MARKET PERFORMANCE AND ECONOMIC COMMENTARY – FEBRUARY 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	-3.8	-1.7	1.3
S&P 500 (US)	-8.4	-6.0	6.1
Nikkei 225 (Japan)	-8.9	-9.2	-1.1
FTSE 100 (UK)	-9.7	-10.4	-7.0
DAX (Germany)	-8.4	-10.2	3.3
CAC 40 (France)	-8.6	-10.1	1.3
Trans-Tasman Equities			
S&P/NZX 50	-3.9	-0.5	20.8
S&P/ASX 300	-7.8	-5.2	8.8
Bonds			
S&P/NZX NZ Government Stock	1.5	1.6	7.3
S&P/NZX A Grade Corporate Bonds	0.9	1.4	6.2
Barclays Global Aggregate Bonds (Hedged to NZD)	1.2	2.8	9.7
FTSE World Government Bonds (Hedged to NZD)	1.6	3.3	10.4
Oil			
West Texas Intermediate Crude Oil	-13.2	-18.9	-21.8
Brent Crude Oil	-11.2	-18.5	-24.0
NZD Foreign Exchange			
AUD	-0.5	1.4	0.4
EUR	-3.3	-3.0	-5.7
GBP	-1.1	-2.2	-5.2
JPY	-4.6	-4.8	-11.8
CNY	-4.3	-3.9	-5.0
USD	-4.2	-3.4	-9.0

Source: Nikko Asset Management

We make the following key observations:

- Global equity market volatility was driven through fear of the spread of COVID-19 in February and its impact to travel, supply chains and overall GDP growth
- Bond market returns were positive for the month as some investors became more defensive and pushed prices upwards
- The NZD fell against all currencies analysed which had a softening effect on unhedged assets
- Oil prices fell over the month

Auckland
2 Burns Avenue Takapuna
PO Box 33-1318 Takapuna 0740
p: +64 9 486 3144
auckland@eriksensglobal.com

Wellington
Level 9, 111 The Terrace
PO Box 10-105 Wellington 6143
p: +64 4 470 6144
wellington@eriksensglobal.com

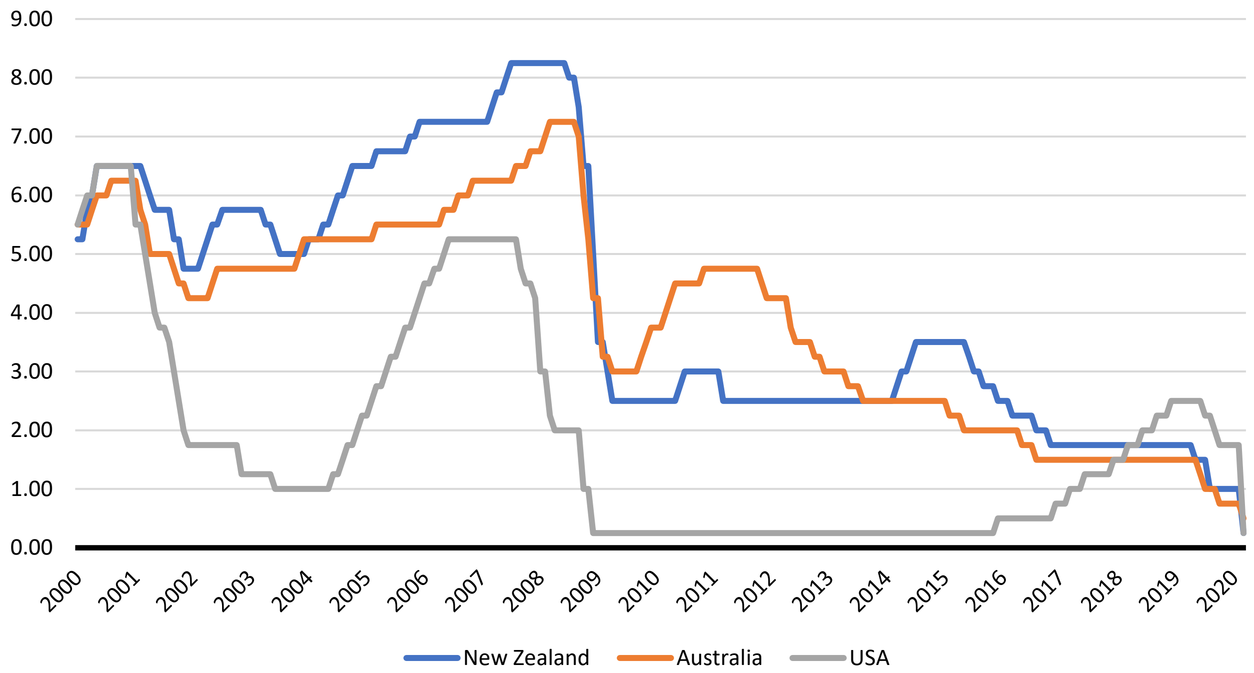
ECONOMIC COMMENTARY

G7 finance ministers and their central bank governors came together in early March to discuss a response to COVID-19. The joint statement released following the meeting said:

> *"…Given the potential impacts of COVID-19 on global growth, we reaffirm our commitment to use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks. Alongside strengthening efforts to expand health services, G7 finance ministers are ready to take actions, including fiscal measures where appropriate, to aid in the response to the virus and support the economy during this phase. G7 central banks will continue to fulfil their mandates, thus supporting price stability and economic growth while maintaining the resilience of the financial system…"*

The US Federal Reserve took the step of cutting the Fed Funds rate twice by 0.50% and a further 1.00% (taking the upper bound from 1.75% down to 0.25%). These were unscheduled decisions (Figure 1). The RBA also cut their cash rate (from 0.75% to 0.50%). Volatility in equity markets increased as a result (Figure 2).

Figure 1: Central Bank Policy Rates



New Zealand equities felt the effects of COVID-19 and fell 8.2% in the last week of the month. Gentailers, which had stretched valuations following the chase for yield, were among the hardest hit. Uncertainty surrounding Rio Tinto's Tiwai Point aluminium smelter added significant downside risk to the sector which was enough to put investors off in the current risk-off environment. Bond yields fell to historical lows (Figure 3). The RBNZ made an emergency OCR cut of 0.75% (down to 0.25%) on 16 March and subsequently cancelled their next meeting on 25 March.

Figure 2: Equity Market Volatility

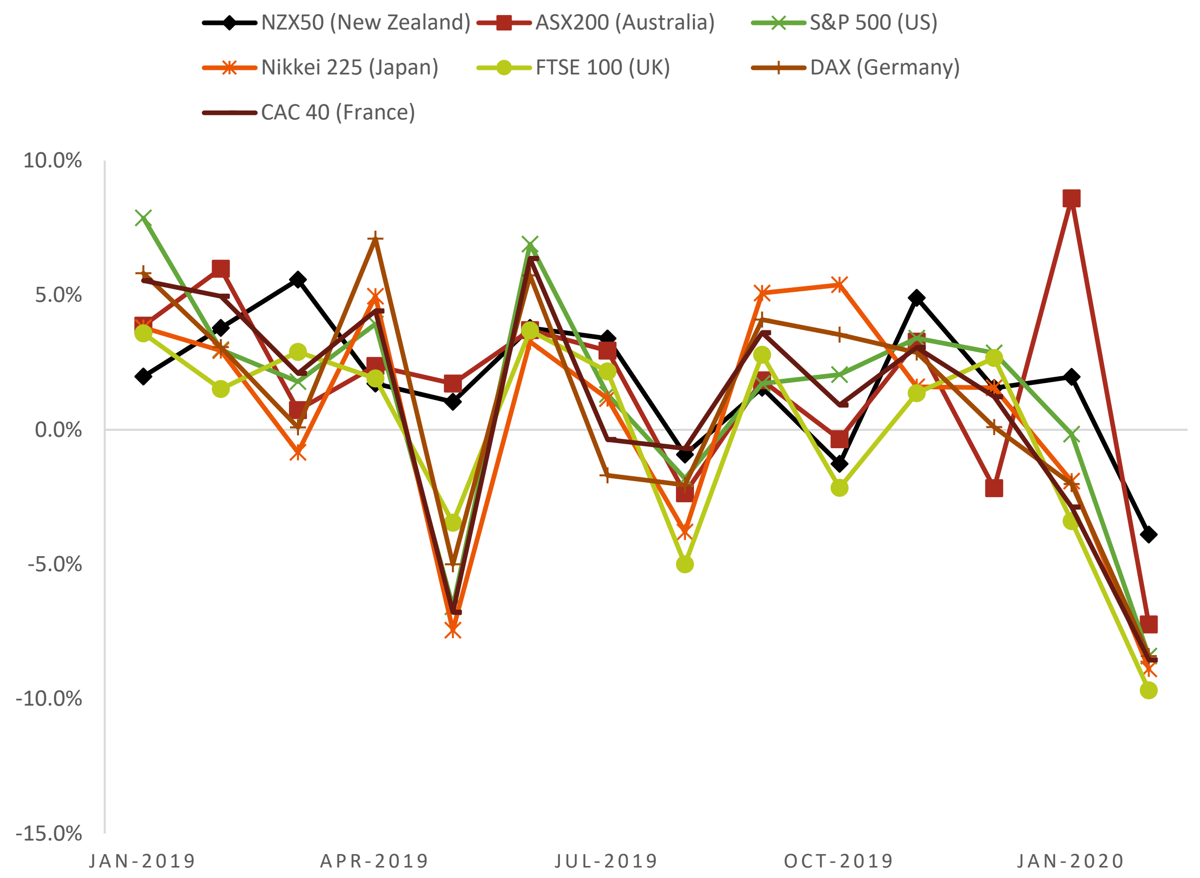
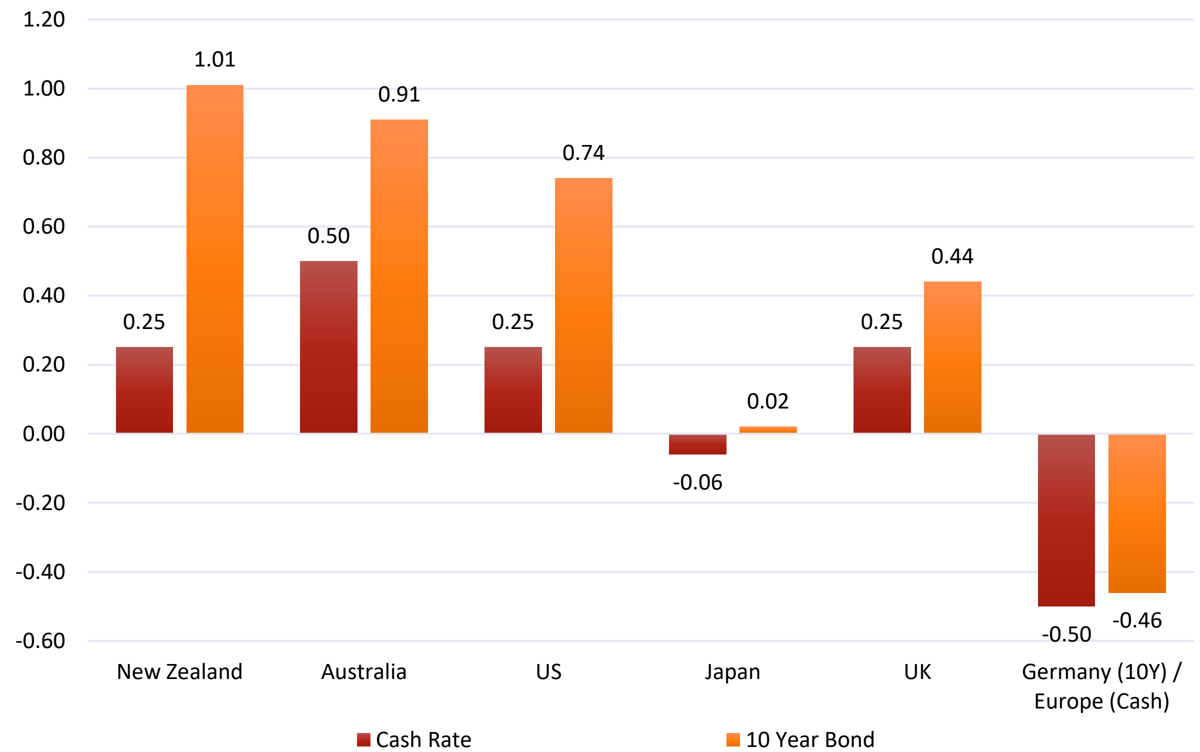


Figure 3: Cash Rates vs 10 Year Bond Yields (as at 17/03/2020)



The level of disruption is so severe that several countries will likely go into recession (two negative quarters of GDP growth) in the first half of this year.

The ongoing stock market sell-off continued into the second week of March (Figure 4). Bond yields were driven down to almost zero as investors switched into bonds. Part of the stock market sell-off is ongoing fear and concerns over the coronavirus, where the risk of a pandemic is increasing as the number of cases globally continues to grow.

Figure 4: March Market Returns (as at close, 16 March)

NZX50	ASX200	S&P 500	Nikkei 225	FTSE 100	DAX	CAC 40
-15.6%	-10.6%	-19.2%	-19.7%	-21.7%	-26.5%	-26.9%

Saudi Arabia and Russia, the two major oil producers, disagreed on production cuts in early March. The Saudi's aggressively increased production and cut prices almost halving the price of a barrel of crude oil. Brent Crude was at $29.8 per barrel, with West Texas crude at $29.2 at the time of writing. This caused further selling on stock markets even though a lower oil price should help the global economy recover over time.

The big question is how long will the COVID-19 outbreak continue?