ERIKSENSGLOBAL

Actuaries & Investment Strategists

MARKET PERFORMANCE AND ECONOMIC COMMENTARY – JANUARY 2020

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	-3.3	2.9	6.5
S&P 500 (US)	-0.2	6.2	19.3
Nikkei 225 (Japan)	-1.9	1.2	11.7
FTSE 100 (UK)	-3.4	0.5	4.6
DAX (Germany)	-2.0	0.9	16.2
CAC 40 (France)	-2.9	1.3	16.3
Trans-Tasman Equities			
S&P/NZX 50	2.0	8.6	30.4
S&P/ASX 300	4.9	6.0	25.0
Bonds			
S&P/NZX NZ Government Stock	2.0	0.1	6.4
S&P/NZX A Grade Corporate Bonds	1.1	0.3	5.8
Barclays Global Aggregate Bonds (Hedged to NZD)	1.8	1.4	8.4
FTSE World Government Bonds (Hedged to NZD)	2.3	1.2	8.5
Oil			
West Texas Intermediate Crude Oil	-15.6	-4.8	-4.1
Brent Crude Oil	-15.2	-5.4	-7.5
NZD Foreign Exchange			
AUD	0.7	3.9	1.6
EUR	-2.8	1.6	-3.4
GBP	-3.6	-0.9	-6.9
JPY	-4.3	1.2	-7.1
CNY	-3.6	0.3	-2.6
USD	-4.1	0.9	-6.7

Source: Nikko Asset Management

We make the following key observations:

- Global equity markets were volatile through January due to the US assassination of an Iranian General and the Novel Coronavirus later in the month
- Bond market returns were positive for the month as some investors became more defensive and pushed prices
- The NZD fell against all currencies analysed except the AUD amidst a risk-off period in January

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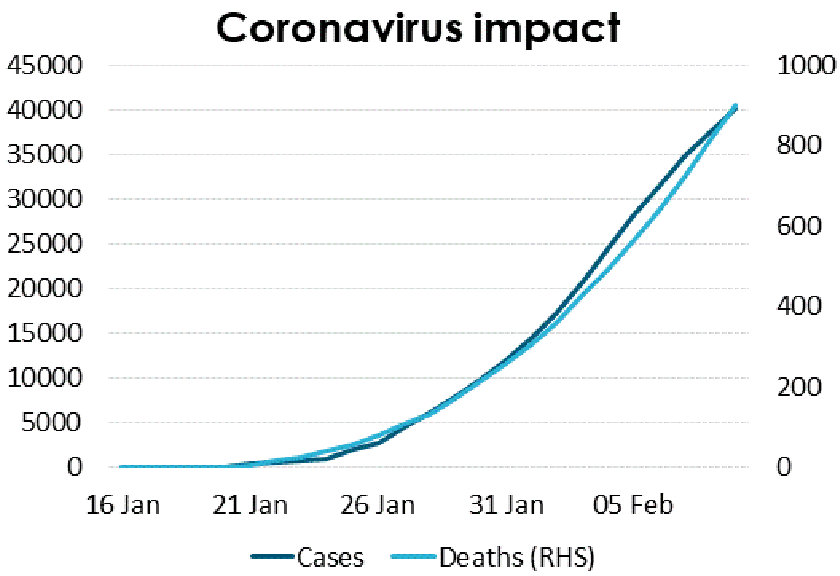
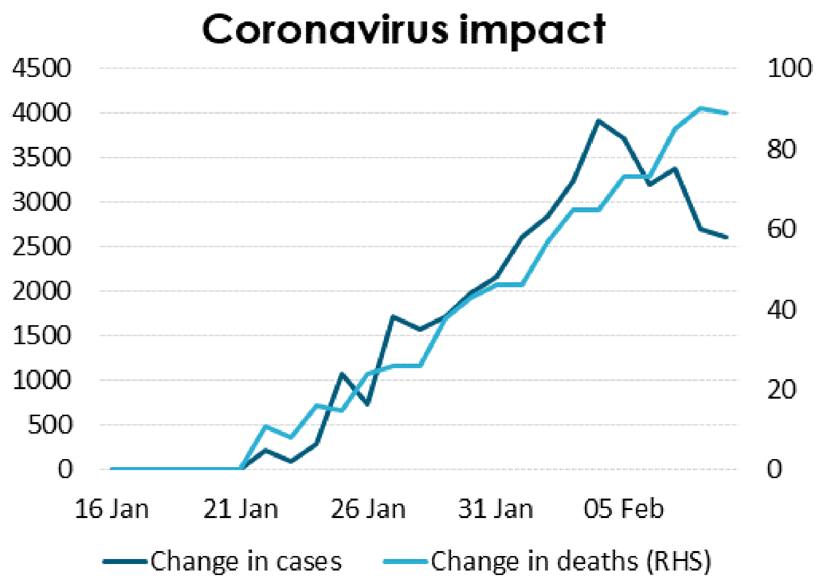
ECONOMIC COMMENTARY

Late last year global longer-term interest rates fell again on fears of slowing global growth. This boosted stock markets to fresh record highs.

The Coronavirus is affecting a range of countries and industries, not just China. This has slowed growth further and created uncertainty in investors' minds.

At this stage it is too early to predict how far it will spread. Already it is more serious than SARS in terms of the number of deaths and speed of infection. On the plus side the spread of the disease has been better managed. It is possible that the virus breaks out of China but so far the Chinese authorities and health professionals are doing an excellent job even though the human cost of suffering is high (see following graphs)

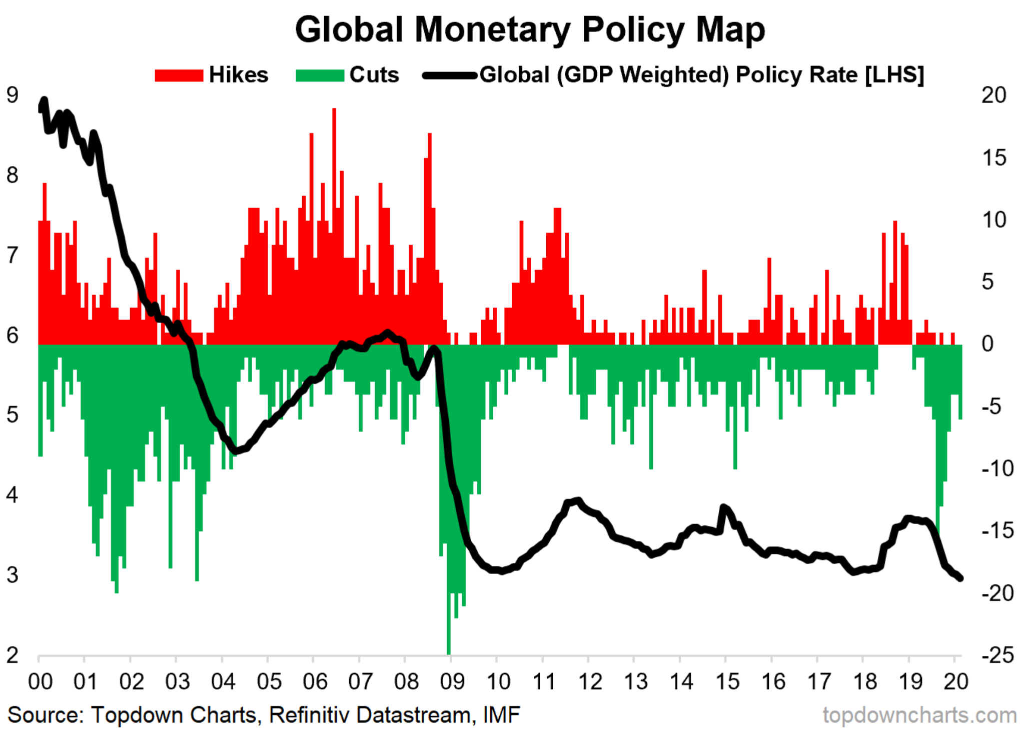




Source: Harbour Asset Management

The Chinese stock market has dropped approximately 10%, global travel and tourism is reduced. Chinese manufacturing and imports have both slowed considerably. Australia and New Zealand are also affected. Australia because the Chinese demand for iron ore and coal has stopped. Educational tourism of Chinese students to universities has also ceased. New Zealand's tourism and timber exports in particular have slowed considerably.

Ironically the Coronavirus will be helpful to markets because the slower growth means lower inflation and increases the likelihood of Central Banks keeping interest rates at current levels or even easing further. The following graph shows the shift to easier monetary policy through 2019 i.e. more green bars below the horizontal axis.



We therefore expect markets to remain reasonably stable at least for the first half of the year. Volatility will however increase going forward. We now expect a significant correction in 2021 although it may obviously occur at any time within the next three to five years.