

## Investment Comment

### 1 Introduction

The purpose of this note is to provide a brief commentary on the investment markets for the month of October 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 1.7% while the ASX 200 fell 2.1%.
- Global Shares In local currency terms, the MSCI World Index fell 2.2%, in unhedged terms it fell 2.0%.
- Global Bonds Barclays Capital Global Aggregate rose 0.4%.
- NZ Bonds NZ Government Stock was down 0.1%.
- Currency NZ dollar finished up 0.3% at 71.7 US cents.

### 3 Markets

After a strong first half of the month, markets stalled and fell sharply in the last few days. This included a 2.8% drop in the S&P 500 on the last trading day of October. Overall the S&P 500 fell 2.0% for the month. Canada was down 4.8%.

The story was similar across the globe with most of Europe down heavily (Germany and France each down 4.9%, Italy down 5.8% and Ireland down 11.7%). The UK was a better performer, only down 1.7%. Japan was down 1.4% for the month, broadly in line with other Asian indexes while Australia fell 2.1%.

The NZX 50 was in fact up for the month. Because of time differences, the fall in US markets on October 30<sup>th</sup> occurred on Saturday NZ time. Upon its Monday open our index immediately fell 1% in sympathy.

### 4 Economies

We were reminded this quarter of how employment tends to be a lagging indicator of the economy. US initial monthly jobless claims rose 11,000, more than forecast, to 531,000. The unemployment rate which had looked to stabilise around 9.4% mid-year jumped to 9.7% in August and rose to 9.8% in September. It now seems certain that the figure will surpass 10%.

The US economy did grow in the September quarter, but there is debate as to how much of this was from the "cash for clunkers" scheme. Consumer durable goods contributed 1.5% to the change in GDP for the quarter.

In early November, markets were rocked by the news that struggling lender CIT Group would file for bankruptcy. The firm had assets of over US\$71 billion and has now become the 5<sup>th</sup> biggest bankruptcy in US history. (It is sobering to note that 3 of the 4 larger bankruptcies occurred as part of this crisis; Lehman Brothers, Washington Mutual and General Motors. The other is WorldCom.)

ING Group, the Dutch financial services company, announced that it would separate its banking and insurance businesses by divesting itself of the latter. This move was driven by continuing pressure from regulatory authorities after ING received a bailout from the Dutch government last year. In New Zealand, it was announced that ANZ would buy out the remaining 51% of ING owned by the European parent company.

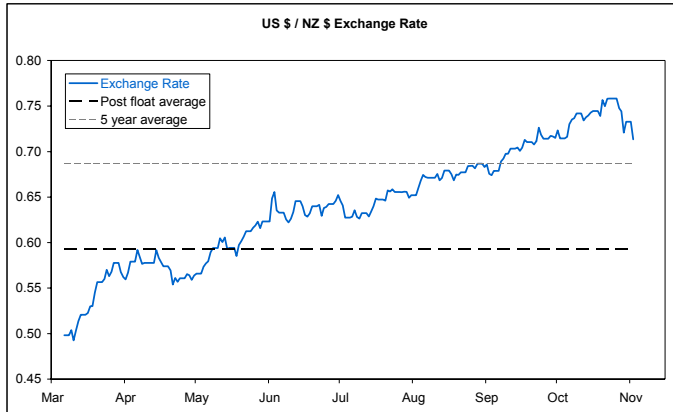
### 5 New Zealand

The New Zealand dollar which had been on a strong run (peaking at 76.3 US cents this month) retreated sharply to end the month more or less where it started. This was partly in response to weaker global markets and partly due to the RBNZ's statements confirming they are firm in the decision to keep interest rates low for some time.

In his statement of 29 October, Governor Bollard said;

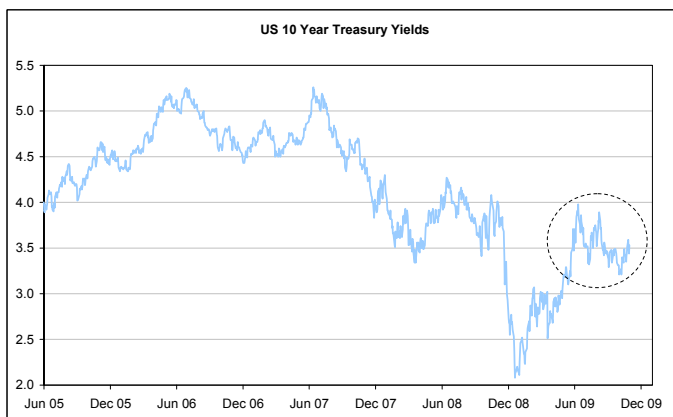
*“In contrast to current market pricing, we see no urgency to begin withdrawing monetary policy stimulus, and we expect to keep the OCR at the current level until the second half of 2010.”*

Below we track the Kiwi's progress since global markets reached their trough on March 6<sup>th</sup>.



## 6 Outlook

We have the curious situation where sharemarkets have risen sharply but bond yields have remained relatively stable instead of continuing to rally.



This indicates that inflation is not a near-term concern (and that, despite their sabre-rattling, the Chinese continue to buy US debt). We have two dichotomous views of the global economy: from the equity market, exuberance in relation to a “V” shaped recovery, while in the bond market there is more caution. It remains to be seen whether we are in for a substantial downward correction in the coming months or if the markets can consolidate their gains.

## 7 Issues

Short-term market volatility continues to dominate headlines. Trustees need to be clear on their investment policies and also on the trigger points that will lead to a review of the investment management approach. The best strategy when faced with the uncertain outlook for the short-term is to hold to one's medium-to-long term policy. Monitoring performance of investment managers and developments within their companies is paramount.

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