



RUTHERFORD REDE

Insights

Autumn 2019

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THE WORLD THAT WAS

Key themes of the period

March – May 2019

- Interest rates and borrowing costs have fallen and downside trade risks have receded
- All equity markets as well as bonds and property stocks enjoyed high returns in the quarter
- Global economic indicators are mixed but no longer in decline and recession risks are small so long as the EM growth juggernaut continues

Markets bounce back in the March quarter

In response to the mauling markets received in the December quarter, and concerns around flagging global growth, the US Federal Reserve changed its mind that US interest rates need to head higher to nip building inflationary pressures in the bud. Instead, it put monetary policy on hold and signalled that future rate increases are likely to be smaller than what had been expected. In New Zealand, the Reserve Bank of New Zealand (RBNZ) also changed its tune in its March economic update to signal that the next move in interest rates could be a cut.

Markets have rallied strongly to these developments so far this year across all risk assets, including government and corporate bonds, property and infrastructure stocks, and equities. This rally has largely erased paper losses that investors experienced in December, and some markets, including the NZ equity market, is now on an all-time high (figure 1). On the flip-side, long term interest rates are back near historic lows, with New Zealand 10-year Treasury rates at an all-time low of around 1.75%. This has flowed through to significant falls in borrowing costs for New Zealand firms, government and households, with fixed rate mortgage rates now at record lows (figure 2).

But the rally in markets was not just due to central banks easing monetary conditions and financing costs. As discussed in our last update, the size of the decline in December meant that markets had become better value for investors and while we did not forecast such a strong bounce back, a recovery of some sort is not surprising.

FIGURE 1: EQUITY MARKETS BOUNCE BACK

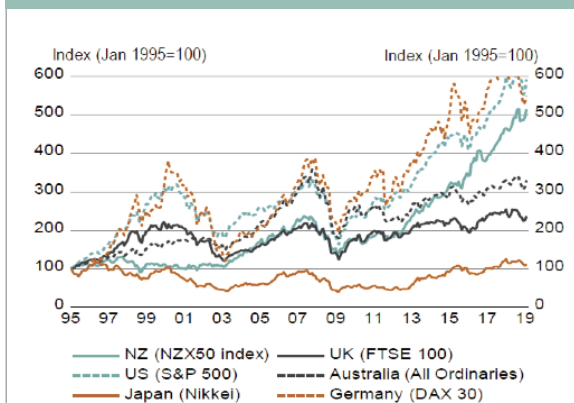


FIGURE 2: NZ FIXED MORTGAGE RATES HIT NEW LOWS

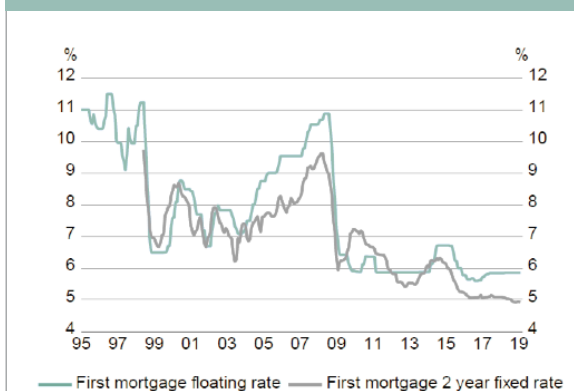
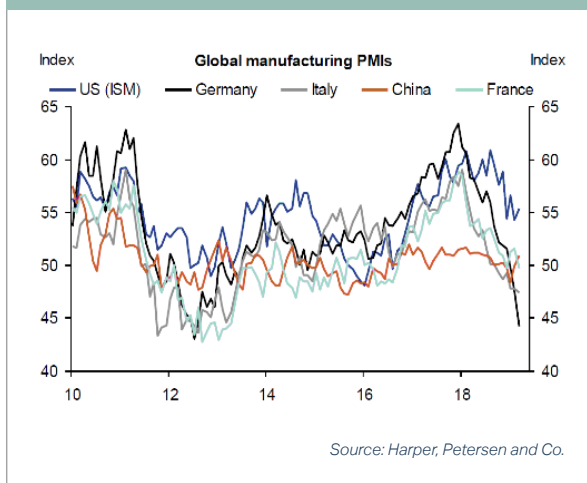


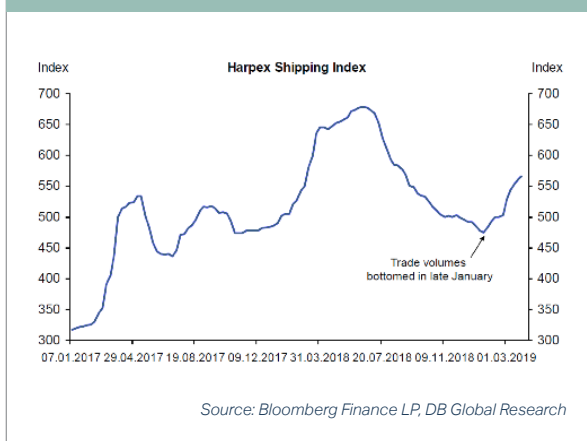
FIGURE 3: CHINESE AND US MANUFACTURING INDICATORS ARE POINTING TO MILD EXPANSION



In addition, a key downside tail economic risk has also receded. The Trump Administration has backed down from imposing large tariffs on Chinese exports and has instead touted that a “great trade deal” between the US and China is imminent. While this remains to be seen, market fears of an escalating trade war have clearly been soothed.

International developed market equities increased by around 10.5% over the quarter (in NZD terms), implying a 10% return for the year ended March 2019. Within global equities, value stock returns were mildly lower over the year, whilst small cap stock returns were relatively weak at around 4.2% for the year despite returning 11.2% for the quarter. Emerging market equities also had a strong quarter, returning 8.1% overall and over 25% in the local Chinese A-share market. However, this bounce still leaves these markets with a slightly negative return over the year.

FIGURE 4: GLOBAL CONTAINER SHIPPING VOLUMES IS STARTING TO REBOUND



Trans-Tasman equity markets also enjoyed a strong quarter. Australian shares returned 10% in the March quarter and 9.5% over the year. Within the Australian equity market, value stocks have mildly outperformed over the year (returning around 11%), while small cap stocks, which suffered large losses in 2018, have only returned around 3.5% despite a strong March quarter performance of 11.7%. New Zealand shares returned 11.2% in the quarter and 17.5% over the year to March 2019 - a very strong performance both in absolute terms and compared to offshore equity markets.

In recent quarters we have often seen bonds suffering relatively poor returns when equities have been doing well and vice-versa. This quarter given the nature of the ‘shock’

was a monetary policy easing bonds also performed well. Global bonds returned 2.8% in the quarter and 4.6% in the year to March 2019. New Zealand investment grade bonds returned 2.3% for the quarter and around 6% for the year, a return that has been significantly boosted by bonds re-pricing higher as New Zealand interest rate expectations fell.

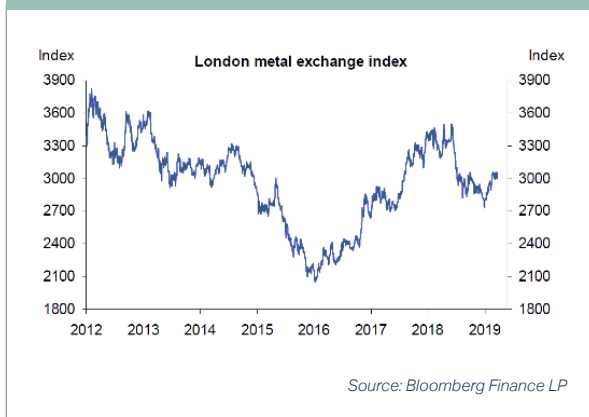
Economies muddling through

Our view in the December update was that markets were over-pricing economic recession risks – as the saying goes markets have predicted 9 out of the past 5 recessions. Instead, we thought it much more likely that economies would muddle-through the cyclical slowdown. To date, this view is more in-line with actual data readings on most economies. Economic indicators suggest conditions are mildly expansionary or mildly slowing:

- Chinese and US manufacturing indicators are pointing to mild expansion, European indicators to mild decline (figure 3).
- Global container traffic, a leading indicator of reported global trade, is starting to bounce back (figure 4).
- Global metal prices, again a leading indicator of global demand, have stabilised (figure 5).

New Zealand’s GDP growth for the December quarter came in at 0.6% or 2.8% for the year. This was a stronger outcome than many economists had feared, but slower than the +3% pace of growth that the economy had enjoyed over the past few years.

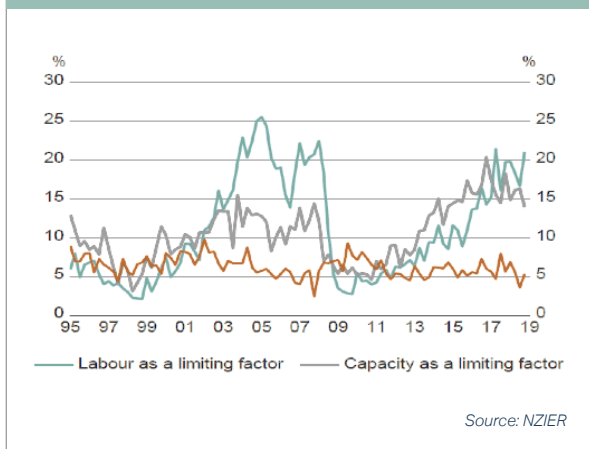
FIGURE 5: INDUSTRIAL METAL PRICES HAVE STABILISED



Despite a cooling housing market and weak business confidence levels, upside growth potential also remains in New Zealand given the huge backlog of housing and infrastructure spending that is in the pipeline. Capacity constraints in our economy remain high (figure 6), and this can only be relieved through a long period of sustained investment.

Overall, the rear-view mirror suggests that the global economy has been cooling to lukewarm levels. Looking ahead, despite the risks, macro forecasters expect global growth to bobble around 3.3% or so over the next two years. This is only a little below the average level that has been achieved over the past two decades, and hence can be considered a "normal" cyclical slowdown from the higher growth that had been seen in recent years. The main caveat to this being that central banks do not have anywhere near the room to manoeuvre to cushion demand given rates are at such low levels.

FIGURE 6: LABOUR AND PHYSICAL CAPACITY CONSTRAINTS REMAIN HIGH IN NEW ZEALAND



Within the headline global growth figure developed markets are expected to slow to around 1.5% or so, with European growth facing the largest downside risks given Brexit and the threat of auto-and other tariffs hanging over the head of the German manufacturing machine. Emerging markets are expected to grow more than double this pace at around 4.5%, despite a continual slowing of the Chinese economy. This is key. High EM growth implies that these markets will make a large and increasing contribution to global growth rates. A global recession remains very unlikely unless there is a large slowdown in EM economies, with China and increasingly India being the linchpins in this regard.



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HOW THE MARKETS FARED

*All returns are expressed in NZD.
We assume Australian shares and international property are invested on an unhedged basis, and therefore returns from these sectors are susceptible to movement in the value of the NZD.*

QTRLY RETURN	PAST YEAR	ASSET CLASS
↑ +11.2%	↑ +17.5%	New Zealand Shares: New Zealand shares returned 11.2% in the quarter and 17.5% over the year to March 2019. This a very strong performance both in absolute terms and compared to offshore equity markets. Source of Figures: S&P/NZX All Total Return Index
↑ +2.3%	↑ +6.0%	New Zealand Fixed Interest: New Zealand investment grade corporate bonds returned 2.3% for the quarter and around 6% for the year. This return is both comfortably higher than 90-day NZ bank bill and term deposit rates, indicating that NZ corporate bonds delivered a good premium over the year. Source of Figures: S&P/NZX A Grade Corporate Bond Index
↑ +10.0%	↑ +9.5%	Australian Shares: Australian shares returned 10% in the March quarter and 9.5% over the year. Within the Australian equity market, value stocks have mildly outperformed over the year (returning around 11%), while small cap stocks, which suffered large losses in 2018, have only returned around 3.5% despite a strong March quarter performance of 11.7%. Source of Figures: S&P/ASX 300, S&P Australia BMI Value, S&P/ASX Small Ordinaries
↑ +10.6% +12.7% hedged	↑ +10.0% +6.8% hedged	International Shares: International shares rose 10.6% in the quarter, whilst NZD hedged shares rose 12.7%. This strong quarterly performance boosted the annual return of global shares to 10% on an unhedged basis, and 6.8% on a hedged basis. Unhedged returns over the year were boosted by a fall of the NZ dollar against the US dollar. Within global equities, value stock returns were mildly lower over the year, whilst small cap stock returns were relatively weak at around 4.2% despite returning 11.2% for the quarter. Source of Figures: MSCI World Index; Morningstar Developed Markets NZD hedged
↑ +8.1%	↓ -2.1%	Emerging Markets: Emerging Market equities increased 8.1% in the quarter and decreased -2.1% over the year to March 2019 (in NZD terms). This performance is weaker than developed markets and reflects that the Trump Administration's trade war has had a more material negative impact on emerging markets. Source of Figures: MSCI Emerging Markets Index
↑ +2.8%	↑ +4.6%	International Fixed Interest: Global bonds returned 2.8% in the quarter and 4.6% in the year to March 2019. The return over the quarter and year was boosted by bonds being re-priced higher as longer-term interest rates fell. The latter was driven by the US central bank changing its view on the economic outlook of the need for rates to increase as much as they had previously thought. Source of Figures: Bloomberg Barclays Global Aggregate Index (hedged to NZD)
↑ +15.1%	↑ +17.4%	International Property: International property stocks rallied strongly over the quarter, increasing by around 15%. Australian and New Zealand property stocks also enjoyed strong quarters. This asset class benefited over the quarter both from the lower interest rate outlook, and the general bounce in equity markets. Source of Figures: Morningstar DM REITS (NZD hedged), S&P REIT indexes

MEET YOUR TEAM FOR 2019

Rutherford Rede has been providing financial advice since 1992 and, while history is important, what we do today matters most.

We believe the way to create great things every day and provide exceptional client service is with great people who truly enjoy their job, so we make sure we only hire the best. At Rutherford Rede, we live and breathe what we do, we're enthusiastic to help, and take pride in providing the best client service we can.



Jocelyn Weatherall

ADVISER, DIRECTOR & CHAIR

Jocelyn is long-established in the advisory industry. An industry trailblazer, in 2011 she became one of the first Authorised Financial Advisers to complete the National Certificate of Financial Services. An Accredited Investment Fiduciary, as well as being certified under the standards of the Centre for Fiduciary Excellence, Jocelyn joined the first independent Financial Planning and Advisory Firm in New Zealand in 1991 and began her career in the provision of independent Financial Planning. Soon to follow was Jocelyn's family, twin girls and a son, three children in 15 months arrived in the Weatherall household, a challenge she says has not yet been surpassed by any other life events! Away from work, Jocelyn enjoys spending time at Matakana where the family has a bach, walking good distance to maintain fitness, and an interest in art and design. She is involved in the community through her involvement as Chair of Dementia New Zealand and Dementia Auckland.



Phil Ashton

ADVISER & DIRECTOR

Phil is our resident Chartered Accountant and Authorised Financial Adviser. When he's not in the office Phil can be found tramping all the recognised New Zealand alpine and lowland treks, some many times over. He cycles, walks the neighbour's dog, plays tennis regularly and makes a very poor fourth player in a round of golf. He admits to getting value for money for his green fees and covers most blades of grass on the course, also finding a loudhailer useful to keep in touch with his fellow players. He reads extensively, and has a passion for music, movies, mountains and muts. Phil is responsible for two adult children, now living for some time in Melbourne, Anna and Jonny (and their partners) in their mid-30s, and is awaiting some action on their part to produce his first grandchild. Rotary has been a significant part of Phil's life, an organisation that offers a subtle blend of good friendships, business networking and the opportunity to give back to society.



Henry Ford

ADVISER & DIRECTOR

Henry has been an adviser now for 12 years having left a long corporate career behind. In addition to academic training he also holds the designation of Authorised Investment Fiduciary Analyst that not only provides an understanding of prudent investment practices, it enables assessment of others with respect to their investment. Henry enjoys working with people who are facing changes and who don't want to waste their retirement. Often this means dealing with women alone, and couples contemplating retirement. He has a particular interest in the health and welfare aspects of retirement living and their influence on general wellbeing. Henry is married with three children and enjoys playing golf, spending time at Whangamata at the family bach, cycling to maintain fitness, exploring the outdoors and spending time in the garden. He is involved in the community through Parnell Rotary as well as being Chair of Macular Degeneration New Zealand (MDNZ).



Richard Knight

ADVISER & DIRECTOR

Auckland born and then growing up in Dunedin, Richard joined the firm at the start of 2011 after a long stint in the UK working for major investment banks. Richard is a member of Rutherford Rede's external Investment Committee and the internal Compliance Committee. Richard is dedicated firstly to his young family and, secondly to lowering his golf handicap (currently 17.3) – the balance between these two things can be intrepid at times, luckily his wife Sarah is mostly understanding! When time allows (and at home DIY projects aren't too pressing) he enjoys keeping active with a plethora of outdoor activities with his family including mountain biking, snowboarding and wake boarding. He's also a keen runner and has completed the Paris and Auckland marathons together with a number of half-marathons at home and around the world.



Dina Buelow

ADVISER

Dina joined Rutherford Rede in 2018 as part of the experienced team looking after the financial planning needs of valued clients. Having worked within the financial advisory business for over ten years, most recently at Westpac, Dina brings her previous experience overseas (U.S., Europe) where she worked with some of the most innovative companies in the world (Ben & Jerry's Ice Cream, the Body Shop, Triodosbank). Originally from the Midwest of the US, Dina and her partner live in the Hunuas with their two "fur babies", enjoying the wonderful outdoors lifestyle New Zealand provides. She travels regularly to Asia to visit family and feast on its wonderful cuisine.



William Sargent

ADVISER

Will joined the Rutherford Rede team in 2017. His strong desire to help others and put his understanding of financial markets to good use has seen him recently promoted to Adviser. Will studied Economics and Finance and AUT and has completed a PGDip in Business with a Personal Financial Planning endorsement. He is a member of Probiz Group and is in the process of establishing a forum for like-minded business professionals and next-gen decision-makers to connect. Outside of work, Will enjoys being active, whether its cricket, squash or tennis. He is also a keen DIYer, spending most weekends tweaking things around his house.



Chris Tran

ASSOCIATE ADVISER TO HENRY FORD & PHIL ASHTON

Chris has been a vital cog in the Rutherford Rede team since 2017. As an Associate Adviser, he works alongside Phil and Henry to ensure clients are taken care of to the highest possible standard. Prior to joining Rutherford Rede, Chris worked at Westpac in Consumer Banking. When he's not busy delighting clients, Chris enjoys spending time with friends exploring Auckland and is an avid traveller, spending as much time as he can on overseas holidays and seeing the world. He maintains a good level of fitness stemming from his days as a rugby player in Wellington and holds a keen interest in financial markets.



Herna Woite

SENIOR PARAPLANNER TO JOCELYN WEATHERALL

Herna leads a double life as Paraplanner by day and Excel superhero by night. A highly skilled coordinator, planner and spreadsheet extraordinaire, Herna's superpowers include creating and developing financial planning policies and processes and streamlining internal processes. Herna joined the Rutherford Rede team in 2018 and works alongside Jocelyn. When Herna's not providing exceptional client service and leaving everyone in awe, she enjoys spending time exploring the outdoors with her family and running around the squash court at her local Squash Club.



Fallon Howe

PARAPLANNER TO RICHARD KNIGHT

Fallon is our newest team member and joined Rutherford Rede at the beginning of 2019. As a Paraplanner she works alongside Richard, is a member of the Compliance Committee, and holds the coveted title of Best Baker. Prior to joining Rutherford Rede, Fallon worked in various large law firms in intellectual property while completing her Bachelor of Accountancy. Originally from Cape Town, South Africa, Fallon immigrated to New Zealand 12 years ago. She enjoys spending time outdoors exploring New Zealand with her husband and is an avid amateur photographer.



Monique Pearson

GENERAL MANAGER

The many strings on Monique's bow include the management and performance of Rutherford Rede and, with the Board, driving forward the firm's strategy and growth. Monique has a background in organisational leadership within local and international law and accounting firms. She is a strong supporter of inclusive and diverse leadership and has been involved in non-profit organisations such as heading the Global Women's Champions for Change Programme, Chair of the Fantail Network Advisory Group, and a YWCA Future Leaders Mentor. Monique is also an Honorary Member of the New Zealand Bar Association and a volunteer at the local Toastmasters Club. Outside of work, Monique and her husband, Brett (who is an exec chef), enjoy sharing their culinary skills with friends and family. The rest of the Rutherford Rede team has yet to uncover the mystery of how Monique fits all her activities in, but suspect time travel is involved.



Frances O'Connor

FINANCIAL ADMINISTRATOR

Frances has been associated with the firm since 1997 and is responsible for Rutherford Rede's financial administration. Frances is originally from South Africa and is married to Michael, a Zimbabwean by birth. While in Africa, they enjoyed many adventures in the southern African game parks, including kayaking and camping for days along the Zambezi River. They have a New Zealand-born son, Robert, who is completing his tertiary education in computer science and psychology at university. Out of work hours, Frances enjoys tramping, gardening (including keeping bees) and music. She is involved in the community through her role on the Board of the charity ME-CFS Support (Auckland) Inc.



Roy Dykes

CONSULTANT

Roy has a longstanding history with Rutherford Rede having been a Financial Adviser for many years. He is now a Consultant at Rutherford Rede. Having semi-retired in 2016, Roy still supports clients with family trusts and businesses. He is married to Viv, a dietitian, and they have two adult children – Nicola, a doctor and James, an accountant. Community involvement, travel and sport have always been important considerations and these have resulted in Roy belonging to many clubs and associations and school Boards of Trustees. These together with his strong, longstanding Rotary involvement have provided many opportunities for him to be involved in the community and to travel.



Rutherford Rede Limited
91 College Hill, Ponsonby, Auckland
PO Box 147246

+64 9 361 3670

rutherfordrede.co.nz

Portfolio assets are held on your behalf by the nominee and custodian, Aegis, a 100% owned subsidiary of the ASB Bank. Assets are held via a bare trust structure with ownership being retained at all times by the owners of the portfolio. Valuations are independently sourced and recorded by Aegis.