

Market Update to 31 August 2023

September 2023



What happened

The market retreated in August in what was the worst month for the Nasdaq Composite in 2023. In a surprise to investors, the month started off with rating agency Fitch downgrading the U.S. government's credit rating to AA+. The move came on the back of a tense debt ceiling negotiation in June and rising government debt.

Banks also faced downgrades over the month, with Moody's cutting ratings for several small or mid-sized U.S. banks. Furthermore, the rating agencies put several large banking names on watch. The downgrades sparked a sell off in regional banks, with comments from government officials advocating for further capital requirements placing additional downward pressure on the banks.

Negative news out of China weighed on global markets as well. In the month of July, imports and exports dropped more than expected, while the retail sales and industrial production figures came in below expectations. The country's consumer price index also fell 0.3% year on year, and data for youth unemployment, which has been high in recent months, was not released. This sparked fears of deflation and prompted the People's Bank of China to cut short and medium term rates, surprising market participants.

The U.S. economy continued to surprise to the upside in July, with U.S. retail sales exceeding expectations and unemployment remaining low at 3.6%. In response to the strong economic data, Federal Reserve (the Fed) chair Jerome Powell indicated interest rates may need to go higher, but acknowledged inflation had fallen from its peak. In July, year-on-year inflation rose to 3.2%, nearing the Fed's target of 2%.

Positive AI sentiment also continued to drive pockets of the share market higher. Nvidia, the biggest outperformer in the S&P 500 year to date, reached an all-time high over the month after vastly exceeding revenue expectations.

In the UK, annual inflation fell by over a percent to 6.8%, in line with expectations. And in Japan, the economy continued to grow steadily, with annual GDP coming in at 6% for Q2, almost double analyst expectations.

Back in New Zealand, the Reserve Bank (RBNZ) opted to hold the official cash rate steady while they assessed the impact of inflation, but the bank suggested rates may not start to be cut until mid-2025.

Asset class performance to 31 August 2023

	NZ Fixed Income	Global Fixed Income	NZ Shares	Australian Shares	Global Shares	Global Property
Month	-0.4%	-0.2%	-4.2%	-0.7%	-2.0%	-2.5%
3 months	-1.7%	-0.1%	-2.2%	3.9%	6.7%	3.9%
One year	-0.4%	-0.2%	-0.4%	9.6%	13.8%	-5.2%
One year vs. history	Poor	Poor	Poor	Normal	Normal	Poor

Source: Refinitiv Datastream, Makao Investments

Looking back

Negative sentiment weighed on the global share market over the month, with the asset class falling. Australian shares outperformed global peers, while the New Zealand market continued to lag. Over the last year, New Zealand shares have significantly underperformed global shares. Global Property also fell as rising interest rates continue to place downward pressure on property prices.

Global and New Zealand fixed interest retreated in August amid rising bond yields. Both asset classes continue to experience disappointing outcomes over a one-year period compared to their historical performance over the last twenty years.

New Zealand Dollar to 31 August 2023

	NZD/USD	NZD/EUR	NZD/JPY	NZD/GBP	NZD/AUD
Month	-3.3%	-2.6%	-0.3%	-2.4%	-0.8%
3 months	-0.8%	-2.8%	3.5%	-3.4%	-0.7%
One year	-2.7%	-10.8%	2.5%	-10.8%	2.8%

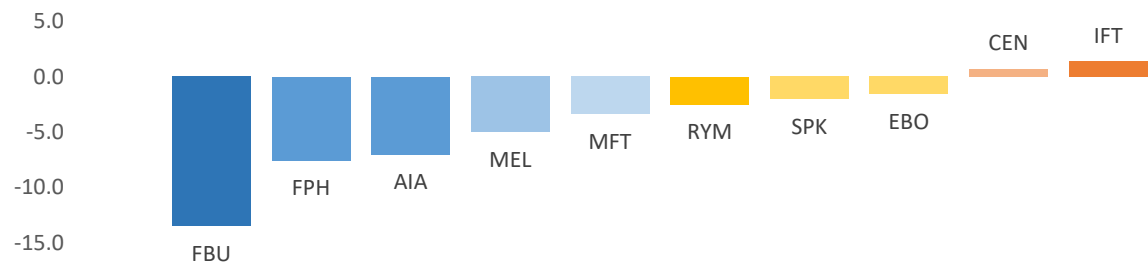
Source: Refinitiv Datastream, Makao Investments

New Zealand dollar depreciated against all currencies listed above on the back of the Reserve Bank of New Zealand holding interest rates steady. A hawkish Federal Reserve lifted the U.S. dollar while the Japanese yen weakened further after a change in the Bank of Japan’s yield curve control policy in late July. As a result the yen breached the 145 mark against the US dollar, leading market participants to believe the Bank of Japan will intervene.



New Zealand shares

August 2023 performance, in %



Source: Refinitiv Datastream, Makao Investments

Ebos Reversing a previous period of outperformance, the New Zealand market tumbled over the month, led by Fletcher Building (FBU), the largest underperformer in the NZX10. The stock plummeted on the back of FY23 profit, falling by almost 50% after an additional \$255 million was set aside for the New Zealand International Convention Centre and Hobson Street Hotel (‘NZICC’) project. Management also warned of a weaker FY24 as elevated interest rates continue to impact house prices and demand, and the rising cost of materials places pressure on the company’s margins.

Similarly, Fisher & Paykel (FPH) fell after first half profits came in below expectations. The company has experienced falling profits following the end of the Covid-19 pandemic as demand has lulled for its products.

Auckland Airport (AIA) shares fell steadily over the month, as the sale of Auckland Council’s 7% stake in the company was delayed. The council finally sold the stake at the end of August.

Infratil bucked the trend of underperformance, eking out a small gain for August. The lift in the stock price comes amid announcements of a share buyback and the company’s infrastructure bond offer

Looking ahead

After company earnings have trended down earlier in the year, investors are now expecting a rebound in company profits in the coming months. This should help to support markets and arguably justifies a more positive stance in investments.

However, it is unlikely that these increases will reverse the relatively expensive valuations in markets, and markets are likely to remain vulnerable to further rate

hikes or unexpected increases in unemployment. While most investors expect the Fed to pause in September, nearly 40% think a hike is possible at the start of November.



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