

ERIKSENSGLOBAL

Actuaries & Investment Strategists

MARKET PERFORMANCE AND ECONOMIC COMMENTARY – JUNE 2019

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	4.6	0.2	1.8
S&P 500 (US)	6.9	3.8	8.2
Nikkei 225 (Japan)	3.3	0.3	-4.6
FTSE 100 (UK)	3.7	2.0	-2.8
DAX (Germany)	5.7	7.6	0.8
CAC 40 (France)	6.4	3.5	4.0
Trans-Tasman Equities			
S&P/NZX 50	3.8	6.7	17.4
S&P/ASX 300	3.6	8.0	11.4
Bonds			
S&P/NZX NZ Government Stock	1.0	1.9	8.2
S&P/NZX A Grade Corporate Bonds	0.6	1.8	6.8
Barclays Global Aggregate Bonds	1.3	2.7	7.3
FTSE World Government Bonds	1.3	2.9	7.3
Oil			
West Texas Intermediate Crude Oil	9.3	-2.8	-21.1
Brent Crude Oil	2.4	-4.6	-18.0
NZD Foreign Exchange			
AUD	1.7	-0.3	4.4
EUR	0.8	-2.9	1.7
GBP	2.0	0.8	2.9
JPY	2.2	-4.1	-3.5
CNY	2.1	0.7	2.9
USD	3.0	-1.5	-0.8

Source: Nikko Asset Management

We make the following key observations:

- Significant positive returns across global equity markets in June, largely recovering from falls in May
- Trans-Tasman equities were positive over all periods
- Bond markets continue to provide stable returns
- The NZD appreciated against all currencies analysed over the month
- Bounce in the price of oil over the month

ECONOMIC COMMENTARY

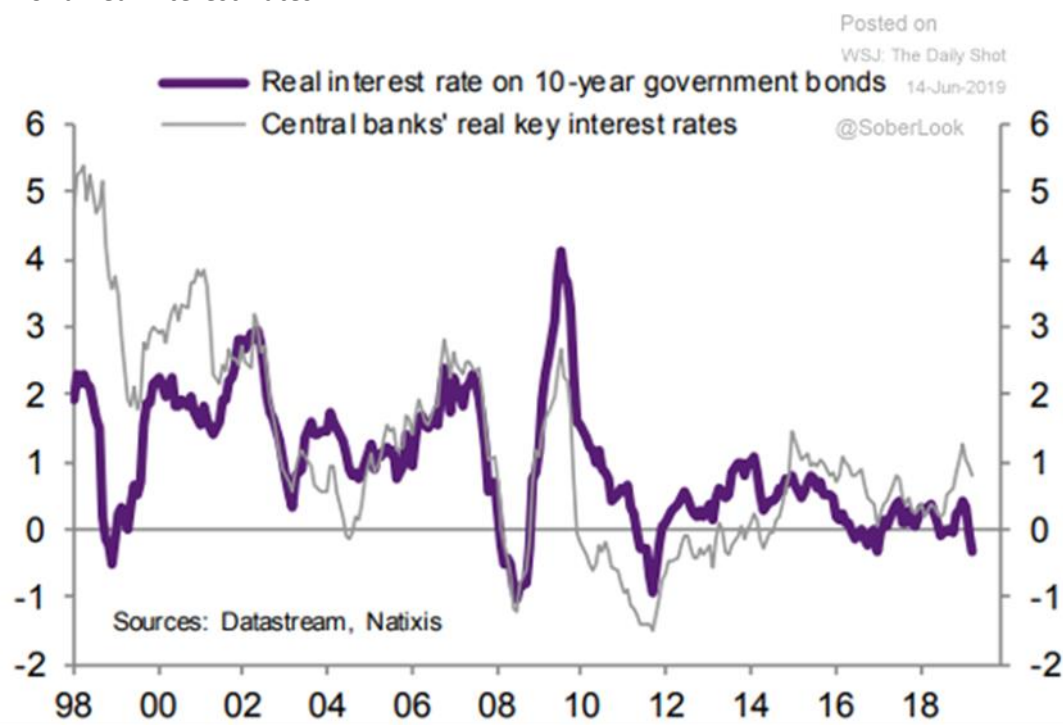
The following figures illustrate the low return environment around the world. Inflation remains low, central banks are dovish (keeping interest rates low) and government bond yields reflect this. Equity markets continue to rise as a 'side effect'. Equity market valuations are questionable...

Figure 1: Global government bond yields ex-US



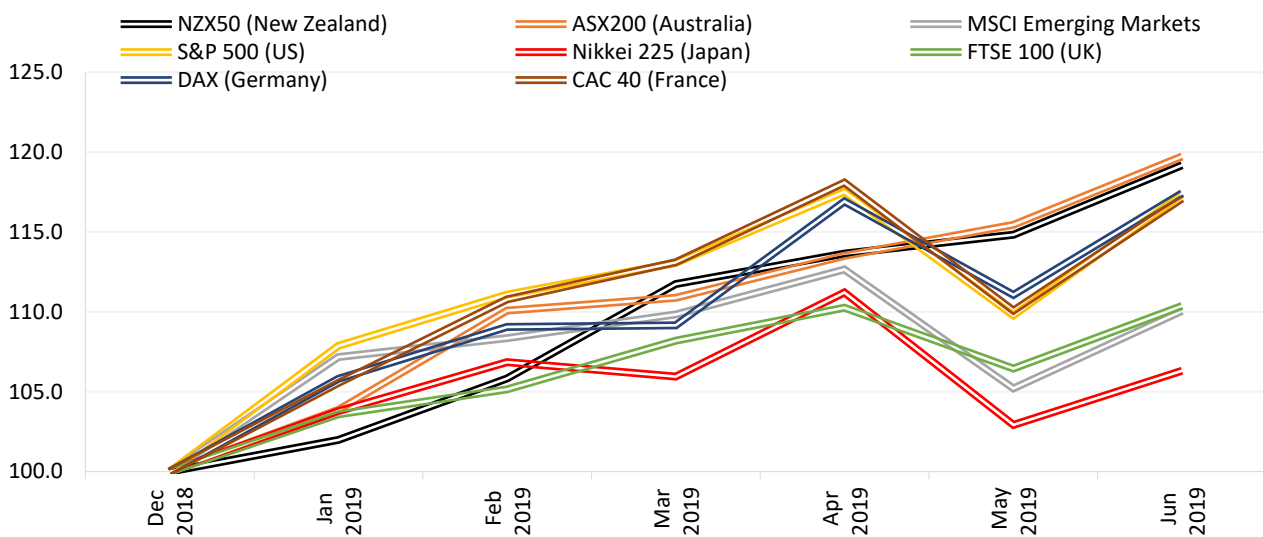
Source: Wall Street Journal, The Daily Shot

Figure 2: World Real Interest Rates



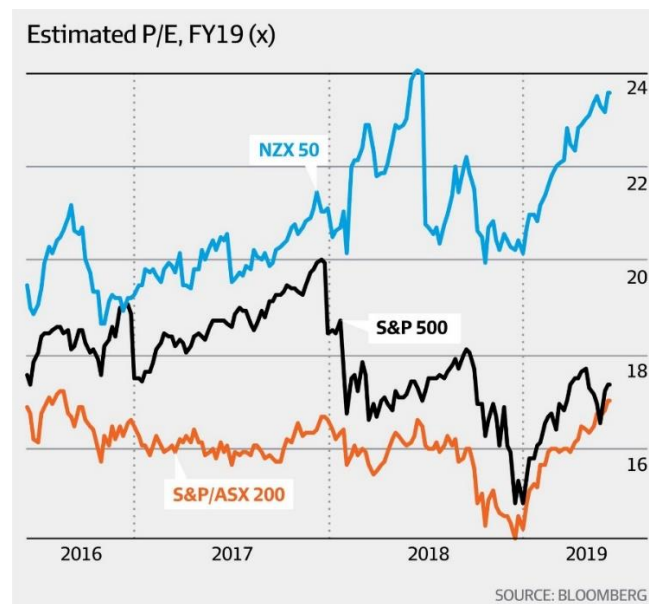
Source: Wall Street Journal, The Daily Shot

Figure 3: Equity markets in 2019



The RBNZ left the OCR unchanged at the record low of 1.5% at the end of June and suggested further cuts could be necessary “given the weaker global economic outlook and the risk of ongoing subdued domestic growth”. The International Monetary Fund issued a statement in line with the RBNZ’s views on New Zealand’s slowing growth prospects. Lower interest rates mean the hunt for yield continues. The New Zealand equity market is one of the most expensive in the world (see Figure 4).

Figure 4: Valuation of US, Australian and NZ equity market



Source: www.afr.com/markets/market-data/world-markets/the-world-s-most-expensive-sharemarket-is-in-new-zealand-20190617-p51yi1

The world’s central banks are concerned at the rapidly slowing global growth. Hence the recent round of cash rate cutting in Australia and New Zealand. The US, UK and Europe are talking cuts and interest rates down. Whilst these support equity markets at record highs; slowing growth puts doubt on future earnings. The questions is: how long can equity markets keep defying gravity?