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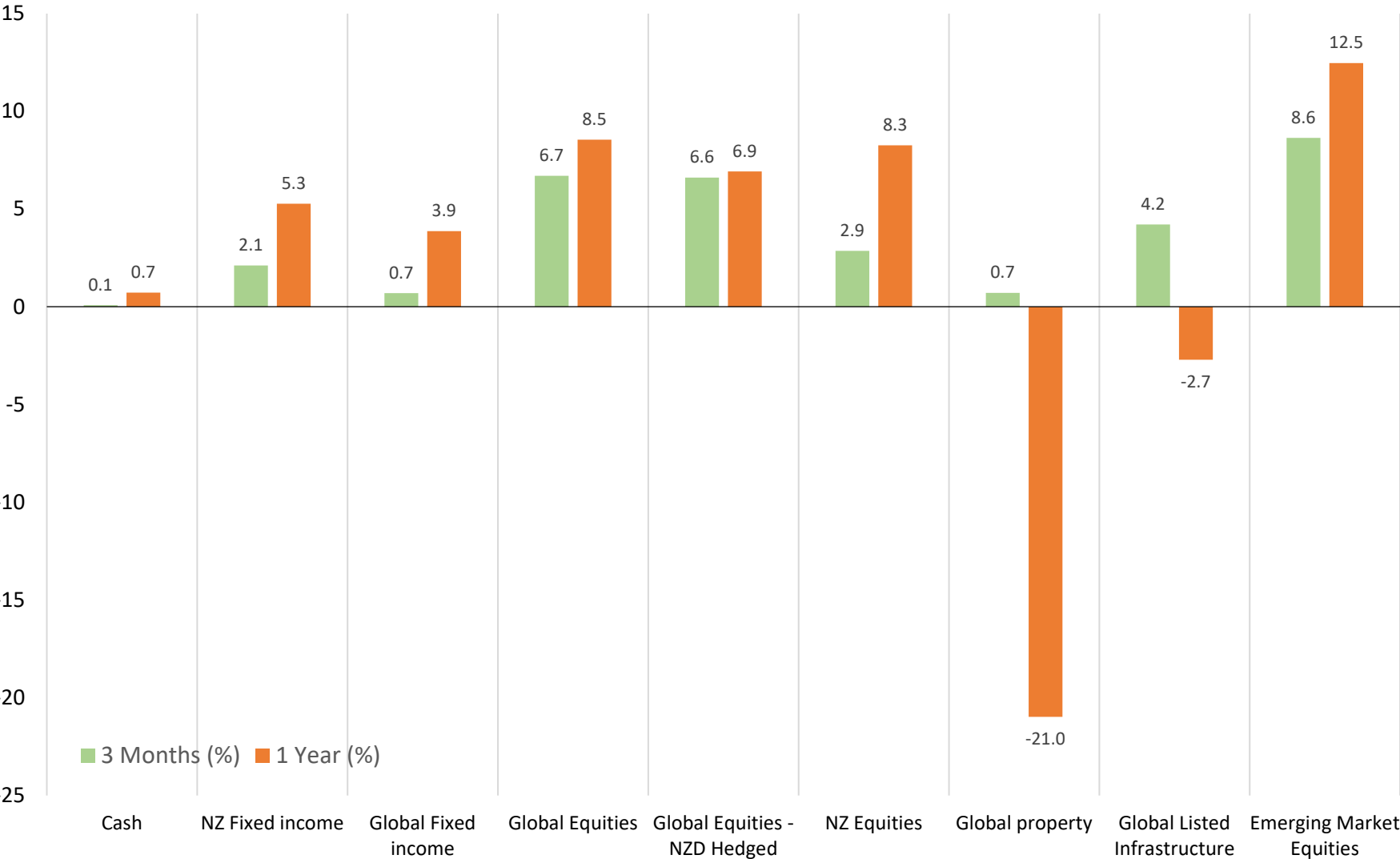
The Great Reset? Impacts for the Australasian Markets

Heathcote Meet the Managers

20 October 2020

Financial market update

The market rally continued during the 3rd quarter with emerging markets the top-performing asset class



The chart shows asset class returns in local currency, i.e. for a 'global' investor except for Infrastructure and Property which are in USD. The returns experienced by your portfolio may differ from this depending on movements in the NZD and the amount of currency hedging of that asset class.
 Source: Morningstar Direct

Financial market update

Fixed income returns continue to be strong, while REITs have also rebounded from their lows

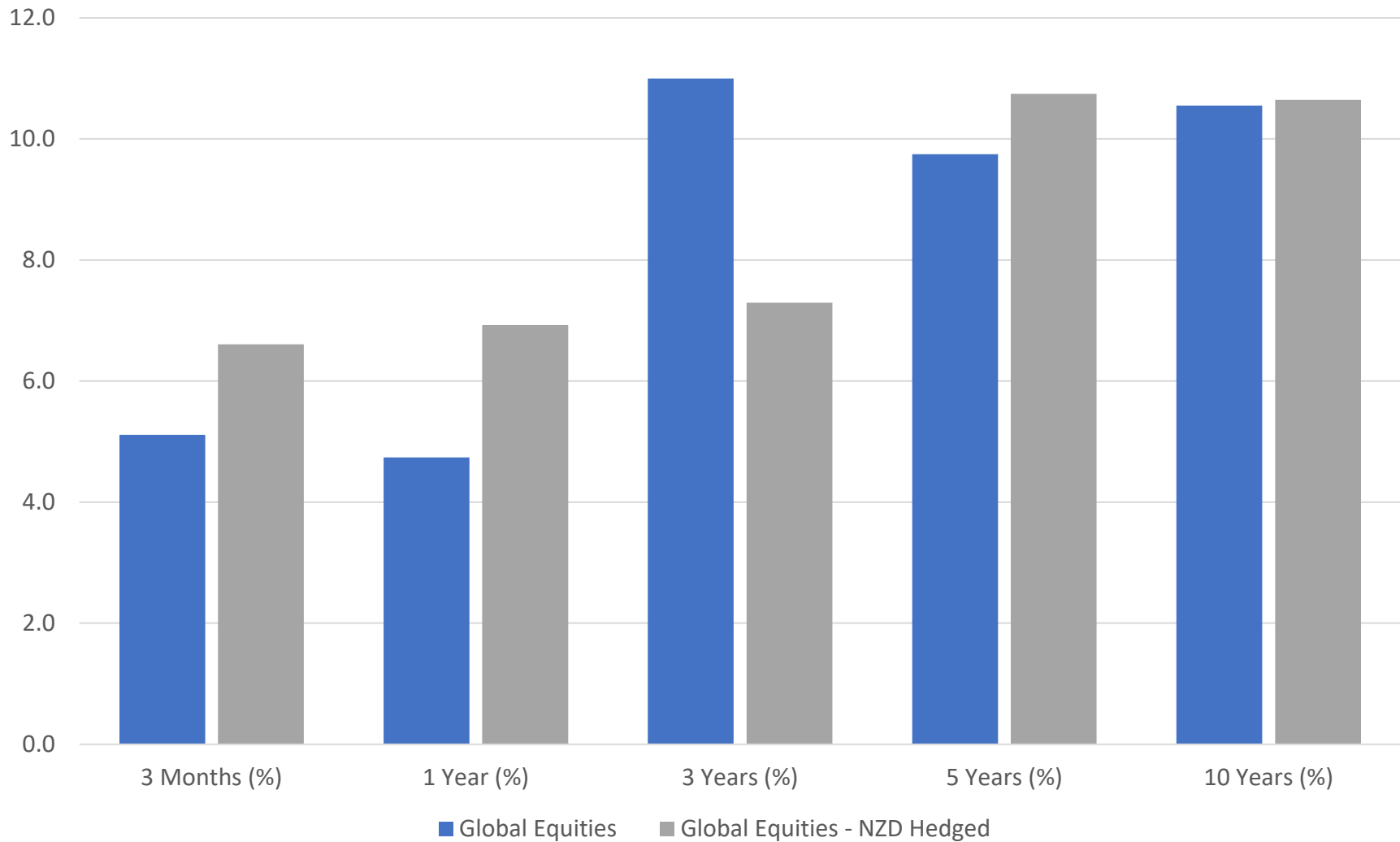
	3 Months (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)
Cash	0.1	0.7	1.5	1.8	2.4
NZ Corporate Bonds	1.7	5.2	5.9	5.2	5.8
NZ Government Bonds	2.6	5.3	6.6	5.3	5.4
Global Bonds	0.7	3.9	4.9	4.9	5.7
NZ REITs	13.3	-4.3	13.9	11.9	12.5
Australian REITs	7.4	-15.8	4.1	6.0	9.7
Global REITs NZD Hedged	0.7	-21.0	-1.6	2.2	6.7
Global Listed Infrastructure	4.2	-2.7	6.5	9.0	9.5
NZ Equities	2.9	8.3	15.0	17.2	15.3
Aus Equites - Large Caps	-0.8	-10.8	4.7	7.2	7.1
Aus Equites - Value	-1.3	-19.1	0.9	5.4	6.5
Aus Equities - Small Caps	5.7	-3.3	6.5	10.0	3.5
Global Equities	6.7	8.5	7.8	10.3	10.2
Global Equities - NZD Hedged	6.6	6.9	7.3	10.7	10.6
Global Equities - Value	2.6	-9.9	-0.9	4.9	6.8
Global Equities - Small Caps	6.0	0.9	2.4	7.7	9.5
Emerging Market Equities	8.6	12.5	4.8	9.6	5.6

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Financial market update

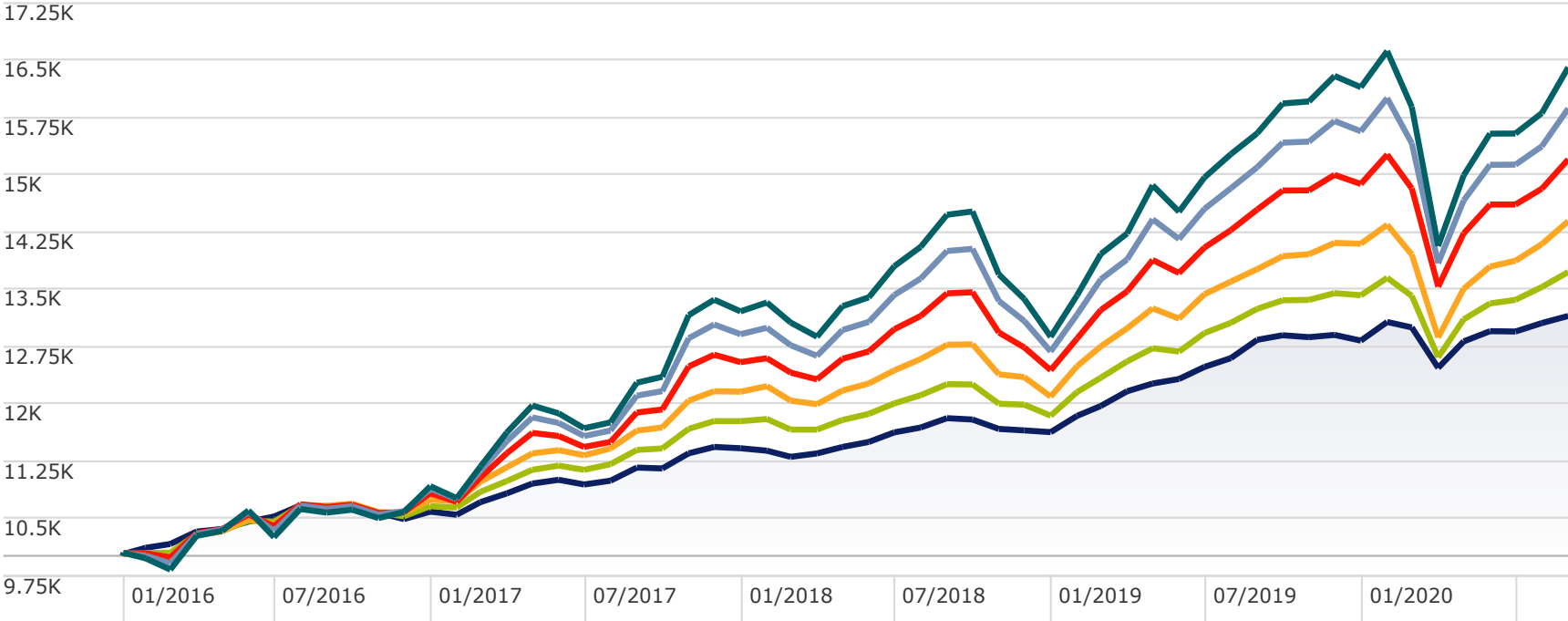
Currency volatility has caused material differences in NZD hedged vs. Unhedged returns



The chart shows the performance of the MSCI World NR unhedged Index (blue bar) versus the Morningstar Developed Markets Global Index NZ Hedged (light blue bar)
Source: Morningstar Direct

Model portfolio returns

Almost all risk profiles have recovered the losses from the first quarter



Investment Name	Value
MyFiduciary Defensive Model ...	13.14K
MyFiduciary Moderate Model ...	13.72K
MyFiduciary Balanced Model ...	14.38K
MyFiduciary Growth Model Be...	15.19K
MyFiduciary High Growth Mo...	15.86K
MyFiduciary Pure Growth Mod...	16.4K

Source: Morningstar Direct

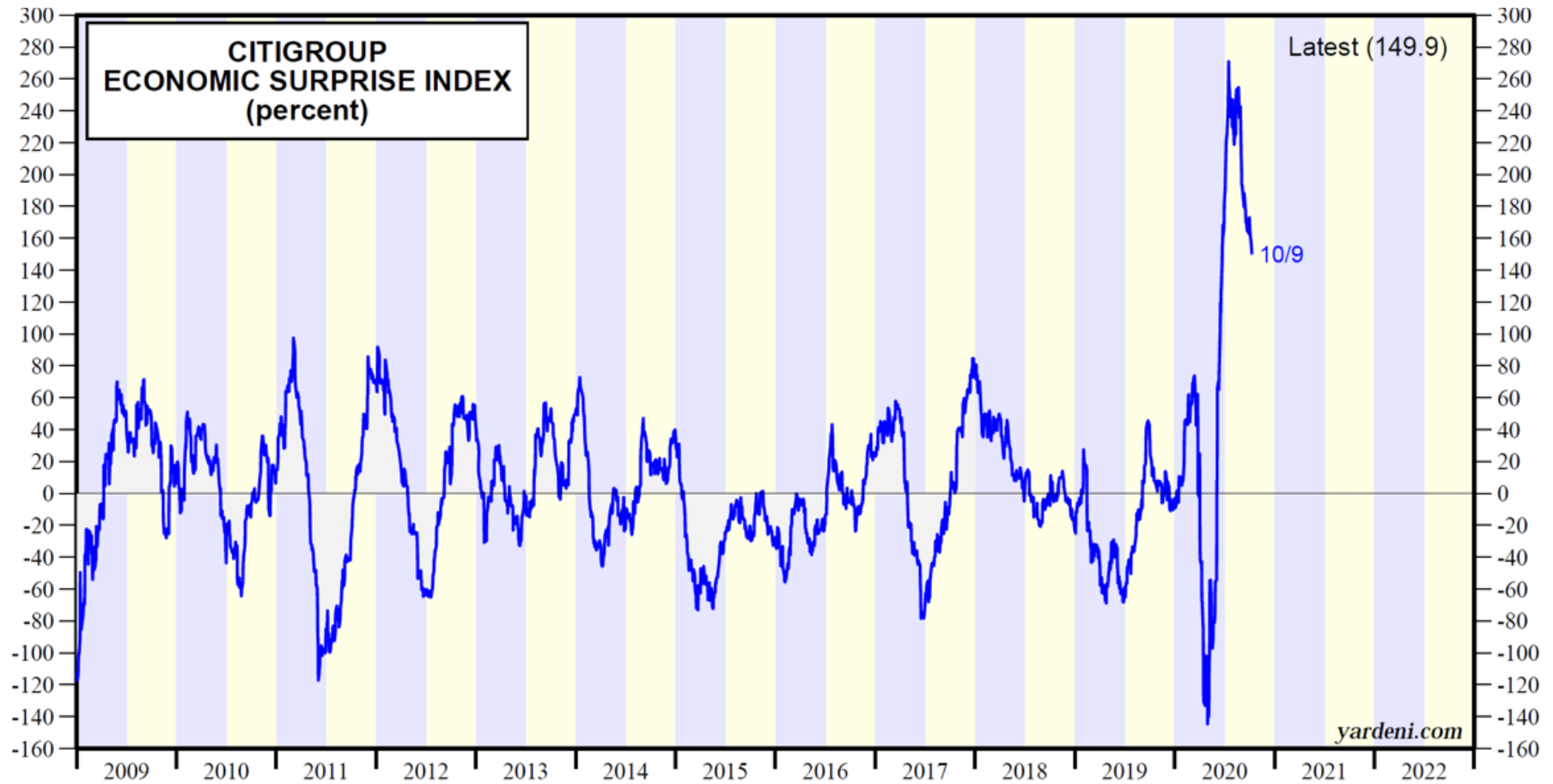
A tale of two Covids

- How can asset prices be rising in an environment where overall economic activity and employment remains weak, and many businesses remain heavily reliant on policy support?
- Outside of listed markets, similar questions are being raised about the resurgence in residential property market activity in prices – a phenomena not just confined to New Zealand's shores.

Rationale:

1. Short-term economic data has been stronger than expected. Short-term market movements tend to be much more driven by how conditions evolve relative to expectations, rather than levels of activity per se.
2. Policy support/ultra-low rates pushing flows into yielding assets. Despite the rally, risky assets continue to offer materially higher yields than investment grade bond yields and cash yields, plus the prospect of capital gains over the longer run.
3. While cases have been rising mortality rates have been falling and a vaccine is on the horizon. Eleven vaccines are now in conventional large-scale human trials. China and Russia have leaped-frogged this process and have begun rolling out vaccines to parts of their population most at risk (e.g. frontline healthcare workers).

A tale of two Covids



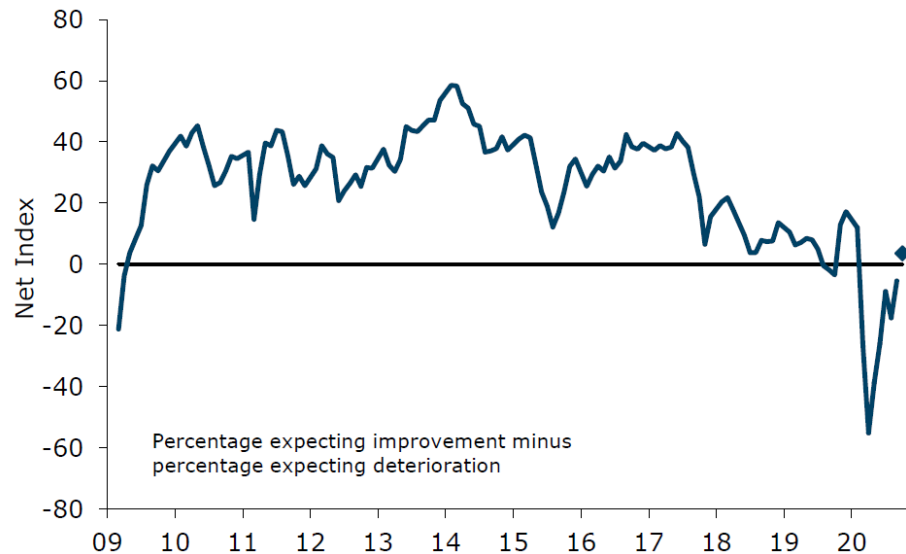
Source: Citigroup, Yardeni Research

A tale of two Covids

- In New Zealand, economic activity and business confidence has also re-bounded much more quickly than bank and public-sector economists expected. The most recent ANZ Survey of business confidence suggest businesses are now net positive about their own activity outlook and investment intentions.

Figure 1: NZ business confidence back in black

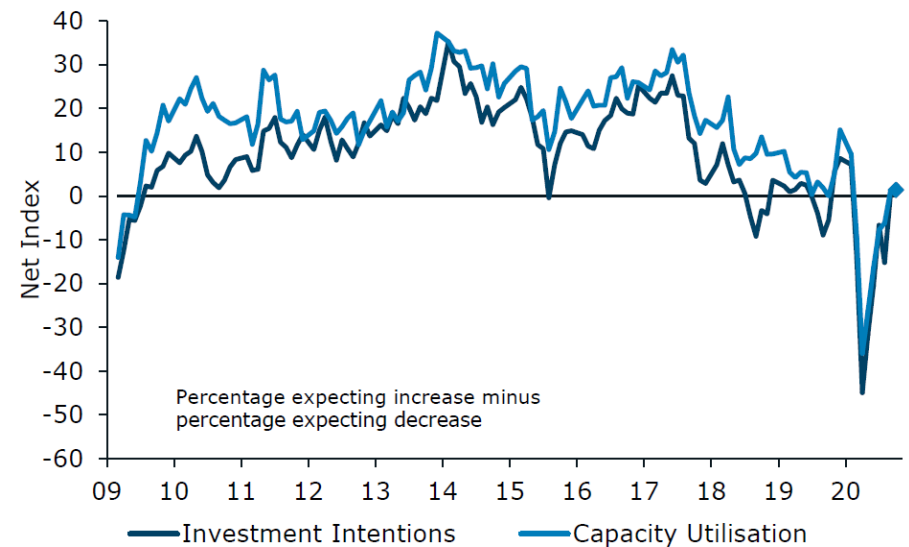
Own activity outlook



Source: ANZ Research

Figure 2: As is their investment spending intentions

Investment intentions and capacity utilisation



Source: ANZ Research

A tale of two Covids

- Part of the reason why economists have got it wrong is that they under-estimated the resilience of the business sector – in general – to lock downs and restricted travel movements.
- Given this, and the presence of wage and fiscal support mechanisms, household and business confidence has not suffered as much as feared, hence nor has employment and spending levels.
- This and the presence of ultra-low financing costs has helped boost asset prices, including housing.
- NZ election results present further **large upside risk** to economic growth and NZ dollar. NZ **remains a supply constrained economy**. NZ First handbrake removed, RMA will be repealed, Auckland Council bureaucrats on notice.

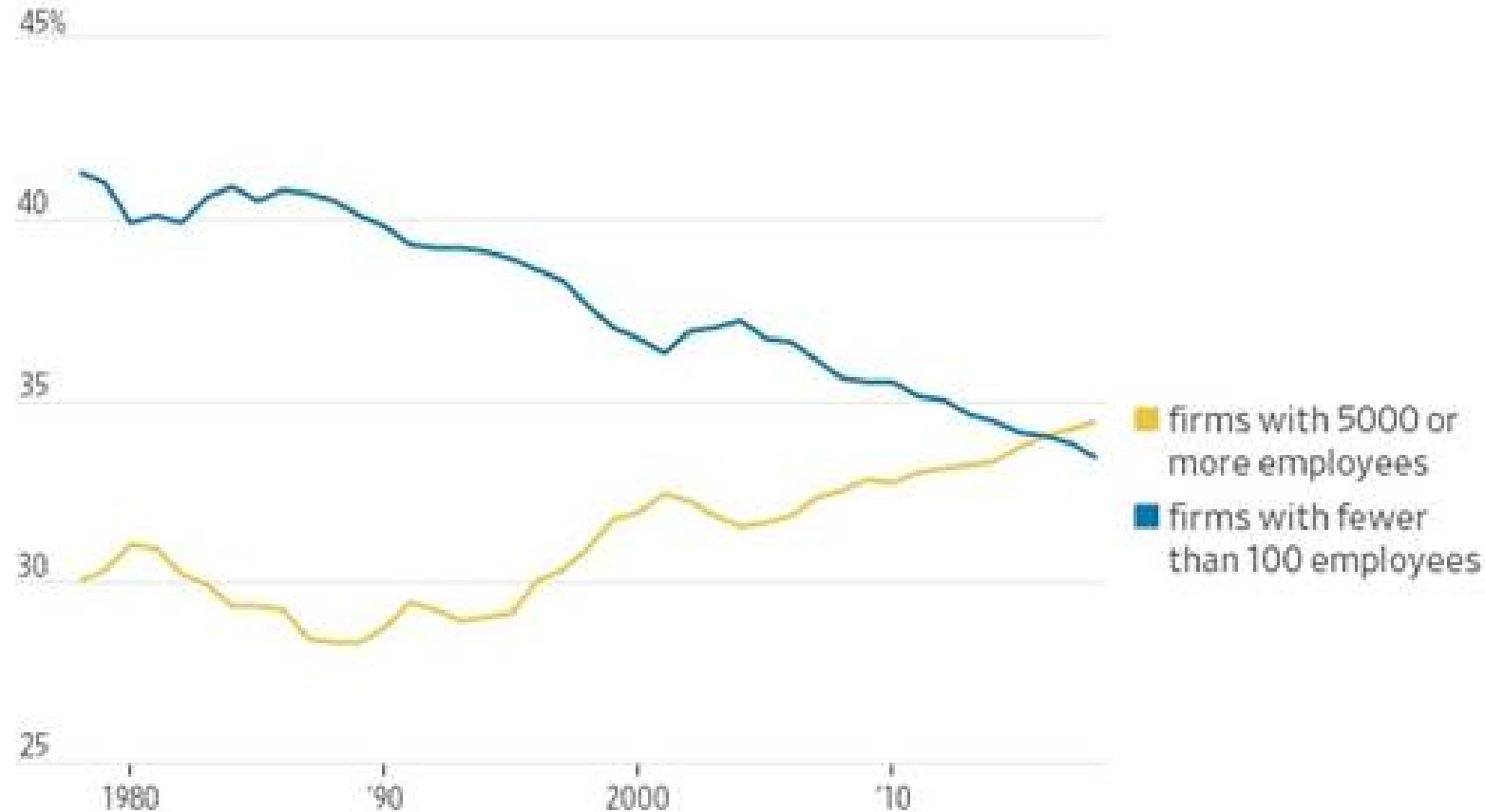
BUT:

- Covid-19 has exacerbated further the home ownership and wealth gap between the haves and have nots. In the US, this gap has now exceeded levels reached in the 1920s before the onset of the Great Depression.
- Such levels of inequality undermine notions of fairness, social mobility, and economic growth itself.
- This gap and mounting government debt levels mean ultimately that taxes will need to rise, as will efforts to re-distribute wealth and provide better standards of living for the less well off...
- Also, US anti-trust law is awakening. How much longer can the "winner take all" business model last?

A tale of two Covids

In the US, the pandemic has continued to put more pressure on the trend of smaller businesses disappearing in favour of the more dominant.

Share of U.S. employment

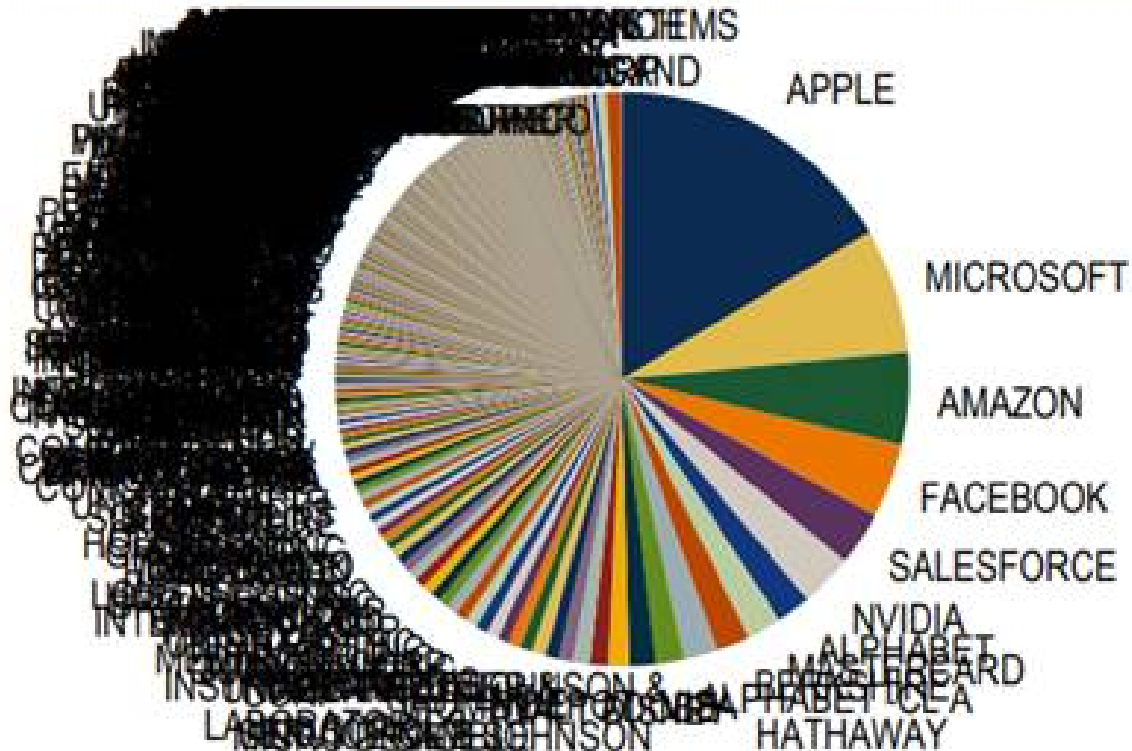


Source: Census Bureau

Financial market update

The largest companies keep growing bigger and bigger

Chart 3: 10 stocks in S&P500 accounted for >50% of August 7.2% return



Source: BofA Global Investment Strategy, Bloomberg

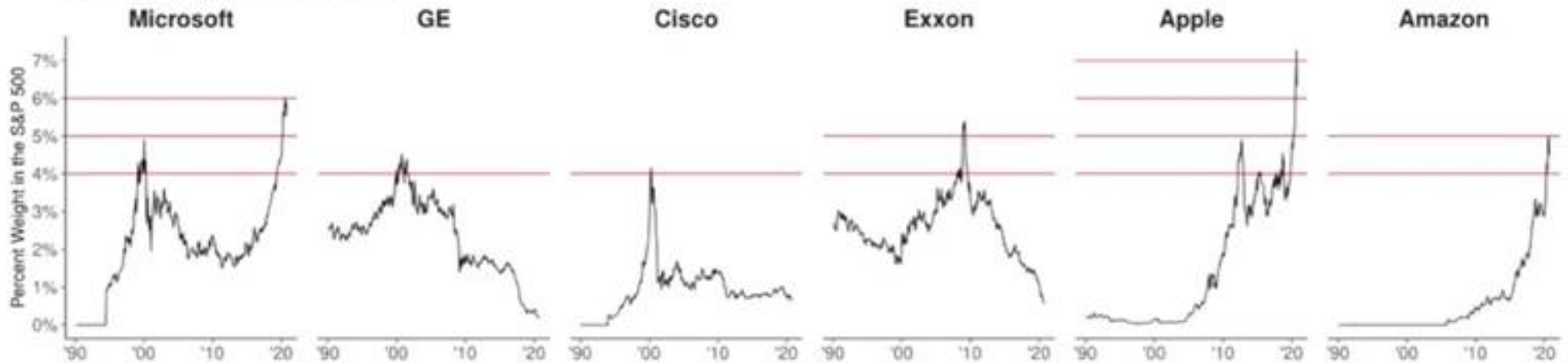
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Source: Morningstar Direct

Financial market update

But history tells us that this may not be permanent

Companies To Have Reached a Four Percent Weight in the S&P 500, 1990 to Date

...and how long they were able to stay there



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