

## Investment Comment

### 1 Introduction

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

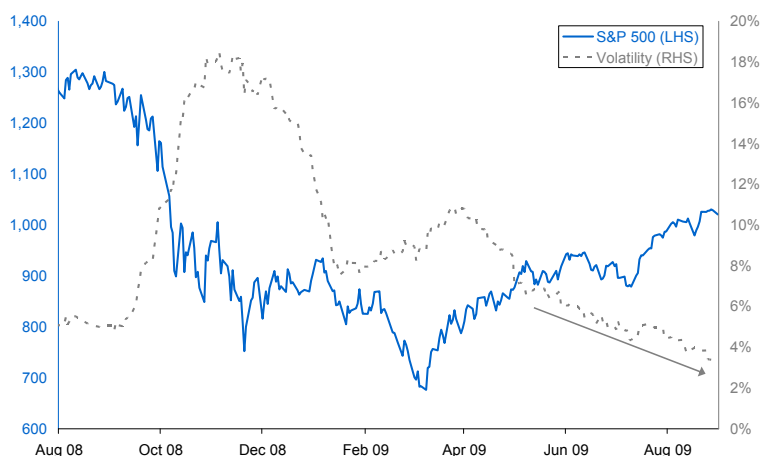
### 2 Index results

- Australasian shares NZSX 50 rose 2.9% while the ASX 200 rose 5.5%.
- Global Shares In local currency terms, the MSCI World Index rose 4.5% and in unhedged terms it rose 0.2%.
- Global Bonds Barclays Capital Global Aggregate rose 1.0%.
- NZ Bonds NZ Government Stock was up 0.4%.
- Currency NZ dollar finished up 4.8% at 68.3 US cents.

### 3 Markets

Markets advanced strongly in August and the S&P 500 is now over 50% above its low in early March. This is extraordinary given that less than 6 months have elapsed since the nadir. Certainly with the index above 1,000 points the low of 666 recorded on March 6<sup>th</sup>, seems a long way away.

Perhaps the most remarkable feature of the market recently is the stability of returns, shown below as the dotted grey line on the right hand axis.



### 4 Economies

With markets boosted to what feel like dizzying heights (albeit still off their pre-crash highs), optimism abounds. After leaving US interest rates at the 0%-0.25% range this month, Federal Reserve Chairman Ben Bernanke declared

*“Economic activity appears to be leveling out, both in the United States and abroad, and the prospects for a return to growth in the near term appear good.”*

Indeed, the US July jobs report was some 78,000 better than consensus forecast. Unfortunately, consensus was for 325,000 jobs to be lost so some 247,000 additional nonfarm workers were made redundant in July.

The unemployment rate eased back from 9.5% in June to 9.4%. This too was better than the forecast rise to 9.6%. Of concern is that the population not in the labour force (and therefore not counted in the denominator of the unemployment rate) continues to rise. It expanded to 81.4 million in July from 80.7 million in June. A year ago this sat at 79.4 million.

In August, the Case-Shiller home price index for June was released and showed that prices have risen slightly for the month. The index is now down 15% year-on-year, the best this figure has been since March 2008. New home sales for July increased 9.6% over June and the media seized on this as indicative of a soon-to-be buoyant market. However, at an annual rate of 433,000 new starts, this is still a very low figure for a country the size of the US. This figure was consistently at the 1 million level for the 5 years to December 2006. At less than half this, the current rate is the lowest since 1991.

## **5 New Zealand**

In New Zealand business confidence improved and now a net 34% of businesses say they expect conditions to be better in 12 months time. This is tempered by the fact that the long-term average outlook has been 25% but still an improvement on last month's reading of 19%.

The New Zealand Institute now says the economy will return to growth in the final quarter of 2009. They expect the jobless rate to reach 8% in late 2010 before declining. It currently sits at 6%.

## **6 Issues**

The importance of strategic asset allocation for the returns received will have been made clear over the last few months. Funds that allowed their share exposure to run down to positions outside the tactical ranges in the wake of the financial crisis will have found they have missed out on substantial improved performance recently.

With liquidity pressures not imposing the restrictions they were 6 months ago, trustees may consider taking the opportunity to bring their portfolio in line with their chosen strategy to ensure they do not have any unintended asset allocation positions.

The rise in the NZ dollar, this month again up nearly 5% against the US dollar, illustrates how difficult it is to take active currency positions and leads one to the view that agreeing a long term passive approach to currency management has some advantages.

## **7 Outlook**

The virtually uninterrupted march upwards by share markets is a concern. Certainly at the end of 2008 and early 2009 investors were shedding any asset that had even the slightest hint of risk and this accentuated the fall in markets. However, for the market to have recovered over half its lost value in less than 6 months seems on the high side. Clearly the fundamental issues which led to the financial crisis have yet to be addressed and until they do (which will take time) we are unlikely to see a return to strong growth. In the meantime the concern is that the recovery will run out of government fiscal steam and we will see a pause and maybe even a correction in share markets in the near term.

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