

## Investment Comment

### 1 Introduction

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

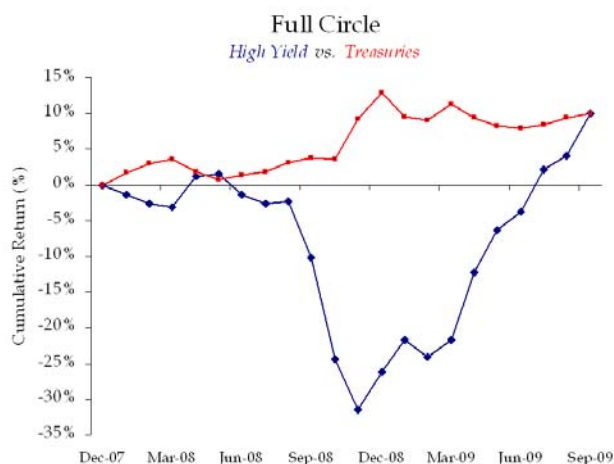
### 2 Index results

- Australasian shares NZSX 50 rose 2.0% while the ASX 200 rose 5.9%.
- Global Shares In local currency terms, the MSCI World Index rose 3.1%, in unhedged terms it fell 0.6%.
- Global Bonds Barclays Capital Global Aggregate rose 1.0%.
- NZ Bonds NZ Government Stock was up 0.5%.
- Currency NZ dollar finished up 4.7% at 71.5 US cents.

### 3 Markets

Despite fears that September might prove to be the undoing of the global recovery (not in the least because it marked the 1 year anniversary of the Lehman Brothers failure), markets continued their strong streak. The S&P 500 is now 59% above its March low. However, it is still some 32% below its October 2007 peak of 1,500.

The interesting feature of the bond markets is that the rally in US high yield debt relative to US Treasuries has fully recovered the losses since the start of 2008 as the graph below from the [EconompicData](#) shows



**ECONOMICDATA**

The low point was November 2008. We note that other sectors have yet to fully recover.

### 4 Economies

In its statement on 23 September the US Federal Reserve said;

*[E]conomic activity has picked up following its severe downturn. Conditions in financial markets have improved further, and activity in the housing sector has increased. Household spending seems to be stabilizing, but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing, though at a slower pace; they continue to make progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will support a strengthening of economic growth.*

The statement therefore emphasised the critical role of the Government in the recovery. There have been concerns that if the stimulus is withdrawn too quickly the US will fall into another trough as was the case in 1936 and 1937. This has been discussed in regard to concerns that the new right of centre German government may decide to reduce the current major role played by the Government in the recovery.

The US private sector lost 254,000 jobs in September showing some improvement in the brutal pace of layoffs. The figure was the smallest number of job losses in more than a year for nonfarm private employment but higher than the 200,000 expected by most analysts.

## 5 New Zealand

Domestically, the Reserve Bank left the OCR unchanged at its September meeting, the Governor said;

*There is more evidence that the decline in economic activity is coming to an end, and that a patchy recovery is underway. However, the medium-term growth outlook remains weak. Annual CPI inflation is currently well within the target band and is expected to track comfortably within the band over the medium term. As we have said previously, the forecast recovery in economic activity is based on monetary policy continuing to provide substantial support to the economy. We expect such support will be needed for some time. As a result, we continue to expect to keep the OCR at or below the current level through until the latter part of 2010.*

So the sentiment is very similar to that in the US. Indeed, the GDP release for the June quarter showed the economy grew at 0.1% and is only down 2.2% for the year. (In comparison, Germany was down 5.9% for the year to June.) The NZ CPI index rose 0.6% in June to be up 1.9% for the year so inflation pressures remain light.

## 6 Issues

The rising New Zealand dollar means that fully hedged investments have now fully recouped their losses compared to unhedged investments. A question trustees will need to pose is whether they can live with the extra volatility that comes from hedging in order to exploit the gains from the interest rate differential, which going forward may be much less than the average over the last 5 years.

With the cash rate looking to remain suppressed over the near-term, the New Zealand bond, global bond and cash strategies should be under review.

## 7 Outlook

The rising NZ dollar will act as a headwind for any export-led recovery. It may also prevent the RBNZ from raising interest rates too quickly. Domestically, while there are signs that the housing market is turning, several sectors remain quite depressed.

The recovery in share markets has been remarkably sharp and so we remain cautious on the global outlook in the near term. The global economy needs to come through the next quarter with some solid growth to demonstrate that the returns seen recently are not speculative.

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2 October 2009