

Market Update to 31 October 2023

November 2023



What happened

October is known to be the most volatile month of the year for the US share market, and unfortunately it lived up to expectations, with the index measuring share market volatility (VIX) reaching highs not seen since March this year. After a good first half to the month all three major US indices (Nasdaq, S&P 500 and the Dow Jones) finished the month down.

US 10-year yields continued to increase through most of October as the market continues to price in a higher for longer policy from the Federal Reserve (Fed). Strong US economic data from the PMI surveys and GDP for the quarter of 4.9% annualised has impacted market sentiment and investors' thoughts on the probability of a "soft landing". However, poor US inflation numbers signal that inflation may not yet be fully under control. Nevertheless, the markets' base case is that the Fed is likely done with interest rate hikes, causing both the 10- and 2-year yields to pull back in the later part of the month.

Employment across most developed countries remains relatively strong, although the UK unemployment rate continued to trend up. Australia, Europe, and Japan's central banks kept their rates unchanged, however the Bank of Japan

have now set the upper bound of the 10-year Japanese government bond yield to 1%, signalling increased flexibility of its yield curve control and continuing the trend to tighter monetary conditions. China's GDP for the quarter was 4.9% annualised, outperforming expectations by 0.5%.

Back in New Zealand, a reduction in electronic card retail sales for the month indicated a slowdown in retail activity. Inflation in New Zealand remains high, however it continues to show a trend moving slowly back to the 2% target. Nevertheless, core inflation remains sticky, supported by record net migration. The Reserve Bank of New Zealand (RBNZ) kept the OCR at 5.5% and is expected to keep rates higher for longer - with potential rate hikes next year.

Asset class performance to 31 October 2023

	NZ Fixed Income	Global Fixed Income	NZ Shares	Australian Shares	Global Shares	Global Property
Month	-0.3%	-0.7%	-4.8%	-3.8%	-2.7%	-4.4%
3 months	-2.5%	-2.6%	-10.8%	-7.2%	-8.0%	-11.7%
One year	-1.6%	1.2%	-5.1%	3.0%	10%	-5.5%
<i>One year vs. history</i>	<i>Poor</i>	<i>Poor</i>	<i>Poor</i>	<i>Poor</i>	<i>Normal</i>	<i>Poor</i>

Source: Refinitiv Datastream, Makao Investments

Looking back

It was a poor month in most asset classes, with all 6 asset classes shown above producing negative returns. The US 10-year yields increased sharply in October, putting significant downward pressure on asset prices across the globe. New Zealand and Australian equity were hit the worst, and Global property continued its poor performance in 2023. Global shares also had its second month in a row in the red. Most asset classes have also produced poor returns above cash over the last year compared to history. The exception is global shares, which has profited from the rally in large cap tech stocks in the US in the first half of 2023.

New Zealand Dollar to 31 October 2023

	NZD/USD	NZD/EUR	NZD/JPY	NZD/GBP	NZD/AUD
Month	-2.1%	-2.6%	-2.1%	-1.8%	-1.3%
3 months	-5.4%	-1.8%	-0.1%	0.0%	-1.1%
One year	0.5%	-5.7%	1.3%	-4.0%	1.2%

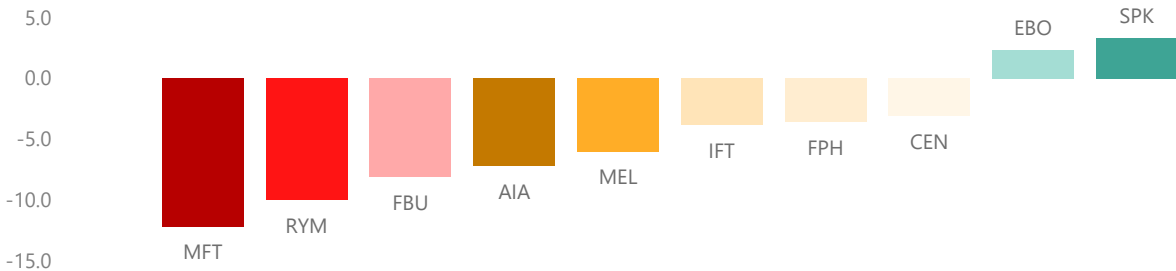
Source: Refinitiv Datastream, Makao Investments

The New Zealand dollar has depreciated against all the major developed countries over October. The NZD strengthened against most currencies at the start of the month, before weakening significantly in the second half and finishing the month down, as investor sentiment and share markets turned negative. A large run in the US 10-year yields in mid-October also put significant downward pressure on riskier currencies like the New Zealand dollar, and the Kiwi dropped to lows not seen since October last year.



New Zealand shares

September 2023 performance, in %



Source: Refinitiv Datastream, Makao Investments

The NZX50 had one of its worst months of the year, falling almost 5%. Mainfreight (MFT) was the worst performer among the top ten on the New Zealand stock exchange, falling 12.2%, followed by Ryman Healthcare (RYM) down 10% on the back of a significant drop last month. Mainfreight and Ryman Healthcare are now the two worst performing stocks among the top ten stocks on the New Zealand stock exchange over the last 12 months, both down more than 20%.

Ebos Group (EBO) and Spark New Zealand (SPK) were the top performers for the month. However, both EBO and SPK gains are coming off the back of declines in September.

Looking ahead

The United States economy continues to show resilience with surprisingly positive growth rates and labour market numbers. Some commentators point to the strong support from the central bank and government post the pandemic as the main driver for why consumption has remained stronger than typically experienced during rising interest rate environments. However, we believe that signs of weakness and slowdown are starting to show up, in particular in loan markets in the United States.

As a result, we continue to believe that a recession is still possible, and therefore favour a slightly defensive stance in regards to share markets. Even without a recession, we believe that either very strong earnings growth or lower interest rates will be needed to justify the relative expensive valuations in share markets.



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