ERIKSENSGLOBAL
Actuaries & Investment Strategists

MARKET PERFORMANCE AND COMMENTARY – NOVEMBER 2023

MARKET PERFORMANCE

Index	Index Level/Price	1 Month %	3 Month %	1 Year %
Global Equities				
MSCI World NR	7,372.26	8.3	1.6	12.2
MSCI World NR (NZD)	15,255.98	3.0	(2.0)	13.6
MSCI Emerging Markets	668.37	6.2	0.5	4.4
S&P 500 (US)	4,567.80	8.9	1.3	12.0
Nikkei 225 (Japan)	33,486.89	8.5	2.7	19.7
FTSE 100 (UK)	7,453.75	1.8	0.2	(1.6)
DAX (Germany)	16,215.43	9.5	1.7	12.6
CAC 40 (France)	7,310.77	6.2	(0.1)	8.5
Trans-Tasman Equities				
S&P/NZX 50	11,330.20	5.3	(1.9)	(1.9)
S&P/ASX 300	88,032.87	5.1	(1.8)	1.1
Bonds				
S&P/NZX NZ Govt Stock	1,677.36	4.1	1.5	0.2
S&P/NZX A Grade Corporate	5,696.10	2.7	1.8	4.3
Barclays Global Agg (Hedged to NZD)	388.52	3.3	0.7	2.1
Oil and Gold				
West Texas Intermediate Crude	75.96	(6.2)	(9.2)	(5.7)
Brent Crude	80.60	(8.9)	(7.8)	(6.9)
Gold	2,036.41	2.6	5.0	15.1
NZD Foreign Exchange				
AUD	0.9312	1.4	1.3	0.4
EUR	0.5660	2.9	3.2	(6.2)
GBP	0.4880	1.8	3.9	(6.4)
JPY	91.3117	3.7	5.3	5.4
CNY	4.4104	3.3	1.8	0.2
USD	0.6175	6.2	3.7	(0.6)

Source: Nikko AM. Indices are in the local currency of the asset unless otherwise indicated.

Executive summary:

- Both bonds and equities rallied on the back of the market's view that interest rates have peaked.
- Geopolitical tensions have spread to Latin America with a Venezuela-Gayana territory dispute.
- Oil prices dropped to $80 per barrel.
- The NZD appreciated against all major currencies in November.

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ECONOMIC COMMENTARY

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GLOBAL SNAPSHOT

While US inflation may be showing signs of abating, not all households are finding relief. Despite the technical retreat of the soaring inflation that has strained household budgets in recent years, many working Americans express a lack of financial respite as their wages have failed to keep pace. A recent survey by Bankrate reveals that approximately 60% of working Americans believe their income has trailed behind inflation in the past 12 months, representing an increase from 55% in the previous year. Even among those who received a salary increase or secured a higher-paying job, 53% reported that their earnings growth was insufficient to match the average 3% inflation surge experienced in the US in 2023, up from 50% in the previous year. Bankrate (a well-known US independent financial publisher and comparison service) analysts note the existence of a gap, emphasizing that workers, despite benefiting from improved job market conditions, are still grappling with the challenge of catching up as prices continue to outpace their income growth.

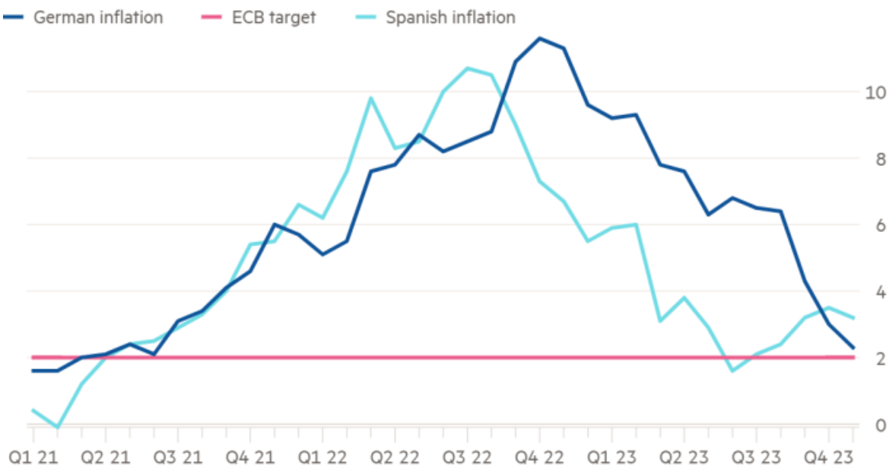
Despite the resilience of Americans, attributed in part to a robust job market and stronger wage increases than in recent history, Bankrate's survey indicates that the intended impact of the wave of worker raises is not fully realised, especially among low-income earners earning less than $50,000 annually. The onset of inflation's effects was felt by Americans in the first quarter of 2021, as the Federal Reserve sought to temper the economy after a period of pandemic-induced lockdowns. From 2021 to the present, the cost of everyday consumer goods has surged by 16.7%, while wage growth has reached approximately 12.8%.

Turning to the eurozone, the unexpected decline in German inflation to 2.3% in November has prompted speculation about whether the ECB will need to contemplate interest rate cuts. This unexpected downturn, coupled with a similar shortfall in Spanish inflation compared to earlier projections, suggests that eurozone inflation may also fall below anticipated levels (Figure 1). In response, some economists have revised down their forecasts for eurozone annual price growth, which was already anticipated to decrease from 2.9% in October to (a more than two-year) low of 2.7% in November. Goldman Sachs, for instance, adjusted its forecast to 2.5%.

Figure 1

Inflation has declined rapidly in Germany and Spain

Harmonised index of consumer prices (annual % change)



Source: Eurostat
© FT

Europe is currently grappling with a surge of freezing temperatures, with snowfall predictions extending from Germany to the UK. This presents a hurdle for energy systems, particularly as Europe contends with a second consecutive winter devoid of substantial Russian fuel supplies. Berlin is forecasted to see temperatures as low as -4.5°C, while Helsinki is not expected to surpass -8°C. Germany is under weather warnings, with projections of up to 20 centimetres (8 inches) of snow, as reported by Bloomberg. Parts of Scotland and northeast England, including London, are also poised to confront snowfall and icy temperatures. Determining the precise influence of El Niño on European weather remains challenging, except for one evident outcome: its capacity to drive climate conditions to either extreme. In a worst case scenario Europe will burn more resources not to freeze. If energy prices persist in their bullish trajectory, there is a potential for inflation, which has shown signs of abating, to become sticky, adversely affecting spending power.

LOCAL SNAPSHOT

The newly formed New Zealand Government has affirmed its agenda for the initial 100 days, comprising 49 items deemed ambitious for New Zealand by Prime Minister Christopher Luxon. The plan centres on three key areas: the economy, law and order, and public services. Emphasizing their commitment, Leader of the House Chris Bishop highlighted that the inaugural bill introduced will seek to revert the Reserve Bank of New Zealand to a single mandate, concentrating solely on combating inflation.

Some of policies on co-governance and the Waitangi Treaty triggered a day of action across New Zealand, with protesters taking to the streets nationwide to voice their opposition. The demonstrations, synchronized with the commencement of Parliament's opening day on 5 December, resulted in substantial travel disruptions along major highways throughout the country. Supported by Te Pāti Māori, the protests represent an expression of discontent against the government's recent decisions.

The RBNZ has opted to maintain interest rates in its latest monetary policy decision, signalling caution amid persistent inflationary pressures and ruling out any immediate cuts. As widely anticipated by economists, the central bank has chosen to keep the OCR steady at 5.5%, consistent with its preceding four decisions following 12 consecutive increases. Despite acknowledging that interest rates have been constraining spending and causing a decline in consumer prices, the RBNZ emphasized the necessity for elevated borrowing costs to persist for an extended period. The central bank does not anticipate implementing rate cuts until the commencement of 2025, expressing confidence that the current OCR level is curbing demand. However, it remains vigilant about ongoing excess demand and inflationary concerns, particularly in the context of elevated core inflation levels and migration. New Zealand's economy has grappled with the repercussions of a forceful interest rate hike strategy employed between October 2021 and May of this year, aimed at mitigating inflationary pressures.

WORLD FINANCIAL MARKETS

Equities

The MSCI World Index jumped by 8.3%, and MSCI Emerging Markets returned 6.3% in November in local currency terms.

The S&P 500 Index closed with a 9.1% increase in November, while the Nasdaq Composite Index saw a 10.8% rise in November. Both the S&P 500 and Nasdaq Composite achieved their most substantial monthly gains since July 2020. The positive sentiment was supported by declining Treasury yields that resulted in the Bloomberg US Aggregate Bond Index (a comprehensive US bond market index) recording its highest monthly increase since 1985.

In November, the MSCI Europe ex UK Index experienced a 7.4% increase, reaching a year-to-date gain of 14.1%. This was driven by a significant drop in inflation and declining bond yields which positively influenced investor confidence. Major stock indices also saw upward movement, with Germany's DAX Index surging by 9.5% and France's CAC 40 Index gaining 6.3% in November. Additionally, the UK's FTSE 100 Index posted a 2.3% increase for the month.

Chinese stocks declined as official indicators highlighted worries about the nation's delicate economic recovery. In November, the Shanghai Stock Exchange Index returned 0.4%.

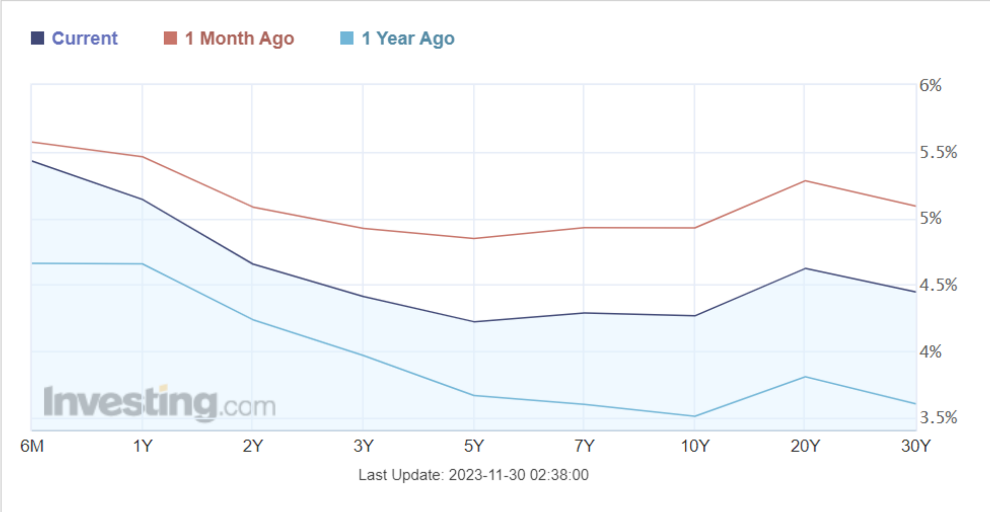
In November, Australia's S&P/ASX 200 demonstrated a noteworthy 5% increase, while small caps stocks outperformed even more, with the S&P/ASX Small Ordinaries posting a 7% gain. Similarly, New Zealand's S&P/NZX 50 witnessed a 5% rise. Interestingly, against the prevailing global pattern, the larger-cap S&P/NZX 20 surpassed expectations, achieving a notable 6% gain during this period.

Fixed Interest

Fed Chair Powell's remarks in early December cautioned against concluding that a sufficiently restrictive stance had been achieved. He further advised against speculating on when policy might ease. However the market’s interpretation contributed to a decline in the yield on the 10-year US Treasury note, reaching

4.20%, which is close to a three-month low. In November, the 2-year Treasury yield also decreased to 4.54% (Figure 2).

Figure 2



European government bond yields experienced a widespread decrease due to inflation data falling below expectations, leading to anticipation that the ECB might initiate interest rate cuts next year. In November, Germany's 10-year bund saw a decline of 36 basis points, approaching its lowest level in more than four months. The yield on the 10-year Italian bond also decreased, reaching around 4%. Japan maintained its ultra-loose monetary policy.

In both Australia and New Zealand, all fixed income indices concluded the month on a positive note, with government bonds outperforming corporate bonds in November.

GEOPOLITICS

The geopolitical arena was eventful in November and of importance was the cease fire between Israel and HAMAS. The truce expired on 1 December after a seven-day pause. US Secretary of State Antony Blinken tried to negotiate an extension during his meetings in Israel and the occupied West Bank. Blinken emphasized the importance of Israel implementing humanitarian civilian protection plans to minimize casualties among innocent Palestinians, including specifying safe areas in southern and central Gaza. International pressure is mounting for a lasting halt to the conflict, and the White House worked to extend the temporary ceasefire.

During a meeting of the Organization for Security and Co-operation in Europe (OSCE) on 30 November, Russian Foreign Minister Sergei Lavrov expressed his concern, stating that the group is "on the brink of an abyss." Participating in the latest OSCE gathering in Skopje, North Macedonia, Lavrov accused the 57-member security-focused organization of effectively transforming into a subordinate entity of NATO and the European Union.

Hungary has gained an ally to stand against Brussels' policy on migrants and helping Ukraine. The initial weeks of Slovakian Prime Minister Fico's government have raised concerns for Ukraine and the EU. Fico, a four-time prime minister, leads a coalition comprising Peter Pellegrini's social democratic Voice (Vlas) party, Andrej Danko's radical right Slovak National Party (SNS), and Fico's populist Direction–Social Democracy (SMER). Fico appointed political allies Juraj Blanar and former interior minister Robert Kalinak as foreign and defense ministers to maintain party alignment in those policy areas, departing from his previous choice of career diplomats. The government fulfilled its election promise by cutting Slovak military aid to Ukraine, cancelling what would have been the 14th bilateral military aid package on November 8. While remaining ambivalent about commercial military equipment supply, the government's stance on Ukrainian minority rights, a key condition for the EU, differs from Hungary's concerns. Fico, aligned with Hungary in rejecting Ukraine's NATO aspirations, expressed reservations about EU accession during the election campaign, citing current circumstances.

The Netherlands could become another problem maker for the EU after the Dutch general election in November, which has brought about a notable transformation in the country's political landscape as the far-right Party for Freedom (PVV), led by Geert Wilders, achieved a significant victory. This outcome disrupts the traditional moderate political balance in the nation and has reverberations throughout the EU, signalling an anticipated shift towards increased conservatism across the Union. The electoral success of the PVV mirrors a broader trend in European politics where right-wing parties are gaining prominence. Recognized for its firm anti-immigration stance, Wilders' party has long been a divisive force in Dutch politics, advocating for a 'Nexit,' reflecting the populist Euroscepticism observed elsewhere in Europe. A PVV-influenced government is expected to adopt a more assertive stance within the EU, potentially leading to heightened tensions, particularly concerning issues like migration, refugee policies, and the Netherlands' stance on international matters such as Ukraine.

US President Joe Biden and Chinese President Xi Jinping held their first in-person meeting in a year on the sidelines of the Asia-Pacific Economic Cooperation conference outside San Francisco. This summit was part of ongoing efforts between the two nations to enhance high-level communication amidst enduring tensions. Notably, signals of goodwill have increased recently. Prior to the scheduled meeting, both the US and China reiterated their commitment to collaborate on climate-related issues. Additionally, there has been a resumption of more direct flights between the two countries (albeit from a low starting point), and Chinese commodity importers have signed the first bulk agreements to purchase US agricultural products since 2017. Furthermore, China's Ministry of Commerce recently announced initiatives to address the longstanding concern of unequal treatment of foreign businesses compared to domestic firms in the country, addressing a notable grievance in the business community. Double standards or just "Quod licet Iovi, non licet bovi"?

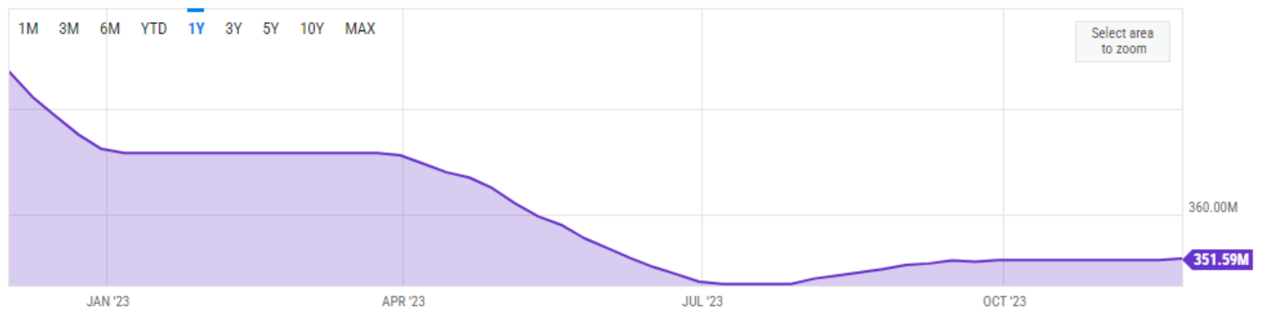
On 30 November, the US imposed new sanctions on North Korea in response to its recent launch of a spy satellite, targeting foreign-based agents allegedly involved in facilitating sanctions evasion, including the provision of revenue and technology for North Korea's weapons of mass destruction program. The US Treasury Department announced that sanctions were also applied to the cyber espionage group Kimsuky, accused of collecting intelligence to support North Korea's strategic and nuclear aspirations. Additionally, individuals based in Iran and China representing the US and UN-designated Green Pine, responsible for half of North Korea's arms and related materiel exports, were among those subjected to sanctions, along with two representatives of North Korean banks based in Russia and one in China, among others.

LESS OIL: GOOD OR BAD

The Biden administration is aiming to halt mandated sales from the Strategic Petroleum Reserve (SPR) as stipulated by Congress, intending to replenish the US emergency reserve. This move could impact the release of 147 million barrels of crude oil. The Energy Department seeks to cancel or postpone sales mandated by Congress for fiscal years 2024 through 2027 to align with the White House plan to refill the SPR when crude prices reach approximately $70 per barrel. Congress has mandated the sale of 147 million barrels to fund unrelated legislative initiatives during this period. Doug MacIntyre, Deputy Director for the Office of Petroleum Reserves, emphasized the impracticality of releasing oil while refilling the SPR during testimony before the Energy and Natural Resources Committee. This proposed plan, contingent on congressional approval, might be included in a crucial government funding bill anticipated later this month. The Biden administration aims to purchase oil to replenish the SPR following a historic drawdown this year. Chevron Corp. CEO Mike Wirth expressed reservations about the administration's plan, suggesting a steady refilling of the SPR to maintain appropriate stockpiles while mitigating price risks. The current SPR capacity is around 700 million barrels, with the inventory standing at approximately 351 million barrels, according to Energy Department data (Figure 3).

Figure 3

US Crude Oil in the Strategic Petroleum Reserve Stocks as 24 Nov 2023



Source: US Energy Department

The OPEC+ took significant measures to support declining crude prices by extending some output cuts into the next year. In a move to bolster oil prices, they announced additional voluntary cuts totalling more than 2 million barrels per day for the first three months of the upcoming year. Furthermore, Brazil is set to join the OPEC+ alliance in January, incorporating one of the world's rapidly growing oil producers into the coalition's efforts to manage global supply. OPEC+ have faced challenges in raising prices even amid initial concerns about the potential impact of the Israel-HAMAS conflict on oil supply chain.

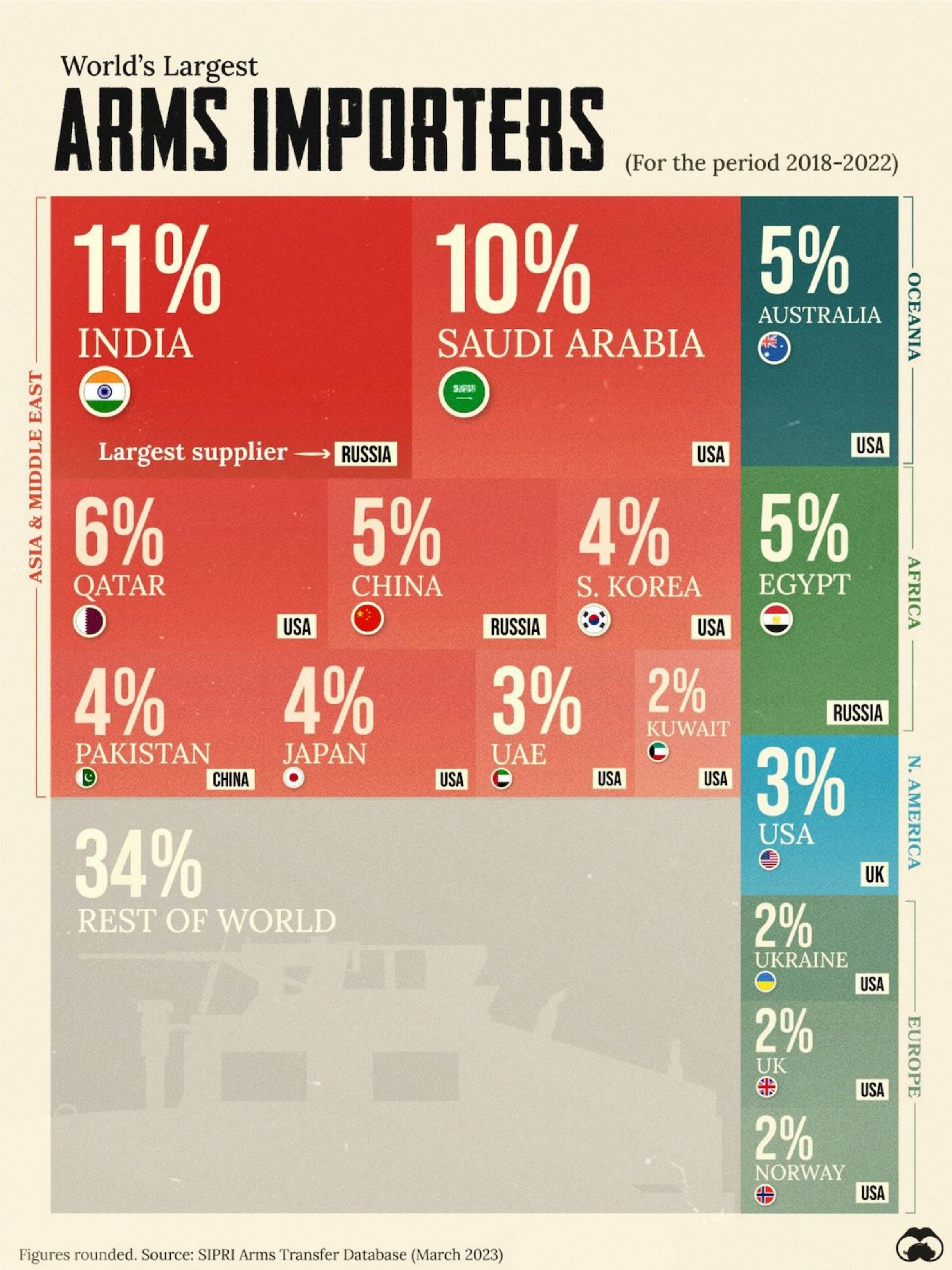
ARMS: BLOOD MONEY

The devastating attack by Hamas on 7 October, resulting in approximately 1,400 deaths in Israel, prompted a forceful military response in the Gaza Strip, triggering significant shifts in the global stock market, particularly within the arms industry. Major defence contractors experienced notable increases in their stock prices due to heightened geopolitical tensions. This surge is attributed to increased demand for military equipment by

Israel and elevated global military tensions. Lockheed Martin Corporation, BAE Systems PLC, RTX Corp, and Northrop Grumman Corp, among others, witnessed significant changes in their stock prices, reflecting the market's response to heightened geopolitical tensions following the attacks.

Beyond the immediate aftermath, defence and aerospace stocks demonstrated a sustained surge, aligning with the historical trend of such industries rising during geopolitical crises. The increased profits for arms companies, especially those supplying Israel, stem from Israel's heightened demand for weaponry during an intense military retaliation campaign in Gaza. US arms companies stand out as primary beneficiaries, given their pivotal role as the largest exporter of arms to Israel, with more than 70% of Israel's arms purchases originating from the US between 2009 and 2020. Additionally, global fears related to the continuing Russia-Ukraine war and concerns about the potential expansion of the HAMAS-Israel conflict beyond borders contribute to the increased global demand for military capabilities and equipment (Figure 4).

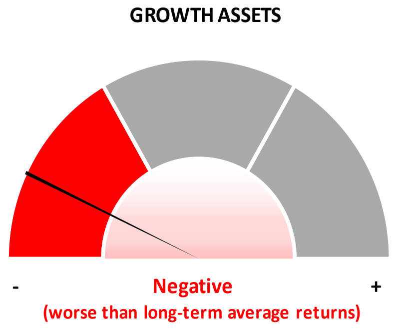
Figure 4

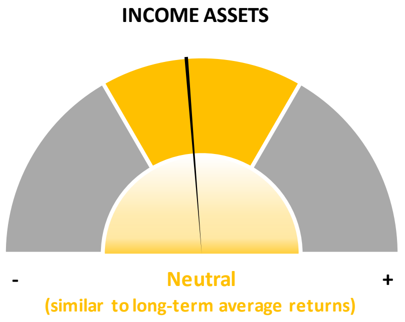


EU Commission President Ursula von der Leyen emphasized on 30 November that the EU must factor in Ukraine's military requirements when shaping the future strategy of Europe's defence industry. In her address at the annual conference of the European Defence Agency, von der Leyen asserted that a comprehensive strategy for the EU should inherently consider both Ukraine's needs and its industrial capacity in the defence sector.

MARKET OUTLOOK

Our investment outlook expectations over the next 12-18 months are:





Growth Assets Include:

- Global equities
- Australasian equities
- Property

Income Assets Include:

- Global and Australasian bonds
- Cash and term deposits
- Other debt instruments