

March Market Performance and Economic Commentary

Market Performance

Index	Index Level/Price	1 Month %	3 Month %	1 Year %
Global Equities				
MSCI World NR	8,453.81	3.4	10.1	26.2
MSCI World NR (NZD)	17,994.39	5.1	15.3	30.9
MSCI Emerging Markets	720.35	3.0	4.5	10.6
S&P 500 (US)	5,254.35	3.1	10.2	27.9
Nikkei 225 (Japan)	40,369.44	3.1	20.6	44.0
FTSE 100 (UK)	7,952.62	4.2	2.8	4.2
DAX (Germany)	18,492.49	4.6	10.4	18.3
CAC 40 (France)	8,205.81	3.5	8.8	12.1
Trans-Tasman Equities				
S&P/NZX 50	12,105.29	3.1	2.8	1.9
S&P/ASX 300	99,507.55	3.3	5.4	14.4
Bonds				
S&P/NZX NZ Govt Stock	1,734.96	1.2	(0.2)	2.7
S&P/NZX A Grade Corporate	5,854.12	1.0	0.6	5.5
Barclays Global Agg (Hedged to NZD)	400.53	0.9	(0.0)	3.8
Oil and Gold				
West Texas Intermediate Crude	83.17	6.3	16.1	9.9
Brent Crude	86.96	2.9	12.1	9.1
Gold	2,229.87	9.8	8.1	13.2
NZD Foreign Exchange				
AUD	0.9168	(2.0)	(1.2)	(1.9)
EUR	0.5537	(1.6)	(3.3)	(3.8)
GBP	0.4734	(1.7)	(4.7)	(6.4)
JPY	90.4978	(0.7)	1.4	8.7
CNY	4.3435	(1.0)	(3.6)	1.1
USD	0.5981	(1.8)	(5.5)	(4.4)

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

Executive summary:

- Global equities continued their rally into March as momentum drove prices higher.
- The Middle East is taking a front seat in global geopolitics after an Israeli attack on the Iranian embassy and ongoing war in Gaza.
- The NZD depreciated against all major currencies.
- Gold reached record highs. Oil prices are approaching \$90 per barrel.
- Potential constraints to global supply chains may occur after the collapse of the bridge in Baltimore and ongoing problems in the Red Sea and Panama Canal.

Economic Commentary

Authored by Janibek Issagulov and reviewed by the Eriksens team.
10 April 2024

Global Snapshot

The Bank of Japan made a historic move in March by raising its cash rate and abolishing its yield curve control (YCC), putting an end to Japan's era of negative interest rates. With a majority vote of 7-2, the central bank decided to increase short-term interest rates to 0%-0.1%, marking the first rate hike in Japan in 17 years and shifting away from the previous rate of -0.1%. Negative interest rates are a monetary policy tool used by central banks to boost economic growth and combat deflation by charging commercial banks and financial institutions for holding large reserves, incentivizing banks to spend and lend money into the economy rather than hoarding it. The European Central Bank was the first major central bank to implement negative interest rates in 2014, followed by several others including Japan in 2016. With Japan's recent decision, it became the last country globally to end its policy of negative interest rates.

The Swiss National Bank (SNB) surprised the market on 21 March by reducing its main policy rate by 25 bps to 1.5%, citing expectations that national inflation will likely remain below 2% in the foreseeable future. This decision differed from the expectation of economists, who had anticipated the Swiss central bank to maintain rates at 1.75%. The SNB justified its move by highlighting that inflation has been below 2% for several months, aligning with the bank's definition of price stability. Additionally, Swiss inflation declined further in February, reaching 1.2%. The SNB also revised its annual inflation forecasts downward, projecting average inflation to be 1.4% in 2024 (down from 1.9% in December), 1.2% in 2025 (down from 1.6%), and 1.1% for 2026. Following this announcement, analysts predict two more rate cuts by the SNB this year, noting a more dovish tone from the bank and the likelihood of inflation falling short of its forecasts.

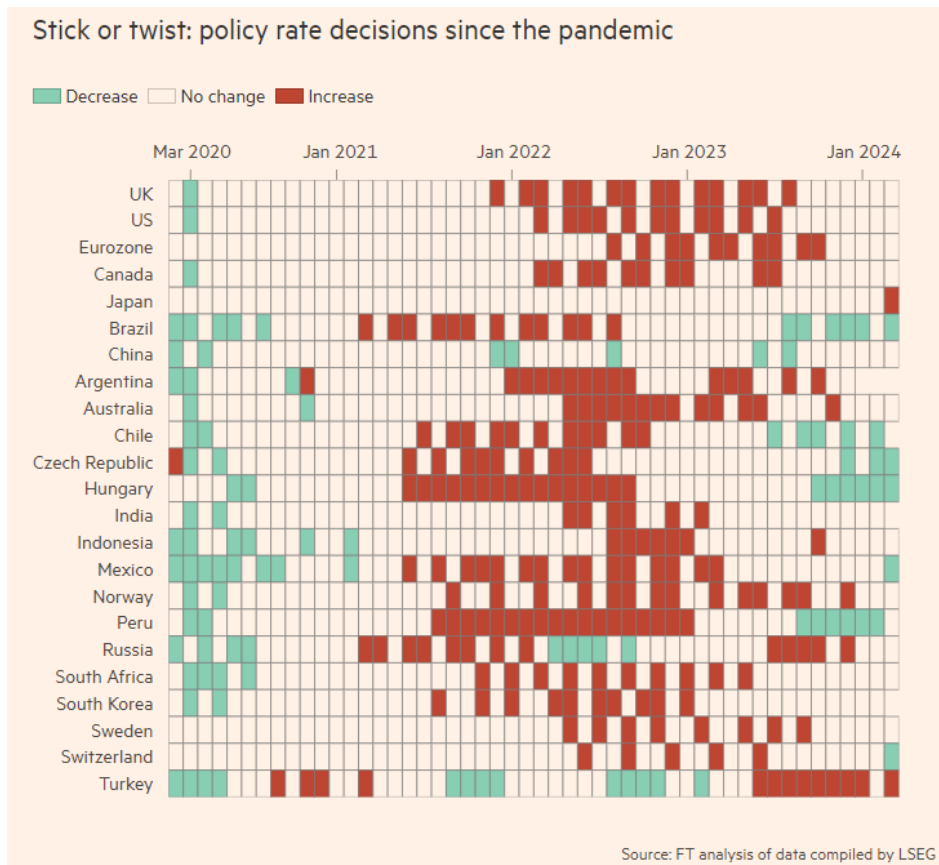
Bank of England Governor Andrew Bailey stated that Britain's economy is nearing a point where the central bank could consider reducing interest rates, as two of his colleagues reversed their stance on a rate hike due to easing inflation. This news led to a decline in the value of sterling, a rise in share prices, and an increase in government bond prices. The decision by the rate-setters, including the two policymakers who previously advocated for higher rates, to maintain borrowing costs at 5.25% was made by an 8-1 majority. This is the first time since September 2021 that none of the members of the Monetary Policy Committee (MPC) voted for a rate hike, reflecting the decrease in the rate of inflation from a peak of over 11% in 2022 to 3.4% in the 12 months leading up to February. Bailey acknowledged "further encouraging signs" of inflation easing but emphasised the need for more certainty regarding the control of price pressures by the BoE.

Central Banks worldwide are expected to reduce interest rates as global inflation begins to ease from the multi-decade highs experienced in numerous countries during the past couple of years (Figure 1). While certain institutions, especially those in emerging markets, have already initiated rate cuts, many others are predicted to do the same this year. This list includes prominent entities such as the US Federal Reserve, the ECB, and the BoE (Figure 2).

Figure 1

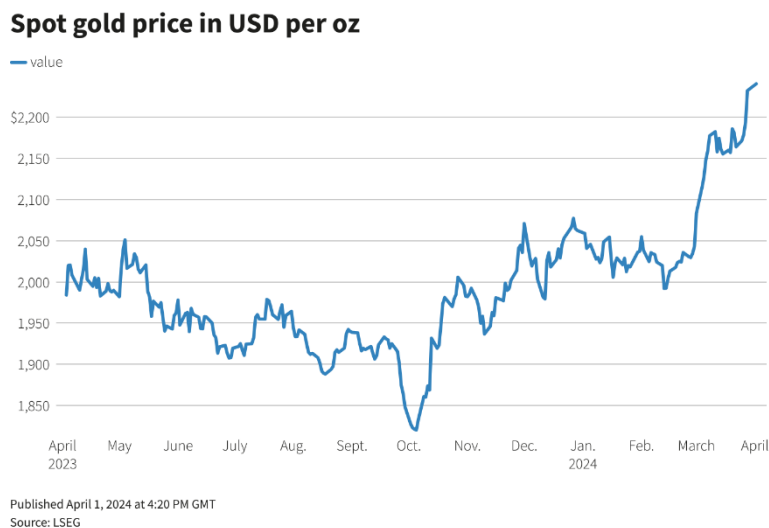


Figure 2



Gold prices reached record highs in March (Figure 3). The rise in gold was fuelled by expectations of an interest rate cut by the Fed, which typically benefits the precious metal by lowering the opportunity cost of holding it. This year alone, gold has seen significant gains of over 8% due to expectations of rate cuts, increased safe-haven demand and central bank purchases amid geopolitical tensions. However, the dollar's ascent to a four-month high and rising Treasury yields contributed to gold's pullback by making it more expensive for holders of other currencies.

Figure 3



Local Snapshot

New Zealand has re-entered a technical recession, with GDP decreasing by 0.1% in the December 2023 quarter compared to the previous quarter, which also experienced a contraction. Despite the country experiencing record levels of migration and population growth, the economy contracted, leading to a 0.7% decline in GDP per capita during the final three months of the year, according to Stats NZ. Additionally, real gross national disposable income saw a 1.4% decrease.

Prime Minister Christopher Luxon has announced that the upcoming Budget will need to carefully balance delivering tax cuts, fostering economic growth, and reducing government spending without resorting to "full austerity mode." On 2 April, Luxon unveiled a 36-point action plan to be executed by the end of June, following through on the Government's initial 100-day plan which reversed many policies of the previous administration as Luxon had pledged. The new quarterly plan encompasses commitments from coalition agreements as well as National's pre-election pledges, including targets for public services akin to those overseen by former National Minister Steven Joyce. This plan outlines the government's priorities for the upcoming months, including reinstating the three strikes law, launching a \$1.2 billion capital infrastructure fund for regional development, and outlining strategies for expanding the housing stock through long-term council planning. With the economy currently experiencing a recession and job losses mounting (including heavy losses from the public sector), the public is still awaiting details of Luxon's proposed tax relief package, which he assures will be in line with National's campaign promises, despite concerns about potential inflationary effects.

World Financial Markets

Equities

In local currency terms, the MSCI World Index rose by 3.4% over the month and the MSCI Emerging Markets went up by 3%.

In March, the S&P 500 Index returned 3.1% and reached new closing highs eight times including key levels of 5,100 and 5,200, making a total of 22 highs so far this year. This rapid pace of new highs could potentially surpass the record of 77 highs set in 1995. Despite the reduction in the number of top-performing stocks, with four leading the charge instead of seven, the broader market showed strength with 493 other issuers gaining 6.4% for the calendar-year-to-date. This five-month surge has amounted to a cumulative 25.29% increase, resulting in a staggering USD 8.9 trillion gain for shareholders with major companies like Microsoft, Apple, Nvidia, and Amazon.com now boasting a combined market capitalization of USD 9.5 trillion.

The MSCI Europe ex UK Index rose by 3.9%, reaching record highs. European markets concluded the initial quarter of 2024 with gains, buoyed by indications that inflation pressures from increased prices are diminishing based on recent data. Germany's DAX Index rose by 4.6%, France's CAC 40 Index was up 3.5% and the UK's FTSE 100 Index returned 4.2%.

The Australia's S&P/ASX 200 Index achieved another all-time high by the end of the month returning 3.3%. The RBA opted to keep interest rates unchanged and expressed satisfaction with the consistent stability

of inflation over the past three months. Small and emerging companies performed notably well during this period. Almost every sector within the S&P/ASX 200 and S&P/NZX 50 indices experienced gains, with the exception of communication services, which incurred a loss. Notably, the Australian real estate sector surged by over 9% in March, making it the second-best performing sector year-to-date after information technology. Similarly, New Zealand's S&P/NZX 50 index climbed by 3%, pushing it into positive territory for the year.

Fixed Interest

Global bond markets experienced upward movements, driven by indications from central banks that interest rates may be reduced this year, despite showing little concern regarding an uptick in inflation. The 10-year US Treasury yield ended the month at 4.20%, marking a decrease of 4 basis points compared to the previous month.

Corporate bonds performed better than government bonds, as the gap between credit spreads narrowed to its smallest point in over two years.

The yield on the 10-year German Bund dropped by 12 basis points to reach 2.30%. Similarly, UK bond yields experienced a more significant decline, spurred by February's lower-than-anticipated inflation in the UK, which created the possibility for the Bank of England to reduce interest rates.

Australian bonds experienced a slightly stronger rally compared to their US counterparts, with the 2-year bond yield decreasing by 4bps to 3.75% and the 10-year bond yield decreasing by 17bps to 3.96%. However, the modest gains seen in March may be at risk of reversing in April. This is mainly due to recent data releases, following the March interest rate setting meetings of the RBA, which have shown a more robust direction that could constrain efforts to curb inflation in the upcoming months.

Geopolitics

The assault on a Moscow concert hall on 22 March marked Russia's deadliest attack in years, resulting in the tragic deaths of over 130 individuals as gunmen invaded the venue, coinciding with President Vladimir Putin's fifth term inauguration. The Islamic State group (IS) has asserted responsibility for the attack, with a brief statement affirming their involvement. While Russian authorities have yet to address IS's claim, this development follows a recent US warning regarding potential attacks on large gatherings in Moscow, which Russian officials criticised for lacking specific intelligence. Despite Mr. Putin's assertion that the attackers were apprehended while attempting to flee to Ukraine, Ukrainian officials swiftly refuted these allegations, denouncing them as baseless.

Israeli warplanes allegedly carried out an airstrike on Iran's embassy in Syria on 1 April, resulting in the deaths of seven Iranian military advisers, including three high-ranking commanders, as reported by Iran. This event signifies a significant escalation in Israel's ongoing conflict with its regional foes. Iran's ambassador to Syria confirmed the strike hit a consular building within the embassy compound, with his residence situated on the top floors. The Islamic Revolutionary Guard Corps stated that among the casualties was Mohammad Reza Zahedi, a prominent commander in its Quds Force, an elite unit focused on foreign espionage and paramilitary activities. Iran swiftly condemned the attack, labelling it a clear

violation of international law, the UN Charter, and diplomatic premises' inviolability. In response, Iran's UN mission urged the Security Council to denounce the strike and hinted at the possibility of taking decisive retaliatory action. The incident prompted vows of retaliation from Hezbollah, Iran's influential proxy in the region, while numerous Muslim nations and major global powers, including Russia and China, also condemned the airstrike.

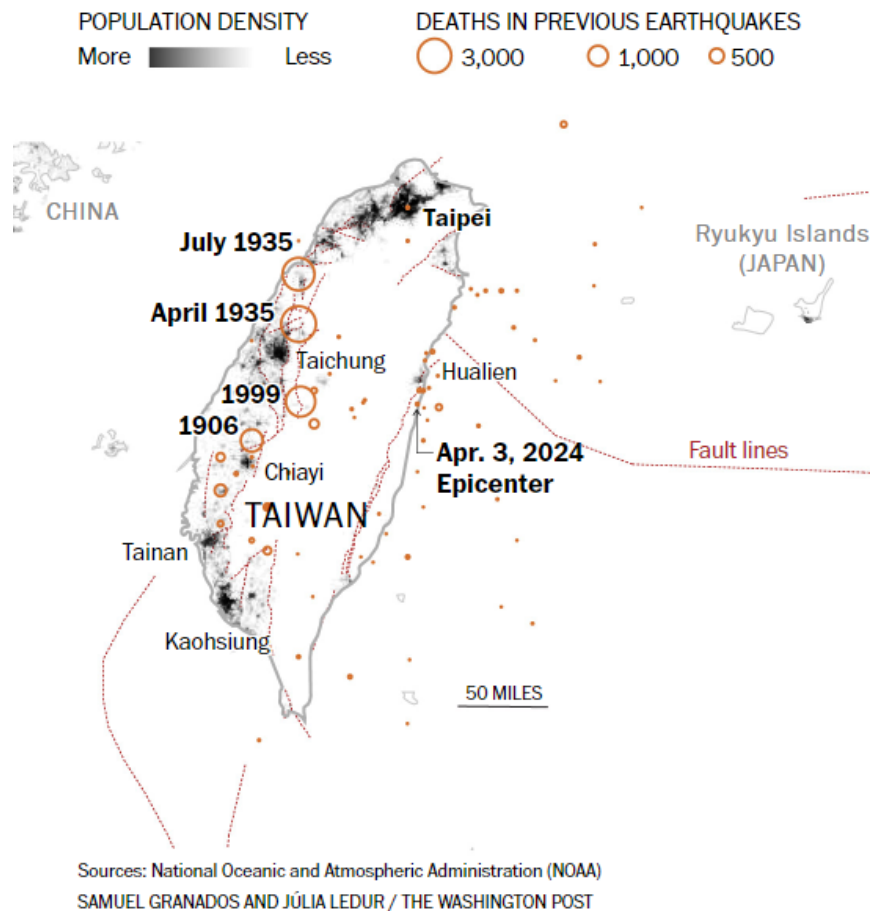
An Israeli airstrike targeting an aid convoy in Gaza resulted in the deaths of seven individuals working for the charity World Central Kitchen, including citizens from Australia, Britain, and Poland. Israel acknowledged that the aid workers were mistakenly killed and pledged a thorough investigation into the incident. The tragedy has intensified international scrutiny of Israel's military actions in its ongoing conflict with Hamas, particularly regarding how the Israeli army identifies and targets locations. The incident sparked swift and strong condemnation globally, with US President Joe Biden expressing outrage and sorrow, criticizing Israel's perceived failure to safeguard aid workers delivering essential assistance to civilians. World Central Kitchen, founded by chef José Andrés in 2010, has gained recognition for its humanitarian efforts, providing food aid in conflict zones and disaster-stricken areas worldwide.

Indonesia's president-elect Prabowo Subianto embarked on his inaugural foreign trip to Beijing, affirming his commitment to maintaining the close ties established by his predecessor Joko Widodo. Prabowo expressed full support for fostering stronger Indonesia-China relations, emphasizing continuity in the friendly policies towards China. He highlighted the new government's focus on aligning development strategies with China and enhancing cooperation in areas like the economy, trade, and poverty alleviation. As Indonesia's defence minister, Prabowo also underscored China's significance as a crucial partner for regional peace and stability, signalling intentions to bolster defence collaborations. His visit to China before neighbouring countries in the region signifies the robust partnership cultivated during Jokowi's tenure, marked by China becoming Indonesia's primary trading ally and making substantial investments in Indonesian infrastructure projects, including the Jakarta-Bandung high-speed railway. Prabowo's subsequent visit to Japan and his remarks about deepening security and economic ties with Japan further indicate his commitment to maintaining Indonesia's non-aligned and pragmatic foreign policy and fostering mutually beneficial relationships with various powers.

A 7.4-magnitude earthquake, accompanied by powerful aftershocks, struck off Taiwan's east coast on 3 April, resulting in the deaths of at least 13 people and injuries to 963 others, as reported by Taiwan's fire department. The earthquake, the strongest in Taiwan in a quarter of a century, caused significant damage to buildings and triggered landslides, and its tremors were felt in parts of China as well (Figure 4). Overnight, rescue efforts were underway for the 143 people trapped under debris, including over 70 quarry workers. While earthquakes have a historical presence in Taiwan, particularly in its western areas with clustered fault lines and dense population, this earthquake disrupted chip manufacturing briefly along the island's western coast, causing concerns in the tech industry. This incident shed light on the critical role of Taiwan in global chip production, as nearly 92% of the world's most advanced chips are made by Taiwan Semiconductor Manufacturing Co. (TSMC). Although the disruption to chip production was minor and operations are expected to resume swiftly, analysts warn that even brief disturbances in Taiwan's chip output could lead to shipment delays and substantial financial losses, underscoring the vulnerability of the global economy to natural disasters in key manufacturing hubs like Taiwan.

Figure 4

Previous, deadlier earthquakes hit more densely populated areas

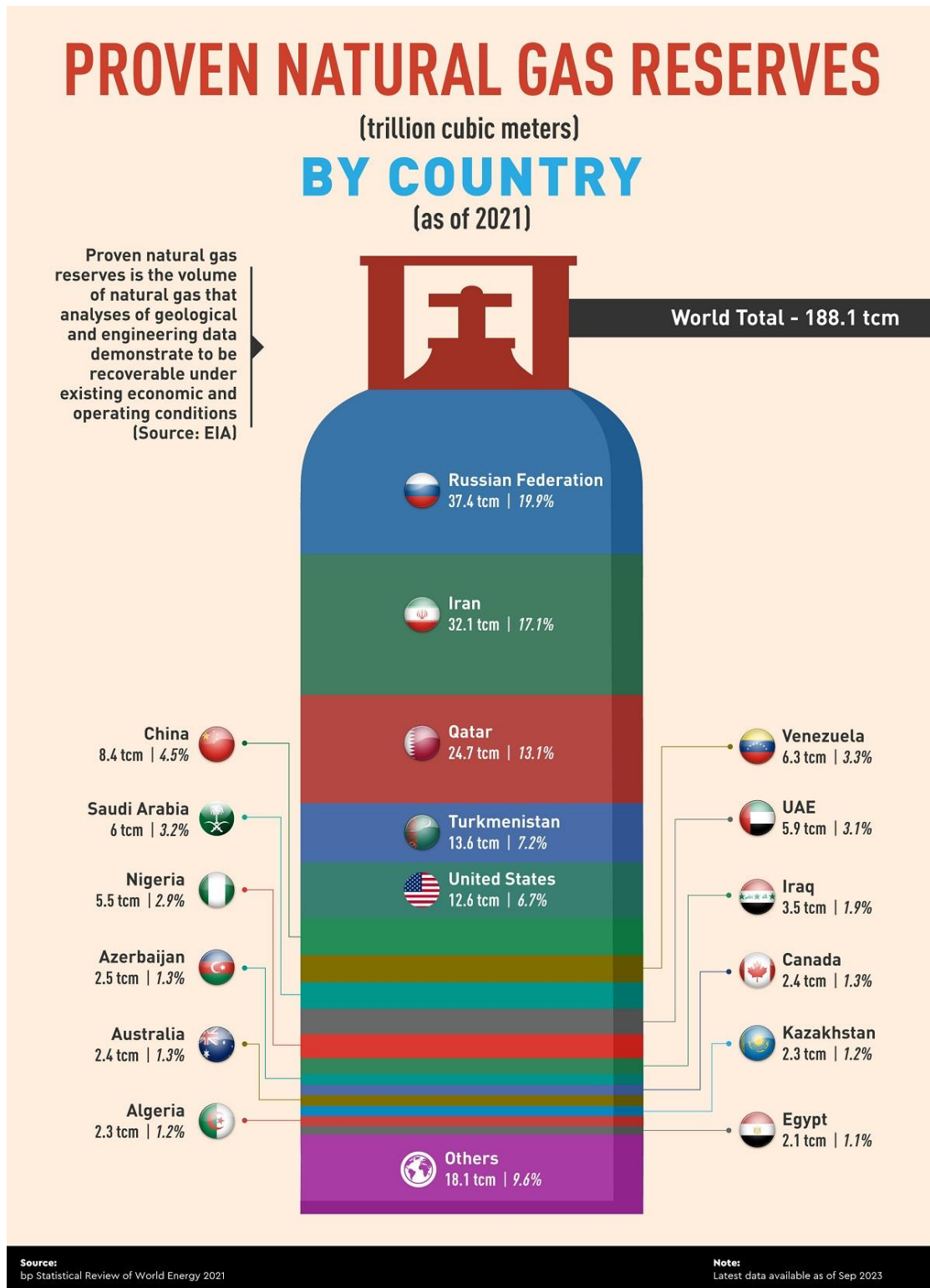


Energy: Gas

Natural gas serves various purposes such as electricity generation, heating homes and buildings, and fuelling vehicles, in addition to being a crucial raw material in industrial processes. Russia holds the largest reserves globally, accounting for about 20% of the total, followed by Iran with 17% and Qatar with 13%. Among regions, Asia dominates in natural gas reserves, with six countries ranking in the top 10, while Africa, Europe, North America, and South America each have one representative in the top reserves list (Figure 5).

Although ranked fifth in proven reserves, the United States stands as the largest natural gas producer globally, holding a 23% share. Russia follows closely as the second-largest producer at 17.4%, with Iran in third place with a 6.4% share. Additionally, the United States leads in natural gas exports, shipping 82.7 billion cubic meters via pipelines and 104.3 billion cubic meters in liquefied natural gas (LNG) form in 2022. Russia, Qatar, and Norway trail behind as the next largest natural gas exporters.

Figure 5



Natural gas remains a crucial energy source, especially amid global efforts towards a carbon-free future. Understanding the landscape of natural gas production worldwide is essential for investors in this industry. Despite a stable global production of natural gas in 2022 at 4.09 trillion cubic metres, Russia experienced a 12% decline in production due to reduced exports to Europe. This decline is significant as

Russia is the world's second-largest natural gas producer and exporter, playing a vital role in Europe's energy supply. However, the EU aims to phase out Russian-sourced natural gas by 2027, leading to shifts in the global natural gas market.

The US has emerged as a dominant player in the natural gas sector, being the largest producer and consumer globally. Its production growth is fuelled by advancements in extraction technology and shifting energy preferences. On the other hand, Russia's production decline has repercussions on Europe's energy security and highlights the region's vulnerability to geopolitical tensions. With Russia's market share diminishing, other major producers like Iran, China, Canada, Qatar, Australia, Norway, Saudi Arabia, and Algeria are pivotal in shaping the future of the natural gas market, each with its unique production capabilities, export strategies, and regional influences.

Supply Chain

The Francis Scott Key Bridge, stretching over 2 kilometres and serving as a crucial link in Baltimore's industrial core, underwent nine years of planning and nearly five years of construction. However, it was brought down in less than a minute following a collision with a cargo ship in the early hours of 26 March. US Transportation Secretary Pete Buttigieg has cautioned about the significant and prolonged disruptions to supply chains resulting from the closure of the Port of Baltimore indefinitely, following the bridge's collapse.

President Joe Biden highlighted the bridge's importance, calling it a crucial component of the economy in the US northeast. Its collapse effectively halted access to one of the nation's busiest and most vital ports. Buttigieg emphasized the irreplaceable role of the Port of Baltimore, noting that although there are other ports on the east coast, none can substitute for Baltimore's functionality. The port, ranking as the ninth busiest in the US and the primary hub for car shipments, handled over 750,000 vehicles in 2023, constituting 42% of all imports. General Motors and Ford have announced plans to redirect affected shipments, but Buttigieg has cited the substantial impact this will have to surrounding ports and the supply chain in general.

The closure of the port, which handled foreign cargo worth \$80 billion in 2023, is estimated to result in millions of dollars in lost trade and taxes each day. The significant concern revolves around the export of coal, with Baltimore being the second busiest US port for coal exports in 2023, primarily to India for electricity generation. Ernie Thrasher, CEO of Xcoal Energy & Resources, highlighted the specialized facilities needed for coal handling, suggesting that the shutdown of the Port of Baltimore will significantly affect energy transportation out of the United States, particularly impacting India's energy imports. President Biden has committed Federal support for the bridge's reconstruction and is urging Congress to allocate funds for relief efforts. The subsequent disruptions to supply chains, especially in critical sectors like coal export, are expected to have an inflationary effect.

Market Outlook

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

