

April 2018

Monthly View

Sharemarkets weakened for a second consecutive month in March, eliminating gains recorded in January. Major indices fell, the S&P 500 returned -2.69%, the FTSE 100 fell -2.54%, and the ASX 200 was down -4.27%. The major contributing factors to the bearish market sentiment were uncertainty around the risk of protectionism developing in global trade and the potential effects of rising interest rates and inflation. We consider these factors will continue to trouble markets for some time yet.

Volatility in equity markets during March was more evident in the US market than in NZ. The proposed import tariffs announced by the Trump administration have spooked the sharemarket, but there is still considerable uncertainty over what will be implemented. The potential impact of the tariffs is also far from clear, what has currently been proposed would only affect about 3% of US imports and will only lift the average tariff rate by less than 1%. The material concern is that the proposed tariffs will elicit retaliatory actions that will escalate into a full-blown trade war – this uncertainty is unsettling for global equity markets. We also suspect that there is an underlying reassessment of the market view that Trump's policies will be unerringly pro-business.

Other factors such as fears concerns over a potentially unsustainable US fiscal path, Facebook's privacy issues, European taxes on global web-based companies and President Trump's anti-Amazon comments also played a part in the US declines.

US monetary policy was not such a surprise to markets as the Fed hiked interest rates by 25 basis points to a range of 1.50% to 1.75%, as expected. However, while they lifted their 2019 forecast to four hikes, they did leave uncertainty as to whether there will be three or four moves in 2018.

At home, the NZX50 Gross Index has been caught in the downdraft of the US share market decline over February and March, but the declines have been modest relative to the global share market weakness. The S&P/NZX 50 index fell -0.7% in March 2018, closing at 8,319.07. ANZ and Westpac Banks together with Comvita were the worst performing stocks for March whereas Pushpay, Chorus, and Summerset had a good month. Also noteworthy were stocks A2 Milk and Fletcher, which together represent approximately 15% of the NZX50 by market capitalisation, and fell -6.27% and -7.37% respectively.

The recent concerns that have shaken sharemarkets have triggered a 'flight to the safety' for bonds.

That demand has seen yields decline both here and abroad during March, with New Zealand's yields declining by more than offshore yields and, for the first time since 1994, New Zealand Government bonds are trading at lower yields than their US counterparts.

The NZ OCR was kept at 1.75% at its March review where we expect it is likely to remain until the second half of 2019.

In currency markets, the NZD lifted against the USD in the first half of March but gave back all of its gains over the rest of the month amidst the global trade tensions which knocked the NZD (and AUD) lower. GBP strengthened against the other major currencies during March, and NZD/GBP eased 0.7%. GBP sentiment was boosted by the EU and the UK government agreeing to a Brexit transition deal which will last until December 2020. From a client's portfolio perspective in NZD, terms there was very little impact with these moves.

Our Current View

Notwithstanding the recent turbulence in equities, macro-economic fundamentals such as low employment and GDP growth remain relatively strong and indicate there may still be a period of acceptable performance in sharemarkets. Recently Fed officials raised their forecasts for US GDP growth, with the median rising to 2.7% this year (from 2.5%) and 2.4% in 2019 (from 2.1%) which gives us reason to remain tentatively optimistic about US markets.

In our view, the key factor for global equity markets over the next few quarters will be monetary policy. The US are in a period of increasing rates, the UK have announced their intention to start to raise rates while Japan, Europe, Australia and NZ have put plans on hold for any interest rates rises. This should translate into a weakening NZD compared to offshore currencies with higher interest rates.

We will continue to monitor how central banks respond to potential inflationary pressures. We prefer to keep a fairly short duration to our interest rate exposure, given the potential for longer term rates (which are still at historically low levels) to rise in response to the inflationary pressures.

Given the length of the economic recovery and period of strength from investment markets, it is important that clients' portfolios are positioned consistent with their long term strategic asset allocations.

Allocation to long-term benchmarks

Sector	Position	Comment
Cash	Overweight	We are increasing cash levels to reduce some market risk.
Fixed Interest	Neutral	We still think interest rates will start to increase so keeping duration relatively short.
NZ Shares	Underweight	Still want an exposure with good dividend yields. Valuations still look high.
Australian Shares	Neutral	There are some reasonably priced companies with solid growth prospects.
Global Shares	Neutral	Despite the increased volatility international exposure can be necessary as part of a balanced portfolio.
Property	Neutral	Attractive yields offered. An increase in cash rates could have an impact on the sector.

Information and Disclaimer: This report is for information purposes only. It does not take into account your investment needs or personal circumstances and so is not intended to be viewed as investment or financial advice. Should you require financial advice you should always speak to your Authorised Financial Adviser. This report has been prepared from published information and other sources believed to be reliable, accurate and complete at the time of preparation. While every effort has been made to ensure accuracy JMIS, nor any person involved in this publication, accept any liability for any errors or omission, nor accepts liability for loss or damages as a result of any reliance on the information presented.

If you have any questions please contact us on +64 9 308 1450 or visit our website www.jmis.co.nz