

ERIKSENSGLOBAL

Actuaries & Investment Strategists

MARKET PERFORMANCE AND COMMENTARY – AUGUST 2020

MARKET PERFORMANCE

Index	Index Level/ Price	1 Month %	3 Month %	1 Year %
Global Equities				
MSCI Emerging Markets	652.39	2.2	17.8	16.0
S&P 500 (US)	3500.31	7.0	15.0	19.6
Nikkei 225 (Japan)	23139.76	6.6	5.8	11.8
FTSE 100 (UK)	5963.57	1.1	-1.9	-17.3
DAX (Germany)	12945.38	5.1	11.7	8.4
CAC 40 (France)	4947.22	3.4	5.4	-9.7
Trans-Tasman Equities				
S&P/NZX 50	11937.56	1.8	9.7	11.0
S&P/ASX 300	66454.73	3.0	6.2	-4.8
Bonds				
S&P/NZX NZ Govt Stock	1974.72	0.8	1.1	4.4
S&P/NZX A Grade Corporate	6011.76	0.9	1.4	4.8
BBgBarc Global Aggregate Hdg NZD	426.01	-0.7	0.8	2.9
FTSE WGBI Hdg NZD	3709.19	-1.0	0.2	2.7
Oil				
West Texas Intermediate Crude	42.61	5.8	20.1	-22.7
Brent Crude	44.39	3.7	21.2	-25.0
NZD Foreign Exchange				
AUD	0.9139	-1.6	-2.0	-2.4
EUR	0.5652	0.3	1.5	-1.3
GBP	0.5048	-0.5	0.8	-2.5
JPY	71.6758	1.8	7.4	7.1
CNY	4.6293	-0.4	4.3	2.6
USD	0.6759	1.5	9.1	7.2

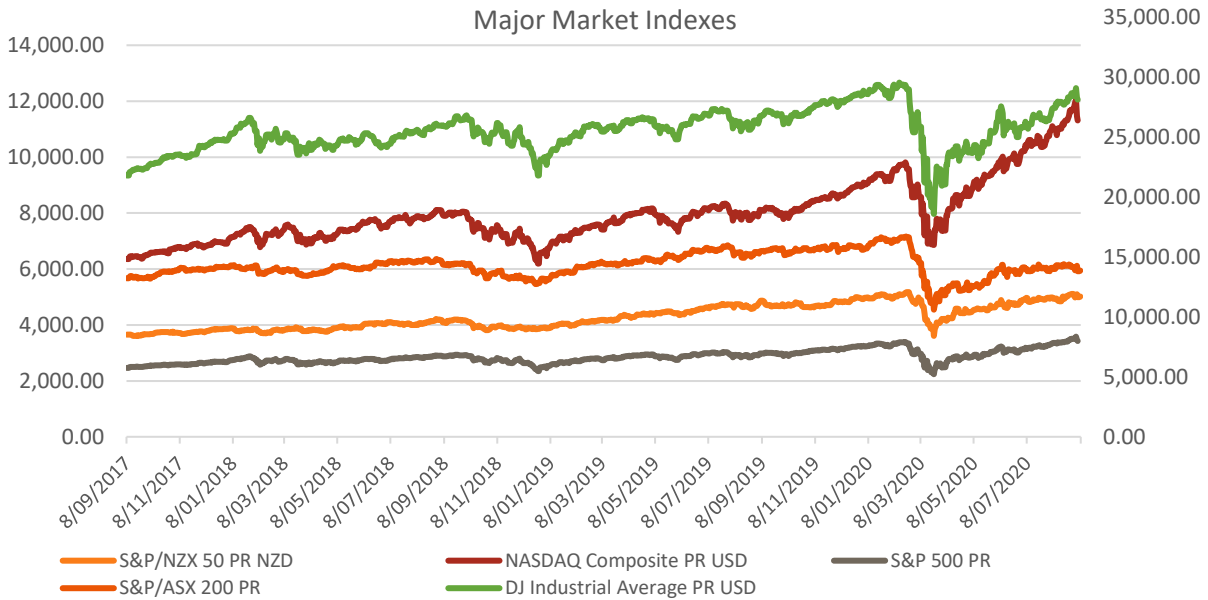
Source: Nikko

We make the following key observations:

- Geopolitical risks in China, US, Australia
- Auckland lockdown has impacted rest of New Zealand tourism and hospitality sector
- Upcoming elections in NZ, US creating uncertainty
- RBNZ signalling negative cash rates for April next year

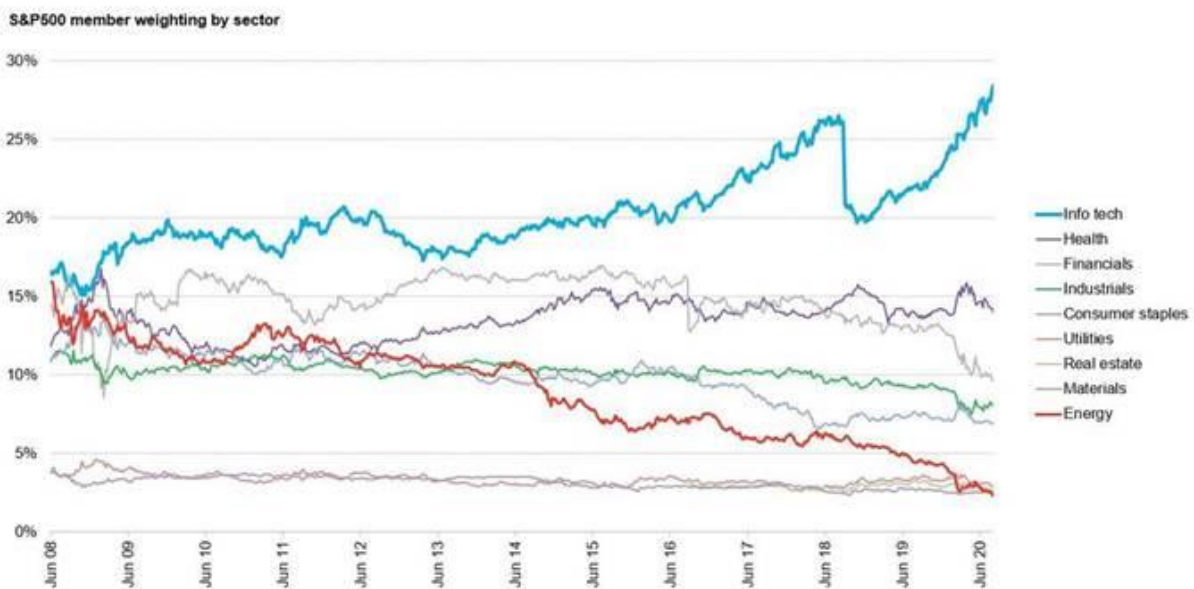
ECONOMIC COMMENTARY

At the end of August, the US stock markets had exceeded the highs of February 2020, especially with the tech heavy NASDAQ. The NZX50 had also bounced back close to its record highs. In both cases the major gains were driven by relatively few stocks. The FAANGS (Facebook, Amazon, Apple, Netflix, Google, Spotify) in the US supported by Tesla.



Note: DJ Industrial Average uses right hand side axis.

In September, most stock markets have taken a breather. The modest sell off's, especially in the tech sector reflect more sector rotation than profit taking. The removal of Exxon Mobil from the Dow is an indication of how the world is changing. The only energy company left in the index is Chevron, with a 2.1% share, similar to the Oil sector's 2.5% share in the S&P 500 (down from 12% less than a decade ago).



Source: Schroders

There is still plenty of cash on the sidelines, so we consider this more of a healthy correction rather than the beginning of another slide.

The Federal Reserve has shifted its inflation targeting to permit above trend inflation to continue before raising rates, thus impacting the job market and increasing the unemployment rate. The August payroll data in the US showed 1.4 million jobs were added, decreasing the official unemployment rate to 8.4%

Interest rates are still at rock bottom with the NZ and US 10-year bond around 60-70 bps. The yield curve is also relatively flat with the US 30-year at 1.4%.

The Reserve Bank of New Zealand is signaling their next change to cash rates will be to negative in April next year. In the meantime, they are continuing their bond buying to keep bond yields lower than the US and Australia's. Both these latter countries central banks are saying no to negative interest rates currently.

China is flexing its muscles with the US and Australia especially. Although China's internal expansion is boosting the price of iron ore, copper, and aluminum, China's imports from Australia have dropped over 20%. China may also consider selling some of its more than \$1 trillion holdings of US treasuries. We expect that the US dollar will depreciate going forward as more economic power shifts to China.

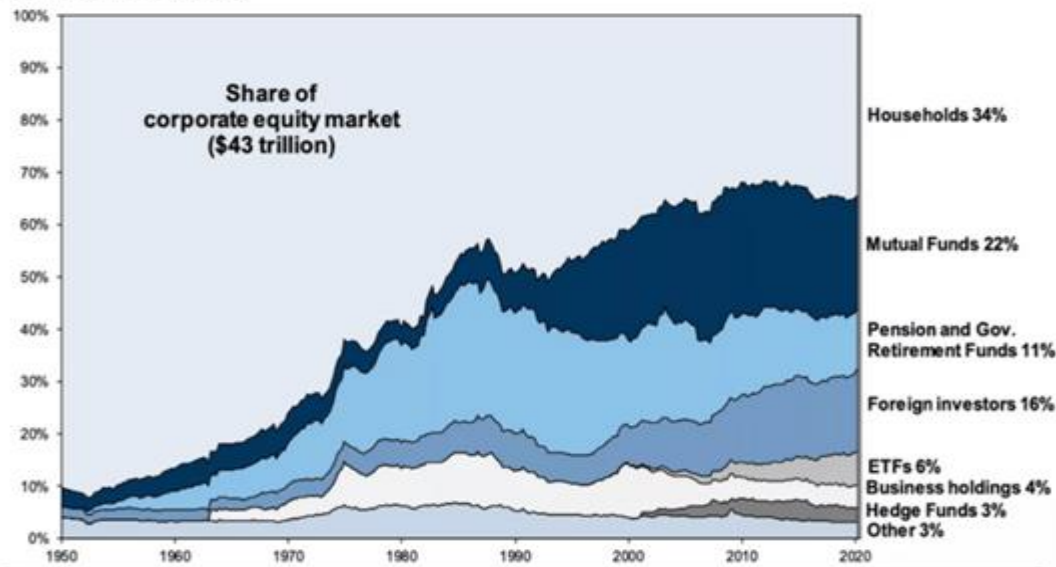
The mortality rate from COVID 19 is dropping as medical teams around the world get better at managing and treating the disease. Vaccines have appeared in Russia and China. Good news on the COVID front seems to be encouraging stock markets even though the economic news of the depths of the recessions caused by lock downs etc. continue to make the headlines as well.

Locally the increase in alert level was not as stringent as that across the ditch. However, the effects weren't minimal with nationwide retail spending falling by almost 20%, most notably in areas linked to tourism and hospitality (spending in areas like bars and restaurants are down over 35%). Auckland was hit hardest (due to a higher alert level) with spending off 40% with the rest of the country down just under 10%. With tourism being domestic only, the effect of Auckland's lockdown travel restrictions rippled through the country.

Finally, we have two critical elections coming up in NZ and the US in the next couple of months.

The table below comes from Johnny Cochrane of Jarden's.

Exhibit 1: Ownership breakdown of the US equity market
as of March 31, 2020

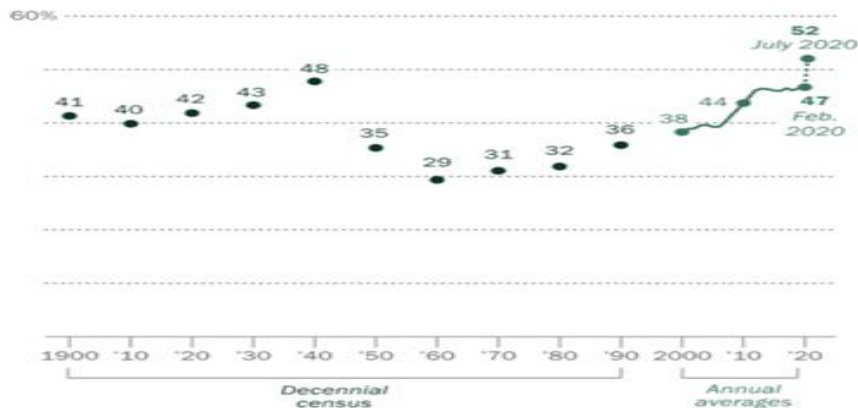


Source: Federal Reserve Board and Goldman Sachs Global Investment Research

Note the increase in Mutual Funds and Foreign investors. ETF's still make up a modest portion of the total holdings.

Share of young adults living with parents rises to levels not seen since the Great Depression era

% of 18- to 29-year-olds in U.S. living with a parent



Note: "Living with a parent" refers to those who are residing with at least one parent in the household. 1900-1990 shares based on household population.
Source: Pew Research Center analysis of decennial census 1900-1990; Current Population Survey annual averages 2000-2019; 2020 Current Population Survey monthly files (IPUMS).

PEW RESEARCH CENTER

An indication of the economic hardships facing the U.S., courtesy of Schroders.