RUTHERFORD REDE

insights

SUMMER 2025

IN THIS ISSUE

ECONOMIC & MARKET COMMENTARY

DECEMBER QUARTER 2024

Overview

Performances were mixed over the December quarter.

Following September's blow-out quarter, performances were mixed for December. Equities in general performed well but some interest rate sensitive asset classes suffered, and currency had a large impact on returns.

Differing macroeconomic conditions were the key driver of the performance differences. In the US, markets backed off the view that the Federal Reserve will slash interest rates over 2025 given ongoing strength in the US economy, and upside inflationary risks following Trump's election. In contrast, large cuts are still seen as necessary in New Zealand, Europe, China and most other countries given weak economic conditions.

Market roundup

Unhedged global equities performed very strongly, while EM and NZ equities also performed well.

The US dollar rallied strongly over the quarter against most currencies given the macroeconomic picture, including by over 11% versus the NZ dollar. As a consequence, while global equity returns at around 2% were respectable on a local currency (and NZD hedged basis), they were exceptionally strong at around 13% on an unhedged basis (see figure 1). This brought the annual return of global equities to just over 34% on an unhedged basis, and around 21% on a hedged basis. This performance was a reversal of fortune from the September quarter results, where NZD hedged returns were much stronger at around 30% in the year to September. While it is exceedingly difficult to forecast currency movements, we do know that portfolio risk is – in general – reduced by having exposure to both unhedged and hedged international equities.

Figure 1 – Mixed performances in the December quarter

Source: Morningstar Direct, MyFiduciary

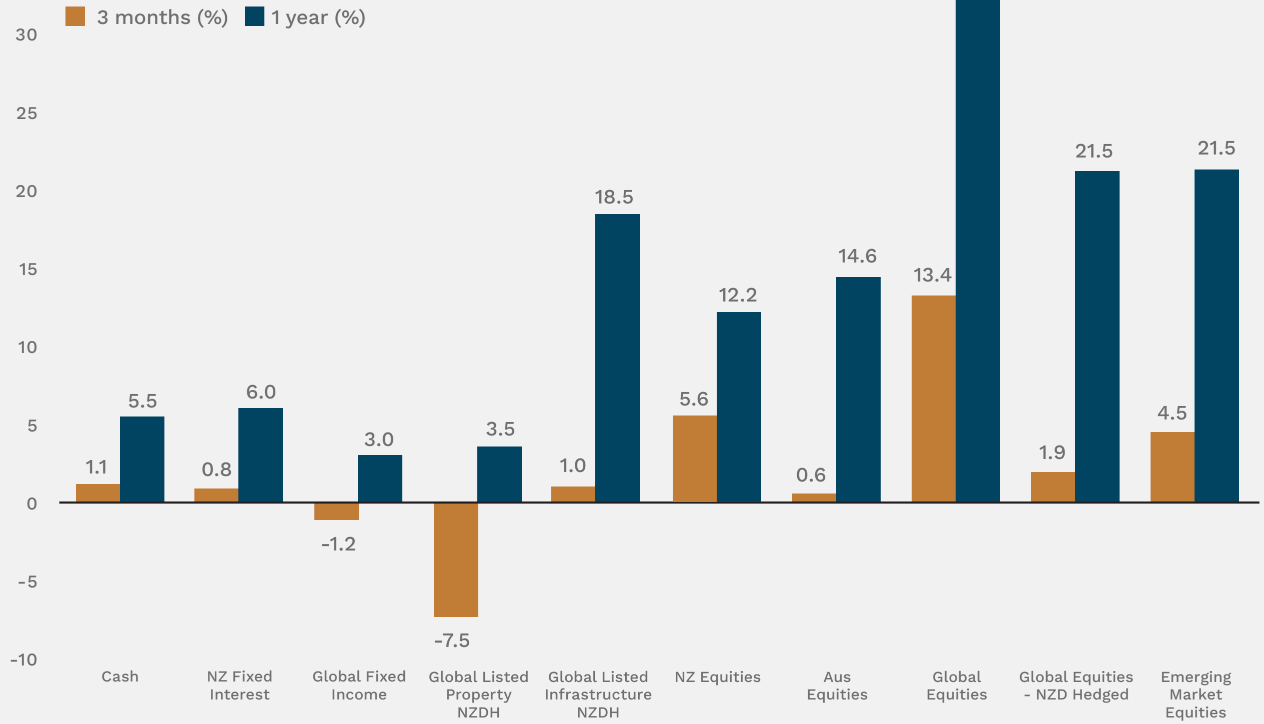
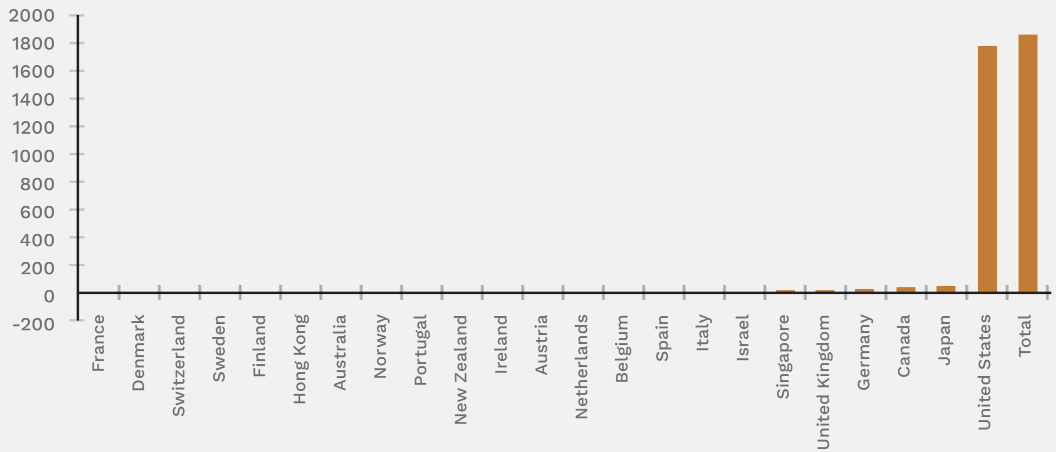


Figure 2: The US rules the roost

Little wonder non-US equity markets are struggling to be heard!
Country Contribution to MSCI World 2024 price performnace basis points

Source: SG Cross Asset Research / Equity Quant, MSCI



Emerging markets performed reasonably well, rising 4.5% over the quarter, as did NZ equities which returned around 5.5%. In contrast, Australian and global small cap equities eked out a small positive return of around 0.5%, while global value stocks fell by around 2% on a local currency basis. Interest-rate sensitive listed property and infrastructure also struggled, with property falling by around 7.5% on an NZD hedged local currency basis.

Bond market performances were also mixed. New Zealand investment grade bonds increased 0.6% in the quarter, and around 5.3% over the year. International investment grade bond returns, which has a large weight on US bonds, were softer at around -1.2% in the quarter and 3% over the year. While the prospect of higher US inflation weighed on US bonds, this, and the greater geo-political tensions from Trump's election, boosted gold – yet again – to new records in NZD terms.

Finally, figure two shows that US equities have contributed almost all of the performance of global equities in 2024. Does this mean we should forget about other equity markets? No. In our feature this quarter we summarise some of the research findings from Elroy Dimson, Paul Marsh and Mike Stanton, three academics who have compiled what is regarded to be the best long term financial markets data.

A LOOK AT THE LONG-TERM DATA

For the past twenty-five years, academics Elroy Dimson, Paul Marsh and Mike Stanton (DMS) have published long-term asset return data that goes back over 150 years in some cases. This includes for equities, bonds and property, across around 35 countries including New Zealand. In the 2024 edition , key research findings DMS have made over the past decade using the data were summarised. Below we pick out some of these key findings and their implications for client portfolios.

Historic data suggests risk and return are related - equites outperform cash, inflation and bonds over the long term, while corporate bonds offer better returns than government bonds.

Key findings from long term financial markets data

1. Equities have outperformed bonds and bills (cash) in every country since 1900. They have also handily beat inflation in most cases, and by around 6% per annum globally. This is in line with the basic investment tenet that risk and return are related and informs our view that investors – subject to their risk tolerance and time horizon – should allocate as much as possible to growth assets.

2. Investment grade corporate bonds have outperformed government bonds by around 1% per annum over the long run, while high yield bonds have outperformed by around 3%. Again this reflects the expected relationship between risk and return, and motivates allocating to both corporate and government bonds in client portfolios.

3. Emerging market (EM) equities have underperformed developed markets (DMs) since 1900, but this mostly reflected their worst performance in the 1940s. Despite this the historic underperformance gains from spreading assets across DMs and EMs are substantial. The typical DM investor can reduce risk by holding EM equities and vice-versa. Our allocation to EM equities reflects the view that their addition improves long term risk-adjusted returns.

4. A large number of stocks across both countries and sectors are required for effective diversification given many countries' equity markets are dominated by a small number of sectors (and some sectors are dominated by a small number of companies). For this reason, investors in most countries over the past 50 years would have had superior risk-adjusted returns (before tax) investing globally than in their home market alone. The one notable exception to this was for the US investor, but even so the authors caution against just investing in US stocks (discussed further below). These findings are in line with our view that the core of the equity part of portfolios should consist of funds that invest across hundreds of securities across global equity markets.
5. Finally, as illustrated over the page there have been massive shifts in both the country compositions and sectoral compositions of global equity markets. At the beginning of the 20th Century the US constituted only around 15% of global market capitalisations, many emerging market exchanges didn't exist, and Western Europe and Russia accounted for around 75% of the global market. Today, the US dominates at over 60% and European country exchanges are in the low single digits. In 1900 railway stocks were around 60% of the US market and 45% of the UK stock market. Today they do not feature as a major sector in either country, whilst technology in particular has become a major sector.

Holding globally diversified equities results in the best risk-adjusted returns.

Given all of these shifts it is tempting to think that allocating to sectors or countries that are on the rise could provide superior performances. But again DMS caution against this. Their research suggests that, if anything, markets tend to over-price sectors on the rise, and investors would have been better off allocating to sectors on the wane. The allocation we make to equity funds that incorporate 'value' as a factor effectively replicates this. They typically underweight the in-favour expensive sectors and over-weight out of favour cheap sectors and stocks.

The same conclusion holds for countries. The US market has been exceptional, but so was Japan from post WW2 to the early 1990s where its market capitalisation topped out at 45% of the global market. From 1990 to 2023 Japan had the worst performing market and its global market cap weight is now only around 6%. This is not to say that the US market and tech stocks are necessarily in for a long period of under-performance like Japanese stocks. But it is a risk given the extraordinary run of the US market and its now large concentration in large cap technology stocks like Google, Nvidia and Apple. As mentioned, we guard against this risk by allocating globally with a bias to value and smaller cap stocks.

Figure 3: The country compositions of markets in 1899 (left) versus 2024 (right)

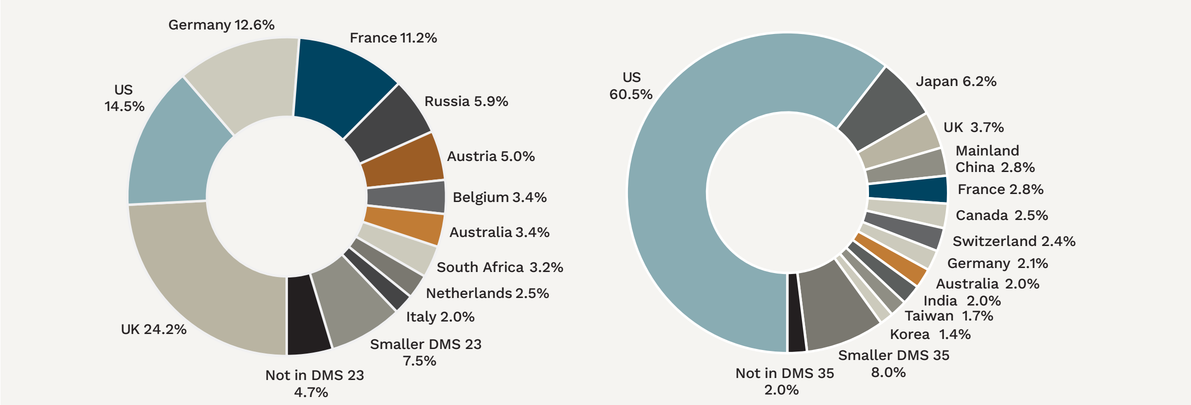
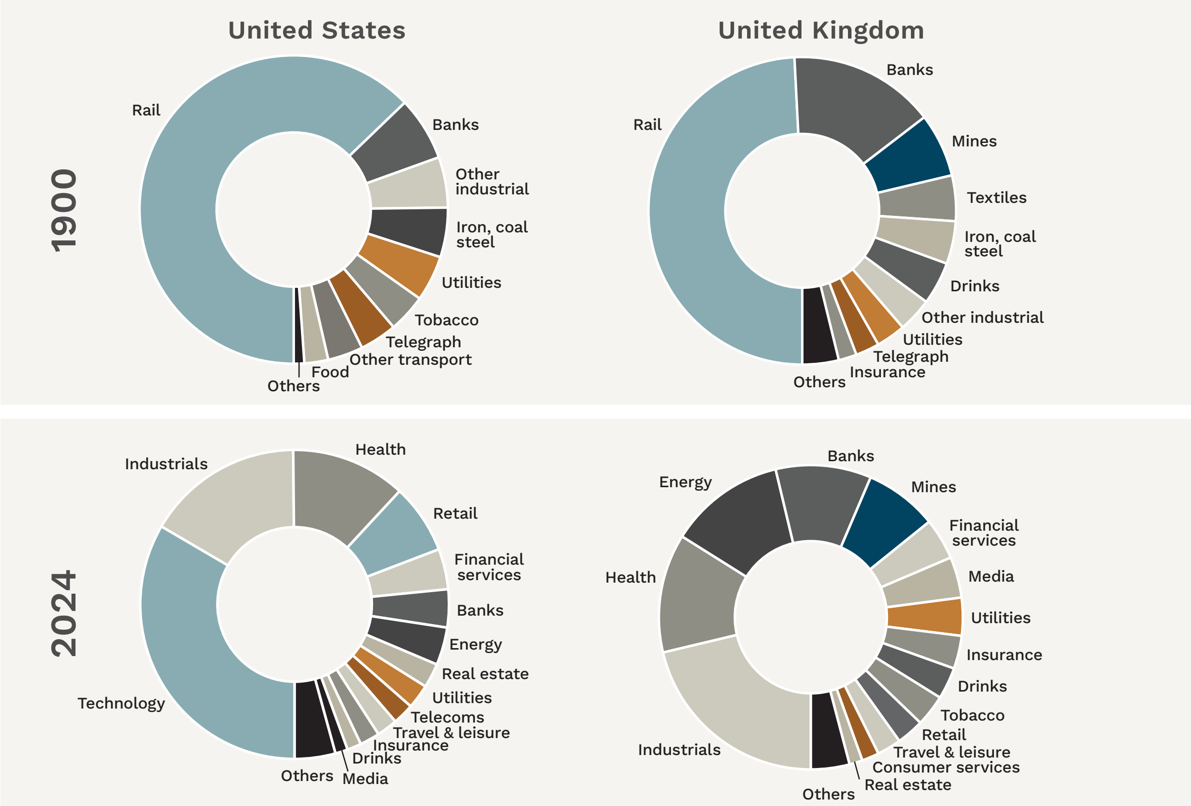


Figure 4: The sector compositions of markets in 1900 (top) versus 2024 (bottom)



Sources: Elroy Dimson, Paul Marsh and Mike Staunton, DMS Database 2024; Cowles, 1938, FTSE Russell All-World Index Series Monthly Review, December 2023.

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 +5.6%
PAST YEAR +12.2%

New Zealand Shares: New Zealand shares finished the year strongly, increasing around 5.6% over the quarter and 12.2% for the year. This lifted performance for the decade ended December 2024 to close on 10% per annum – an exceptionally strong long-term performance.
Market Index: S&P/NZX 50 Total Return Index with Imputation Credits

QTRLY RETURN +0.6%
PAST YEAR +5.3%

New Zealand Fixed Interest: Following the September quarter bounce, NZ investment grade bonds returned around 0.6% in the December quarter and 5.3% over the year – handily above current Official Cash Rate (OCR) levels.
Market Index: S&P/NZX Composite Investment Grade Index

QTRLY RETURN +0.6%
PAST YEAR +14.6%

Australian Shares: Australian shares took a breather this quarter and returned around 0.6%. This result was enough to lift the annual figure to around 14.6%.
Market Index: S&P/ASX 200

QTRLY RETURN +13.4% (+1.9% hedged)
PAST YEAR +34.1% (+21.5% hedged)

International Shares: International shares posted a return of around 2% this quarter in local currency terms and NZD hedged terms, but increased over 13% in unhedged terms as our currency fell markedly versus the USD over the quarter. This brought the annual results to around 34% in NZD terms, while NZD hedged returns were around 21.5%. Small and value stocks fell over the quarter in local currency terms, but both increased in NZD terms given the fall in the NZD. For the December year, small caps returned 22% and value stocks 26% on an unhedged basis.
Market Indices: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value, MSCI World Small Cap in NZD terms.

QTRLY RETURN +4.5%
PAST YEAR +21.5%

Emerging Markets: Emerging Markets also had a solid quarter, rising by around 4.5% in NZD terms. This lifted their annual return to around 21.5%, broadly in-line with global equity returns ex-large cap US tech stocks.
Market Index: MSCI Emerging Markets Index

QTRLY RETURN -1.2%
PAST YEAR +3.0%

International Fixed Interest: Global investment grade bonds fell by around 1.2% in the December quarter as markets backed-off the view that the US economy will have large interest rate cuts over 2025. This crimped the annual return to around 3%.
Market Index: Bloomberg Barclays Global Aggregate Index (hedged to NZD)

QTRLY RETURN -7.5%
PAST YEAR +3.5%

International Property and Infrastructure: International property stocks fell by around 7.5% in the quarter in NZD hedged terms, while global infrastructure increased around 1% in NZD hedged terms. Over the year, infrastructure increased around 19% and global property 3.5% on a NZD hedged basis. The tepid result for property reflected the revision upward of interest rates in the US.
Market Indices: FTSE EPRA NAREIT, FTSE Dvlp Core Infra 50/50; NZD & NZD hedged basis

Q&A WITH KIO RAWIRI-MCDONALD

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

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

Kia ora everybody. Ngā mihi o te tau hou kia koutou katoa – Happy New Year.

I joined Rutherford Rede in June 2021 as a Paraplanner (its always easy to remember as it's the same day as my nephew's birthday) working to support our clients, with a specific focus on the clients for Richard Knight.

Three years have gone by quickly and I am now a Senior Paraplanner working alongside Richard Knight and Craig Offwood. Working with the rest of the team of Paraplanners, we are responsible for the implementation and monitoring of your portfolios. The role is varied, it taps into a number of different skillsets and definitely requires you to be flexible in your thinking.

What jobs have you held previous to joining Rutherford Rede?

My journey to Rutherford Rede started ten years ago when I was working at ANZ in the Commercial Services Team. There was a job opening for a Paraplanner and it provided me with a possible pathway into an industry that I had always been interested in, specifically the investment and financial advice industry. It served as inspiration for a possible career path that I would come back to after a few years.

I went away and worked with my father for some time on the treaty settlement for our iwi, Ngāti Hinerangi, in the Matamata/Tauranga area. My father was the lead negotiator for our iwi and worked with the Crown Negotiators until we were able to sign a Deed of Settlement in May 2019. My contribution was mainly in the form of the strategy and approach that we would implement in the early stages of the negotiation.

During this time, I also began studying towards the New Zealand Certificate of Financial Services, which is the qualification required to become a financial adviser. It was always a requirement for the roles of Adviser Support/Paraplanner, so I made the decision to start and complete this qualification.

My first role in the industry, I worked as an Adviser Support within a financial advice firm who provided advice on Life and Health Insurance as well as KiwiSaver. It was interesting to get an understanding of that whole industry and how it operates but also what skills I needed for these types of roles.

And then Covid came along... and eventually I landed at Rutherford Rede.

Can you tell me about your whanau?

Ki te taha o tōku matua,

Ko Ngāti Hinerangi, Ngāti Maniapoto me Ngāti Hauā ōku iwi

Ki te taha o tōku whaea,

Ko Te Whānau-ā-Apanui tōku iwi

As an explanation of the above, I am just sharing a bit of my whakapapa on both sides of the family, from my mother and father. On my father's side, we belong to iwi that are mainly located within Waikato-Tainui but we also have links to iwi in Taranaki.

On my mother's side, Te Whānau-ā-Apanui is an iwi that is located on the east coast of the Bay of Plenty, with our whanau mostly located in between Omaio and Te Kaha. Also, Te Whānau-ā-Apanui was the winner of the last national kapa haka competition, Te Matatini, back in 2023 where my brother performed as part of the rōpū (group).

In our family, there is Mum and Dad, me and my two younger brothers. Dad is working as a lead researcher with Te Wananga o Aotearoa and has just come back from presenting at a conference

on indigenous people in Hawaii. Mum and one of my brothers both work as architects and they are currently working together on the design of a new school in Christchurch. My youngest brother is working as an electrical engineer on the train system throughout Auckland.

For my family, the holiday period is also a time filled with birthday celebrations. Four of the five of us have our birthdays starting with my brother on boxing day, followed by Mum, then its Dad and I finish it off on the 30th January.

Can you tell me about your whanau land and how you use it?

When I was younger we would always head down the coast to Omaio for the holiday period where we have a section that we would camp on. In 2019, the section next door became available for purchase after an aunty and her whanau decided to sell.

This story serves as my own personal example of the benefits of investing and building wealth for the long-term because it allows you to take up opportunities that can come out of nowhere. It had always been something that my mother especially wanted, was a home down the coast and as a collective group we were able to purchase the property. My brother and his whanau live down there now where he runs his architectural business which places an emphasis on incorporating maori design and philosophies. The greatest benefit of having a home down the coast now is that we have that space for us to use whenever we choose to, and it strengthens our connection to our whenua, to our whanau and to our whanaunga (relatives).

Beyond our own whenua, I am fortunate to be a trustee on a land block where I work alongside my uncles and other whanaunga to develop initiatives that will benefit our whānau and iwi. We are currently focused on building business cases with an emphasis on sustainability, aiming to collaborate with other rōpū who have undertaken similar journeys. At present, we are leveraging the natural resources of our whenua and enhancing our capacity and capabilities by tapping into the skills and expertise of our whānau and whanaunga. This approach will help us establish a strong foundation for our future projects.

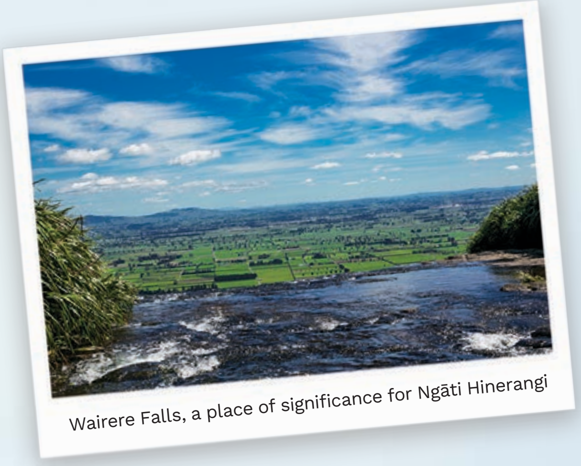
What do you enjoy most about working for Rutherford Rede?

You have to start with the team that we have here at Rutherford Rede. Before I had even started my first day at Rutherford Rede, one of the advisers from my days as an Adviser Support mentioned that he had worked with Henry Ford (one of our Directors) and had nothing but wonderful things to say about him. After three years, I can say that working alongside this team has been very fulfilling and that we enjoy our time together along the way. Our whole team is made up of different characters and personalities – there is no typical mold that we are trying to fit.

I enjoy working in my role and in this industry because I think the journey here has not been straightforward – there were twists and turns along the way. I have learnt a lot in my first few years here and I look forward to learning so much more as we continue moving ahead.

It has been a pleasure to meet and engage with our clients over the years. Our clients are at the heart of everything we do, and we remain committed to working diligently for their benefit. We deeply value the trust they have placed in us and strive to exceed their expectations every day.

No reira, ki te whakakapi tōku kōrero, ngā mihi nui ano ki a koutou katoa mō te tau hou. Kia pai te tau e tū mai nei!



Wairere Falls, a place of significance for Ngāti Hinerangi

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