Axiome Quarterly Update

January—March 2024

Pouakai Circuit—Mt Taranaki

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Visit us at our office at 6 Victoria Rd, Devonport, Auckland 0624

Economic and Market Commentary

Overview

International equity markets rallied strongly again over the March quarter as the tech rally rolled on and started spreading to other parts of the market. Hot on the heels of the so-called "Magnificent Seven" US-based tech stocks which have been firing on the AI boom (up around 50% since Jan 2022), we now have the European "Granolas" stocks. These are up a mere 43% over the same period and comprise mainly large cap pharmaceuticals and luxury brands, as well as Dutch-listed ASML, the only company that can make the machines required to manufacture the most advanced chips being used for AI applications. Elsewhere, performances have been more subdued. NZ equities and fixed income, for example, had lacklustre returns (see Figure 1).

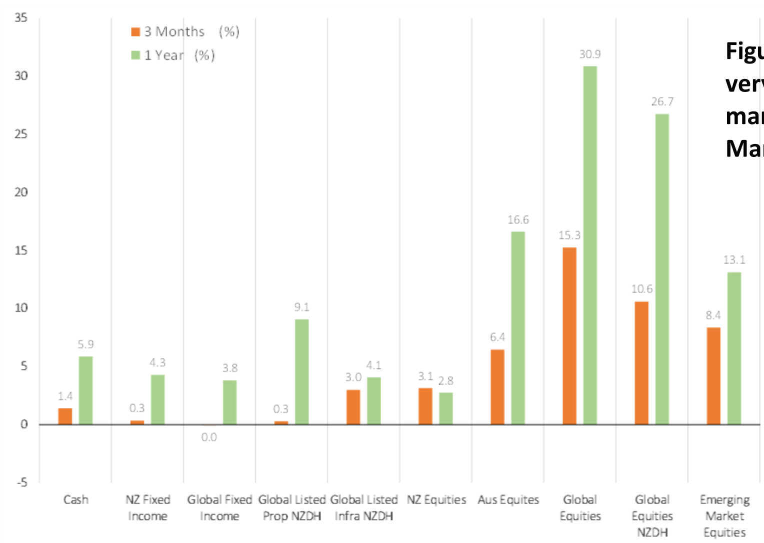

Figure 1: Some very strong performances in the March quarter

Source: Morningstar Direct, MyFiduciary

Large cap global equities performed very strongly again over the quarter despite the soft global economic environment.

As in our previous update, on the economic front the US economy remains a bright spot with around three-quarters of US companies' earnings beating analyst estimates. Europe and the UK remain weak. New Zealand's economy has been in mild recession over much of 2023, and on a per capita basis its performance was amongst the worst in the OECD (see Figure 2) over the second half of 2023. Unfortunately, indicators suggest conditions are getting worse rather than better. On the other hand, Chinese economic data has been better than expected of late and this, along with the ongoing Russian occupation of Ukraine, has helped underpin a range of commodity prices.

Market roundup

Gains were strongest in US equites over the past year, in part reflecting the relative strength of the US economy and the AI boom

All asset classes enjoyed positive returns in the quarter. As mentioned, global equities led the pack with a 10.5% return on an NZD hedged basis, and a 15% return in NZD terms given the 4.5% or so fall in the value of the Kiwi over the period. Australian and emerging market equities also had a strong quarter, with returns of around 6.5% and 8.5% respectively.

Trailing the pack, NZ equities returned only around 3% over the quarter and year to March given most of the largest stocks on our market are utility and infrastructure-type investments sensitive to NZ economic growth and interest rates.

Listed global property on an NZD hedged basis was top of the pack last quarter but was flat in the March quarter. Global infrastructure fared a little better returning 3% over the quarter. Similar to property, while fixed income had very strong returns in the December quarter, it was flat over March as markets backed off in their conviction that interest rates will be aggressively cut over 2024, causing mark-to-market declines in bond prices.

More interest rate sensitive parts of the market, including listed property, infrastructure, NZ equities and standard duration bonds took a breather this quarter.

Global investment grade bonds returned 3.8% for the year to March, below the current running yields on global bonds of around 6%. In contrast, short duration global investment grade bonds have fared much better, returning from 6 to over 8% over the year depending on their geographic exposure.

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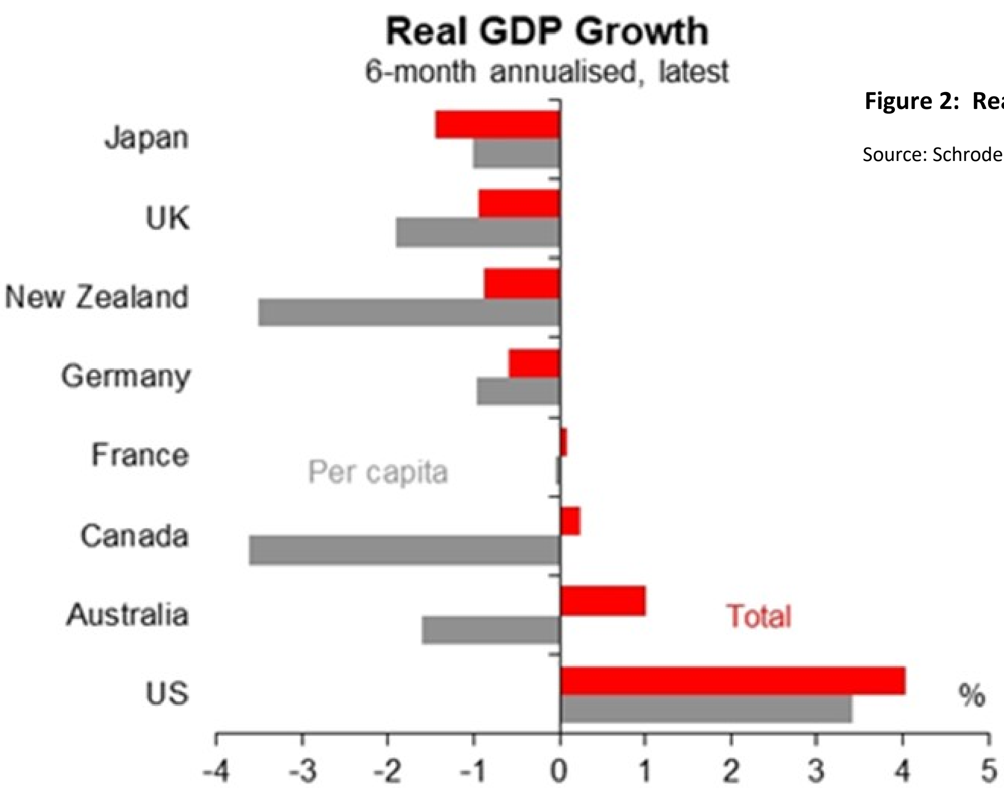


Figure 2: Real GDP Growth – 2H23

Source: Schroders Asset Management

Key Market Movements for the Quarter

Quarter | Past Year

+3.1% | +2.8%

New Zealand Shares

New Zealand shares increased 3.1% over the quarter and 2.8% over the last 12 months. This is a rather weak result compared to offshore equities, but our market remains a strong performer over the last decade with a return of around 10% per annum..

Source of Figures: S&P/NZX 50 Total Return Index with Imputation Credits

+0.6% | +5.6%

New Zealand Fixed Interest

New Zealand investment grade corporate bonds increased 0.6% in the quarter and 5.6% over the year, a slightly soft result that reflected markets pricing in fewer cuts to the OCR this year than they had previously thought were required.

Source of Figures: S&P/NZX Investment Grade Corporate Bond Index

+6.6% | +16.6%

Australian Shares

Australian shares rose 6.6% in the quarter, lifting the annual return to a very solid 16.6%. Australian small cap stocks had similar performances, while value outperformed over the year returning around 23%.

Source of Figures: S&P/ASX 300, S&P Australia BMI Value, S&P/ASX Small Ordinaries

+15.3% (+19.6% hedged) | +30.9% (+26.7% hedged)

International Shares

International shares had another very large rally over the quarter, by around 15% in NZD terms and 10.5% in NZD hedged terms. This brought the annual results to around 31% in NZD terms, while NZD hedged returns were around 26.5%. Small caps returned 10.5% in the quarter and 21.2% over the year, while value stocks returned 13.8% in the quarter and 24.2% over the year. The underperformance of small and value-oriented stocks in part reflects that the largest gains were from large cap US growth stocks in the tech sector, with NVIDIA (a chip maker) being the standout performer.

Source of Figures: MSCI World Index; Morningstar Developed Markets NZD hedged, MSCI World Value MSCI World Small Cap in NZD terms.

+8.4% | +13.1%

Emerging Markets

Emerging Markets rose by around 8.4% over the quarter and a respectable 13.1% over the year to March in NZD terms. Within EM stocks Indian and Latin American companies had very strong performances, but Chinese stocks continue to lag given weak Chinese growth and ongoing geopolitical tensions with the West.

+0.0% | +3.8%

International Fixed Interest

Global investment grade bonds were flat in the quarter as market conviction waned that interest rates will be aggressively cut over 2024. This reduced the annual return to 3.8%, below the current running yields on global bonds of around 6%.

Source of Figures: Bloomberg Barclays Global Aggregate Index (hedged to NZD)

+0.3% | +9.1%

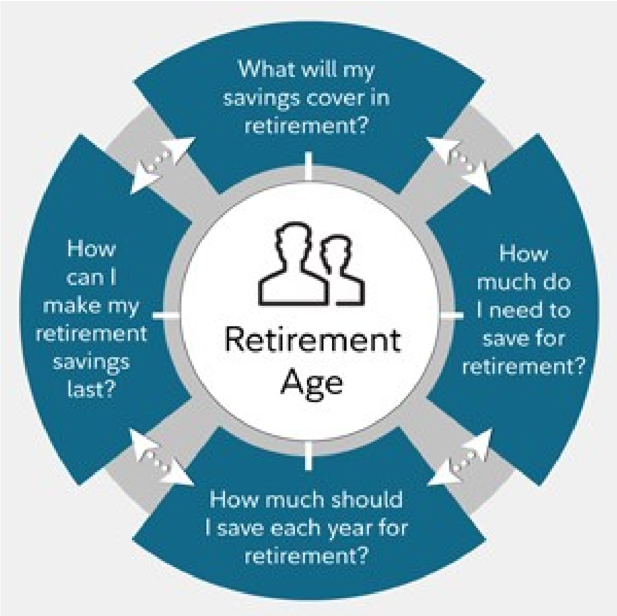
International Property and Infrastructure

International property stocks rose by around 0.3% in the quarter in NZD hedged terms (4.5% unhedged), while global infrastructure increased around 3% in NZD hedged terms (around 7% unhedged). Over the year, infrastructure increased around 4% and global property 9.1% on an NZD hedged basis.

Source of Figures: FTSE EPRA NAREIT NZD, FTSE Dvlp Core Infra 50/50 TR NZD

Axiome's KiwiSaver Launch—Solving the Retirement Equation

How much do I need to save for retirement? How long will my nest egg last? How many international trips can we afford to take while we are still young enough to travel? These are simple questions that we get as financial advisers, but have a complicated answer. There are many factors to consider when coming up with a target figure for your nest egg. Fidelity Investments, a large financial services company in the United States with $4.5 trillion in funds under management, has outlined the different considerations in the diagram below.



Solving the Retirement Equation with Axiome

To assist you in answering these questions Axiome will take you through our four-step process. The first step is to determine your goals for retirement. The second is to estimate what your current KiwiSaver balance would be at retirement if you followed our investment recommendation. The third is to estimate your retirement spending rate. The fourth is to incorporate other financial considerations such as the size of an inheritance you would like to leave and/or other investments you might have. By taking these factors into consideration in our modelling, we can determine if you are currently on track to meet your retirement goals or in the event of a saving gap what adjustments can be made to allow you to retire with confidence KiwiSaver is a core building block of many New Zealanders' retirement plans. As financial advisers we want to identify the best solutions for our clients to help them reach their financial goals. At Axiome we recognise that everyone's circumstances are different and investment decisions require more consideration than a generic off-the-shelf product can provide.

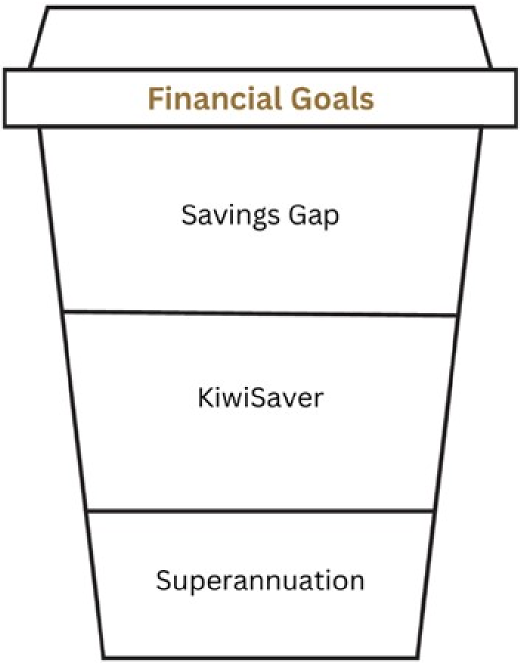
We believe in the importance of being intentional with both your spending and investment decisions. Every dollar coming in should have an assigned job. Either it is spent funding your lifestyle in the present or invested to build the desired life you want in the future. The key here is coming up with a balance between living a lifestyle where you don't feel deprived and making progress towards your long-term financial goals.

The average KiwiSaver balance has increased substantially with contributions and compounded returns in the years since the commencement of the scheme in 2007. This makes KiwiSaver an increasingly important component of retirement savings and therefore should receive the same deliberation and supervision given to your other investment decisions.

Do I have a retirement savings gap?

The savings gap in retirement planning refers to the difference between the amount of money a person has saved for retirement and the amount they will likely need to maintain their desired lifestyle during between what they have and what they will require.

Calculating this involves considering various factors such as life expectancy, expected expenses in retirement, inflation, investment returns, and any pension or superannuation benefits. If the projected retirement savings fall short of the estimated needs, there exists a savings gap that the individual needs to address to ensure a comfortable retirement. Closing this gap might involve adjusting savings rates, seeking higher investment returns, working longer, or reassessing retirement goals and lifestyle expectations.



Why choose Axiome's KiwiSaver Scheme

Choosing Axiome as your KiwiSaver provider will allow you to work one on one with an investment adviser. Your adviser can help you map out the effects of different savings rates, asset allocations or time spent in the workforce so that you can craft your own personalised version of an ideal retirement.

Axiome's KiwiSaver scheme allows you to invest your KiwiSaver in the same wholesale funds usually only available to our private wealth clients.

Due to the nature of the wholesale product offering, there is a minimum starting balance requirement of $50,000 to make investing cost effective.

Unlike other KiwiSaver schemes, funds placed in KiwiWRAP under our oversight have the benefit of rigorous assessment of fund manager performance and accountability by our independent investment committee. Axiome does not accept commission payments, trails or incentives of any kind. As an independent firm we are free to make truly impartial recommendations and put your interests first.

KiwiSaver is ideally part of an overarching financial plan built to meet your individual goals. An investment plan enables you to track your progress and have a clear wealth target in mind which will allow you to retire with confidence.

If you are interested in finding out more about the advantages of switching your KiwiSaver to Axiome please get in touch for a no-obligation free consultation session at www.axiome.co.nz.

Like what you've read? Please feel free to pass this update on to friends and colleagues who may enjoy it... If you would like to talk about anything further discussed in these articles, please call or email us.

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