



RUTHERFORD REDE

# insights



SPRING 2024  
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# ECONOMIC & MARKET COMMENTARY

## SEPTEMBER QUARTER 2024

### Overview

**Markets rallied across the board in the quarter ended September as interest rates were cut by central banks.**

Everything everywhere all at once. To borrow from the title of the 2022 Oscar winning film, almost every asset class enjoyed strong returns in the September quarter (see Figure 1). The lead role in this performance was played by central bankers. The RBNZ cut the OCR by 25bps on August 14th, the ECB also cut by 25bps on 12th September, while the US Federal Reserve cut by 50bps on 23rd September. Markets cheered on and have baked in the view that the world is entering into a materially lower interest rate environment over the next few years.

Playing a key supporting role was the US economy, whose equity market now represents around 65% of global equity market capitalisations. US GDP growth came in at around 3% for the year to June, and current indicators suggest that their economy is at least maintaining this pace of growth, whilst US CPI inflation continues to trend lower and is now around 2.5%. While some commentators still think there is recessionary risk in the US, our view is perhaps the main risk now to this 'goldilocks economy' is that US rates will be cut too quickly too fast. In the meantime, the US consumer is enjoying the show (Figure 2).

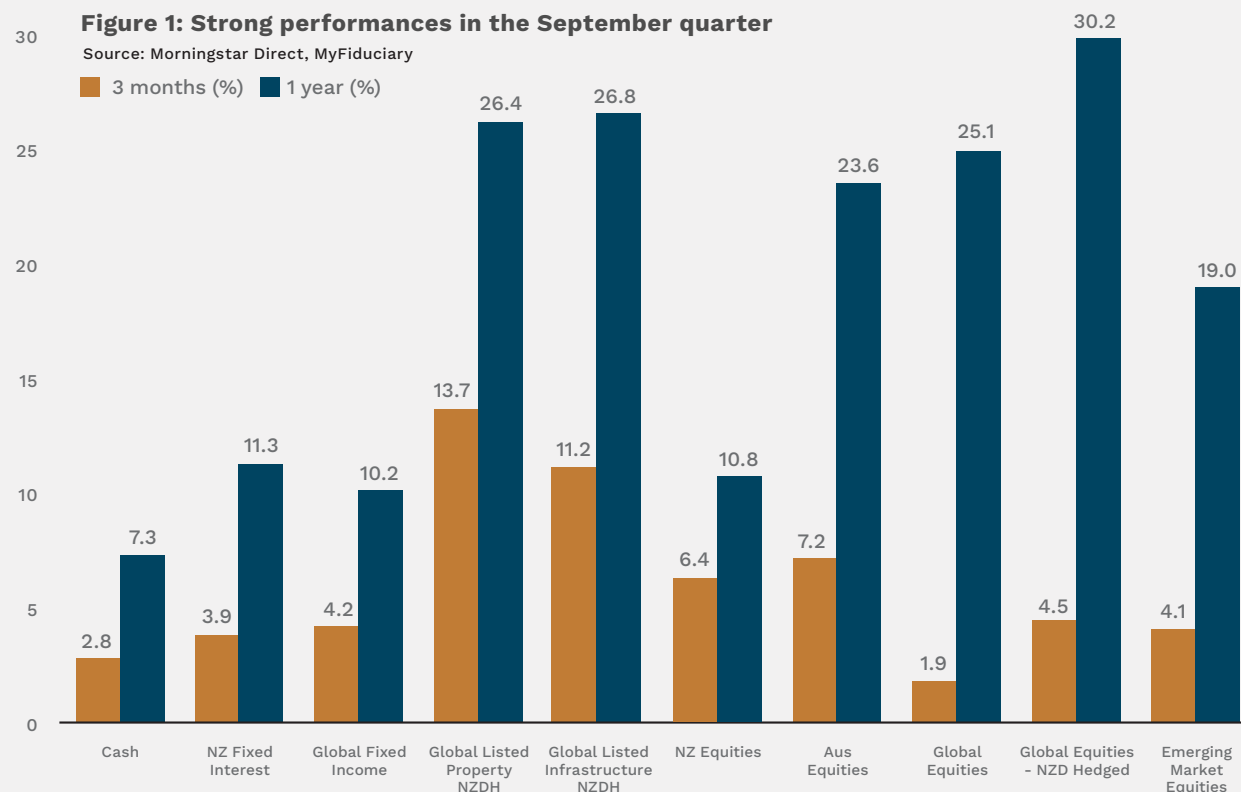
**The US economy has continued to perform well whilst in NZ and many other countries, growth remains weak.**

US economic strength is in stark contrast to home where NZ GDP growth was a miserly -0.2% for the quarter and year ended June, and NZ Bank economists do not expect a material rebound in activity anytime soon. Outside of the US, economic activity remains patchy, and geo-political tensions have continued to rise as the conflict between Israel and Hamas has spread.

**Figure 1: Strong performances in the September quarter**

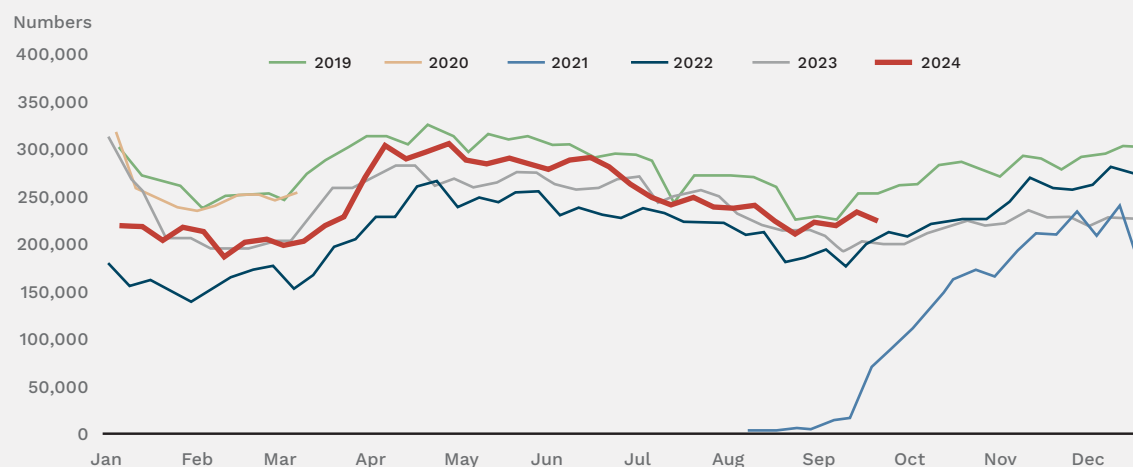
Source: Morningstar Direct, MyFiduciary

3 months (%) 1 year (%)



**Figure 2: US consumer spending around historic averages, as illustrated by Broadway attendances**

Source: Internet Broadway Database, Apollo Chief Economist



Our feature this month steps back a bit to ask what does the evidence suggests is the relationship between geo-political risk and returns?

### Market roundup

**Global equities on a NZD hedged basis had the strongest return at around 30% in the year to June, followed by global listed property and infrastructure.**

Asset class performances were strong over the quarter. Global equities rose by around 2% on a local currency and 4.5% on an NZD hedged basis, bringing the annual returns to just over 30% on a NZD hedged basis, and 25% on an unhedged basis. Emerging markets outperformed unhedged global equities in the quarter, but still lag in the year to June with a return of 'only' 19%. This performance is however broadly in line with developed market equities outside of the US-large cap tech sector.

NZ and Australian equities enjoyed a very strong quarter, increasing by around 6.5% and 7% respectively. Interest-rate sensitive listed property and infrastructure also performed very well, boosting their annual returns to over 26% on a NZD hedged basis, and around 22% on an unhedged basis.

**Bond market performances were also strong with returns over 10%.**

Bond market performances were also strong as large rate cuts were priced in through the rest of this year and through 2025. New Zealand investment grade bonds increased 3.9% in the quarter, and around 11.5% over the year. International investment grade bond returns were slightly softer at around 4.2% in the quarter and 10.2% over the year. Last but not least, gold prices (in NZD terms) increased 8% in the quarter and 33% over the year, reaching record prices.

# GEO-POLITICAL RISK AND RETURNS

Geo-political risks are ever present

## Overview

Geo-political risks and events—such as wars, terrorist attacks, political instability, and trade tensions—are a staple of our news and at times completely dominate the headlines. While such events can have profound impacts on the lives of people, communities and nations impacted, do they matter for long term asset returns? In this article we address what the empirical literature suggests in this regard, and the implications for investors.

## Geo-political risk impacts in principle

**They can cause large short-term declines in markets but are very difficult to forecast.**

As with most things in markets it is useful to distinguish between the short and longer terms. Over the short-term the literature suggests geo-political events can lead to abrupt equity market sell-offs, and increased volatility and market risk premiums. But crucial in this is the proximity of the event to the market concerned, the magnitude of the event, and the impact across different sectors and countries.



The literature also suggests that such events are at best co-incident with volatility and short-term declines in equity markets. Or in other terms, it is exceedingly difficult to forecast future returns given geo-political risks.

The longer-term impacts depend on how the 'shock' is resolved and whether it has an enduring influence on economic growth, corporate earnings and profitability. In general, we can say that over time markets recover even from the largest of such events like the World Wars. The figure below shows the long-term march upward of markets through geo-political and other hits to markets. But that is not to say there aren't enduring impacts on specific companies, sectors or even countries and regions.

**Over the longer term markets recover despite the fact that there can be enduring economic and sectoral impacts.**

### Case study – Russian invasion of Ukraine

To illustrate with a recent example, the full-scale Russian invasion of Ukraine in February 2022 had the largest short-term impact on neighbouring countries. Poland and Hungary's equity markets fell around 40% and European equity markets overall initially fared worse than the US. But in the year following the invasion European equities had fully recovered while the US market was down around 9%, even though European economies were much more negatively impacted by rising energy prices. And now some 2.5 years on most equity markets have reached new highs, with the US leading the pack. In contrast, Russian equity markets have become un-investable following the dropping of their markets from indexes and funds.

This is not to say there haven't been enduring impacts. Energy markets have been completely re-configured within Europe and some commentators suggest the war has hastened transition away from fossil fuels. Defence industry spending has rocketed up. In contrast, most Western companies with Russian ties have essentially had to write-off their business and assets held within Russia.

**Russians invasion of Ukraine had a larger initial impact on equity markets, but excepting Russia they have now more than recovered.**

### Implications for investors

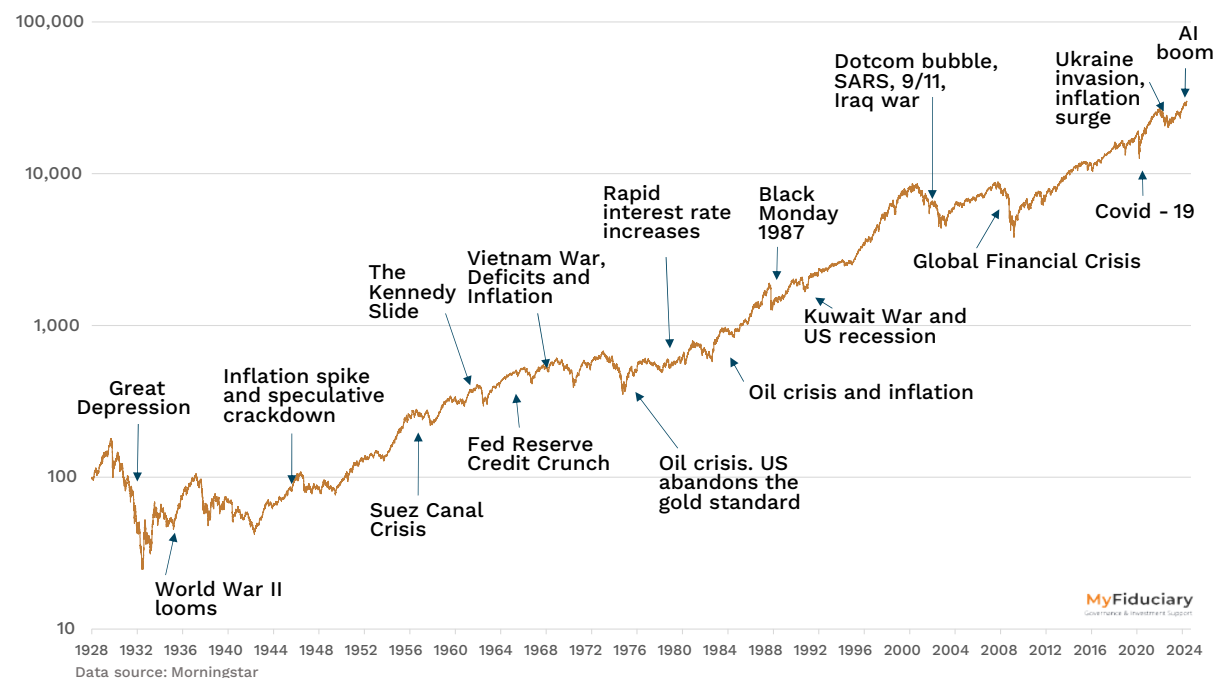
For investors diversification across markets and asset classes is essential for managing geo-political event risk, in line with managing market risk in general. Bonds and asset classes such as gold typically rally when there is an increase in short-term global uncertainty and equity market volatility. A 'shock' that has an enduring negative impact on a country or sector can be mitigated by holding broadly diversified exposures across sectors and countries. And time, as always, is the ultimate diversifier. Most markets most of the time recover.

**For investors, diversification and time are the key ways to manage geo-political risks.**

Another implication of the literature is that it is likely unfruitful and potentially counter-productive to adjust portfolios in response to geo-political risk. Markets are impacted by many forces, and as discussed above the medium and longer run impacts are very uncertain.

### The benefit of having a long time horizon

**S&P 500 Price Index from 1928 to October 2024**



An investor selling European stocks after the Russian invasion to buy, say, US stocks on the view that the European economy would be hit harder would have been right on the economic impact, but wrong on the impact on markets over 2022. Defence spending has massively increased since the invasion, but defence stocks overall have not outperformed.

Finally, while we caution against reducing exposure to risky assets because of concern that geo-political risk will impact future returns, there may still be good reasons to adjust based on Responsible Investment (RI) considerations, subject to materiality and the practicality of making any adjustments. Many investors sold (or wrote off) their holdings of Russian stocks on RI grounds following the Ukrainian invasion, which in the event was facilitated by fund managers and index providers dropping these exposures in response to Western government sanctions.

# 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  
↑ +6.4%  
PAST YEAR  
↑ +10.8%

**New Zealand Shares:** New Zealand shares bounced strongly by around 6.5% over the quarter as our market reacted favourably to the RBNZ cutting rates in August. This lifted the annual return to September 2025 to around 11%.

Source of figures: S&P/NZX 50 Total Return Index with Imputation Credits



QTRLY RETURN  
↑ +3.9%  
PAST YEAR  
↑ +11.3%

**New Zealand Fixed Interest:** New Zealand investment grade bonds returned around 4% in the quarter and 11.5% over the year. This gain was driven by markets factoring in much lower interest rates over the next couple of years, boosting bond prices.

Source of Figures: S&P/NZX Composite Investment Grade Index



QTRLY RETURN  
↑ +7.2%  
PAST YEAR  
↑ +23.6%

**Australian Shares:** Australian shares rallied in the quarter by 7.2%, boosting the annual result to around 23.5%. Australian small cap stocks had weaker performances, while value stocks outperformed over the year returning around 32%.

Source of Figures: S&P/ASX 200, S&P Australia BMI Value, S&P/ASX Small Ordinaries



QTRLY RETURN  
↑ +1.9%  
(+4.5% hedged)  
PAST YEAR  
↑ +25.1%  
(+30.2% hedged)

**International Shares:** International shares posted a return of around 2% this quarter in local currency terms and 4.5% in NZD hedged terms as our currency appreciated versus the USD. This brought the annual results to around 25% in NZD terms, while NZD hedged returns were around 30%. Small and value stocks outperformed over the quarter, rising by around 5% in NZD terms. This reflected the rally that had been concentrated in large cap US tech stocks broadening to other countries and parts of the market.

Source of Figures: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value MSCI World Small Cap in NZD terms.



QTRLY RETURN  
↑ +4.1%  
PAST YEAR  
↑ +19.0%

**Emerging Markets:** Emerging Markets also had a solid quarter, rising by around 4% in NZD terms. This lifted their annual return to around 19%, broadly in-line with global equity returns ex-large cap US tech stocks.

Source of Figures: MSCI Emerging Markets Index



QTRLY RETURN  
↑ +4.2%  
PAST YEAR  
↑ +10.2%

**International Fixed Interest:** Global investment grade bonds rose by around 4.2% in the September quarter, lifting the annual return to around 10.2%. As in New Zealand, this reflected markets discounting in lower future interest rates as evidence has mounted of slowing inflation.

Source of Figures: Bloomberg Barclays Global Aggregate Index (hedged to NZD)



QTRLY RETURN  
↑ +13.7%  
PAST YEAR  
↑ +26.4%

**International Property and Infrastructure:** International property stocks increased by 13.7% in the quarter in NZD hedged terms, while global infrastructure increased around 11% in NZD hedged terms. Over the year, infrastructure increased around 27% and global property 26.5% on a NZD hedged basis. These large gains reflect central bank rate cuts and expectations of a lower interest rate environment over the next few years.

Source of Figures: FTSE EPRA NAREIT, FTSE Dvlp Core Infra 50/50; NZD & NZD hedged basis

**How long have you been with Rutherford Rede and what is your role?**

I joined Rutherford Rede in April 2023 as Administration and Events Coordinator. I look after our clients visiting the office, manage our lunches and seminar events, and general office admin/accounts. I'm also involved with our marketing and publications.

**Where have you lived in the world and why has that been the case?**

I was born in Papakura, Auckland but my parents were Salvation Army officers which meant being posted to a new town every 12 months or so – from Wellington, Woodville, Nelson, Palmerston North to Auckland before finally shifting to Waihi (my Dad's home town). As a consequence I went to four primary schools, one intermediate and two high schools. So I was definitely used to moving around before I'd even left home!

I met my future husband on holiday in Wellington and subsequently moved down from Auckland. Over the next decade, we moved back and forth between Wellington and Auckland, balancing his work as an Economist and our family ties in Auckland. During that time, we also travelled to around 50 countries, sharing many key overseas experiences.

Our first OE to the UK was instigated when Chris was seconded to the Bank of England in 1994. We loved living in London and travelled as much as we could to places such as Europe, Greece, Turkey, Morocco, Egypt.

By 2000 we were keen for another overseas hit, so we both quit our jobs and travelled for six months through South America, Central America and United States – the highlight being a mini holiday with some NZ friends joining us in Cuba.

Then in 2005, we still weren't ready to settle down and decided to rent out our house and move back to London. All our family and friends thought we were mad, as we didn't even have jobs lined up and we weren't exactly the young hipsters we were 10 years prior! We also had to pay six months' rent up front (as unemployed arrivals), so it could have turned out to be a very expensive holiday. But of course, it all worked out exactly right. He worked for a Russian Bank, while I did various admin roles, even a stint at the Daily Mail!

Our first daughter, Anna, was born a few years later. Soon after the GFC hit the world, I became pregnant with our second daughter Sarah, and we decided it was time to come home for good.

**What have been some of the challenges you have faced over the last ten years?**

I like to think of myself as a 'glass half full' type of person, but there's certainly been some challenges to try and tip the glass over.

Both Anna and Sarah were IVF babies, which isn't the easiest path to navigate. We were in London at the time and although we didn't have family and friends to support us, we did have fantastic fertility facilities and amazing holistic partners available to us. Fortunately, we were successful both times, but it did take a considerable mental and emotional toll on both of us.

Although medical science gave us two beautiful daughters, sadly it couldn't save my husband. At 50 years old, he was diagnosed with terminal cancer and died within five months. Ironically, he'd passed a full medical check two months prior. He didn't have any major regrets and we were so thankful for all the amazing times we had already shared. The hardest part was him not being part of our future experiences and seeing the girls grow up.

# Q&A WITH JULIE ORCHARD

Insights introduces people that we work closely with so that you can understand the wider team that provides our services.





Losing a partner changes your life completely – how you eat, sleep, work, parent, travel and socialise is suddenly very different. I was a relatively young widow with two small children (10 and 7 years old) and I had to quickly adapt to a new world on my own.

Even though I had always managed our finances, it was still at times overwhelming for me. I can see how our clients benefit from the support of our advisers, when it's hard enough just dealing with your grief.

I miss him. I was with Chris for 26 years so he'd been a major influence in the person I am today. Grief is hard but it does change over time. I don't think it completely goes away, you just learn how to manage it better. Unfortunately it can pop it's ugly head when you least expect it, but you never want your special person to be forgotten – when someone mentions Chris or shares a funny story, it really touches my heart.

#### **Tell me about your children and what they are doing with their lives?**

I'm so proud of my girls and love to share their achievements with anyone who'll listen. I think it proves that no matter what adversity or challenges you may face, it doesn't have to hold you back.

Anna, now 17, has her final year of high school next year. She performed in musical productions before discovering lacrosse, where she now plays as a goalie. Lacrosse is basically like playing

'hockey in the air' and not for the faint-hearted. She has been a representative player for U15, U18 and this year made the NZ U20 Women Lacrosse team. She did a two month exchange to a USA high school and plans to return to study International Business, upon gaining a lacrosse/academic college scholarship (fingers crossed!).

Sarah is 14 and her passions are public speaking, marketing and also musical theatre. She was Head Girl at her Intermediate School and consequently gained a full five year Leadership Scholarship to a private high school. I always joke that she'll be Prime Minister one day but she would have to set up her own political party to have everything on her terms!

I also have two other 'children', a Golden Retriever named Grace and a cat called Kensington. Sometimes it feels as though I'm managing a zoo, but it all works somehow.

#### **Tell me about the experience of shifting house?**

Last year, we sold our 1920s family home and downsized into a brand-new apartment. We had lived there for 11 years, which is the longest I had ever stayed in one place! The sale and subsequent move were pretty gruelling and being on your own, it was hard not to second guess whether I was making the correct decision. However, in the end, I knew in my heart that it was time to say goodbye to that chapter in our life.

It was a big job sorting through the stuff we'd accumulated over the years, but it was very refreshing and good for our feng-shui to come out the other side with only what we need and love. At the end of the day, a house is just a house, and home is where your loved ones are.

We definitely value experiences over possessions. Knowing that life can suddenly change makes us focus on the present and seize opportunities as they arise. The three of us have continued to travel together, and this year we'll be spending Christmas in New York – we can't wait!

#### **What do you like most about your work?**

I've worked for a variety of companies from government departments (IRD, NZ Police, Akl Uni) to large and small private companies (IT, finance, health) and charities (Make-A-Wish). Although they have been great learning experiences and I've worked with some amazing people, Rutherford Rede definitely ticks all boxes for me. I love meeting and interacting with our clients, the variety in my work, having fun with the team and I trust and believe in our service offerings. Most importantly, I feel listened to, appreciated, and I can be authentically me. I've absolutely saved the best for last!



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