

Market Update 7

Rising markets are not an enigma

Executive Summary

- Global share markets are now 22% above their lows.
- NZ Funds has successfully mitigated the downside and will continue to fully participate in the share market recovery.
- The road to recovery for the global economy will be long.
- Returns over the short-term could be soggy as the economic reality of COVID-19 sets in.
- Despite short-term headwinds we continue to see 15 – 20% upside in share markets over the next 12 – 24 months.
- For those with longer term time frames, share market returns will be substantially higher.

James Grigor, CFA

Chief Investment Officer

+64 9 918 9753

james.grigor@nzfunds.co.nz

Market update 7

The road to recovery for the global economy will be long, reflecting the reality of the economic 'sudden stop'. However, after the volatility in March, global share markets are now 22% off their lows with the United States and New Zealand share markets up 24% and 26% respectively since 23 March.

NZ Funds has outperformed as the share market recovers

The table below highlights the performance of a typical NZ Funds KiwiSaver Growth client versus our major competitors. Not only did we successfully mitigate the downside, (see our **10 March 2020 | COVID-19 Special Announcement**), we have participated fully in the market rebound given our positioning we outlined in **20 March 2020 | COVID-19 Market update 3**.

Uncertainty prevails, what's next?

The next phase in the pandemic-induced economic cycle could be somewhat soggy. After large bouts of volatility in March, followed by the euphoria in April created by extreme government stimulus, the economic reality will start to set in as people digest the economic impact of COVID-19.

A key short-term negative catalyst is United States companies reporting their first quarter 2020 earnings. In the next six months we may see markets give up some of the gains made over the past few weeks. **The journey will remain volatile and we retain options to mitigate further bad news.**

Looking beyond the short-term

With company valuations significantly lower and interest rates near zero, there

MANAGER / STRATEGY	GROWTH ASSETS ¹	INCOME ASSETS ²	TOTAL ASSETS	YTD TO APR 2020	IMPACT ON \$100	GAIN TO RECOVER	YTD PERFORMANCE IF GROWTH MARKET RISES BY 20% ³	YTD PERFORMANCE IF MARKET REACHES 19 FEB 2020 HIGHS ³
NZ Funds KiwiSaver LifeCycle (0 - 54 year old)	97.8%	2.2%	100.0%	-6.5%	\$93.53	6.9%	11.8%	13.7%
Booster KiwiSaver Scheme Geared Growth	130.40%	-30.4%	100.0%	-15.7%	\$84.26	18.7%	6.1%	8.2%
BNZ KiwiSaver Growth	71.3%	28.7%	100.0%	-6.9%	\$93.15	7.4%	6.6%	8.0%
Booster KiwiSaver Scheme High Growth	86.9%	13.1%	100.0%	-9.7%	\$90.26	10.8%	6.0%	7.6%
Simplicity - KiwiSaver Growth	75.5%	24.5%	100.0%	-8.6%	\$91.39	9.4%	5.3%	6.8%
Fisher KiwiSaver Growth	69.4%	30.6%	100.0%	-8.0%	\$91.99	8.7%	4.9%	6.3%
Fisher KiwiSaver Glidepath age 50	62.5%	37.5%	100.0%	-7.0%	\$93.05	7.5%	4.9%	6.2%
Generate KiwiSaver Scheme Focused Growth	88.4%	11.6%	100.0%	-11.6%	\$88.40	13.1%	4.1%	5.7%
Milford KiwiSaver Active Growth	81.6%	18.4%	100.0%	-10.6%	\$89.40	11.9%	4.1%	5.6%
BT Westpac KiwiSaver Growth	79.8%	20.2%	100.0%	-10.5%	\$89.49	11.7%	3.9%	5.4%
Generate KiwiSaver Scheme Growth	75.3%	24.7%	100.0%	-11.4%	\$88.64	12.8%	2.1%	3.5%
ASB KiwiSaver Schemes Growth	80.5%	19.5%	100.0%	-12.2%	\$87.76	13.9%	2.0%	3.5%
ANZ Kiwisaver Growth	81.4%	18.6%	100.0%	-12.4%	\$87.60	14.2%	1.9%	3.4%
Generate Stepping Stones (age 46 -55)	51.9%	48.1%	100.0%	-7.8%	\$92.20	8.5%	2.0%	3.2%
AMP KiwiSaver Lifesteps AMP Growth	81.0%	19.0%	100.0%	n/a	-	-	-	-
ANZ Kiwisaver Growth	81.4%	18.6%	100.0%	n/a	-	-	-	-
AMP KiwiSaver Lifesteps AMP Aggressive	90.6%	9.4%	100.0%	n/a	-	-	-	-
New Zealand shares				-17.9%	\$82.11	21.8%	-1.5%	0.2%
United States shares				-13.2%	\$86.85	15.1%	4.2%	6.0%
International shares				-15.1%	\$84.95	17.7%	1.9%	3.6%

Asset allocation sourced from December 2019 Fund Updates, except for: NZ Funds stated as at 10 April 2020 to reflect change in asset allocation; Booster KiwiSaver Scheme Geared Growth asset allocation based on 24 March 2020 PDS disclosure.
 1. Includes listed property. 2. Includes unlisted property. 3. NZ Funds estimates. Year-to-date (as at 10 April 2020) performance of market rise 20% and reach 19 February 2020 highs assumes all growth assets perform the same.

will be large capital flows into share markets, driving up share prices. At the same time, we are likely to witness a rebound in economic growth as companies fulfil backorders as social distancing restrictions are eased.

Clients' portfolios are positioned to participate in this continued recovery.

Not all sectors are created equal

Unfortunately, some sectors won't be so lucky. Negative growth and high unemployment will continue in tourism, hotels, gaming and property for years to come. Active portfolio management has become extremely important. Together with our global investment managers, we have positioned clients away from these stressed sectors towards sectors which have a competitive advantage or stability in earnings.

Examples include technology companies such as Zoom which has witnessed a daily usage increase of 400%. Microsoft Teams, once an unknown addition to the Microsoft Office suite, is now front and centre for companies to do business.

Closer to home, the telecommunications sector has allowed the majority of New Zealanders to work from home, with Chorus and Spark managing huge increases in usage across their networks. These achievements are reflected in the positive share price performance of these companies.

We remain positive.

As we wrote in **09 April 2020 | COVID-19 Market update 6**, it is possible, when the global lockdowns are eventually eased, there will be a

V-shaped growth recovery. The level of economic growth and business earnings are unlikely to return to prior peaks for some time, but the pace of improvement could be fast, especially given the government policy conditions.

Therefore, despite expected short term headwinds following a strong market recovery over the past few weeks, we continue to see 15 – 20% upside in share markets over the next 12 – 24 months. Any large drawdown, we will continue to mitigate as we did when COVID-19 took hold.

Long term, this is stage one of the recovery and for those with longer term time frames, share market returns will be substantially higher.

Staying the course

Returning to what we said in **26 February 2020 | NZ Funds portfolio positioning**, when the world was only beginning to realise the extent of COVID-19, it is extraordinarily difficult, if not impossible, to time markets. There are always events which provide a reason not to invest. However, years out of the market can result in lower average returns than remaining invested and experiencing a downturn.

We therefore recommend clients continue as usual as our investment approach will help to mitigate a downturn. At the same time, clients' portfolios are positioned to participate in the continued long-term recovery.

Be kind. Stay home. Stay safe. Save lives.



James Grigor, CFA
Chief Investment Officer

James began his career at NZ Funds in 2000 as an intern, becoming an Equity Analyst in 2004.

Following a deployment with the New Zealand Defence Force to the Middle East in 2009, James relocated to London where he worked in management consultancy and private equity.

James returned to New Zealand in 2015, and following a senior role at Macquarie Bank, returned to NZ Funds in 2017.

NZFUNDS

New Zealand Funds Management Limited

Level 16, 21 Queen Street

Private Bag 92163, Auckland 1142
New Zealand

T. 09 377 2277

E. info@nzfunds.co.nz

www.nzfunds.co.nz

Follow us on twitter.com/nzfunds



This document has been provided for information purposes only. The content of this document is not intended as a substitute for specific professional advice on investments, financial planning or any other matter.

While the information provided in this document is stated accurately to the best of our knowledge and belief, New Zealand Funds Management Limited, its directors, employees and related parties accept no liability or responsibility for any loss, damage, claim or expense suffered or incurred by any party as a result of reliance on the information provided and opinions expressed except as required by law.