



RUTHERFORD REDE

insights



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ECONOMIC & MARKET COMMENTARY

DECEMBER QUARTER 2025

Overview

Equities rose while bonds and property lagged, as global inflation eased and central banks began winding down tightening cycles.

Markets delivered a more nuanced performance in the December 2025 quarter following the strength seen in September. Most equity markets posted solid gains, while interest rate-sensitive assets such as bonds and listed property struggled as yields edged higher. The NZ dollar continued to weaken, albeit less dramatically than before, which boosted unhedged overseas equity returns. Emerging markets extended their rally and outpaced developed markets, while New Zealand's share market rose modestly amid a sluggish economic recovery.

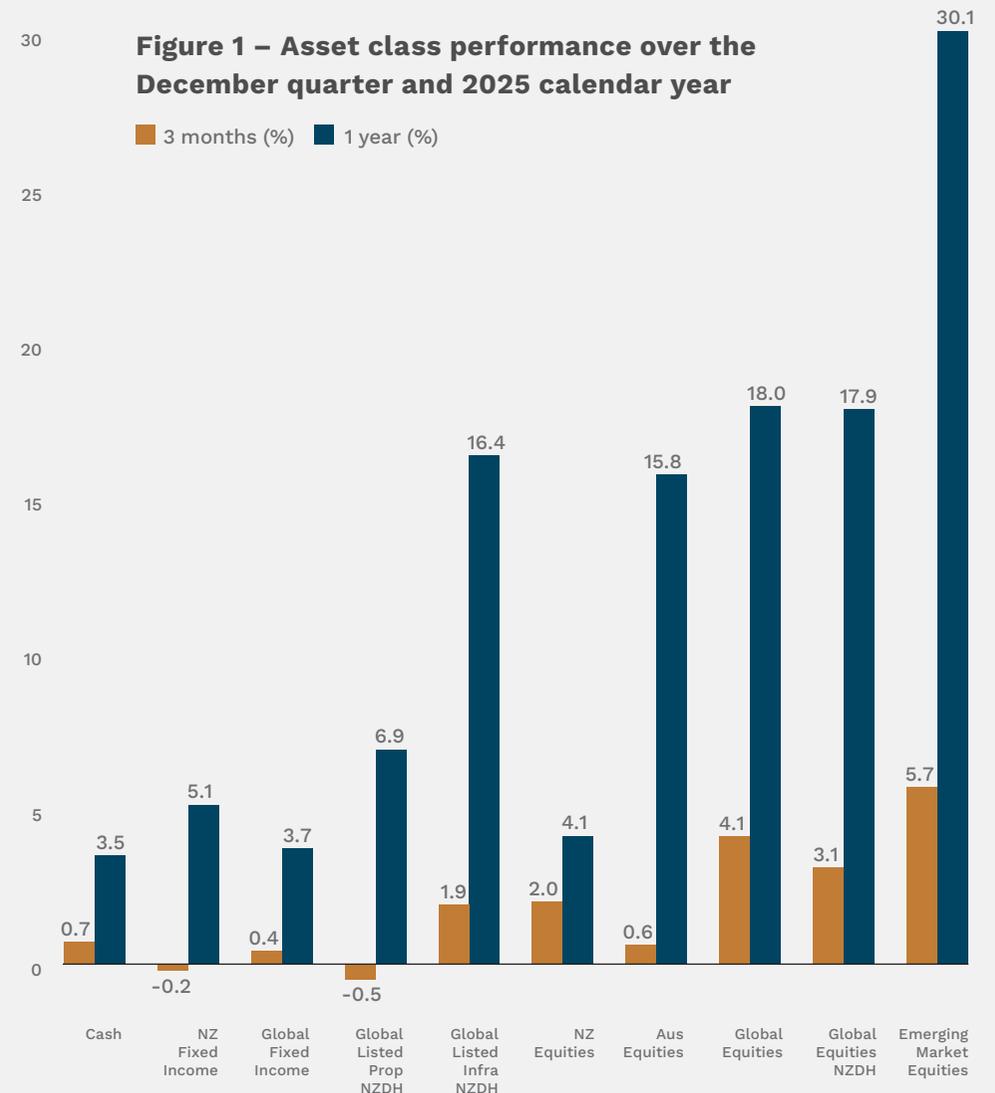
Diverging macroeconomic conditions were a key driver of these outcomes. The U.S. economy remained resilient, prompting only cautious easing by the Federal Reserve, whereas New Zealand, Europe, and China continued to require low interest rates due to persistent economic softness. Notably, the Reserve Bank of New Zealand signalled that its rate-cutting cycle may be nearing completion, with the Official Cash Rate currently at 2.25% – a level that underscores how far rates have already fallen.

Currency effects narrowed the gap between hedged and unhedged returns, with emerging markets leading and New Zealand equities lagging.

Global equity returns in NZD terms were higher on an unhedged basis (around 4.1%) than hedged (around 3.1%) for the quarter. Over the year, returns converged at approximately 18% for both currency positions, a reversal from the year to September when unhedged returns significantly outperformed. This shift highlights the difficulty of forecasting currency movements and reinforces the value of maintaining a mix of hedged and unhedged exposures to reduce portfolio risk. Emerging market equities returned approximately 5.7% in the quarter and ended the year up around 30%, outperforming developed markets. In contrast, New Zealand equities rose by about 2% in the quarter and 4.1% over the year. Australian shares were nearly flat for the quarter but gained around 15% for the year in NZD terms. Style factors had limited impact, with value stocks performing broadly in line with the market and small-cap stocks underperforming slightly over the year.

Fixed income and real assets faced headwinds from rising yields.

Bond market returns were subdued to negative. New Zealand investment-grade bonds declined by approximately 0.2% in the quarter but gained 5.1% over the year. Global bonds posted a modest 0.4% return for the quarter and around 3.7% for the year. Global listed property NZDH declined by approximately 0.5% in the quarter and around 6.9% for the year.



ECONOMIC & MARKET COMMENTARY CONTINUED

Rising longer-term interest rates, particularly in the U.S., weighed on fixed income performance. Listed property and infrastructure also faced headwinds, with global infrastructure rising 1.9% and global property falling 0.5% in NZD hedged terms during the quarter. Over the full year, listed infrastructure delivered strong returns of around 16%, while listed property returned approximately 7%.

Broad-based equity gains across regions highlighted the importance of global diversification as market leadership rotated.

Unlike 2024, when U.S. mega-cap tech stocks dominated returns, equity gains in 2025 were more broad-based. Non-U.S. markets and emerging economies contributed meaningfully, and portfolios with global diversification benefited from this shift. Market leadership rotated across regions and sectors, reinforcing the importance of maintaining broad exposure. Diversification remains essential to capturing a wide range of opportunities while mitigating the risk of underperformance in any single segment. Our feature this quarter discusses the role of equity factor investing in this regard.



GLOBAL EQUITY FACTOR INVESTING

Factor investing

Diversification across regions, sectors, and investment styles remains the foundation of our global equity approach. By spreading investments widely, we reduce stock specific risks and improve the reliability of long term returns. Within this diversified mix, factor investing provides an additional source of potential performance. Factors are well researched characteristics – such as size, value, quality, and momentum – that have historically helped portfolios outperform a traditional market capitalisation index. Decades of academic and practitioner research support the idea that systematically tilting towards these

factors can enhance returns and improve portfolio resilience.

Regional differences – US vs. rest of world

Our research highlights a major regional divergence in one of the core factors: **value**. Since the Global Financial Crisis, value has been notably weak in the United States, largely due to the dominance of large cap growth and technology stocks. By contrast, value has remained robust outside the US. From 2000–2025, developed ex US markets delivered a 6.3% annual value premium, and emerging markets produced 8.4%. This difference matters for portfolio construction. Recently, we reduced US equity exposure in our model portfolios,

which naturally increases exposure to non US markets where value premiums are stronger. This shift enhances our factor diversification without compromising returns, particularly given the strong 2025 performance outside the US.

Quality factor – varied definitions and recent behaviour

There is no universally agreed definition of the quality factor. While profitability (RMW) and conservative investment (CMA) from the Fama–French framework are often used, active managers interpret “quality” in different ways. Some focus on consistently high returns on equity, others on stable earnings, low leverage, or strong free cash flow generation.

Our research shows that profitability has been the most reliable driver, delivering positive premiums across regions.

The investment factor (CMA) has historically rewarded companies with lower capital expenditure, but recent market dynamics – particularly massive AI related infrastructure spending – have reversed the premium in the US. High CAPEX firms such as chipmakers and data centre operators have performed exceptionally well. While this recent outperformance has pushed CMA premiums negative in the US, analysts question whether such heavy spending is sustainable or will ultimately weigh on future profits. Notably, this reversal has not occurred in markets outside the US.

Momentum factor – consistently strong

Among the major factors, momentum stands out as the most consistently positive across time and regions. Momentum captures the tendency for recent outperformers to continue outperforming over the short to medium term. Since 2010, momentum has delivered notably strong returns across all measured periods and all regions, with particularly strong performance in emerging markets (11.3% annually over 2010–2025) and developed ex-US markets (8.3% over the same period).

Unlike value and size, momentum has not experienced a prolonged period of negative returns in recent years. Approaches to capturing momentum vary: some fund managers, such as Dimensional, apply momentum as a filter, excluding or down weighting stocks with weak or negative momentum signals.

The table below provides a summary of the five factors we have analysed and how the data has been calculated.

Factor	Calculation
Size: SMB (Small Minus Big)	The difference between the average return of the small-cap portfolio and the average return of the large-cap portfolio
Value: HML (High Minus Low)	The difference between the average return of the high book-to-market (value) portfolio and the average return of the low book-to-market (growth) portfolio
Profitability: RMW (Robust Minus Weak)	The difference between the average return of the robust profitability portfolio and the average return of the weak profitability portfolio
Investment: CMA (Conservative Minus Aggressive)	The difference between the average return of the conservative investment portfolio and the average return of the aggressive investment portfolio
Momentum: WML (Winners Minus Losers)	The difference between the average return of the recent-winner portfolio and the average return of the recent-loser portfolio

Capturing factor premiums – long term focus

Academic work (including Ken French’s datasets) and research from UBS, Dimensional, and Schroder consistently show that factor premiums exist across markets and long time periods. However, they also show that factor performance can vary significantly from year to year.

Short term predictions are unreliable: a poor year for a factor does not lead to improved returns the following year.

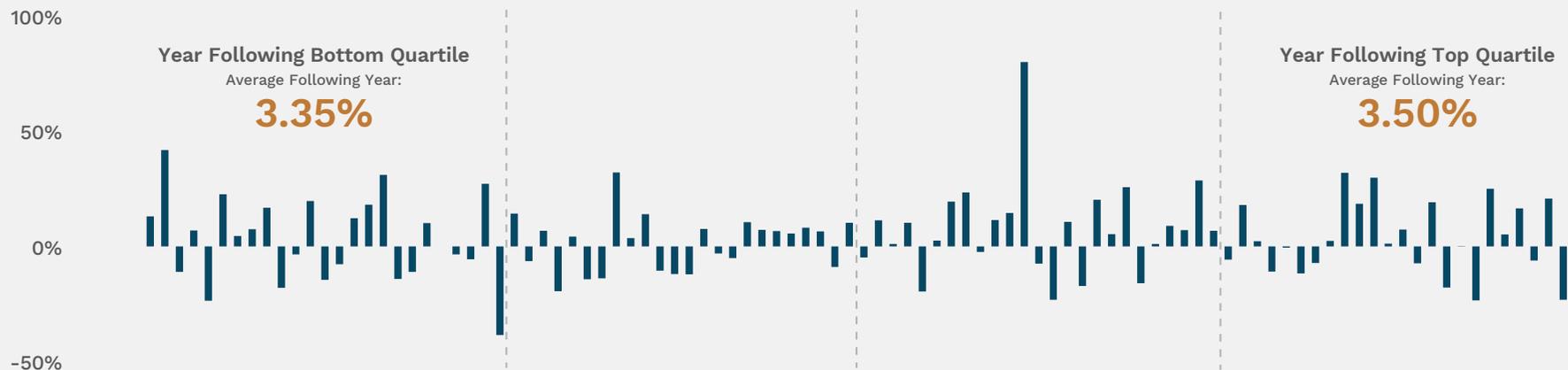
For example, as shown below, Dimensional’s research on annual value premiums and subsequent year value premiums in the US market from 1927 to 2024 reveals that the average subsequent year returns for both the bottom and top quartiles are nearly identical.

This reinforces the importance of strategic, long term exposure rather than attempting to time factors. Our portfolios follow this principle by maintaining broad market exposure while tilting methodically toward value, size, quality, and momentum using specialist fund managers.

Long term trends across regions

Long term data (stretching back to the early 1900s) shows that value, size, and momentum premiums are positive over many decades. However, the post GFC era has been unusual: size and value premiums have been weak or negative in the US since 2010 due to the rising dominance of mega cap growth stocks. Outside the US – particularly in developed ex US and emerging markets – value has remained strong, although size has been less reliable.

Given these patterns, we believe factor exposure is best achieved through a strategic allocation, not tactical movements. Our portfolios are designed with clear long term exposure targets, especially for value and, to a lesser extent, size. We also deliberately diversify across regions and fund managers, since factors can be implemented in different ways and may behave differently across markets.



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
↑ +2.0%

PAST YEAR
↑ +4.1%

New Zealand Shares: New Zealand shares rose by 2.0% in the quarter, supported by easing inflation pressures and improved investor sentiment. 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
↓ -0.2%

PAST YEAR
↑ +5.1%

New Zealand Fixed Income: NZ investment grade bonds returned -0.2% over the quarter and 5.1% over the year. This in part reflected marked-to-market gains from a reduction in the outlook for interest rates in New Zealand, alongside a softer December quarter in which longer-term yields edged higher as the RBNZ signalled that its easing cycle was nearing completion.

Market Index: [S&P/NZX Composite Investment Grade Index](#)



QTRLY RETURN
↑ +0.6%

PAST YEAR
↑ +15.8%

Australian Shares: Australian shares posted a modest gain of 0.6% in NZD terms for the quarter, despite a negative 1.0% return in local currency, which reflected the NZD weakening against the AUD. Value stocks were broadly flat, while small caps rose by approximately 2.9%. The resources sector stood out, climbing 13% over the quarter.

Market Index: [S&P/ASX 200](#)



QTRLY RETURN
↑ +4.1%
(+3.1% hedged)

PAST YEAR
↑ +18.0%
(+17.9% hedged)

International Shares: International shares rose around 3.1% in local currency and NZD hedged terms, and 4.1% in NZD terms as the Kiwi fell against the US dollar and other major currencies. Over the past year, returns were strong and similar across currency positions, up 18.0% unhedged and 17.9% hedged. Value stocks performed broadly in line with the overall index for both periods, while small caps underperformed marginally over the year.

Market Indices: [MSCI World Index](#); [MSCI World 100% Hedged NR NZD](#), [MSCI World Value](#), [MSCI World Small Cap in NZD terms](#).



QTRLY RETURN
↑ +5.7%

PAST YEAR
↑ +30.1%

Emerging Markets: Emerging Markets again performed well this quarter, rising by around 5.7% in NZD terms. This lifted their annual return to around 30.1%, significantly outperforming developed market equities over the year and ahead of equity returns in NZ and Australia.

Market Index: [MSCI Emerging Markets Index](#)



QTRLY RETURN
↑ +0.4%

PAST YEAR
↑ +3.7%

International Fixed Income: Global investment grade bonds increased by around 0.4% in the December quarter which brought the annual return to around 3.7%. 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
↑ +1.9%
(infra)

PAST YEAR
↑ +16.4%
(infra)

International Property and Infrastructure: International infrastructure rose 1.9% in the quarter in NZD hedged terms, while global property decreased around 0.5% in NZD hedged terms. Over the year, infrastructure increased around 16.4% and global property rose 6.9% on a NZD hedged basis. Market Indices: [FTSE EPRA NAREIT](#), [FTSE Dvlp Core Infra 50/50](#); NZD & NZD hedged basis

Tell me about where you are from and your family

Some may call me a girl from a small town, and they wouldn't be wrong. Christchurch feels relatively small compared to where I live now, after all. My parents migrated from Korea to New Zealand as missionaries with very little and raised my brother and me in Christchurch with a strong sense of perseverance.

Christchurch remains very much my home base. My parents still live in the same house we mostly grew up in, the one I walked to and from high school every morning, and my brother has since settled just a short walk away. You might gather from this that much of our lives were spent within this small vicinity, so yet, despite spending my entire childhood there, I realise I don't actually know Christchurch as widely as one might expect.

Looking back, it's a place I've grown to appreciate more with time; the flat land, the cool breeze (rarely humid), the laid-back pace, and the easy access to reserves and parks almost everywhere you go. It's truly a blessing to know that all I need to do to travel back in time is return to Christchurch, to wander its wider surroundings, rewind a little, and revisit the place where so many of my childhood memories were planted.

Tell me about your study and what you enjoyed most

As I neared my high school graduation, the next step on my family agenda was university, and I chose Otago for two main reasons, a) to venture beyond Christchurch and, b) somewhat embarrassingly, to follow my friends. Thankfully, it turned out to be a great decision. Moving away gave me the opportunity to experience

independence and learn how to navigate life without the daily, hands-on support of my parents, which I likely would have had if I'd stayed closer to home.

A good chunk of my university years was spent juggling assignments, getting to classes, and summoning the motivation to balance academic life with extracurricular commitments. I joined an independent non-profit organisation and took on two leadership roles within the finance and customer service departments. To say the least, it was challenging, but also deeply rewarding.

Time, however, has a way of moving us forward. Before I knew it, I had graduated, and now more than five years have passed.

Looking back, it's hard to pinpoint a single highlight, but surviving the experience, building resilience, and discovering my innate perseverance stand out. Coming out the other side with a finance degree and applying it in the "real" world through my role at Rutherford Rede, also feels like a win.

Q&A WITH JOANNA LEE

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 when you are not at work?

Outside of work, I try to stay active, whether that's playing tennis when the weather permits, attending my regular Pilates classes, or running, which has become my entire personality thanks to the sunny weather we've been having. Staying active helps counterbalance the hours spent at my desk, keeps my body moving, and creates a clear boundary between my workday and personal time. As a bonus, it promotes good sleep hygiene, something I've become surprisingly committed to recently and would happily count as an interest outside of work.

What do you like most about your work?

My work gives me the opportunity to challenge myself mentally and fully invest my energy into the role I'm given. It allows me to build a strong sense of professional identity and leaves me feeling accomplished at the end of each day. Interestingly as someone who values her solitude, it turns out that the people, both colleagues and clients, make the experience even more rewarding. Being part of Rutherford Rede, surrounded by a culture that has already been thoughtfully built, has meant a great deal to me over the past three years, and I look forward to many more to come.

What is the most important thing you do for your clients?

One of the most important things Jocelyn and I do for our clients is take responsibility for keeping their financial affairs organised, allowing them to focus their time and energy on what matters most to them. I believe that providing clarity, peace of mind, and confidence for the years ahead adds lasting value to our clients' lives, which is why we apply our knowledge and energy to delivering the information and guidance they need.

Above all, I believe in treating our clients with genuine respect and kindness, qualities they so readily extend to us in return. It's a simple principle, but one that makes the work meaningful and enjoyable, and keeps everything pleasantly human.





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