

MARKET PERFORMANCE AND COMMENTARY – FEBRUARY 2021

MARKET PERFORMANCE

Index	Index Level/ Price	1 Month %	3 Month %	1 Year %
Global Equities				
MSCI Emerging Markets	780.73	1.0	11.2	34.3
S&P 500 (US)	3811.15	2.6	5.2	29.0
Nikkei 225 (Japan)	28966.01	4.7	9.6	37.0
FTSE 100 (UK)	6483.43	1.2	3.5	-1.5
DAX (Germany)	13786.29	2.6	3.7	15.9
CAC 40 (France)	5703.22	5.6	3.3	7.4
Trans-Tasman Equities				
S&P/NZX 50	12227.29	-6.9	-4.2	8.6
S&P/ASX 300	74222.48	1.5	3.2	7.1
Bonds				
S&P/NZX NZ Govt Stock	1854.07	-3.6	-4.9	-2.4
S&P/NZX A Grade Corporate	5833.55	-2.1	-2.6	0.9
BBgBarc Global Aggregate Hdg NZD	422.18	-1.5	-1.8	0.1
FTSE WGBI Hdg NZD	3638.59	-2.1	-2.8	-0.9
Oil				
West Texas Intermediate Crude	61.50	17.8	35.6	37.4
Brent Crude	64.43	17.5	36.6	28.8
NZD Foreign Exchange				
AUD	0.9392	0.0	-1.5	-2.4
EUR	0.5990	1.0	2.0	6.1
GBP	0.5201	-0.9	-1.2	7.1
JPY	77.4652	2.7	5.7	15.8
CNY	4.7115	1.5	1.9	8.7
USD	0.7271	0.9	3.5	17.2

Source: Nikko

Executive summary:

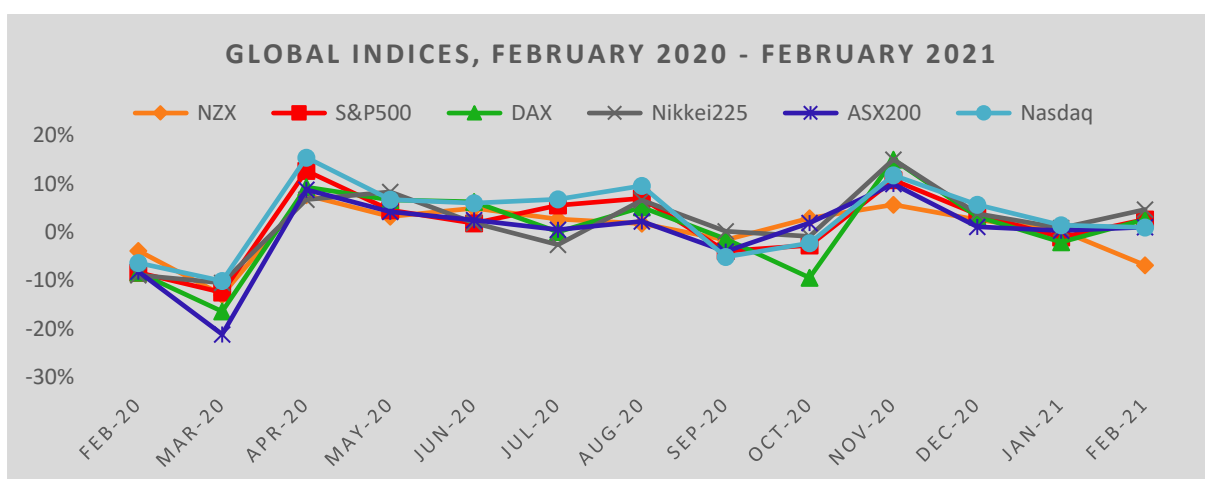
- New Zealand equities sold off sharply, particularly A2 Milk, Contact Energy and Meridian Energy
- Bonds sold off as yield curves steepened due to inflationary concerns
- Globally equities kept rising especially Japan and Emerging Markets
- Oil prices kept rising reflecting stronger growth expectations and a weaker US dollar

FINANCIAL MARKETS

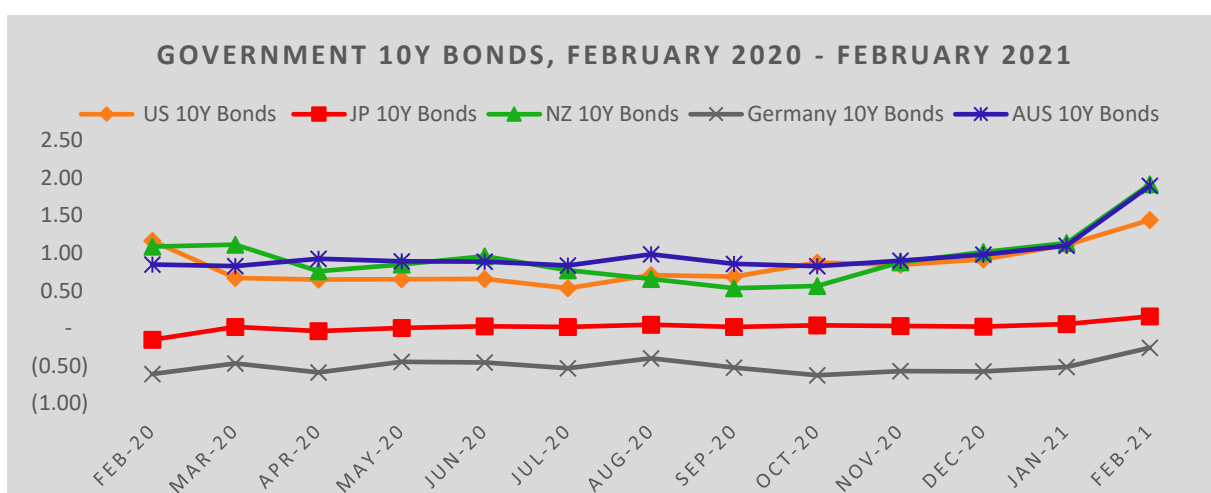
Equity markets closed the last day of the February in the red zone due to spreading anxiety across financial markets. The anxiety was driven by signs of inflation rising and thus, increasing interest rates. Fear of higher inflation triggered the sell-off of government bonds that pushed yields to highs not seen since March 2020. The Fed’s Chair Powell confirmed last week that they will let inflation rise until the US gets back to full employment.

The House of Representatives has approved the bill for the US\$1.9 trillion COVID relief package and now it has been passed to Senate. Individual investors added oil to the fire by following their herd instincts. We saw a higher concentration in certain growth stocks, mostly tech, and a little market chaos last month with the GameStop short squeeze.

But, will all this printed money reach the real economy, or sink in speculative investment bubbles?



Source: Finance.yahoo.com, EriksensGlobal



Source: Marketwatch.com, EriksensGlobal

NEW ZEALAND ECONOMY

Auckland entered its second lockdown in a fortnight which according to rough estimations by ASB will cost the economy \$240m per week. The major outcome is how the last lockdown will affect ongoing and broader business confidence which fell during the previous month.

The Reserve Bank of New Zealand left the OCR unchanged as part of their February monetary policy statement. Notably, Grant Robertson has formally made a requirement of the Reserve Bank to support house prices as part of its broader mandate. Our view is that the key causes of inflated housing prices is rooted in a lack of supply which is mainly the government's side of the housing playing field. Adrian Orr has limited capacity to control other variables that impact house prices which will make this move by central government mostly ineffective. It will either not achieve reining in house prices, or it will compromise on the Reserve Bank's current mandate to control inflation and the supply of money. We do need to remember Labour's cry for 100,000 houses which failed miserably, so this could be a kick for touch of the housing political football by Robertson, given the length of time RMA reforms will likely take before any meaningful impact is felt, which will be outside of this political term.

The NZD appreciated against USD, JPY and EUR, and depreciated against AUD backed by RBA's unscheduled offer to buy AU\$3 billion of bonds.

GEOPOLITICAL

A key topic in the geopolitical arena is US – China tensions. Biden's administration has strengthened their team by nominating Asia specialist Kurt Campbell, which has come in light of increasingly aggressive Chinese policy in Asia and the Pacific region.

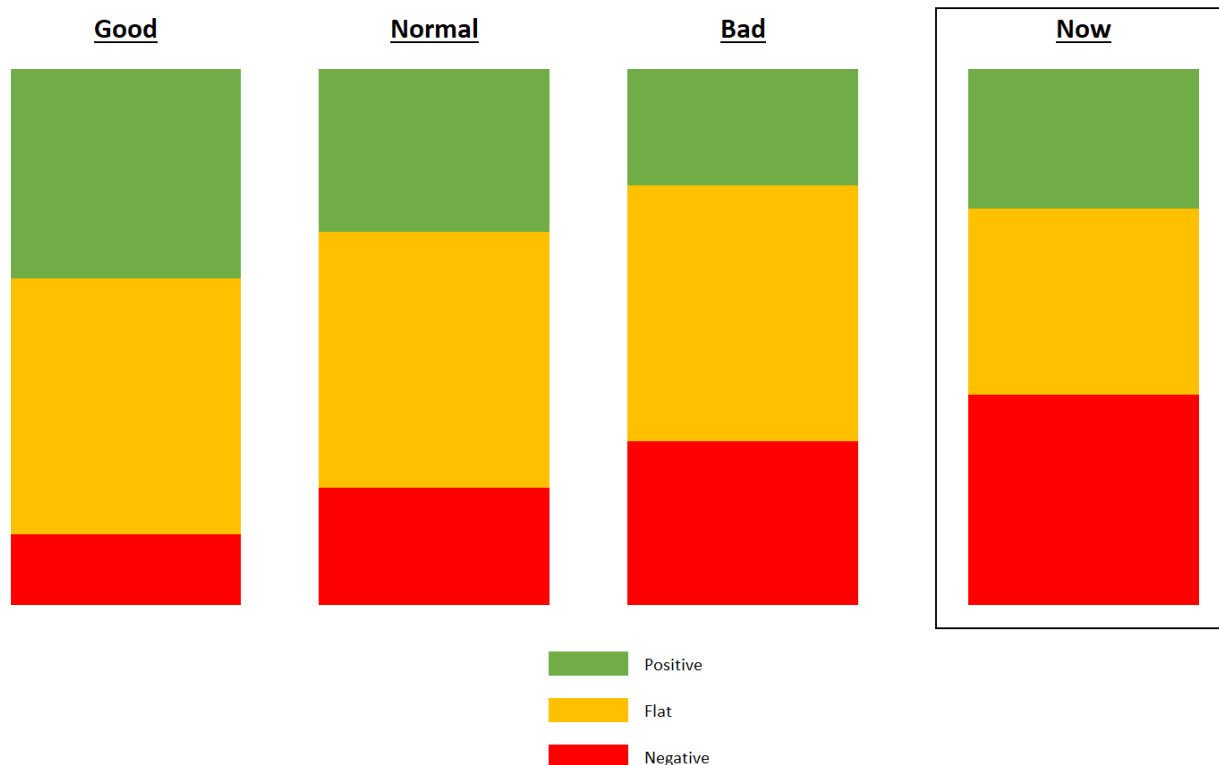
US – Iran relations had a dicey start at the beginning of Biden's presidency, as Iran refused to renew their nuclear deal talks after Trump disregarded the conversation in 2018. Tehran is expecting that Washington will lift the sanctions before new rounds of negotiations begin. However, recent US air strikes on Iran-supported militia in Syria aren't a positive signal.

COVID-19 PROGRESS?

Israel became the first country that has vaccinated over 50% of its population. The latest three surveys have shown that the vaccine is curbing the impact of COVID-19 in the community. However there are three factors which have helped Israel achieve such promising results: first, Israel have received the highest number of doses per capita compared with other countries; secondly, there has been a very fast roll out to prevent community spread; and lastly, Israel has exhaustive public health and awareness campaigns in motion that prevent fake news and disinformation.

Further, the Johnson & Johnson vaccine has been approved in the US and is aiming to deliver more than 20 million doses in March. Johnson & Johnson has become the third vaccine to be approved in the US after Pfizer and Moderna. AstraZeneca's continues being widely distributed in the UK and Europe.

MARKETS OUTLOOK



Markets are giving signals to investors, but are the investors reading the tea leaves carefully enough? In muddy water there are still plenty of fish to be caught!

We note that active institutional investors no longer have sufficient dry powder to prevent equity markets selling off at the end of January and February.

The sharp 10-year yield increases in February could indicate that the market is more concerned about inflation than central banks. Or does it mean the central bank put option is just being tested? Will they pass the test is the question.