Investment Comment April 2009

1 Introduction

The purpose of this note is to provide a brief commentary on the investment markets for the month of April 2009. We look at index results, comment on local and global markets and raise issues that may be concerning trustees.

2 Index results

• Australasian Shares	NZSX 50 rose 5.9% and the Australian ASX 200 rose 5.6%.
• Global Shares	MSCI in local currency terms was up 10.4% and in unhedged terms was up 11.0%.
• Global Bonds	Barclays Capital Global Aggregate rose 0.6%.
• NZ Bonds	NZ Government Stock was up 0.7% and the NZ Corporate A index was up 2.4%.
• Currency	NZ dollar finished down 0.4% at 56.9 US cents.

3 Markets

The markets continued their bull run through April. The S&P 500 rose 9.4% while the Dow Jones was up 7.3%. The S&P 500 is now above 900, its highest level since 8 January and up some 34% from its trough on 10th March.

European markets fared even better with Germany's DAX up 16.8% and France's CAC up 12.6%. The FTSE was more muted, up 8.1%, and in Japan the Nikkei moved up 8.9%.

Australia and NZ were some of the poorer performers, up 5.6% and 5.9% respectively. However, these markets did not see as large falls through the crisis.

Global property rebounded strongly with the UBS Global Real Estate Investors index up 20.5% for the month. Over 12 months the return is still down 45.4% though.

4 Economies

Economic statistics are beginning to suggest that the global economy is stabilising and this has sparked the rally in share markets. In other words the data is still getting worse, but is doing so at a slower rate. For example, the Case Shiller US house price index for February fell 2.2% compared to a fall of 2.8% in the previous month.

However, there is still plenty of negative news around for the pessimists to latch onto. Auto sales in the US disappointed in the month of April, down 35% to 40% on a year ago. Chrysler, the smallest of Detroit's big 3 car manufacturers, was forced to file for bankruptcy in April, but a deal has been announced that will see the Auto Union plus Fiat take over the company once issues with a small number of its debtors have been dealt with.

5 Interest Rates

With interest rates about as low as they can go in most of the developed world, there was little to surprise investors this month in the way of central bank action.

As broadly expected, the Reserve Bank of Australia and the European Central Bank both dropped rates 0.25% in early April, to 3.00% and 1.25% respectively. New Zealand followed suit on 30 April with a 0.50% cut, to take our official cash rate to an unprecedented 2.50%.

The RBNZ said

"Overall, developments since March point to lower medium-term inflation than previously projected.

"Global financial markets have showed some tentative signs of stabilisation since the March Monetary Policy Statement and governments in the major economies are continuing to make progress in resolving their banking system difficulties. However, a large amount still needs to be done and sentiment remains fragile.

"We consider it appropriate to provide further policy stimulus to the economy. We expect to keep the OCR at or below the current level through until the latter part of 2010. The OCR could still move modestly lower over the coming quarters."

6 New Zealand and Australia

In figures released by Statistics New Zealand, the number of Full Time Equivalent employees fell 2.0% in the March 2009 quarter. The FTE number is down 1.7% for the year.

The March quarter unemployment rate is due to be released on 7 May and is expected to rise to 5.3% (from 4.7% at the end of the previous quarter).

Despite the rise in unemployment, there is cautious optimism about the New Zealand housing market which showed stronger sales in March and a decrease in the number of listings. This optimism is not mirrored in Australia where figures released show that the economy is certainly sliding. The slump in house prices accelerated, being down 6.7% compared to the previous year.

7 Issues

With share markets on the rise, Trustees will certainly be feeling more comfortable, especially if they have persevered through the dire January/February period. However, the situation remains precarious and Trustees should be prepared for further volatility. If switches between asset sectors had been previously planned but put on hold, it may be time to begin thinking about the timing of these.

Fund managers will now be publishing their quarterly comments. In many cases these will try to explain poor performance and Trustees will need to evaluate how they feel about the manager going forward.

A challenge for investors will be how to respond to the low cash rates on offer.

8 Outlook

As noted above, the last few months have been good for share markets. However the extent to which the resurgence will continue is unclear and many investors would settle for just holding onto the gains achieved to date for the rest of the year.

The outlook for bond markets is similarly unclear, with concerns that interest rates will rise due to the large levels of debt that both Corporates and Governments need to issue. We expect to see a narrowing of credit spreads when the recovery gets fully underway and this will benefit Corporate issues. The property sector has been particularly badly hit in the last 12 months, but there is some expectation that the recovery seen in April will continue for the near future.

Overall there is some relief that markets have rebounded, although the huge level of work that needs to be completed to sort out over-stretched household balance sheets will be on-going. Without a reduction in household debt, the medium term outlook remains uncertain.

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