

Investment Comment

1 Introduction

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

2 Index results

- NZ shares NZSX 50 rose 1.2%
- Australian Shares ASX 200 rose 4.0%.
- Global Shares MSCI in local currency terms was unchanged and in unhedged terms was down 1.6%.
- Global Bonds Barclays Capital Global Aggregate rose 1.1%, the Citigroup World Government Bond Index rose 0.9%.
- NZ Bonds NZ Government Stock was down 0.3% and the NZ Corporate A index was up 0.6%.
- Currency NZ dollar finished up 1.1% at 64.8 US cents.

3 Markets

The US market ended the month flat after being up as much as 2% after the first week and as low as -3% on June 22nd. Since the end of the month, however, the sharemarket has fallen away sharply. The S&P 500 is sitting down 5.0% from 1 July.

Overseas markets were mixed with Japan rising 4.6% for the month while the UK fell 3.8%. European markets also fared poorly with Germany down 2.7% and France down 4.2% for the month.

10 year US treasuries which had been as low 3.47% at the end of May spiked up to 3.98% in June before retreating. They have now stabilised around the 3.5% level. Bond markets are caught between inflationary concerns and worries that the recovery seen since March was overly optimistic.

4 Economies

While the second derivative may be turning positive (ie things are getting worse but at a slower pace), data releases still continue to disappoint. It was announced that the US shed some 467,000 jobs in the month of May bringing job-losses to 9 million full time employees since February 2008. The picture is worse in some European countries, notably Spain which is expected to hit 25% unemployment this year.

The US consumer confidence index fell 10% to 49.3 in June. This is still above the record low of 25.3 set in February, but the fall in confidence is indicative of the difficulty for those recently made redundant are having in finding new employment.

In the UK, business's hiring intentions have reached a 20 year low and commentators fear the economy may enter another downward cycle before fully recovering.

5 New Zealand

The NZ dollar peaked over 65 US cents at the end of June, but has since fallen below 63 cents as sentiment continues to worsen. NZ government bond rates have weakened reflecting the outlook for the next few months becoming more pessimistic. The NZ unemployment rate is expected to again rise in the June quarter and the NZ Institute for Economic Research expects it to rise to 7.8% next year. In the March quarter it reached 5.0%.

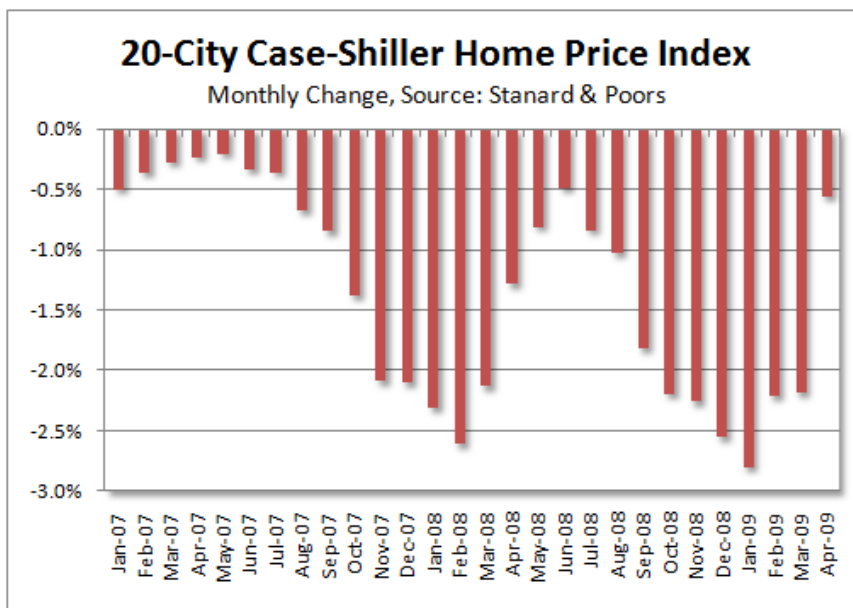
6 Issues

With markets apparently more stable, issues for consideration include:

- An objective assessment of how the existing fund managers have performed.
- Reviewing the level of each market and considering how the level compares to historical trends.
- Whether it is now reasonable to exit certain markets or managers given that some component of previously large losses have been recouped.
- Thinking as ever about finalising a long term currency strategy and the best time to implement the strategy.

7 Outlook

While liquidity has continued to improve in markets (the TED spread ⁽¹⁾ has dropped to pre-crisis levels), we have not yet seen an improvement in the underlying fundamentals. The Case Shiller house price index (shown below) is still declining, albeit at a slower pace in April.



The risk is that we are in for a period of volatile markets before any sustainable recovery eventuates.

Ben Trollip and Mark Weaver

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(1) The TED spread is the difference between the interbank lending rates and Treasury bill rates. It can be viewed as an indicator of general credit risk.