RUTHERFORD REDE

insights

SPRING 2025

IN THIS ISSUE

ECONOMIC & MARKET COMMENTARY

SEPTEMBER QUARTER 2025

Overview

Most asset classes enjoyed a strong September quarter.

Markets enjoyed strong returns over the September quarter. On the macroeconomic front this was driven by interest rate cuts and economic data exceeding expectations for the US, Europe, and most of the Asia-Pacific Region – with the notable exception of New Zealand. The AI boom continued to drive up share prices of very large tech companies like Alphabet (Google) and Nvidia, but it is important to stress that gains were broad-based across countries and different market sectors

The NZ dollar continued its fall over the quarter, leading to materially higher unhedged equity returns.

Global equity markets rose around 7.6% in the quarter in local currency and NZ dollar hedged terms, and a remarkable 12.1% on an unhedged basis (Figure 1). Over the year to September, unhedged global equity returns were around 29%, while NZD hedged returns were 'only' around 17%. The much stronger unhedged return is the flipside of our relatively poor economic performance. Markets have 'priced in' further material interest rate cuts by the RBNZ, and this caused our currency to decline a further 5% or so over the quarter against a range of currencies, including the US dollar, Euro, and Australian dollar.

Positive equity returns were broad-based, with Emerging Markets keeping pace with the blistering performance of developed market equities.

Within global equites, small cap stocks outperformed, rising by 13.5% in NZD terms, while value stocks underperformed, rising by 'only' around 10.5%. Both small and value 'factors' also underperformed over the year, which mainly reflects the US as opposed to other countries share markets.

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

Source: Morningstar Direct, MyFiduciary

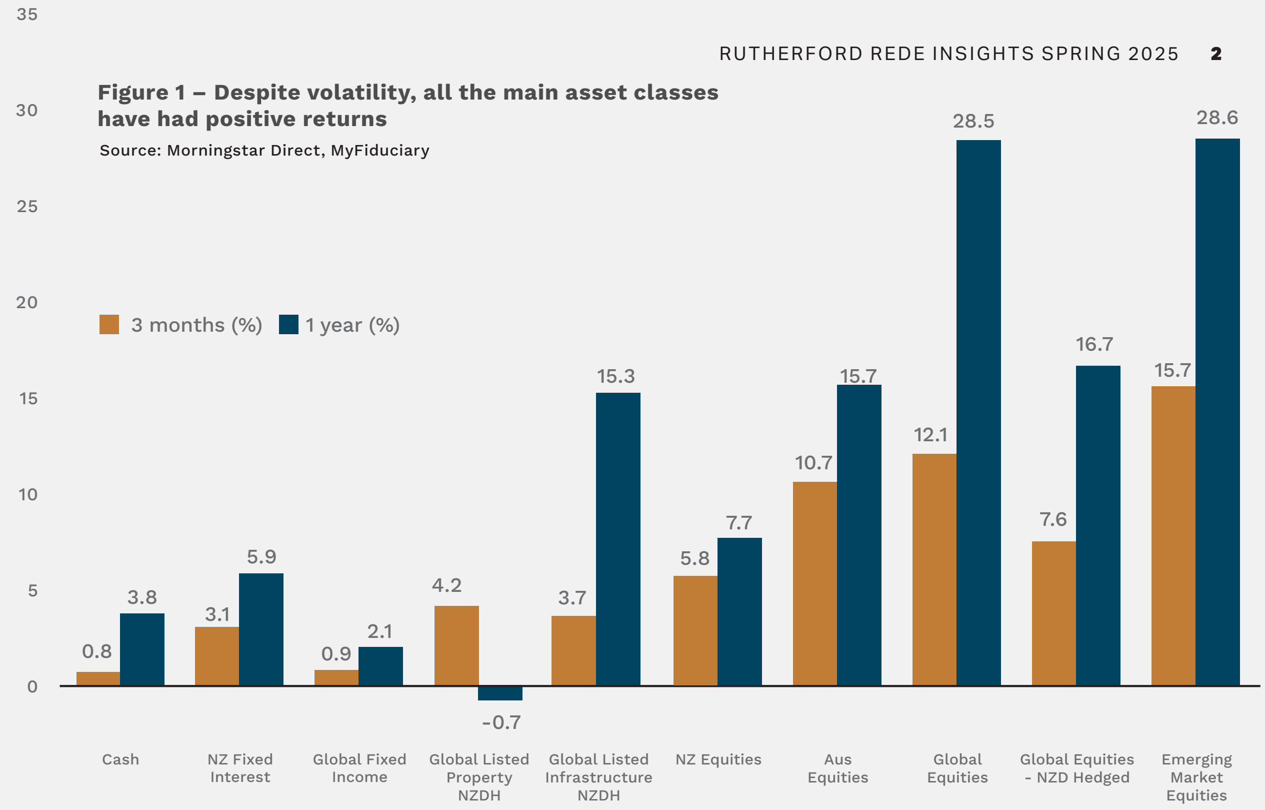
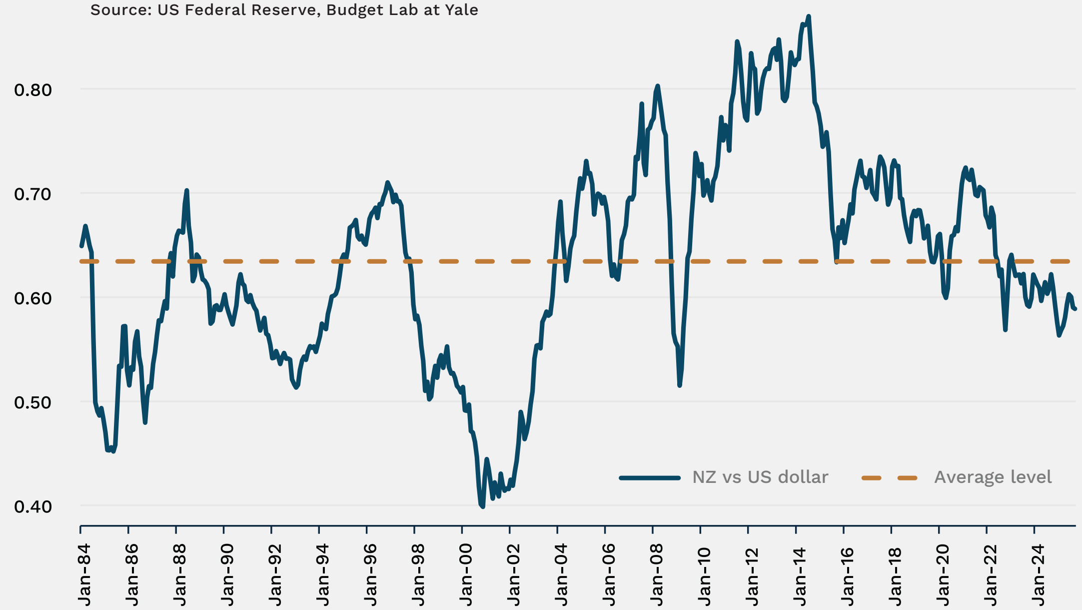


Figure 2 – US fiscal policy is unsustainable. US Federal debt as percent of GDP

Source: US Federal Reserve, Budget Lab at Yale



For example, Australian equities increased around 16% in NZD terms over the year, while Australian value stocks increased around 23% and small caps around 27%. Our feature this quarter looks at global equities further. Emerging market equities returned 15.7% in the quarter and matched the performance of developed markets over the year. Rounding the pack, the NZ share market lagged, rising by around 5.8% in the quarter and 7.7% over the year.

While NZ's poor economic performance hampered our share market it helped NZ bond returns.

NZ bonds performed well given our lower interest rate outlook, rising by around 3% in the quarter and 6% over the year. In contrast, offshore bonds returned only around 1% in the quarter and 2% over the year as markets factored in stronger than expected economic data. As per our last update, rising fiscal risks are also impacting long-term interest rates. Interest rate sensitive global property and infrastructure performed relatively well given this, increasing by around 4% in NZD hedged terms, and 9% unhedged.

We continue to monitor US-centric risks. At home, while it has been another annulus horribilis for our economy it is also very unusual to see a weak currency coinciding with very strong agricultural commodity prices. Rural NZ is starting to boom, and our external trade balance is improving, something that generally leads our currency to appreciate over time. We can't forecast when the turn around will occur, but we can say the currency cycle is far from over (Figure 2).

SPECIAL FEATURE: GLOBAL EQUITIES

Why global equities feature in portfolios

Global equities (including developed markets, emerging markets, and Australian equities) are the growth engine of your portfolio, at around 85% or so of equities holdings. The high weight we place on global equities reflects several factors:

1. First and foremost it reflects our very high conviction that a globally diversified exposure to global listed companies will earn a significantly higher return than NZ cash or bonds over medium to long-term periods.

2. Second, it reflects that global equities materially help diversify your assets away from downside risk to the New Zealand economy and related local 'shocks' (from natural disasters to bad economic policies) that impact NZ assets (such as the family home, directly held business investments and assets, and investments in listed companies on the NZ stock exchange).

3. Third, listed equities are in general very liquid. Money can be raised in a short period of time across almost all market conditions, unlike unlisted assets where settlement time frames (that don't incur a penalty) might take months or even years. They can hence be relied upon to meet your spending or withdrawal requirements when it is needed.

Performance of global equities

In theory and in practice, investment into equity markets earns an 'equity risk premium' or excess return to cash and bonds to compensate investors for the fact that over short time periods equity markets are volatile, and 'paper' losses historically occur in around 1 of every 3 or so years. The following table provides a historic accounting of this, drawing from standard market indexes in NZD terms over the past 30 years. We see that both global and NZ equities delivered an excess return to cash of around 3.8% per annum – which is in line with our forward-looking long-run equity risk premium assumption. We also see that the Australian and particularly the US market have out-performed, on average, over this historical period

Table 1: Performance of equity markets since 1995

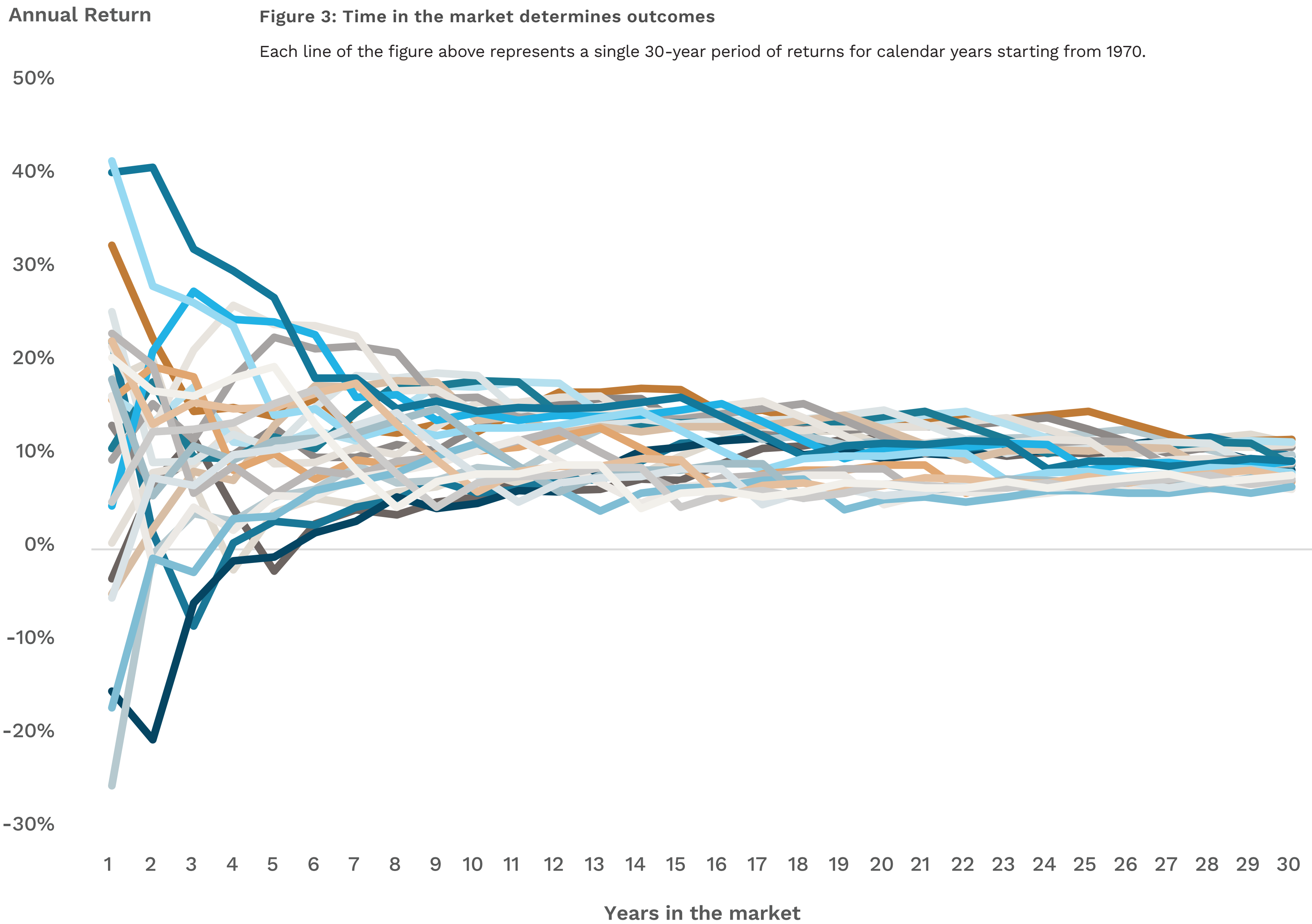
Market	NZD return	Excess return to NZ Govt bonds	Excess return to NZ 90 day cash	% returns are negative over a year
Global equities (MSCI world index)	8.5%	3.2%	3.8%	35%
US equities (S&P 500 Index)	10.9%	5.6%	6.2%	30%
Australia (ASX 200 Index)	9.2%	3.9%	4.5%	27%
NZ equities (NZ All index)	8.6%	3.3%	3.9%	22%

But does timing matter for whether an investor gets into equity markets? Importantly, providing global equity exposures are well diversified across companies, sectors and geographies, we can expect to see good performance from equities over the longer term regardless of how 'lucky' or 'unlucky' an investor is on when they first invest into global markets. This is shown in Figure 3 which looks at performance over rolling 30-year investment periods for US equity market data going back to 1970 – a period of time that includes high inflation in the 1970s and 1980s, along with various market crashes. We see that while the first year has a very large range of return outcomes, by year 7 or so all returns are positive, and by year 30 the return range is considerably narrowed with returns from around 7-12% p.a. The key point to take for this is that equity market risk declines with time (in the jargon, equities are subject to mean reversion in their return).

Going forward, we expect global equity returns to continue to earn a material excess return to cash over the medium to long term, despite the very strong performance over recent years. But as mentioned, diversification is key to ensure that this occurs even if there is a 'correction' at some stage in the short to medium term. We can be confident that the market overall will bounce from any correction, and will dynamically adjust to changes in technologies, consumer preferences, interest rates, growth conditions, climate change, and the host of other factors and risks that impact markets.

Figure 3: Time in the market determines outcomes

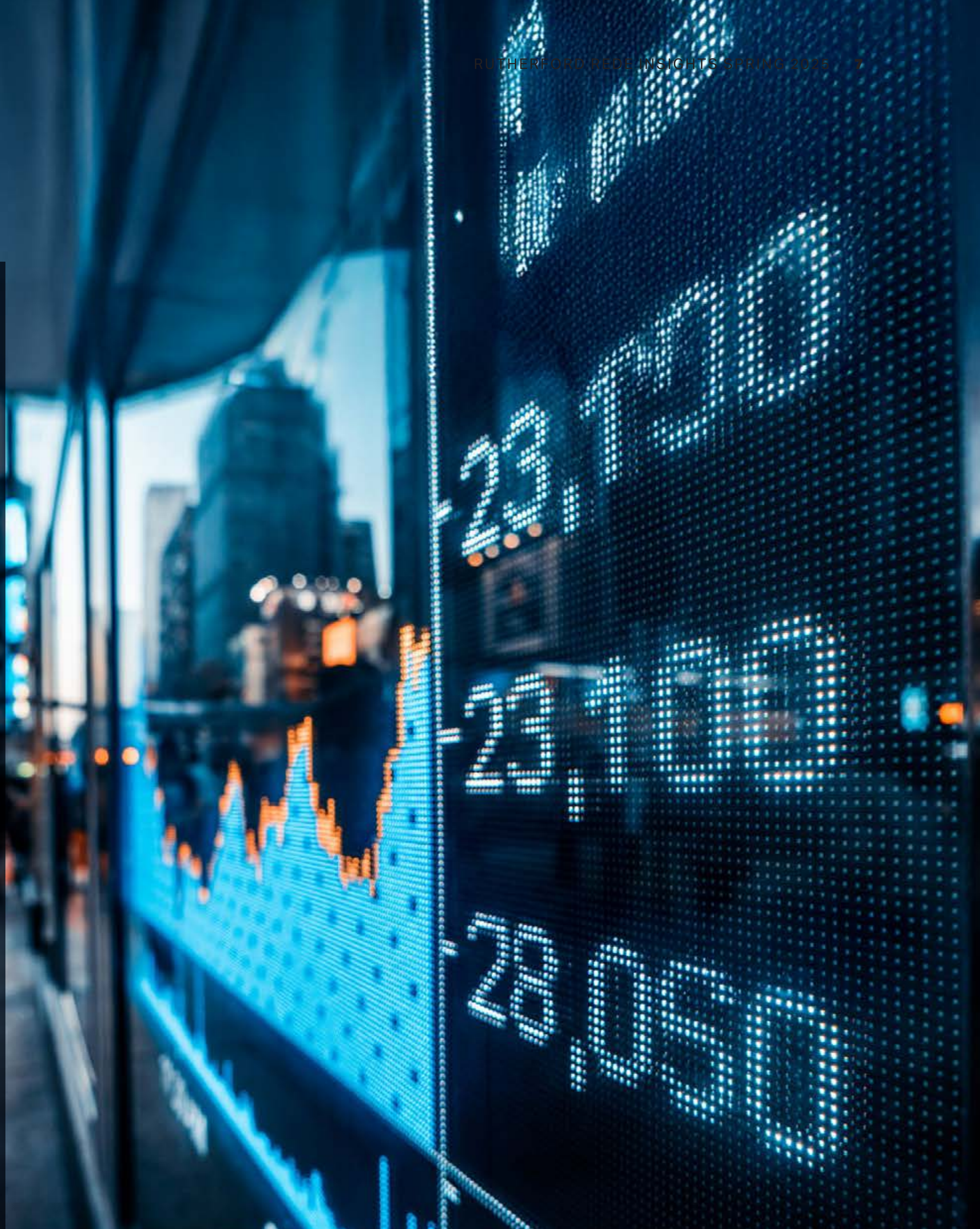
Each line of the figure above represents a single 30-year period of returns for calendar years starting from 1970.



We are a little less confident about the long-term prospects of a single market (even for one as large as the US), much less confident about the long-term prospects of a single sector (e.g. healthcare, IT or energy) and not confident at all about the long-term prospects of any specific company. History again is illustrative. A century ago, the largest sector on the US and UK exchanges was railroads. Today railroad companies do not make even 1% of the market capitalisation of US stocks. The average tenure of a company that is large enough to make it on the S&P500 index is less than 20 years, and research suggests that being larger doesn't mean you will last longer. While companies like Nvidia, Meta and Alphabet lead the pack today, financial history suggests they are not guaranteed to remain in place over the longer term. The table below illustrates movements of the top 10 stocks in the US market over the past 50 years. This matters in terms of how we seek to access and manage equity risk in your portfolio.

Table 2: Top 10 US companies at year end of the last five decades

1980	1990	2000	2010	2020	2025
IBM	IBM	General Electric	Exxon Mobil	Apple	NVIDIA
AT&T (Ma Bell)	Exxon Mobil	Exxon Mobil	Apple	Microsoft	Microsoft
Exxon	General Electric	Pfizer	Microsoft	Amazon	Apple
General Motors	Philip Morris	Cisco	General Electric	Alphabet	Amazon
Amoco	Royal Dutch Shell	Citigroup	Chevron	Facebook (now Meta)	Alphabet
Mobil	Bristol Myers Squibb	Walmart	IBM	Tesla	Meta
Texaco	Merck & Co.	Microsoft	Procter & Gamble	Berkshire Hathaway	Broadcom
General Electric	Walmart	AIG	AT&T	Johnson & Johnson	Berkshire Hathaway
DuPont	AT&T	Merck & Co.	Johnson & Johnson	JPMorgan Chase	Tesla
Chevron	Coca Cola	Intel	JPMorgan Chase	Visa	JPMorgan Chase



Global equity market funds and implications for your portfolio

We recommend access to global equities via well-diversified equity funds. In general, the 'core' exposures are relatively low-cost funds that seek to obtain a broad index exposure subject to any Responsible Investment considerations and targeting of equity 'factors' (e.g. placing more weight on small and middle cap funds relative to the market overall). This preference is in-line with our empirically grounded investment beliefs that:

1. It is difficult to identify fund managers ex-ante (based on forecasts rather than actual returns) that consistently beat a broad market index return net of fees; but
2. At the same time, exposure to factors such as smaller cap stocks and value stocks can earn a higher return than the market overall over a sufficiently long time period.

We have recently completed a review of such global equity funds available to New Zealand investors. Our research is in-line with the beliefs above, with the main caveat being that value and smaller-cap stocks have not offered a premium over the past decade at the global level, even though value has outperformed in most non-US markets (including in Australia, Emerging Markets, Europe and ex-US stocks in general) and large cap stocks have under-performed in many markets outside of the US.

In part, this reflects the fact that until recently equity market performances was concentrated in US large cap tech stocks, which in turn have become a very large component of US and global stocks. Our allocation to funds that target factors reduces the risk that these stocks under-perform going forward relative to holding the market. We have recently further reduced this risk, and the weight to US stocks in general, by allocating some of the global developed equity exposure to an ex-US developed market equity fund. This complements your existing exposure to emerging markets and Trans-Tasman stocks.

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 **+5.8%**
PAST YEAR **+7.7%**

New Zealand Shares: New Zealand shares rose by 5.8% in the quarter, responding favourably to cuts in the OCR by the Reserve Bank. The sluggish economic recovery has however acted as a headwind relative to global share markets.
Market Index: S&P/NZX 50 Total Return Index with Imputation Credits.

QTRLY RETURN **+3.1%**
PAST YEAR **+5.9%**

New Zealand Fixed Income: NZ investment grade bonds returned 3.1% over the quarter and 5.9% 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 **+10.7%**
PAST YEAR **+15.7%**

Australian Shares: Australian shares had another very strong quarter, rising by more than 10% in NZD terms. In part this reflected the NZD declining by around 6% versus the AUD over the quarter. Value stocks returned 17% in the quarter, while small caps led the pack rising around 22%.
Market Index: S&P/ASX 200.

QTRLY RETURN **+12.1%** (+7.6% hedged)
PAST YEAR **+28.5%** (+16.7% hedged)

International Shares: International shares rose around 7.6% in local currency and NZD hedged terms, and 12.1% in NZD terms as the Kiwi fell against the US dollar and other major currencies. This brought the annual results to around 28.5% in NZD terms, while NZD hedged returns were weaker at around 16.7% given the decline in the NZD over the year. Value stocks under-performed in the quarter, increasing 'only' by around 10.5% in in NZD terms, while small caps outperformed, increasing by around 13.5% in the quarter.
Market Indices: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value, MSCI World Small Cap in NZD terms.

QTRLY RETURN **+15.7%**
PAST YEAR **+28.6%**

Emerging Markets: Emerging Markets again performed well this quarter, rising by around 15.7% in NZD terms. This lifted their annual return to around 28.6%, in line with developed market equities over the year and ahead of equity returns in NZ and Australia.
Market Index: MSCI Emerging Markets Index.

QTRLY RETURN **+0.9%**
PAST YEAR **+2.1%**

International Fixed Income: Global investment grade bonds increased by around 0.9% in the September quarter which brought the annual return to around 2.1%. Global growth has been stronger than expected (particularly in the US) and this has caused longer term rates to increase, driving yield higher and causing marked-to-market losses.
Market Index: Bloomberg Barclays Global Aggregate Index (hedged to NZD).

QTRLY RETURN **+3.7%**
PAST YEAR **+15.3%**

International Property and Infrastructure: International infrastructure rose 3.7% in the quarter in NZD hedged terms, while global property increased around 4.2% in NZD hedged terms. Over the year, infrastructure increased around 15.3% and global property fell slightly on a NZD hedged basis.
Market Indices: FTSE EPRA NAREIT, FTSE Dvlp Core Infra 50/50; NZD & NZD hedged basis.

Q&A WITH ADAM THOMPSON

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

Meet Adam

Let's start with an icebreaker. Technically, I am Lord Adam Thompson. A good friend once gifted me about three square feet of land in Scotland as a wedding present, which apparently comes with the title. It's more novelty than nobility, but it always makes for a good story.

Where did you grow up?

I grew up in Nelson, the eldest child of two teachers. My brother is now a teacher in Brisbane, which makes me the only one who didn't follow the family profession. Having parents who worked with children every day certainly shaped the way they raised us. The best part was always having school holidays together, usually spent in the campervan travelling the country. The harder part, at least from a teenage perspective, was living with teacher-style parenting at home.

In high school, I threw myself into all sorts of interests: a short-lived rock band, a couple of fledgling business ideas, and plenty of sport. Volleyball became the standout. My college team won the South Island tournament several times and medalled nationally, and I was proud to represent the South Island team and trial for the New Zealand junior squad. I didn't make the final cut, but the experience remains a highlight. I haven't played in years, and looking back, it's one of those things I wish I'd kept up.

Study and career

I began my studies in Nelson on a scholarship to the local Polytech before moving to the University of Canterbury in Christchurch. That move turned out to be life changing, not only for my degree but also because I met Hazel, my future wife, in a financial modelling class. I like to joke that our eyes locked over a spreadsheet and the rest is history.

After graduating, I stayed in Christchurch and helped to build a software tool that compared KiwiSaver schemes, which were still new at the time. After the earthquake, which was a harrowing experience, Hazel and I moved cities, and our careers eventually took us overseas. We spent a few years in London, and the night we returned home was the night of the Kaikoura earthquake. After more than 30 hours of flying, we were woken by the ground shaking and hours of tsunami alarms. It felt like a very Kiwi welcome back.

Over the years, my career has included both deliberate moves and opportunistic turns, but it has always centred on finance, helping people, or both. A particular highlight was helping to run a government-backed co-investment fund that supported Kiwi companies to expand internationally. I also became involved in governance, mentoring, and coaching. The most unusual role was serving on the board of a castle in London. The most rewarding was helping refugees in New Zealand start businesses and build new lives here.

Why financial advice?

Working with fast-growing businesses at the government-backed fund was exciting, but I realised that what I missed most was the people. Every investment opportunity ultimately reduced a whole business to the same checklist of strategy, teams, and financial projections. What I enjoyed most were the conversations: helping people think clearly, make confident decisions, and move forward.

That realisation brought me back to financial advice, and more specifically into financial planning. There is a Japanese concept called Ikigai, which means your reason for being. For me, it is this: I am good at making financial concepts easy to understand, I enjoy coaching people, and I love helping them live the best lives they can. Financial planning ties all of that together. When I decided to return to the industry, a trusted friend recommended Rutherford Rede as the standout place in New Zealand to do it.

Outside of work

Outside of work, my most important title is not “Lord” but “Dad.” Hazel and I have two young children, aged five and three, so life is busy and full. One of the moments I treasure most now is the walk to school with my son, his hand in mine. I’m aware that these small rituals are fleeting and that one day soon he will want to walk ahead on his own.

When I get time for myself, I enjoy running and am currently training for my first half marathon. As a family, we also share a recently renewed passion for vehicles. We restored a classic Fiat Bambina, now kept in Nelson under my dad’s care, and recently took our newly purchased campervan on its first proper road trip.

Christmas plans?

Everyone has a “special place” that feels like home, no matter where life takes them. For us, that place is Kaiteriteri Beach. Both Hazel and I grew up holidaying there before we knew each other, and now it is where we take our kids regularly. This Christmas we will be at the campground, then in January we’ll take the long way home to Auckland in the campervan.

RUTHERFORD REDE

Rutherford Rede Limited

91 College Hill, Ponsonby,
Auckland, New Zealand
PO Box 147246

+64 9 361 3670

rutherfordrede.co.nz