ERIKSENSGLOBAL
Actuaries & Investment Strategists

MARKET PERFORMANCE AND ECONOMIC COMMENTARY – NOVEMBER 2019

MARKET PERFORMANCE

Financial market behaviour over the past year is summarised in the table below:

Index	1 Month %	3 Months %	1 Year %
Global Equities			
MSCI Emerging Markets	0.6	5.1	8.8
S&P 500 (US)	3.4	7.3	13.8
Nikkei 225 (Japan)	1.6	12.5	4.2
FTSE 100 (UK)	1.4	1.9	5.3
DAX (Germany)	2.9	10.9	17.6
CAC 40 (France)	3.1	7.8	18.0
Trans-Tasman Equities			
S&P/NZX 50	4.9	5.2	28.3
S&P/ASX 300	3.2	4.8	26.0
Bonds			
S&P/NZX NZ Government Stock	0.0	-1.1	8.0
S&P/NZX A Grade Corporate Bonds	-0.2	-0.6	6.8
Barclays Global Aggregate Bonds (Hedged to NZD)	-0.2	-1.0	9.3
FTSE World Government Bonds (Hedged to NZD)	-0.5	-1.6	9.4
Oil			
West Texas Intermediate Crude Oil	1.8	0.1	8.3
Brent Crude Oil	3.0	3.6	5.0
NZD Foreign Exchange			
AUD	2.0	1.4	0.9
EUR	1.3	1.7	-4.0
GBP	0.1	-4.2	-7.8
JPY	1.4	5.0	-9.9
CNY	-0.1	0.0	-5.6
USD	0.1	1.8	-6.6

Source: Nikko Asset Management

We make the following key observations:

- Rise of the NZD in the short term following the decision by the RBNZ to hold the OCR at 1%, but also due to calls through November for more fiscal stimulus which Grant Robertson announced in early December
- Positive returns across all global equity markets over each time horizon
- 20%+ return for trans-Tasman equity markets over 12 months
- Negative returns from bond indices over most recent months

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ECONOMIC COMMENTARY

Equity markets pushed higher through November into December on the back of positive news on the US-China trade war and mixed but improving economic data in the US.

Figure 1 below illustrates the relative likelihood of different geopolitical events and their impact on global equities. The most significant of these is global trade tensions near the top right of the graph. The bottom line from our point of view is that there haven't been any concrete decisions made on a trade deal, most of the news on this issue has just been 'noise'. The ongoing uncertainty should be a cause for concern amongst investors. We expect markets to remain volatile. However, there appears to be a growing complacency despite the fact that, in New Zealand at least, interest rates appear to have bottomed in this cycle and yields are rising a tad.

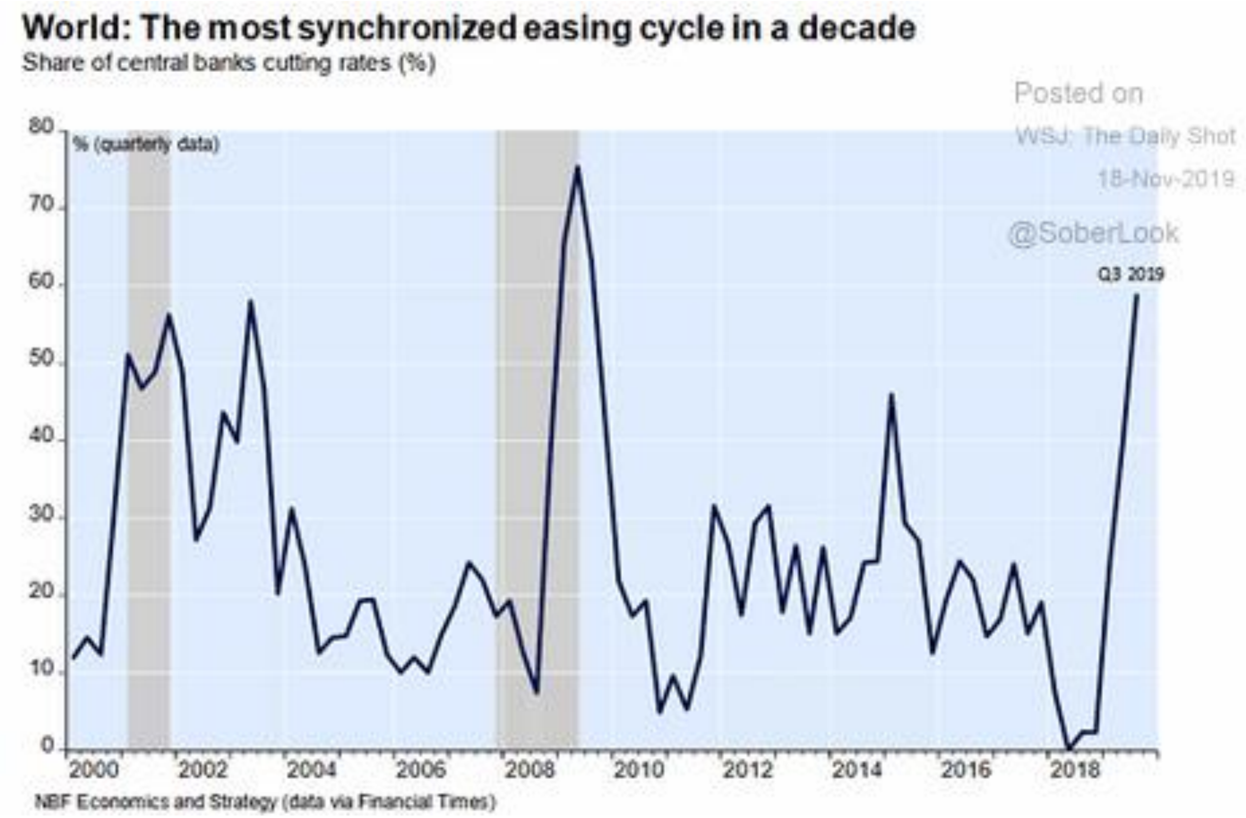
Economic data on US unemployment is at its lowest since 1969 at 3.5%, Q3 GDP figures were revised upwards to an annualised 2.1% and non-farm payrolls surprised to the upside in early December (266k vs 180k expected). Less positive data included a fourth consecutive monthly contraction figure in manufacturing activity and increase in jobless claims in November.

Figure 1: BlackRock Geopolitical Risks and Impact Likelihood

Source: blackrock.com

The number of central banks around the world reducing/easing rates is now the highest it has been in around a decade. Figure 2 shows the change in this measure over the past twenty years. Approximately 60% of central banks are easing which is a steep increase from the end of 2018. This is one of the major reasons supporting the continued rise in equity markets in this cycle. A normal bull cycle in equities may last around 7 years; the current cycle has been 10 years thus far.

Figure 2: Percentage of central banks easing/reducing rates



Source: Wall Street Journal, The Daily Shot

Whilst markets remain stable, the interest rate environment encourages more investment in shares and other growth assets such as infrastructure etc. The bull market may continue for another few months or even years. On the other hand, liquidity is tightening. Only time will tell how the enormous level of debt is to be paid back, forgiven, or defaulted on.

Merry Christmas to all our readers.