ERIKSENSGLOBAL
Actuaries & Investment Strategists

MARKET PERFORMANCE AND COMMENTARY – FEBRUARY 2024

MARKET PERFORMANCE

Index	Index Level/Price	1 Month %	3 Month %	1 Year %
Global Equities				
MSCI World NR	8,176.50	4.6	10.9	25.1
MSCI World NR (NZD)	17,116.50	5.3	12.2	27.1
MSCI Emerging Markets	699.24	5.1	4.6	9.7
S&P 500 (US)	5,096.27	5.2	11.6	28.4
Nikkei 225 (Japan)	39,166.19	7.9	17.0	42.7
FTSE 100 (UK)	7,630.02	(0.0)	2.4	(3.1)
DAX (Germany)	17,678.19	4.6	9.0	15.1
CAC 40 (France)	7,927.43	3.5	8.4	9.1
Trans-Tasman Equities				
S&P/NZX 50	11,741.47	(1.1)	3.6	(1.3)
S&P/ASX 300	96,363.20	1.0	9.5	10.5
Bonds				
S&P/NZX NZ Govt Stock	1,714.86	(0.4)	2.2	3.8
S&P/NZX A Grade Corporate	5,793.56	(0.0)	1.7	6.0
Barclays Global Agg (Hedged to NZD)	396.92	(0.7)	2.2	5.1
Oil and Gold				
West Texas Intermediate Crude	78.26	3.2	3.0	1.6
Brent Crude	84.55	2.2	4.9	2.5
Gold	2,030.88	(0.4)	(0.3)	11.2
NZD Foreign Exchange				
AUD	0.9353	0.4	0.4	1.8
EUR	0.5627	(0.7)	(0.6)	(3.6)
GBP	0.4815	(0.4)	(1.3)	(5.9)
JPY	91.1404	1.3	(0.2)	8.0
CNY	4.3876	(0.6)	(0.5)	1.9
USD	0.6090	(1.1)	(1.4)	(1.7)

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

Executive summary:

- The global equities rally continued in February, reaching record highs.
- Tensions between Europe and Russia are increasing, with China attempting to play the role of mediator in the Russia-Ukraine war.
- The NZD depreciated against all major currencies except the Australian Dollar and Japanese Yen.
- Supply chain constraints will slow down the downward trend of inflation.

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ECONOMIC COMMENTARY

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13 March 2024

GLOBAL SNAPSHOT

February saw major central banks, including those in Australia, New Zealand, Sweden, and the UK, maintain their benchmark lending rates, making a static month for interest rates. This trend aligns with a pause in rate hikes among G10 central banks, marking the longest streak since the summer of 2021. While the US Federal Reserve, the European Central Bank, the Bank of Japan, the Bank of Canada, the Swiss National Bank, and Norges Bank did not hold meetings in February, market attention remains fixed on the potential shift in global monetary policy expected later in the year. Recent robust economic data from the US has led to speculation about a potential policy change by the Fed, prompting discussions among investors about whether other central banks might act before the Fed.

In February, preliminary data revealed that inflation in the Eurozone moderated to 2.6%, slightly below expectations, yet both the headline and core inflation rates exceeded forecasts. Economists anticipated a headline figure of 2.5%. Core inflation, which excludes volatile components such as energy, food, alcohol, and tobacco, stood at 3.1%, surpassing the projected 2.9%. According to the European Union statistics agency, food, alcohol, and tobacco experienced the highest inflation rate at 4%, followed by services at 3.9%. Energy prices, which had surged due to Russia's invasion of Ukraine last year, continued to decline, with deflation easing from -6.1% to -3.7%. Despite the headline inflation easing from 2.8% in January, it remained above the ECB 2% target, while core inflation persisted above 3%. Investors are closely monitoring for signals on when the ECB might initiate interest rate reductions, with market expectations suggesting a potential cut in June. However, ECB officials emphasize the need to await the conclusion of spring wage negotiations to assess domestic inflationary pressures more accurately. The February data presents a mixed picture for policymakers, indicating a decline in headline inflation from its peak in October 2022 but persistent core inflation above 3%.

Nvidia achieved a significant milestone as its market value surpassed $2 trillion for the first time on 1 March, driven by positive news from Dell Technologies that reignited Wall Street's AI-driven surge. Following an optimistic forecast from Dell, which highlighted a sharp increase in orders for its AI-optimized servers using Nvidia's processors, Nvidia's stock rose by 4%. Dell's shares also experienced a remarkable surge, climbing as much as 38% to reach a record high and eventually closing with a 32% gain. This surge propelled Nvidia's market capitalization to $2.06 trillion, positioning it as the third most valuable company on Wall Street, trailing behind Microsoft and Apple with market caps of $3.09 trillion and $2.77 trillion, respectively.

Property sales in mainland China experienced a tenth consecutive monthly decline in February, attributed to subdued demand during the Spring Festival holiday period and concerns surrounding the ongoing challenges faced by the property sector. According to data from China Real Estate Information Corp, the top 100 developers in China recorded contracted sales of 185.7 billion yuan ($25.8 billion) during the month, marking a significant year-on-year drop of over 60% and a 21% decrease from January's sales figures. The property market's challenges were reflected in Hong Kong's stock market, where property stocks declined. The concerns heightened with Country Garden's regulatory filing to the Hong Kong Stock Exchange revealing a petition for the group's liquidation due to non-payment of a $205 million loan, signalling potentially deeper troubles for the sector.

LOCAL SNAPSHOT

The primary event in February was the RBNZ's decision on the OCR along with its accompanying Monetary Policy Statement (MPS). The RBNZ affirmed that the economy and inflation are progressing largely as anticipated. The Bank's strategy remains one of maintaining the current course with an expectation for inflation to reach 2% by next year if the OCR remains steady at its current rate of 5.5% until early next year. As anticipated by most analysts, the RBNZ opted to keep the OCR unchanged at 5.5%. While the overall tone of the Statement retained a degree of hawkishness, it was notably less so than market expectations. The RBNZ still acknowledges the possibility of an OCR increase later in the year, albeit with reduced probability compared to the November 2023 MPS. The updated OCR trajectory suggests approximately a 40% likelihood of a further 25 bps hike, down from approximately 75% previously. Consequently, the RBNZ's OCR forecast for the upcoming year closely resembles that of the August 2023 MPS.

According to the ANZ survey, business confidence remained robust in February, with a slight increase in the number of businesses expecting trading conditions to improve in the coming year. However, despite this optimism, a net 5% of businesses reported a decline in trading activity over the past year, particularly in the retail and construction sectors. In terms of prices, expectations for inflation over the next year continued to ease, dropping from 4.3% to 4.0%. This downward trend aligns with the decline in actual inflation observed over the past year. Despite the decrease in inflation expectations, many businesses, especially in the retail and services sectors, are still planning to raise their prices. This suggests a gradual return to the RBNZ's 2% inflation target, with the possibility of inflation hovering around 3% at some point.

WORLD FINANCIAL MARKETS

Equities

In local currency terms, the MSCI World Index rose by 4.6% in February and the MSCI Emerging Markets went up by 5.1%.

In February, the S&P 500 Index recorded a 5.3% increase. This marked a robust closure for the month, as the S&P 500 achieved its strongest performance in the first two months of the year since 2019. The Dow Jones Industrial Average closed with a 2.1% increase, while the tech-heavy Nasdaq surged by 6.1%. This notable growth was largely driven by a select few mega-cap tech stocks, with Nvidia climbing by 30%, Meta rising by 26%, and Amazon increasing by 13%. Together, these companies contributed nearly $1 trillion in market capitalization during the month of February alone. Breadth in the market has shown strength this month, with over 71% of the stocks listed in the S&P reporting positive returns. However, the median return of 3.3% falls significantly below the total return of the benchmark index, as indicated by FactSet data.

The MSCI Europe ex UK Index delivered a return of 2.4%. Investors reevaluated the potential scale and timing of interest rate adjustments by the ECB in 2024 due to persistent inflation data. Key stock indices had positive performance, with Germany's DAX Index rising by 4.6%, France's CAC 40 Index registering a 3.5% increase. The UK's FTSE 100 Index ended the month almost flat.

Australia's S&P/ASX 200 saw a modest increase of 0.8%, reaching a new record high, fuelled by stable inflation levels announced in January, which remained at their lowest since November 2021. However large-cap stocks performed below midcaps. Across the Tasman, New Zealand's equities experienced a downturn, with the S&P/NZX 50 declining by 1.1%. Notably, small-cap stocks continue to face challenges in this market environment.

Shares in China surged as investors anticipated potential monetary easing measures from Beijing to spur economic growth. The Shanghai Composite Index increased by 8.1% over the month.

Fixed Interest

The 10-year Treasury yield experienced its most substantial monthly increase since the final quarter of the previous year, driven by ongoing indications of sustained inflation in the US. In February, the yield climbed by 28.6 bps to reach 4.25%, marking the largest monthly gain since October. This surge in February is reminiscent of October’s gain when the 10-year yield briefly surpassed 5% for the first time in over twelve years.

The spreads in the investment-grade corporate bond market in the US widened due to challenges stemming from significant supply. February witnessed a record-breaking issuance of over USD 150 billion, contributing to this trend. Despite the spread widening, new issuance was oversubscribed.

Eurozone bonds exhibited a correlation with their counterparts in the US, as investors chose to overlook Europe's economic slowdown and concentrate heavily on inflation and interest rate dynamics. This heightened focus drove correlations between the two markets to unprecedented levels in recent weeks. Notably, the 10-year German bund yield rose by 25 bps in February.

The performance of fixed income investments varied in both Australia and New Zealand, as both central banks maintained their cash rates unchanged. Inflation-linked government bonds continued to rank among the poorest performers year-to-date.

GEOPOLITICS

Hungary's parliament has approved Sweden's application to join NATO, putting an end to over 18 months of delays that have frustrated the alliance amid Russia's conflict with Ukraine. The vote, with 188 in favour and six against, follows extensive efforts by Hungary's allies to persuade its nationalist government to lift its opposition to Sweden's membership. A crucial meeting between Swedish Prime Minister Kristersson and Hungarian Prime Minister Orban in Budapest on February 23rd marked a significant turning point, as they reached a reconciliation after months of diplomatic tensions. After their discussions, the leaders announced the finalisation of a defence industry agreement, which includes Hungary's acquisition of four Swedish-made JAS 39 Gripen jets and an extension of the service contract for its existing Gripen fleet. In response, according to Defence Minister Sergei Shoigu, Russia has bolstered its military presence in both the northern and western regions of the country.

French President Emmanuel Macron has drawn criticism from France's NATO and EU allies, as well as a cautionary response from Russia, following his suggestion that sending ground troops to Ukraine might be necessary. Following a meeting in Paris with primarily European partners to address urgent measures to support Ukraine in light of Russia's recent advances on the frontline, Macron stated during a press conference that he did not dismiss the possibility of deploying troops. While acknowledging the absence of consensus on the proposal, Macron broke a longstanding taboo by advocating for the consideration of all options to ensure Russia's defeat and uphold security in Europe.

Russian media recently released a 38-minute audio recording of an intercepted online conversation among senior German military officials discussing ways to assist Ukraine in its resistance against Russia's invasion. Germany's government has verified the authenticity of the call. During the conversation, German Air Force Chief Ingo Gerhartz and three high-ranking Luftwaffe officials explore options such as the potential delivery of Taurus cruise missiles to Kyiv, a move publicly rejected by Chancellor Olaf Scholz. They also discuss training Ukrainian soldiers and potential military targets for the missiles, including the bridge connecting the Russian mainland to Crimea and Russian ammunition depots. The discussion delves into operational details of allied forces, revealing that British personnel are deployed in Ukraine, and both British Storm Shadow and French Scalp missiles are deployed in the country. One official mentions Britain's role in providing France with satellite data necessary for Ukraine to program the missiles. The Kremlin interprets the recording as evidence that Germany's armed forces were contemplating strikes on Russian territory, raising questions about whether this reflects government policy or a loss of control by Chancellor Scholz. Russia's foreign ministry has demanded an explanation from the German ambassador regarding the discussion, which it believes underscores the involvement of the "collective West," including Berlin, in the Ukraine conflict.

Meanwhile, in an attempt to facilitate the resolution of the conflict in Ukraine, China is once again dispatching a senior diplomat, Li Hui, the special envoy for Eurasia, to engage with officials in Russia, Ukraine, and key European capitals. This mission is characterized as "the second round of shuttle diplomacy aimed at promoting a political resolution to the Ukrainian crisis." Li previously visited Ukraine in May of the previous year and engaged in discussions in Moscow, albeit without visible progress. In February 2023, China presented a position paper on the conflict in Ukraine, urging respect for sovereignty, a ceasefire, and the resumption of peace negotiations.

ENERGY: URANIUM

Kazakhstan, Canada, Namibia, Niger and Australia collectively accounted for more than 70% of global uranium production. However, recent geopolitical developments pose threats to the uranium supply chain, such as US sanctions on Russian uranium, risks of supply interruptions in Kazakhstan due to transportation routes passing through Russia, and the government coups in both Namibia and Niger beginning in 2023.

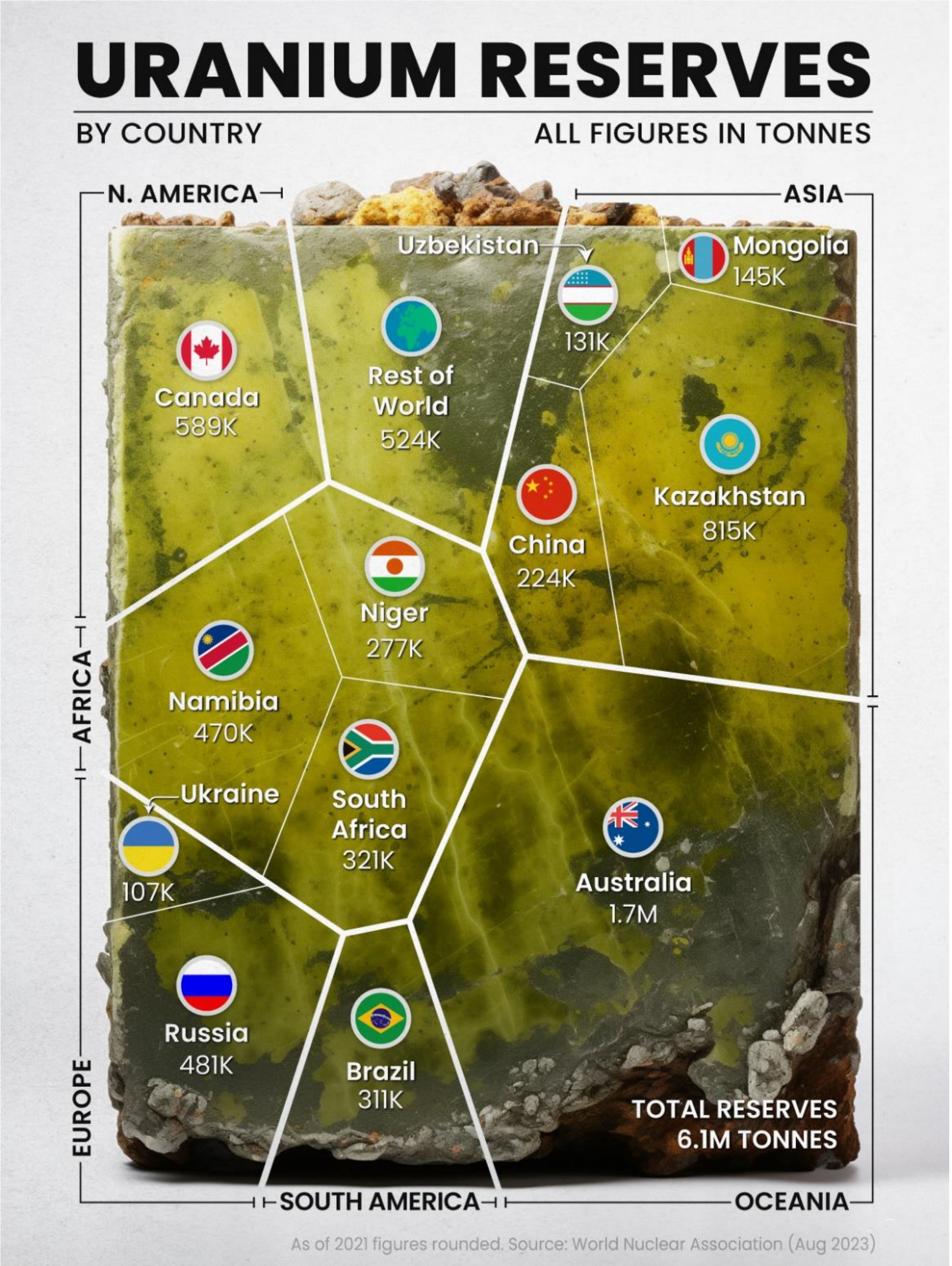
Figure 1

In 2022, Kazakhstan distributed approximately half of its uranium to China, with the remaining portion allocated to Europe, Canada, and the United States. Imports from Kazakhstan satisfy roughly 20% of Europe's annual uranium demand and approximately 22% of the demand in the United States. Notably, significant growth in uranium exports to China and Russia in 2023 effectively offset a decline in another key export destination, Canada. Uranium shipments to Canada saw a substantial 70% decrease compared to the previous year. Approximately 15% of the uranium extracted in Canada is utilised to fuel CANDU reactors, with the remaining portion being exported. These exports, valued at around $1 billion annually, are primarily directed to destinations such as the United States, Europe, and Asia. While Niger's uranium production constitutes merely 5% of global output, the country ranks as the seventh largest exporter of uranium worldwide. Notably, Niger accounts for over 24% of the European Union's uranium imports.

The demand for uranium in nuclear reactors is expected to experience a significant rise in the coming decade, with forecasts indicating a projected increase of 28% by 2030 and an anticipated doubling by 2040. This surge in demand is attributed to governments' efforts to expand nuclear power capacity in alignment with zero-carbon targets. Notably, uranium prices reached a 15-year peak in January ($106 per lb), driven by robust demand from the nuclear industry and anticipated supply shortages over the next few years due to lower-than-expected production by Kazatomprom, the world's largest producer located in Kazakhstan. The primary factor contributing to this shortfall is a scarcity of sulfuric acid, primarily imported from Russia.

Australia possesses the largest discovered reserves of uranium globally, which positions it as a key player in the uranium market (Figure2). Despite holding significant reserves, Australia's current production and export levels do not reflect its potential to become the leading producer and exporter of uranium. With the forecasted rise in demand for uranium in nuclear reactors over the next decade and beyond, coupled with escalating uranium prices driven by supply shortages, Australia has an opportunity to capitalize on its abundant uranium resources. By leveraging its reserves and enhancing production capabilities, Australia could emerge as the dominant player in the global uranium market. This strategic positioning could significantly benefit the country's economy while addressing the increasing demand for uranium worldwide, particularly as governments prioritize nuclear power as part of their efforts to achieve zero-carbon targets.

Figure 2

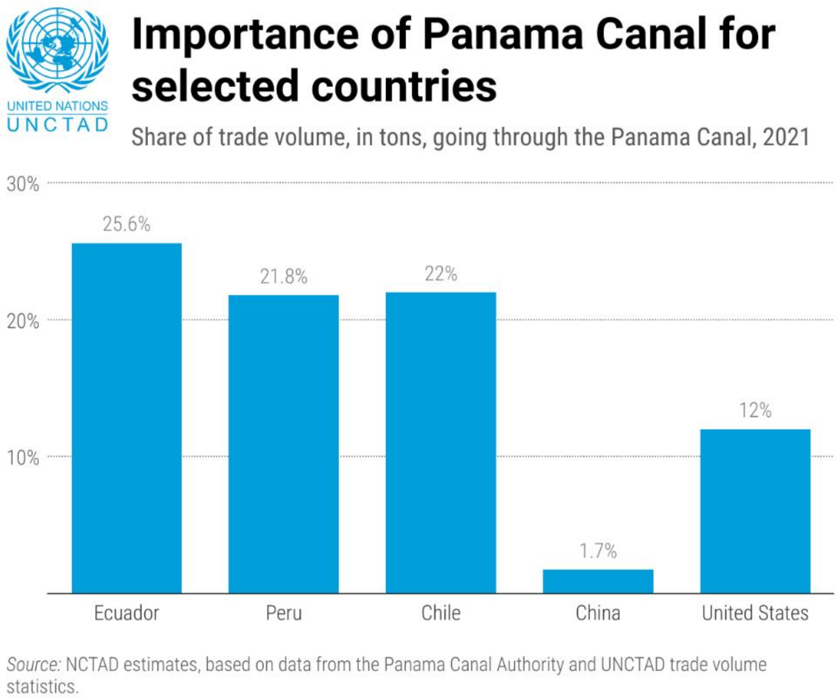


Source: visualcapitalist.com

SUPPLY CHAIN

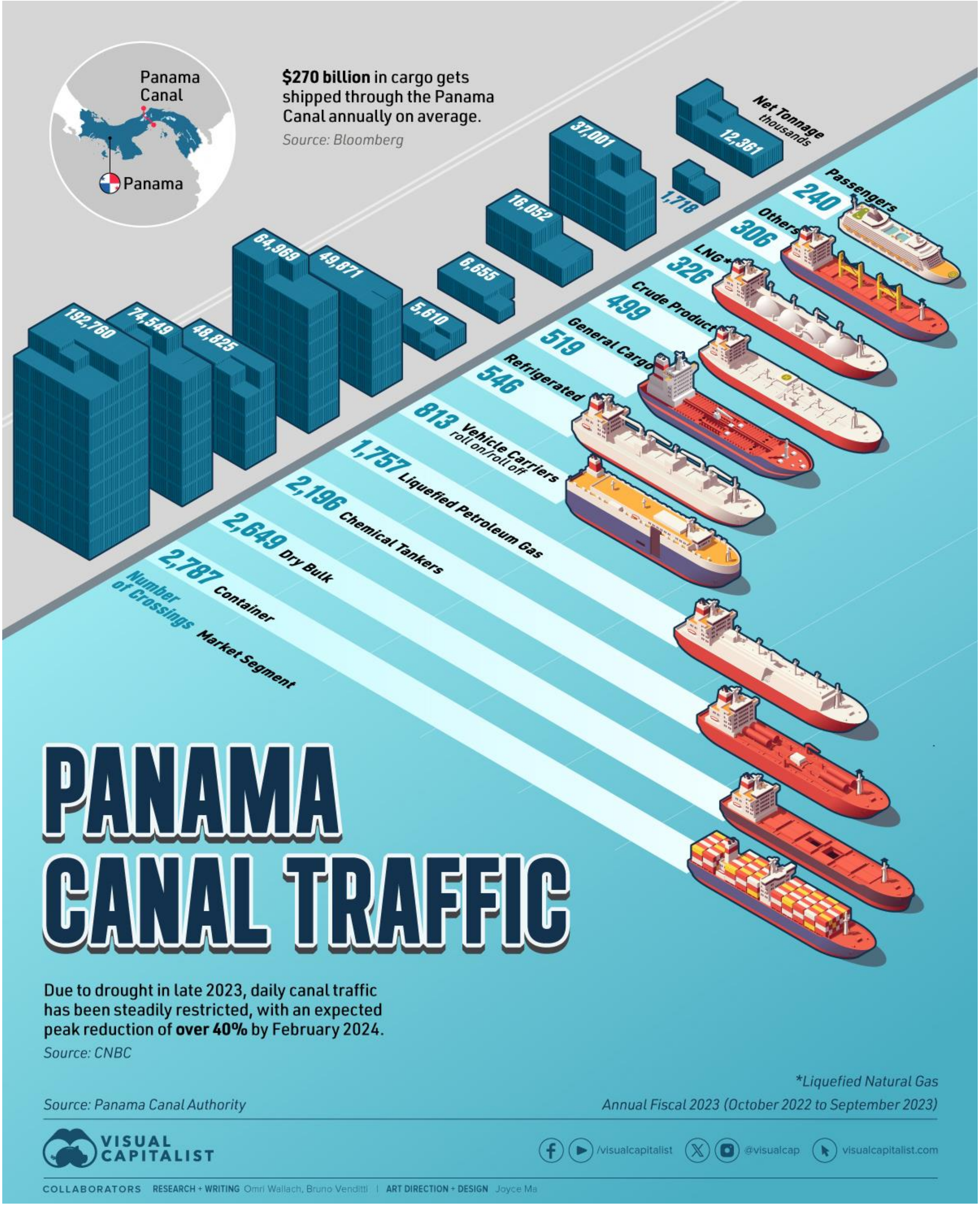
The Panama Canal, situated at the narrowest point between the Atlantic and Pacific oceans, has had a profound impact on global economic and commercial dynamics for much of the past century. Acting as a short and cost-effective passage between these major bodies of water, the Canal has reshaped world trade routes, stimulated growth in developed nations, and served as a catalyst for economic advancement in numerous remote regions worldwide. For instance, a coal-laden vessel traveling from the east coast of the US to Japan via the Panama Canal saves approximately 4,800 kilometres compared to the shortest alternative all-water route, while a banana-laden vessel journeying from Ecuador to Europe saves about 8,000 kilometres. The majority of traffic passing through the Canal is between the east coast of the US and the Far East, with movements between Europe and the west coast of the United States and Canada comprising the second major trade route. However, neighbouring countries in Central and South America, among others, rely proportionately more on this crucial waterway to foster their economic growth and expand trade opportunities (Figure 3).

Figure 3



In 2023, the Panama Canal Authority initiated adjustments to address the low water levels at the Canal. The Canal traffic has experienced consistent limitations since the beginning of the year, with an anticipated peak reduction of more than 40% by February 2024 (Figure 4). This issue is already impacting supply chains for importers in the United States and Asia. In January, in response to additional changes to the Canal's booking system, Maersk (one of the biggest shippers) opted to utilise the existing Panama Canal Railway for its Oceania-North America service. This decision, which leverages an established solution used for other cargo transiting through Panama, represents the sole service that has transitioned from the waterway to the railway at this time.

Figure 4


Panama Canal
Panama
$270 billion in cargo gets shipped through the Panama Canal annually on average.
Source: Bloomberg
Net Tonnage thousands
192,760
74,549
48,825
64,969
49,871
5,610
6,655
16,052
37,001
1,718
12,361
240 Passengers
306 Others
326 LNG*
499 Crude Product
519 General Cargo
546 Refrigerated
813 Vehicle Carriers roll on/roll off
1,757 Liquefied Petroleum Gas
2,196 Chemical Tankers
2,649 Dry Bulk
2,787 Container
Number of Crossings
Market Segment
PANAMA CANAL TRAFFIC
Due to drought in late 2023, daily canal traffic has been steadily restricted, with an expected peak reduction of **over 40%** by February 2024.
Source: CNBC
*Liquefied Natural Gas
Source: Panama Canal Authority
Annual Fiscal 2023 (October 2022 to September 2023)
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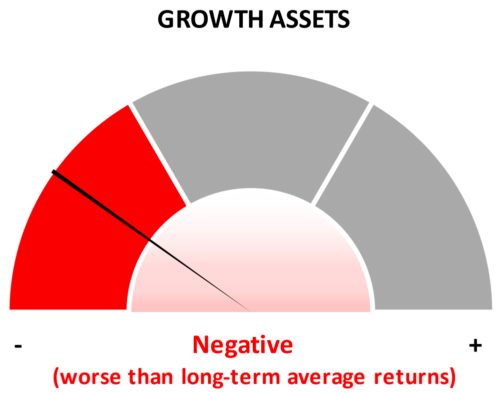
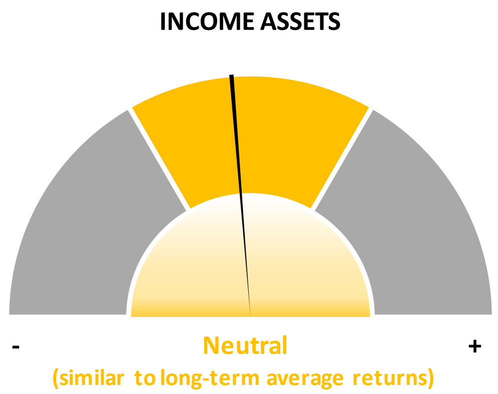
MARKET OUTLOOK

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