RUTHERFORD REDE

insights

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IN THIS ISSUE

ECONOMIC & MARKET COMMENTARY

MARCH QUARTER 2025

Overview

Performances were mixed over the March quarter as tariff risks became a focus.

Performances were volatile month-on-month and mixed overall for the March quarter (see Figure 1). Risk assets such as NZ and global equities in general were soft, but interest rate sensitive asset classes such as bonds and infrastructure performed relatively well, as did emerging market equities.

Emerging concern around US imposition of tariffs were a key driver of performances. Tariffs increase consumer prices and short-term inflation in countries that impose them, but also reduce economic growth. On balance, markets have factored the growth impact to be more important for inflation, and hence longer-term interest rates fell over the quarter, boosting returns from bonds and rate sensitive asset classes. In addition, non-US equities (excepting NZ) and value stocks had better performances than US equities. This in part perhaps reflected investors rotating from relatively expensive US stocks to cheaper markets, but it also may have reflected concern around US being the epicentre of any trade war (see Figure 2).

In the event, post the end of the March quarter on April 2nd the Trump Administration announced tariffs that were much larger than expected. Our feature this quarter discusses the potential implications of this for New Zealand and investor portfolios.

Risk asset returns were soft in general, but interest rate sensitive asset classes such as bonds and select alternatives performed well, in line with their diversification role.

Figure 1 – Mixed performances in the March quarter

Source: Morningstar Direct, MyFiduciary

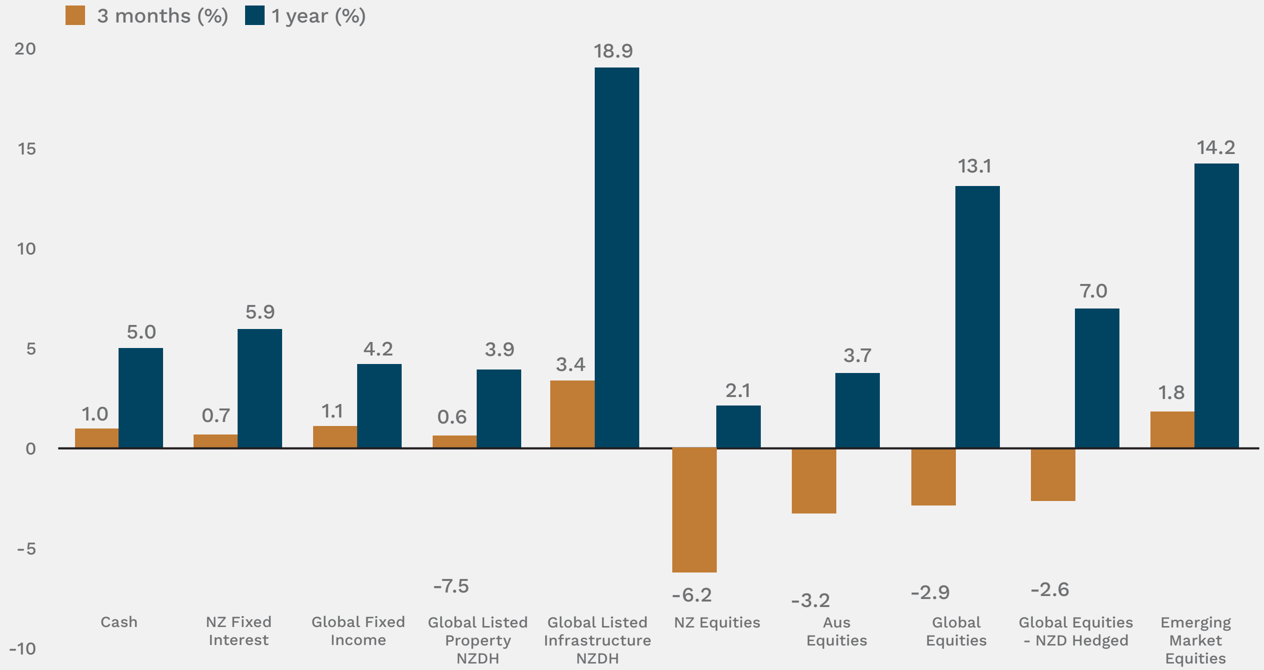
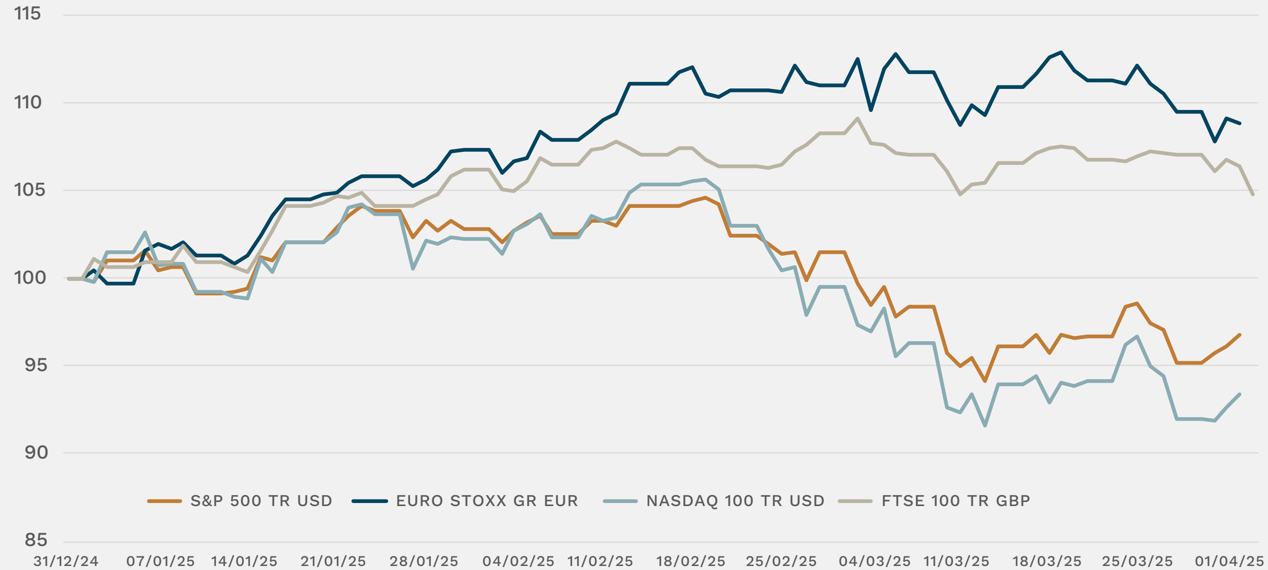


Figure 2: Is the US market losing its shine?

Source: SG Cross Asset Research / Equity Quant, MSCI



Market roundup

Emerging markets equities along with European and UK markets also performed relatively well, reflecting some rotation out of US markets.

International and Australian shares fell around 3% this quarter in local currency terms and 2.5% in NZD hedged terms. This brought the annual results to around 13% in NZD terms, while NZD hedged returns were weaker at around 7% given the decline in the NZD vs the USD over the year to March. Value stocks strongly outperformed in the quarter, rising by around 3.7%. In contrast, global small caps fell around 4.8% whilst NZ stocks fell by around 6%, giving up the strong gain they had made in the December quarter.

Emerging markets again performed reasonably well, rising around 1.8% over the quarter. As mentioned, interest-rate sensitive global listed property and infrastructure also held up, with property increasing by around 0.5% and infrastructure by 3.5% on an NZD hedged basis, bringing its annual result to around 19%

Bond market performances were also solid. New Zealand investment grade bonds increased 0.7% in the quarter, and around 5.9% over the year. International investment grade bond returns, increased around 1.1% in the quarter and 4.2% over the year.

TARIFFS AND IMPLICATIONS FOR PORTFOLIOS

Portfolios have been designed to be well diversified across asset classes, securities, sectors and countries.

Our previous feature covered research on the long-term performance of markets, which highlighted the importance of ensuring that portfolios are well diversified across the number of investments, asset classes, and countries – even for very large economies like the United States. This is a guiding star of the portfolios that you are invested into. There are a range of asset classes, funds, securities and geographies, as well as different investment strategies employed by the professional fund managers that we select. There is also, in particular, a large underweight on US equities compared to global equity market benchmarks given various asset allocation and fund manager choices that are made in the design of your portfolio.

We believe that the diversification in your portfolio will provide for more robust performances over time than approaches that concentrate investments in a relatively small number of stocks, asset classes, and geographies. This is no more so than at the present time where markets are being roiled by the Trump Administration announcing tariffs that were much larger than markets expected. As a consequence, equity markets and commodities such as oil have suffered declines, that at the time of writing, were as large as those seen when the pandemic first hit in early 2020. In contrast, as covered in the market update, bonds rallied in NZ and globally on the basis that interest rates are likely to head lower to cushion the negative growth impacts of the tariff 'shock'.

We believe this diversification will help cushion the impact of the current trade shock roiling markets.

We don't know how the tariff picture will unfold from here, but it important to bear in mind that there is widespread recognition that a global trade war is in no-ones interest, even amongst the Trump administration. By the time your read this update it may be the case that large reductions in the tariffs announced with many nations and/or sectors have already happened, and markets have rallied back in response.

Ultimately, we are also confident that the trade shock will dissipate with time, and equity markets will resume their upward climb.

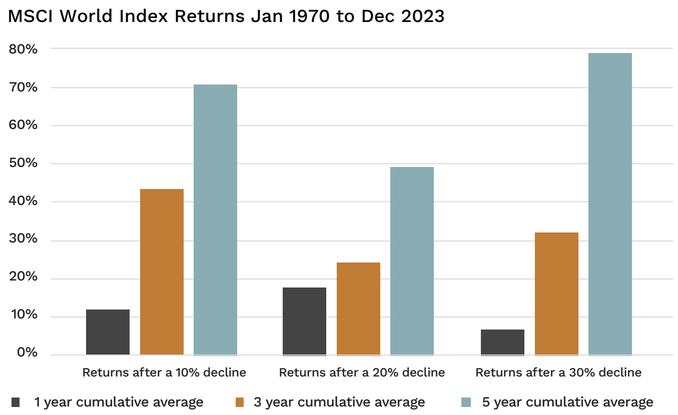
Closer to home, New Zealand has been slapped with a relatively low tariff rate of 10% and some interesting modelling by an AUT professor of economics[1] estimates we could on net benefit as demand for our good to the US increases relative to other countries facing higher tariffs (see figure 5). This modelling only considers a 'static' re-allocation of trade given changes in end producer and consumer prices, rather than the dynamic effects and factors such as monetary policy, and as such should be taken with a pinch of salt. But some comforting facts are the US only takes around 12% of our total exports by value, with much of the exports focussed on meat that could in principle be sold to other markets.

New Zealand has a relatively well diversified set of trading relationships, and we are perhaps better placed to weather the trade shock – this time - than many other nations.

New Zealand is also fortunate to have a relatively well diversified set of trading partners - ranging from traditional markets like the UK, EU, the US and Australia, to China which is currently our largest trading partner at around 20%, to fast growing economies with large populations in Asia (India, Indonesia, Vietnam, etc) that will likely become more important over time (see figure 6). To draw a parallel with the design of your portfolios, trade officials and successive governments have long sought to diversify our trading relationships, dating back to the mother-of-all trade shocks NZ had in 1972 when we lost preferential access to the UK (ironically as it is now) on it electing to join the European common market.

1 See https://theconversation.com/new-modelling-reveals-full-impact-of-trumps-liberation-day-tariffs-with-the-us-hit-hardest-253320

Figure 4: Market bounce backs from large declines



Source: Dimensional Fund Advisers

Figure 3: Long run performance of S&P 500

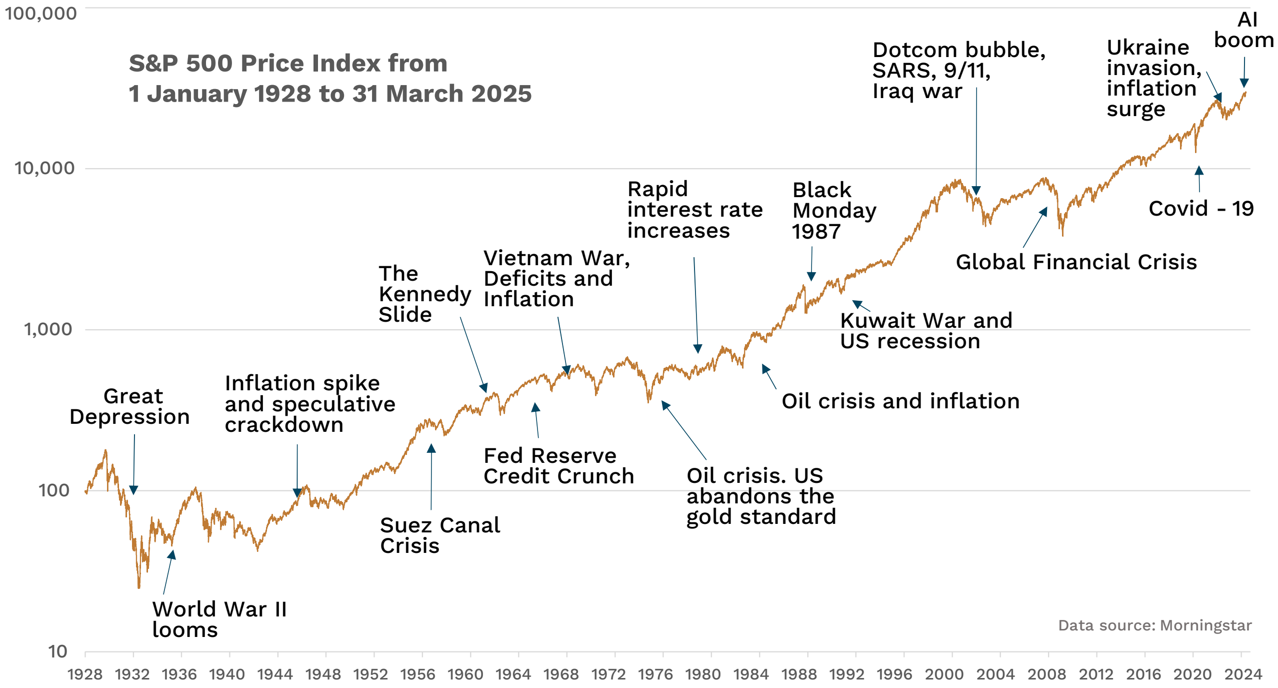


Figure 5: GDP changes due to new US tariffs with retaliation

Country / Region	Percent	US$ billion	US$ per household
US	-1.45%	-$143.4	-$3,487
Canada	-1.65%	-$38.5	-$2,467
Mexico	-2.24%	-$40.7	-$1,192
Switzerland	-0.32%	-$3.2	-$818
Vietnam	-0.99%	-$5.0	-$196
Taiwan	-0.20%	-$1.6	-$172
China	-0.27%	-$53.1	-$110
Japan	-0.06%	-$2.5	-$46
India	-0.19%	-$8.2	-$28
Thailand	-0.09%	-$0.5	-$27
Indonesia	-0.05%	-$0.7	-$11
United Kingdom	0.00%	-$0.2	-$5
European Union	0.05%	$10.4	$53
Brazil	0.28%	$6.4	$100
Australia	0.07%	$1.4	$134
Republic of Korea	0.21%	$4.1	$173
New Zealand	0.29%	$0.8	$397
World	-0.43%	-$500.2	-$210

Source: Niven Winchester

Figure 6: New Zealand's top trading partners

Rank	Country / Region	% of total exports	% of total imports	% of total trade
1	China	22%	16%	19%
2	Australia	15%	15%	15%
3	United States	16%	11%	13%
4	European Union	6%	12%	9%
5	Singapore	3%	6%	5%
6	Japan	4%	4%	4%
7	Republic of Korea	3%	5%	4%
8	United Kingdom	4%	3%	3%
9	Thailand	2%	3%	2%
10	Malaysia	2%	2%	2%
11	All other	25%	23%	24%

Source: Statistics New Zealand

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 **-6.2%**
PAST YEAR **+2.1%**

New Zealand Shares: New Zealand shares fell around 6.2% over the quarter, giving up the gains it had in the December quarter. The reduced the annual return to 2.1%, although long term performance still remains strong at around 8.7% p.a. for the decade ended March 2025.
Market Index: S&P/NZX 50 Total Return Index with Imputation Credits

QTRLY RETURN **+0.7%**
PAST YEAR **+5.9%**

New Zealand Fixed Income: NZ investment grade bonds returned around 0.7% in the December quarter and 5.9% over the year – handily above the current Official Cash Rate (OCR) level of 3.75%.
Market Index: S&P/NZX Composite Investment Grade Index

QTRLY RETURN **-3.2%**
PAST YEAR **+3.7%**

Australian Shares: Australian shares fell around 3% over the quarter, bringing the annual figure to around 3.7%. As with NZ and international shares, this reflected markets beginning to factor in global growth risks associated with the Trump administration imposing tariffs on its trading partners.
Market Index: S&P/ASX 200

QTRLY RETURN **-2.9%** (-2.6% hedged)
PAST YEAR **+13.1%** (+7.0% hedged)

International Shares: International shares fell around 3% this quarter in local currency terms and 2.6% in NZD hedged terms. This brought the annual results to around 13% in NZD terms, while NZD hedged returns were weaker at around 7% given the decline in the NZD vs the USD over the year. Value stocks strongly out-performed in the quarter, rising by around 3.7% in and 15% in the March year in NZD terms. In contrast, small caps fell around 4.8% in the quarter, and had an annual return of around 5.4% in NZD terms.
Market Indices: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value, MSCI World Small Cap in NZD terms

QTRLY RETURN **+1.8%**
PAST YEAR **+14.2%**

Emerging Markets: Emerging Markets performed relatively well, rising by around 1.8% in NZD terms. This lifted their annual return to around 14.2%, around 1% ahead of the return in developed market equities over the year.
Market Index: MSCI Emerging Markets Index

QTRLY RETURN **+1.1%**
PAST YEAR **+4.2%**

International Fixed Income: Global investment grade bonds increased by around 1.1% in the March quarter as markets factored in growing downside risks to global growth. This brought the annual return to around 4.2%.
Market Index: Bloomberg Barclays Global Aggregate Index (hedged to NZD)

QTRLY RETURN **+0.6%**
PAST YEAR **+3.9%**

International Property and Infrastructure: International property stocks rose by around 0.6% in the quarter in NZD hedged terms, while global infrastructure increased around 3.5% in NZD hedged terms. Over the year, infrastructure increased around 19% and global property 4% on a NZD hedged basis.
Market Indices: FTSE EPRA NAREIT, FTSE Dvlp Core Infra 50/50; NZD & NZD hedged basis

Q&A WITH VINCENT WONG

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

My journey through life has been one of growth, adaptability, and discovery. I grew up in Malaysia and, at the age of 17, left for Canada to pursue higher education. There, I earned my degree in Economics, which provided a strong foundation for the career path I was to embark on. After graduating, I returned to Malaysia and began working in a bank. Starting from the frontline, I navigated through various roles, eventually making my way into corporate banking. Over those 11 years, I honed my skills in financial services, customer relations, and corporate finance.

My career then took me into the road construction and tolling industry, which offered new challenges and opportunities. One of the highlights of this phase was the three years I spent in India—an experience that broadened my horizons both professionally and personally. After my stint in India, I moved my family to New Zealand in 2010 to focus on providing better educational opportunities for our children. Today, my son Matthew works as a Risk Manager at Westpac Bank, and my daughter Chloe is thriving in Year 12 at St. Mary's College.

The transition to New Zealand wasn't easy. I struggled to find suitable work due to the absence of road tolls and my lack of Kiwi work experience. But I saw this as an opportunity to reinvent myself and turned my photography hobby into a career in real estate photography -a decision that coincided perfectly with the housing market boom back then. I devoted more than ten years to this endeavor, capturing homes and moments enjoying my hobby as my profession.

Then, in what I can only describe as a chance meeting while volunteering at Macular Degeneration New Zealand where my wife Karen was a Client Services Co-ordinator, I crossed paths with Henry Ford. He introduced me into Rutherford Rede, just as they had a job opening. I now work alongside three advisors -Chris, Adam, and Patrick, and help clients navigate their financial journeys.

What I love most about my job is the privilege of learning more about financial planning through our clients' stories. It's fascinating to see the different financial positions people are in at various life stages. At Rutherford Rede, my career in finance has come full circle and I have found a place where I truly feel at home. The flat organizational structure and charming house-office setup create a warm and supportive environment that feels like family.

New Zealanders have longer life expectancy, thanks to the country's clean and green environment and excellent work-life balance. This makes financial planning crucial to ensure savings last throughout one's lifetime. I'm proud to be part of this meaningful work, helping clients plan for their future and make their aspirations a reality.

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