MSCI World)		4.23%	19.65%	11.05%	15.13%
	United States					
	Russell 1000		4.48%	18.54%	10.63%	14.27%
	Russell 2000		5.67%	20.74%	12.18%	13.79%
	Russell 3000		4.57%	18.71%	10.74%	14.23%
	Australia					
	Russell Australia		1.13%	9.98%	8.11%	11.15%
	China					
	Russell China		11.51%	29.67%	14.35%	12.89%
	Eurozone					
	Russell Eurozone		4.34%	22.08%	9.56%	13.21%
	Japan					
	Russell Japan		4.50%	27.79%	10.02%	20.04%
	Pacific ex Japan					
	Russell Asia Pacific ex Japan		4.98%	20.49%	10.16%	10.50%
	United Kingdom					
	Russell United Kingdom		1.61%	11.70%	9.10%	10.18%
	Emerging Markets					
	Russell Emerging Markets		6.57%	20.33%	9.50%	9.32%
	Russell Frontier		1.08%	16.65%	3.28%	10.49%
		Yield				
Fixed Interest	S&P NZX 90-day Bank Bill Index	1.96	0.50%	2.09%	2.80%	2.83%
	S&P NZX NZ Government Bond Index	2.39	0.94%	0.25%	5.23%	3.73%
	Bloomberg Barclays Global Aggregate Index NZD Hdgd		0.99%	0.93%	5.51%	5.59%
	Citigroup World Government Bond Index NZD Hdgd		0.80%	-0.30%	5.36%	5.59%
Property	Global					
	FTSE EPRA/NAREIT (NZD Hdgd)		1.12%	2.28%	9.19%	10.85%
	United States					
	FTSE NAREIT Equity REITs (USD)		1.11%	2.57%	10.18%	9.97%
Commodities	Bloomberg Commodity Index (USD)		2.52%	-0.29%	-10.42%	-10.47%
	S&P GSCI Total Return Index (USD)		7.22%	1.79%	-19.56%	-14.38%
		30-Sep-17	30-Jun-17	30-Sep-16	30-Sep-14	30-Sep-12
	Gold spot price (USD)	1283.8	1241.6	1321.5	1212.8	1774.5
	Oil spot price (USD)	51.7	46.0	48.1	91.2	92.2
Currencies	USD/NZD	0.7229	0.7322	0.7272	0.7794	0.8307
	AUD/NZD	0.9213	0.9546	0.9503	0.8907	0.7988
	GBP/NZD	0.5388	0.5637	0.5598	0.4808	0.5144
	EUR/NZD	0.6115	0.6420	0.6471	0.6170	0.6457
	JPY/NZD	81.37	82.27	73.64	85.50	64.63
	Trade Weighted Index	76.35	78.44	76.97	75.96	74.65
Volatility	CBOE Volatility Index (VIX)	9.51	11.18	13.29	16.31	15.73

All returns stated in local currency terms unless otherwise stated.

Index definitions

Equities

New Zealand

S&P/NZX 50 with ICs: Measures the top 50 companies listed on the New Zealand Exchange by free float adjusted market capitalisation and includes the value of imputation credits.

Global Equities

Russell Global Large Cap: The index measures the performance of the largest securities in the Russell Global Index, based on market capitalisation. The index includes approximately 3000 securities and covers 87% of the investable global market.

Russell Developed Large Cap: Offers investors access to the large-cap segment of the developed equity universe representing approximately 70% of the global equity market. The index includes the largest securities in the Russell Developed Index.

United States

Russell 1000: Measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the US market.

Russell 2000: Measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 8% of the total market capitalisation of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 3000: Measures the performance of the largest 3000 US companies representing approx 98% of the investable US equity market.

Australia

Russell Australia: Measures the performance of the equity market in the Australia based on all its investable equity securities.

United Kingdom

Russell United Kingdom: Measures the performance of the equity market in the UK based on all its investable equity securities.

Japan

Russell Japan: Measures the performance of the equity market in Japan based on all its investable equity securities.

China

Russell China: Measures the performance of the equity market in China based on all its investable equity securities.

Eurozone

Russell Eurozone: Measures the performance of the equity markets located in the Eurozone, based on all investable equity securities in the region. The index covers 15% of the investable global market.

Pacific ex-Japan

Russell Asia Pacific ex-Japan: Measures the performance of the equity market in the countries in Asia Pacific, excluding Japan and including Australia and New Zealand based on all its investable equity securities.

Emerging Markets

Russell Emerging Markets: Measures the performance of the largest investable securities in emerging countries globally, based on market capitalisation. The index covers 20% of the investable global market.

Frontier Markets

Russell Frontier: Constructed using float-adjusted market capitalisation weights and represents 98% of the cumulative, liquid market capitalisation of frontier countries.

Fixed Interest

S&P/NZX 90-day Bank Bill Index: A measure of the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. The 90-day Bank Bill index is valued on a mark to market basis, i.e. valued at current market yields not at purchase yields.

S&P/NZX Government Bond Index: Tracks movement in the NZ Government bond market. Bonds are included in the index in proportion to their relative market capitalisation weights. The index calculation assumes the full amount of all coupon payments are reinvested in the index.

Bloomberg Barclays Global Aggregate Bond Index NZD Hedged: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (Specifically, Barclays Capital Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index.)

Citigroup World Government Bond Index NZD Hedged: A market capitalisation weighted bond index consisting of the government bond markets of developed countries.

Property

Global

FTSE EPRA/NAREIT: A Global Real Estate Index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposure and development of income-producing real estate. The index series covers Global, Developed and Emerging indices, as well the UK's AIM market.

United States

FTSE NAREIT Equity REIT Index: An index, with dividends reinvested, representative of tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System.

Bloomberg Commodity Index: A futures commodity index listing 20 different commodities in the US. It is a diversified and liquid index tracking the performance of physical commodities in the US. It weights the commodities listed according to liquidity and dollar-adjusted production data. However, unlike other commodity indices, this index sets limits on its weighting so as to maintain its own diversification.

Commodities

S&P GSCI Total Return Index: Measures a fully collateralised commodity futures investment that is rolled forward from the 5th to the 9th business day of each month. Currently the S&P GSCI includes 24 commodity nearby futures contracts. The S&P GSCI Total Return Index is significantly different than the return from buying physical commodities.

Gold spot price (USD): London PM fixed spot price.

Oil price (USD): Price of barrel of light, sweet crude oil as traded on the New York Mercantile Exchange (NYMEX).

CBOE Volatility Index (VIX): An index that measures market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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