Investment Comment March 2009

1 Introduction

The purpose of this note is to provide a brief commentary on the investment markets for the month of March 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 3.2% and the Australian ASX 200 rose 8.0%.
- Global Shares — MSCI in local currency terms was up 6.4% and in unhedged terms was down 5.6%.
- Property — NZX Property fell 1.5%.
- Global Bonds — Barclays Capital Global Aggregate rose 1.0%.
- NZ Bonds — NZ Government Stock was down 2.0% and the NZ Corporate A index was down 2.8%.
- Currency — NZ dollar finished up 14.0% at 57.1 US cents.

3 Markets

March 2009 will go down on record as the best month on Wall Street since 2002, but the fact that the S&P 500 and Dow Jones are still negative for 2009 year to date is sobering and has some talking of a *"dead cat bounce"*. Nevertheless, the March rally was substantial with the S&P 500 climbing from its low of 677 on 9 March to 834 today; up 23%. However, taking into account the initial slump in the markets at the beginning of March, the return for the month was only 8.5%. This serves to illustrate the volatility currently in the markets.

Globally, markets followed the US upwards in the latter half of the month. For the month, the significant lifts were the Japanese Nikkei, up 7.1% and the Australian ASX, up 8.0%. Europe was more muted; for the month the UK FTSE was up 2.5% and the French CAC was up 3.9%. Germany fared better with the DAX up 6.3%.

4 Credit Crisis

The driving force for strong equity performance was the announcement of US Treasury Secretary Timothy Geithner's public/private investment programme. The programme in essence will attempt to create a market for the toxic assets so as to establish prices for them. The banks may then use the programme to move toxic assets off their balance sheets and return to normal operations. The programme offers potential gains for private investors, who only have to put in 7% of funding with the balance being financed by the US government.

Financial stocks led the rally in equity markets with Citigroup and Bank of America, for example, both up about 70% for the month. Some commentators have raised concerns that the programme can be exploited by the banks to sell the toxic assets at unfair (ie high) prices.

A particularly good commentary was published in the Atlantic Magazine by the former chief economist of the IMF, Simon Johnson. It can be viewed at
http://www.theatlantic.com/doc/200905/imf-advice.

5 Other Economic News

The G20 summit took place in London this week and there were the usual clashes between protestors and riot police. However, leaders agreed on an array of fiscal and regulatory steps, including US$1.1 trillion in new loans or guarantees, and this was viewed positively by the markets.

Broader economic indicators remain bleak. Japanese industrial output was down 38% for the year to February. In figures released this week, the US Case-Shiller house price index (widely regarded as the best measure of the sector) showed a decline of 19% for the year to January. In fact, if you replace the property related section of US CPI index (*"Owner's Equivalent Rent*") with the Case-Shiller index, this modified CPI declined 5% year on year.

Non-farm payroll in the US fell by 742,000 in the month to March. Jobs are down 2.8 million from September 2008 and 4.5 million since January 2008. The OECD has come out with a 10% unemployment prediction through 2010 for its member nations. That is, around another 25 million jobless. This is grim news for any recovery in equities.

7 New Zealand

The New Zealand dollar strengthened significantly against the US dollar in March. This was mostly due to weakness in the US dollar in response to the US government looking likely to engage in quantitative easing over the coming months.

Interest rates, after falling uniformly with the OCR cuts, spiked up in late March. This has been driven by a rush to lock in lower mortgage rates. The RBNZ governor has tried to talk rates down, saying the economy remains fragile and that rates will remain low for some time. But the RBNZ may have no choice but to cut the OCR again on 30 April. Most commentators expect a cut of 0.5%.

Employee sentiment has deteriorated sharply according to the Westpac McDermott Miller Employment Confidence Index. 54% now say that jobs are *"hard to get"*.

7 Issues

In our investment survey released later this month, we look at a number of issues facing trustees. Specifically:

- Are the financial models used to derive the "optimum" portfolios broken?
- Whether to change the current investment strategy.
- When do you terminate a poor performing manager?
- Why some charitable trusts are still making donations while others have closed.
- Re-balancing: how important is it?
- When do you de-risk a portfolio?

Mark Weaver and Ben Trollip

3 April 2009