



RUTHERFORD REDE

insights



WINTER 2025
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ECONOMIC & MARKET COMMENTARY

JUNE QUARTER 2025

Overview

Significant volatility in April was followed by a broad recovery in most markets.

After a wild start to the quarter, the end outcome was a quite remarkable increase in asset values across almost every major asset class. In early April, just two days into the quarter, the US President surprised everyone—potentially including himself—with the size and severity of tariffs, especially against China. Global share markets tumbled at a rate not seen since the Covid pandemic. For example, US shares (SP500) fell by 12% over a period of days.

Tariff policy has been a key driver in the quarter but markets are learning to ignore talk and respond only to actions.

It was only after the US Treasury market began to show signs of heart murmurs that the President began to back down on the tariff threat. The remainder of the quarter saw on-again-off-again policy announcements and deadline extensions. The net result is that markets bounced back quickly. Markets now appear to be disregarding what is said on the White House lawn and are responding only to concrete, implemented action. That is probably a good thing for markets going forward.

The outlook for growth has softened.

Markets and economists have been revising down their forecasts of economic growth over the medium term, especially in the US. The general view is that tariffs, or even the uncertainty created by them, are likely to have a negative impact. Businesses are in wait-and-see mode, pausing capital investment until the fog lifts.

Figure 1 – Despite volatility, all the main asset classes have had positive returns

Source: Morningstar Direct, MyFiduciary

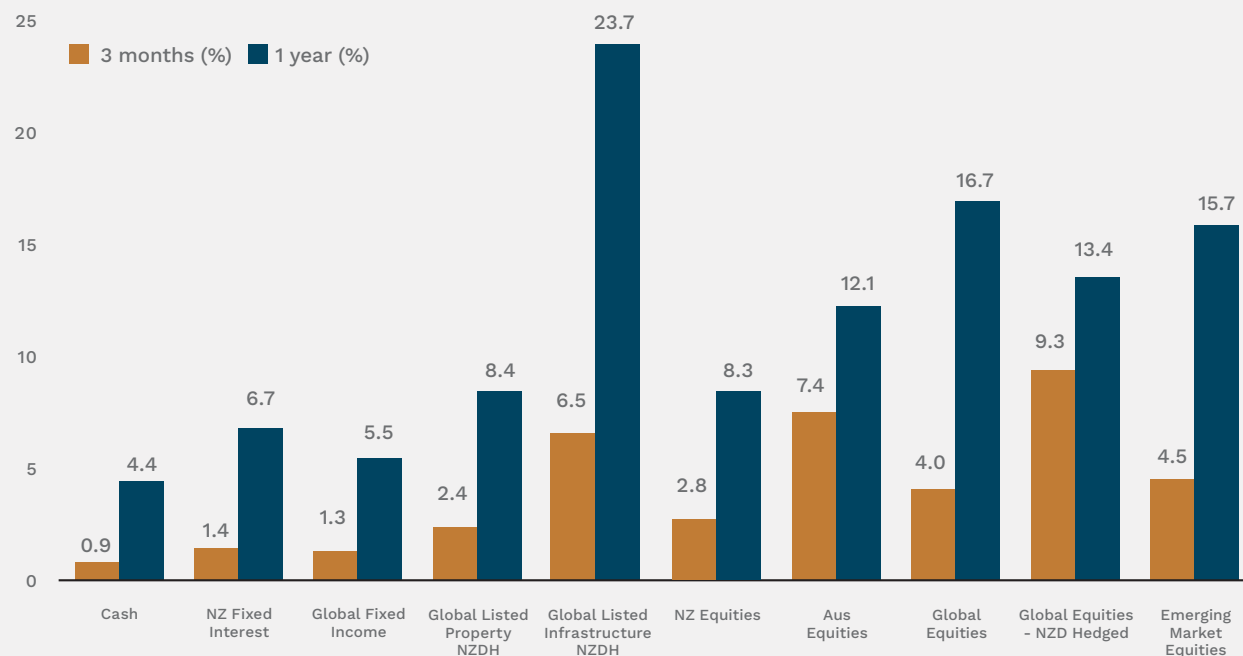
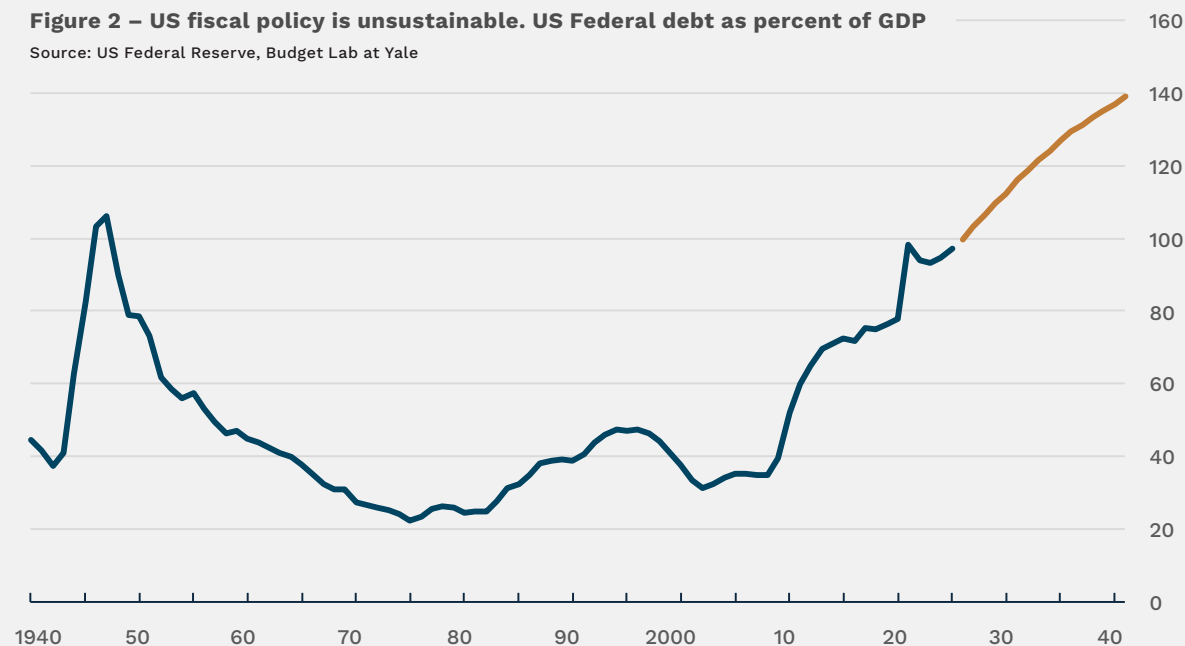


Figure 2 – US fiscal policy is unsustainable. US Federal debt as percent of GDP

Source: US Federal Reserve, Budget Lab at Yale



Central banks are continuing to ease policy with inflation under control.

With this background, some central banks have cut interest rates further, though they were likely to cut rates anyway, with inflation rates generally coming back close to their targets. New Zealand, Europe, England and Australia have all cut rates. The US and Canada have kept rates unchanged, though both are expected to ease policy in the coming months. All central banks have emphasised unusual uncertainty, to the extent that some are now publishing 'scenarios' rather than forecasts.

All major asset classes delivered positive returns for the quarter.

Overall, global equity markets rose 4% in the quarter in NZD terms and around 9.5% on a NZD hedged basis. Emerging Markets, Australian and non-US equity markets in general were a little stronger in NZD terms, with the notable exception of NZ equities which underperformed. Our feature this quarter discusses NZ equities and the role they play in portfolios. Long-term interest rates, despite being volatile in April, ended the quarter only slightly higher than where they began and as such bond market performances were also positive over the quarter, as were more interest rate sensitive asset classes such as global property and infrastructure.

Key items to watch in the coming months are: tariff policy (again); whether the US Federal Reserve eases policy soon; and how markets react to the massive and clearly unsustainable fiscal stimulus in the US budget bill (Figure 2).

SPECIAL FEATURE: NEW ZEALAND EQUITIES

Why New Zealand equities feature in portfolios

New Zealand equities are a material part of your equities allocation given their potential tax advantages and investor familiarity with NZ listed companies.

New Zealand equities are a significant part of your allocation to equity markets, at around 15% of the equities held in your portfolio. The weight we place on NZ equities is much higher than their global market capitalisation weight, which is very small at around only 0.1%. The main reasons we have a higher weight on NZ equities are:

1. Tax - NZ equities do not suffer any offshore tax leakage and are taxed on their dividends only. In contrast offshore equities may be subject to non-resident withholding tax, and on average have a materially higher NZ tax incidence for investors on most tax brackets.¹

2. Familiarity - NZ listed companies like Fisher and Paykel Healthcare, Contact Energy and Auckland Airport are familiar names, and in relation NZ investors usually wish to see at least some of their capital invested into NZ businesses.

If we considered tax alone, and assumed the long-term return on NZ equities was the same as global before tax, the 'optimal' weight on New Zealand equities would be closer to 30% for investors on higher tax brackets. But on the downside, NZ equities are much less diversified than global, and except for a handful of the largest stocks are much less liquid. In addition, any NZ specific 'shock' that caused NZ equities to fall would also likely cause other NZ assets (such as property) to decline in value, and most NZ investors have their wealth mainly tied up in NZ assets. As such, the allocations we make to NZ equities balance their tax advantage against the material diversification benefit that is achieved by investing in global markets.

¹ Please see https://mapuawealth.com/news/update_on_taxation_guide_of_foreign_equities_for_nz_residents for details



The allocation we make to NZ equities is balanced against the diversification benefits investors obtain from global equities.

Performance of New Zealand equities

New Zealand equities have performed well over the past two decades, but poorly over the past five years.

Historical long-term performance of NZ equities has been strong. Over the past two decades to June 2025 the NZ 50 index returned 8.3% before fees and tax, close to the 8.5% return global equities (as measured by the MSCI world index in local currency) had over this period. But this performance has been uneven. Over the past decade, performance has been around 1.5% less than global equities, with very strong out-performance from 2015-2020, and weak performance relative to global equities recently as our economy has struggled to recover post-Covid (see figure 1).

Underneath this performance are some interesting sector differences. With the caveat that the NZ equity market is too small to support robust statistical analysis of style “factors,” over the five years to 31 March 2025, the strongest returns came from small and mid-cap stocks (figure 2). In fact, of the 10 best-performing companies on the NZX over this period, only one was in the top 10 by market cap (figure 3).

This trend is reflected in index performance as well. The S&P/NZX 50 Portfolio Index—which caps the largest constituents at 5%—outperformed the traditional market-cap weighted S&P/NZX 50 Index, thanks to its reduced exposure to underperforming large caps. “Quality” stocks with higher dividend yields (outside of listed property) also performed relatively well.

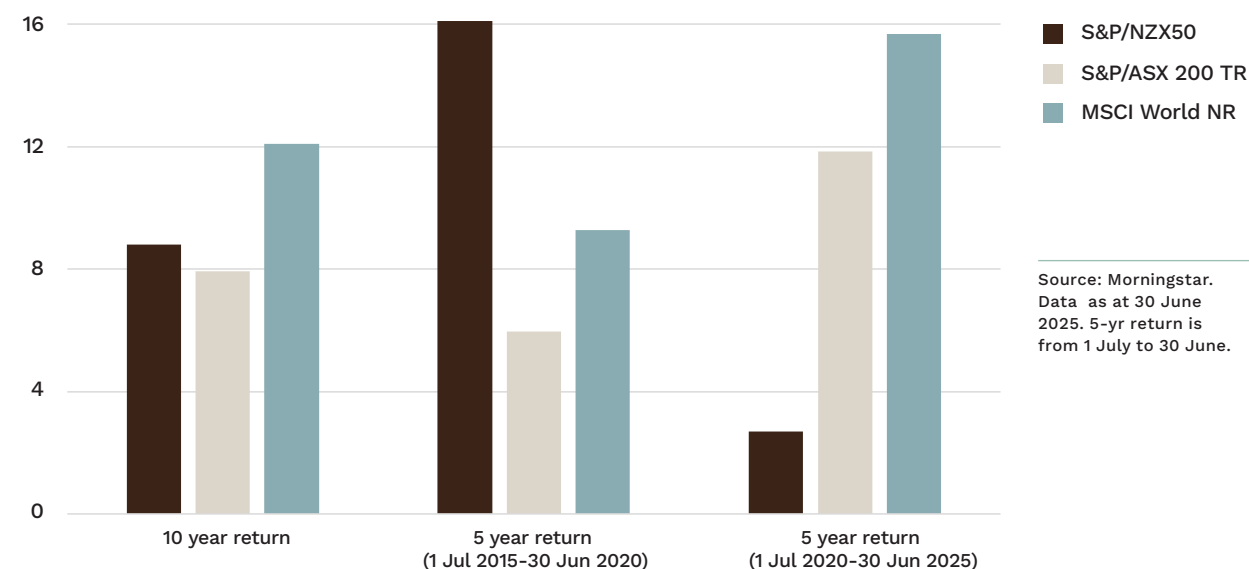
Going forward, we expect NZ equities to perform in line with global equities, with recovery in our economy being a potential catalyst. We should also expect small and mid-cap stocks to perform at least in line with the market overall to “compensate” investors for their higher risk and illiquidity levels.

New Zealand equity market funds

We have recently completed a comprehensive evaluation of the New Zealand equity fund’s landscape, which includes 56 funds offered by 23 managers across both NZ-only and Trans-Tasman strategies. Key findings of this review included:

- Passive funds now account for approximately one-third of the total coverage, a significant shift from eight years ago when active management was the norm.
- On average, passive NZ equity funds have performed in line with active NZ-only equity funds net of fees. However, performance of passive funds has been more consistent with benchmark returns, as we should expect.
- Trans-Tasman equity managers have outperformed the NZ 50 index over the past 5 years, but we assess that this likely reflects outperformance of the Australian market, rather than consistent manager skill in picking Australian stocks. As Figure 1 illustrates, it doesn’t always work out this way. From 2015 – 2020, New Zealand equities were the among best performing stock markets globally, and funds with weight on Australian equities lagged NZ-only funds considerably.
- Most managers in New Zealand have a comprehensive approach to SRI that goes beyond a simple set of exclusions. In turn, the SRI approach managers take has a larger impact on performance relative to the NZ 50 benchmark than what we see in comparable global funds because our market is small and concentrated. This has not detracted from performance relative to the NZ 50 benchmark, but nor in our sample has it resulted in consistent outperformance.

Figure 1: New Zealand Equities strong 10-year return virtually all came from 2015-2020



NZ managers integrate Responsible Investment comprehensively.

Implications for your portfolio

We currently allocate to NZ equity fund managers who have both the NZ 50 index and NZ 50 portfolio index as benchmarks. Our review suggests this remains sensible to limit concentration on larger cap NZ stocks and pick up the potential premium from smaller cap stocks.

Our review also suggests that active managers will continue to face challenges in consistently outperforming their benchmarks. Despite the potential for “alpha” in a relatively inefficient market, the narrow sector composition and limited liquidity often results in index-like returns.

This is particularly evident when comparing active NZ-only managers to passive benchmarks. Although there are examples of manager out-performance, these tend to mean-revert to benchmark returns over time.

Passive NZ equity funds, which feature in your portfolio, offer cost-effective exposures with low tracking error, making them attractive options for investors seeking broad market exposure without the higher costs and tracking error associated with active management. If active management is used, our review suggests this is more fruitful for Trans-Tasman equities where managers can access the much more liquid and diversified Australian market.

Finally, while we continue to believe there is a strong case for overweighting NZ equities given tax and representation issues. The lack of liquidity and new corporate listings on our market is something we will continue to monitor and consider as part of our periodic long-term strategic asset allocation reviews.

Our review of NZ equities suggests holding funds that are relatively passive and low cost and track both NZ 50 and NZ 50 portfolio benchmarks remains appropriate.

Figure 2: Performance of New Zealand equities by market-cap and style

Name	Strategy	5 Yr Return (%)	Average Market Cap (mil)
SuperLife Invest NZ Dividend	25 high yielding NZX-listed companies	6.2	1,811
SuperLife Invest NZ Mid Cap	Excludes largest 10 companies in S&P/NZX 50	4.6	2,154
Kernel NZ Small & Mid Cap Opportunities	Excludes largest 20 companies in S&P/NZX 50	3.9	626
SuperLife Invest NZ Top 50	Top 50 companies on NZX by market cap with largest position capped at 5%	2.9	4,268
SuperLife Invest S&P/NZX 50	Top 50 companies on NZX by market cap	2.7	6,994
Kernel NZ 20	Top 20 companies on NZX by market cap	2.6	7,662
SuperLife Invest NZ Top 10	Top 10 companies on NZX by market cap	0.7	10,763


Source: Māpua and Morningstar. Data as at 30 June 2025

Figure 3: Best performing companies on the NZX 50 and market cap

Name	5 Yr Return (%)	Top 50 rank	Market cap (\$NZD m)
Gentrack Group	52.2	20	1,341
Turners Automotive Group	41.3	42	638
Tower	41.3	43	545
Hallenstein Glassons Holdings	34.3	41	507
Vista Group International	27.8	31	822
Skellerup Holdings	26.9	26	951
Channel Infrastructure NZ	24.6	32	890
Infratil	24.4	3	10,197
Fonterra Shareholders Fund	24.1	35	708
Summerset Group Holdings	17.8	13	2,698

Name	5 Yr Return (%)	Top 50 rank	Market cap (\$NZD m)
Vital Healthcare Property	-2.7	29	1,368
Precinct Properties NZ	-3.5	17	1,936
Sanford	-3.5	44	542
Investore Property	-4.0	48	449
SkyCity Entertainment Group	-5.7	25	692
Spark New Zealand	-7.2	9	4,573
Warehouse Group (The)	-10.8	50	288
KMD Brands	-11.2	49	189
The a2 Milk Co	-12.5	6	5,814
Ryman Healthcare	-20.3	14	2,387

Source: Māpua and Morningstar. Data as at 31 March 2025.

A full-page background image showing a wooden walkway with a railing in the foreground. Two people are standing on the walkway, looking out over a deep valley. A river flows through the valley floor, reflecting the colorful sky. In the background, there are snow-capped mountains under a dramatic, cloudy sky with warm sunset colors. The overall mood is peaceful and contemplative.

“The best way to take care
of the future is to take care
of the present moment”

THICH NHAT HANH (ZEN MASTER)

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
↑ +2.8%
PAST YEAR
↑ +8.3%

New Zealand Shares: New Zealand shares rose by 2.8% in the quarter, partially reversing the losses in the first quarter of the year. The utilities and export-focussed companies performed best. The sluggish economic recovery has acted as a headwind relative to global share markets.

Market Index: S&P/NZX 50 Total Return Index with Imputation Credits



QTRLY RETURN
↑ +1.4%
PAST YEAR
↑ +6.7%

New Zealand Fixed Income: NZ investment grade bonds returned 1.4% over the quarter and 6.7% over the year. This in part reflected marked-to-market gains from a reduction in the outlook for interest rates in New Zealand.

Market Index: S&P/NZX Composite Investment Grade Index



QTRLY RETURN
↑ +7.4%
PAST YEAR
↑ +12.1%

Australian Shares: Australian shares had a strong quarter, rising by more than 7%. This bounce-back from a poor prior quarter was felt across broad categories of stocks – large caps, small caps, and value stocks all increased by 6% or more over the quarter.

Market Index: S&P/ASX 200



QTRLY RETURN
↑ +4.0%
(+9.3% hedged)
PAST YEAR
↑ +16.7%
(+13.4% hedged)

International Shares: International shares rose 4% this quarter in local currency terms and 9.3% in NZD hedged terms as the Kiwi rose against the US dollar. This brought the annual results to around 16.7% in NZD terms, while NZD hedged returns were weaker at around 13.4% given the decline in the NZD vs the USD overall in the year despite its bounce this year. Value stocks underperformed in the quarter, falling by around 1.7% in NZD terms. Over the year, however, returns were in line with global equities. Small caps increased around 4.1% in the quarter, and had an annual return of around 15% 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
↑ +4.5%
PAST YEAR
↑ +15.7%

Emerging Markets: Emerging Markets again performed relatively well in this quarter, rising by around 4.5% in NZD terms. This lifted their annual return to around 15.7%, around 1% behind the return in developed market equities over the year but ahead of the returns in NZ and Australia.

Market Index: MSCI Emerging Markets Index



QTRLY RETURN
↑ +1.3%
PAST YEAR
↑ +5.5%

International Fixed Income: Global investment grade bonds increased by around 1.3% in the June quarter as markets, which brought the annual return to around 5.5%. As with NZ bonds, this reflected a slight marked-to-market gain.

Market Index: Bloomberg Barclays Global Aggregate Index (hedged to NZD)



QTRLY RETURN
↑ +2.4%
PAST YEAR
↑ +8.4%

International Property and Infrastructure: International property stocks rose by around 2.4% in the quarter in NZD hedged terms, while global infrastructure increased around 6.5% in NZD hedged terms. Over the year, infrastructure increased around 23.7% and global property around 8.4% on a NZD hedged basis.

Market Indices: FTSE EPRA NAREIT, FTSE Dvlp Core Infra 50/50; NZD & NZD hedged basis

Where did you grow up and what did you enjoy in that environment?

Auckland born and partly bred, we grew up in Pakuranga and then I moved to Sunny Dunedin (or so a t-shirt told me) one week before high school started. Being a freshly arrived Aucklander in the south was interesting; I didn't really settle for about a year but in hindsight it was a great move. Being exposed to a somewhat different way of life was great. Plenty of friends who were (and still are) farmers through Central, exposed me to the outdoors more. I made some great mates through high school and University years.

I drank DB Export when down there (to annoy people), and now, ironically, drink the odd Speights up here (not a big beer drinker anymore though).

Tell me about your work experience?

Sarah and I met in university, graduated together and then moved straight to London where we spent 8 years. I worked for Schroders initially, a UK fund manager, and then moved to Goldman Sachs in Securities Lending (we supplied the short sellers so they could settle their trades) where I worked for about 5-6 years. Goldman shaped my work ethic and need for detail, we were worked hard and couldn't make mistakes. Being there through the Global Financial Crisis in 2008/9 was fascinating and scary at the same time.

In late-2010 Sarah and I came back to New Zealand to have our family, and I was lucky enough to land at Rutherford Rede. There were just the five of us at that stage (Jocelyn, Phil, Pauline, Rob, and I).

I have been lucky enough to watch and contribute to the growth of RR over the last 14 years. For my sins I have concentrated on compliance through my years at RR.

What is your role on Rutherford Rede?

First and foremost, I am an adviser and look after a group of clients that I enjoy and take pride in working with. This is why I am here.

I have been a shareholder since 2016, a director since 2017, and took on the role of Managing Director at the start of 2023. We have one of the strongest adviser teams in the country and a talented team behind them, so my role is to get out of the way as much as possible whilst maintaining standards, compliance, and strategic direction alongside the other directors.

What in particular do you enjoy at work?

The people - our team and my clients. But more than that, the ethos of RR. I work with good people, our clients are good people, and we are working in their best interest. Lots of firms use that tag line, Goldman did, but fell short at times, but I truly connect with the way Jocelyn, Henry, and all of our staff actually live it.

I couldn't do this job if I didn't believe in what we do, that we make a positive difference.

Tell me about your family

Sarah and I have been together for well over half our lives now, married for 17 years. We have Oliver, 14, Lily, 11, and Baxter the dog (4 in human years - a lockdown puppy); mentioned in reverse order of trouble they cause me. Oliver is at St Peter's, and Lily at Baradene.

Dad and Helen, Mum and Mike, two sisters, and one brother make up the wider family.

The kids are my world, and I am currently trying to make the most of them before I become very uncool and not to be hung out with. Ollie and Lily both snowboard and mountain bike, so I am holding on to coolness for as long as I can with that.

Q&A WITH RICHARD KNIGHT

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



What do you like to do outside work?

Family, golf, snowboard, mountain biking, kid's taxi driver, cooking, and red wine – not necessarily always in that order!

I have coached both kids in their football exploits, having never played a game in my life! I referee Oliver's games these days as my coaching was no longer up to scratch (Currently working towards becoming a qualified referee as the boys got too good for my half-baked interpretation of the rules). I also coach Lily's Baradene team.

I am an average but keen golfer, I can get down most sides of a mountain on a snowboard, trail behind Oliver on the mountain bike, and have built a moderate and ever-expanding wine cellar to enjoy in the years to come. My stepdad, Mike, fostered a love of cooking which developed as I worked through University, managing a restaurant and then front of house at a high-end restaurant.

What in particular brings you the most satisfaction when working with clients?

The AB's ethos of only good people runs through RR and oozes into our client base. I enjoy working with my clients on a human level, the relationships I am lucky enough to form, and the people I get to meet and learn from. The best meeting is one where we just talk about their lives, their family, my family, and of course relate all of that back to the strategy and what markets are doing.

Working for good people, helping shape their lives for the positive – I believe in what we do and who we do it for.



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