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Market and Economic Review
November 2019

October delivered plenty of news to digest as we assess the investment outlook.

The US-China trade war continues to dominate the investment landscape - slowing economic growth via a weaker global manufacturing sector. Thus far the US has been relatively immune, but last month the widely followed US ISM survey of manufacturing business conditions posted the worst reading since the GFC. However, fears of imminent recession were mitigated by several other announcements:

- The US and China appear close to signing 'phase 1' of a trade deal, giving hope that at the very least, trade tensions are receding and not increasing
- Brexit finally yielded some positive news with signs of progress towards a UK-EU deal. While the final outcome is far from certain, investors appear relieved that the worst case 'no-deal Brexit' is less likely to occur
- US company profits reported in the month were much better than investors expected
- The US federal reserve cut interest rates for a 3rd time this year, providing insurance against further economic slowdown

These positives were enough to lift global share markets 1.9% over the month (MSCI World Net TR Index). In contrast, local share markets were weaker, with the NZX 50 Gross Index and ASX 200 Index down 1.3% and 0.4% respectively.

The NZ market was heavily impacted by the performance of the electricity companies, which fell sharply on the announcement that Rio Tinto are reviewing the viability of the Tiwai Point aluminium smelter. We see continued opportunities for positive returns from these companies in the longer term, but we have reduced some of our exposure to reflect the short-term uncertainty – locking in the strong returns delivered by the sector over the past year.

Despite this, our diversified Funds delivered positive returns for the month, illustrating the importance of diversification and good stock selection in these choppy markets.

Looking ahead, although some of the risks have receded, we are cognisant that they can rise again very quickly. The global economy remains precarious and we are looking for signs that the global interest rate cuts so far this year have started to stabilise the growth outlook. We remain invested; but with global share markets close to record highs we continue to expect that future returns will be more moderate.

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