Market Overview

Russell Investments

Global Market Comment

Q4 2020

Global shares

Global share markets made good gains in the December quarter, with the MSCI ACWI Index – Net returning 5.3% in unhedged New Zealand dollar (NZD) terms. In hedged NZD terms, the Index returned 12.3%. Much of the gains were driven by encouraging developments on the COVID-19 vaccine front, with several leading pharmaceutical companies announcing vaccines that proved to be more than 90% effective in combatting the virus. This saw investors pile into stocks on hopes that those countries hit hardest by the pandemic will soon be able to begin the process of (fully) reopening their economies. However, hopes of a return to normal any time soon were tempered somewhat by a late surge in new infections globally and the emergence of a new strain of the virus in the UK, which scientists warned spreads more quickly than others. Stocks also benefited from easing US political uncertainty after members of the Electoral College officially confirmed Joe Biden as the country's next president and congressional leaders finally agreed a new stimulus package. Sentiment was further buoyed by news Britain and the European Union had reached a post-Brexit trade deal – albeit with just days to spare – and strong rebounds in US, Chinese and euro-zone growth. Limiting the advance was a further escalation in tensions between Washington and Beijing and some sobering comments from US Federal Reserve chairman, Jerome Powell, who said US economic activity remains "well below" pre-pandemic levels.

The three major US indices – the S&P 500 Index (11.7%), the Dow Jones Industrial Average (10.2%) and the tech-heavy NASDAQ Composite Index (15.4%) – all hit record highs during the quarter. Share markets were also higher in Japan (18.4%[1]), China (13.6%[2]), Europe (11.2%[3]) and the UK (10.1%[4]).

New Zealand shares

The New Zealand share market performed very well over the period, returning 11.5%[5]. The local market's gains came on the back of positive vaccine news and additional monetary policy support, with the Reserve Bank of New Zealand (RBNZ) rolling out its Funding for Lending Program (FLP). The FLP will essentially see the RBNZ lend money directly to commercial banks at discounted rates, therefore lowering those banks' funding costs and enabling them to reduce retail mortgage rates even further. Stocks also benefited from news domestic growth rebounded in the third quarter (gross domestic product jumped 14.0% in the three months to 30 September), news business confidence hit its highest level since late 2017 in November and further corporate activity. Limiting the market's advance was an alarming rise in new coronavirus infections globally, including a late spike in new cases in neighbouring Australia, and some disappointing inflation and jobs data.

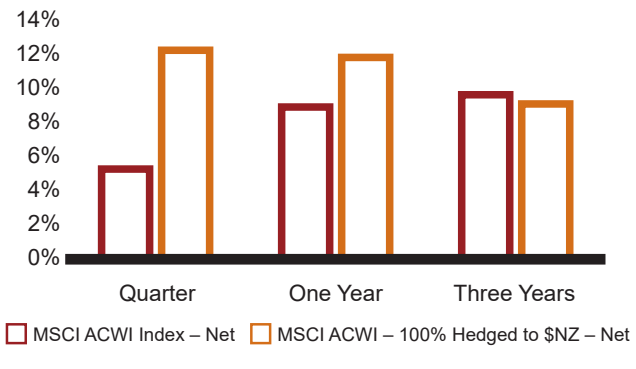
Australian shares

Australian shares posted strong gains in the fourth quarter, returning 13.8%[6]. Australian stocks benefited largely from positive vaccine developments and further monetary policy support, with the Reserve Bank of Australia implementing additional measures aimed at supporting the broader recovery. This included cutting the official cash rate to just 0.10% and a commitment to purchase $100 billion of five- to 10-year government bonds. The market was also supported by strong gains across the major banks and miners, a 'market friendly' Federal Budget and a series of encouraging economic data, including the latest growth, employment and consumer confidence figures. Limiting the gains was a late spike in new virus infections across New South Wales that prompted renewed lockdowns in some parts of the state and the introduction of stricter border controls. Stocks were also impacted by a further escalation in tensions between Canberra and Beijing after Chinese officials imposed huge tariffs on Australian wines and banned imports of Australian coal.

Global listed property

Global listed property recorded strong gains in the December quarter, returning 10.7%[7] in hedged NZD terms. Australia recorded the biggest gains over the period, benefiting from a combination of positive vaccine news and further fiscal and monetary policy support.

Figure 1. Global Equities



The UK, North America and Continental Europe were also stronger, while Japan and Asia Pacific ex Japan were relatively flat. In terms of sectors, lodging/resorts, retail and healthcare posted the strongest returns, while data centres was the only sector to record a decline.

Global listed infrastructure

The global listed infrastructure market was stronger over the period, returning 11.2%[8] in hedged NZD terms. Airports were amongst the best performers for the quarter as travel restrictions in some parts of the world eased. Gas utilities and marine ports also delivered strong returns, while communications infrastructure and healthcare underperformed.

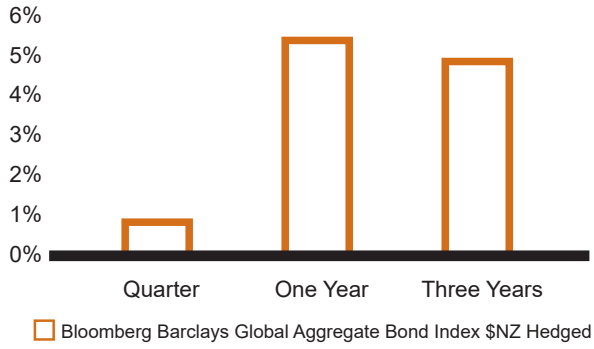
Global fixed income

Global bonds made reasonable gains in the fourth quarter, returning 0.8%[9] in hedged NZD terms. Longer-term government bond yields were mixed against a backdrop of competing positive and negative influences. Bonds benefited from their traditionally defensive qualities amid the rapid spread of coronavirus worldwide and rising US-China tensions. Partly offsetting these factors were positive vaccine developments and news US officials had finally agreed a new stimulus deal. Credit markets continued to perform well as investors remained optimistic about the global recovery.

New Zealand fixed income

The New Zealand bond market was weaker over the period, returning -2.2%[10]. Domestic long-term government bond yields rose (prices fell) as investors, for the most part, tended to favour riskier assets amid encouraging vaccine developments and further monetary policy support; notably the rollout of the RBNZ's FLP.

Figure 2. Global Fixed Interest



The yield on New Zealand 10-year government bonds closed the quarter 49 basis points higher at 0.9870%. Domestic credit markets were positive, with spreads narrowing slightly on the back of improving investor optimism.

New Zealand dollar

The NZD made good gains over the quarter, driven in part by positive vaccine news, a strong rebound in third-quarter growth and higher commodity prices. The local currency also benefited from general US dollar (USD) weakness. Limiting the NZD's advance was further central bank action and rising coronavirus infections globally. The NZD rose 9.5% against the USD, 6.7% against the Japanese yen, 4.4% against the euro, 3.1% against the British pound and 1.4% against the Australian dollar. The broader New Zealand Trade-Weighted Index closed the quarter up 4.9%[11].

Note: all returns are in local currencies unless otherwise stated.

Figure 3. New Zealand Equities

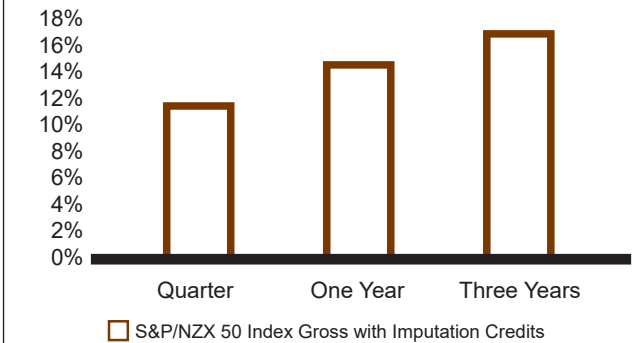
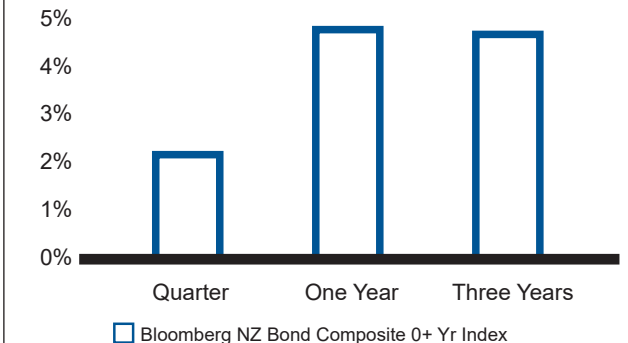


Figure 4. New Zealand Fixed Income



1. Tokyo Stock Exchange Tokyo Price Index (TOPIX)
2. Shanghai Shenzhen CSI 300 Index
3. Dow Jones EuroStoxx 50 Price Index
4. FTSE 100 Index
5. S&P/NZX 50 Index with imputation credits
6. S&P/ASX 300 Accumulation Index
7. FTSE EPRA/NAREIT Developed Real Estate Index Net NZD Hedged
8. S&P Global Infrastructure Index (NZD hedged)
9. Bloomberg Barclays Global Aggregate Bond Index (NZD Hedged)
10. Bloomberg NZ Bond Composite 0+ Yr Index
11. The trade-weighted index for the NZD is an indicator of movements in the average value of the NZD against the currencies of our major trading partners.

			LAST QUARTER	ONE YEAR	THREE YEARS	FIVE YEARS
Equities	**New Zealand**					
	S&P/NZX 50 Index Gross with Imputation Credits		11.5%	14.6%	17.0%	16.8%
	Global					
	MSCI ACWI Index – Net^		5.3%	8.9%	9.7%	11.2%
	MSCI ACWI Index – Net (NZD hedged)*		12.3%	11.8%	9.1%	11.7%
	US					
	S&P 500 Index		11.7%	16.3%	12.0%	12.9%
	NASDAQ Composite Index		15.4%	43.6%	23.1%	20.8%
	Australia					
	S&P/ASX 300 Accumulation Index		13.8%	1.7%	6.9%	8.8%
	China					
	Shanghai Shenzhen CSI 300 Index		13.6%	27.2%	8.9%	6.9%
	Eurozone					
	EURO STOXX 50 Price Index		11.2%	-5.1%	0.5%	1.7%
	Japan					
	Tokyo Stock Exchange Tokyo Price Index (TOPIX)		11.0%	4.8%	-0.2%	3.1%
	Asia Pacific					
	MSCI Asia Pacific ex Japan Index (USD)		18.8%	19.8%	5.1%	10.0%
	UK					
	FTSE 100 Index		10.1%	-14.3%	-5.6%	0.7%
	Emerging Markets					
	MSCI Emerging Markets Index (USD)		19.7%	18.3%	6.2%	12.8%
Fixed Interest	**New Zealand**					
	Bloomberg NZ Bond Composite Index		-2.2%	4.8%	4.7%	4.6%
	S&P/NZX A-Grade Corporate Index		-1.1%	5.4%	5.0%	5.0%
	Global					
	Bloomberg Barclays Global Aggregate Index (NZD hedged)		0.8%	5.4%	4.9%	4.9%
Property	**Global**					
	FTSE EPRA/NAREIT (NZD Hdgd)		10.7%	-13.2%	0.5%	3.3%
Infrastructure	**Global**					
	S&P Global Infrastructure Index (NZD hedged)		11.2%	-11.4%	1.4%	6.6%
Commodities	Refinitiv/CoreCommodity CRB Commodity Index USD)		13.0%	-9.7%	-4.7%	-1.0%
		31-Dec-20	**30-Sep-20**	**31-Dec-19**	**31-Dec-17**	**31-Dec-15**
	Gold spot price (USD)	1,898.36	1,885.82	1,472.49	1,302.80	1,062.55
	West Texas Intermediate crude oil (USD)	48.52	40.22	54.07	60.42	37.04
Currencies	NZD/USD	0.7227	0.6603	0.6735	0.7097	0.6848
	NZD/AUD	0.9384	0.9253	0.9617	0.9096	0.9396
	NZD/GBP	0.5297	0.5139	0.5136	0.5278	0.4621
	NZD/EUR	0.5872	0.5625	0.6011	0.5942	0.6261
	NZD/JPY	74.54	69.85	73.28	80.12	82.49
	New Zealand Trade Weighted Index	75.10	71.58	73.82	74.32	74.40
Volatility	Chicago Board Options Exchange Volatility Index (VIX)	22.75	26.37	13.78	11.04	18.21

^ Russell Global Large Cap Index until 30 September 2018, MSCI ACWI Index – Net thereafter

* Russell Global Large Cap Index (NZD hedged) until 30 September 2018, MSCI ACWI Index – Net (NZD hedged) thereafter

All returns in local currency terms unless otherwise stated.

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