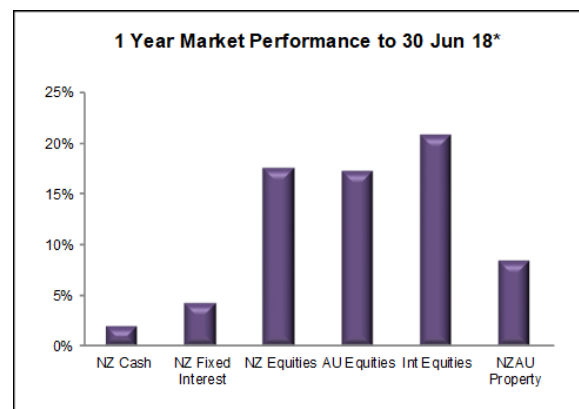
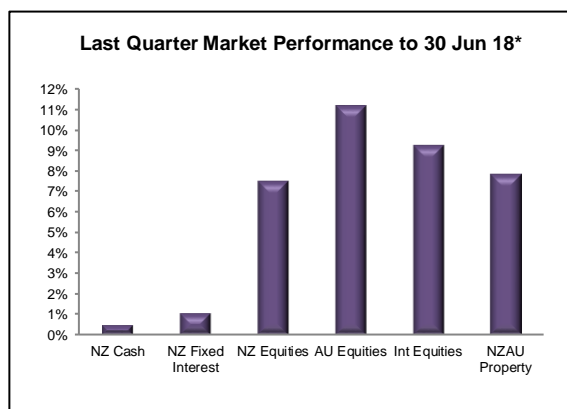


Market Review, June 2018

Tirohanga ki te makete mō Pipiri 2018

Kia hihiritia tō mahara, ka whiwhia: Strive to do your best and you'll be rewarded

Market Overview



*Benchmarks; NZX 90D, ANZ Comp A, NZX50 / ASX200(NZD) comp, MSCI World (NZD), ANZ Corp A +2%, NZX/ASX200(NZD) PROP comp

The share markets provided strong gains in the June quarter, aided by a weaker NZ dollar. The gains were more pronounced in Australia and New Zealand and relatively muted in the rest of the world.





These gains are in contrast to a slowing global economy as trade war tension escalates and increasing inflationary pressure from rising oil price and continued growth in employment which eventually should lead to wage increases.

Politics is also unsettling financial markets as refugee inflows is placing pressure on European coalition governments, particularly Germany; the Korean peninsula tension has eased although recent satellite images suggest this could be temporary; and the US government continues to lose friends. Lifting the share markets is rising corporate earnings but for how long and valuations are stretched.

Yields on NZ fixed interest investments were generally flat during the quarter although moved up and down within 0.3% range. Our 10 year bond yield was steady despite increases in the US given their relatively stronger economy and inflation risk.



Quarter Benchmark Performance:

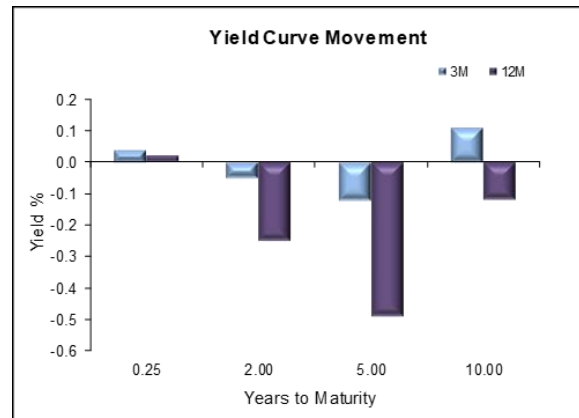
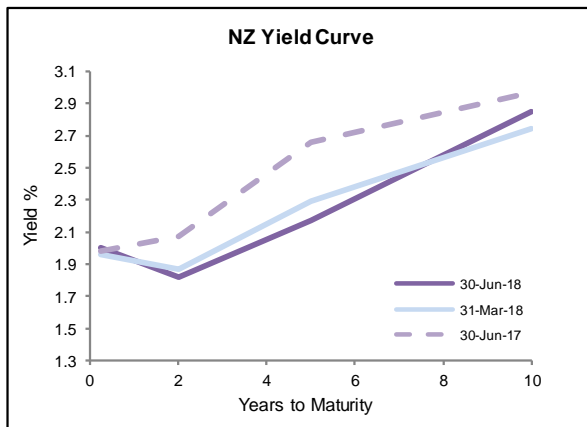
-  **NZ Fixed Interest: up 1.0%**
-  **NZ Equities: up 7.5%**
-  **Australian Equities: up 11.2% (NZD), up 8.9% (local currency)**
-  **International Equities: up 9.3% (NZD), up 3.6% (local currency)**

NZ Cash & Fixed Interest

Bonds (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZX 90 Day Bank Bill	710	0.5%	1.0%	2.0%	2.4%	2.7%	3.1%	4.5%
NZX Govt Bond Index	1,697	1.0%	1.5%	4.2%	4.1%	4.6%	5.8%	5.6%
NZX Composite A Grade	4,716	1.0%	1.6%	4.3%	4.2%	4.7%	6.0%	5.8%

The cash rate remains pegged at 1.75% and while commentary earlier in the year suggested an increase in late 2019, recent comments suggest the next move could be up or down as the domestic economy appears to be slowing and inflation remains subdued.

The fixed interest market has seen bond yields rise over the quarter, particularly at the long end with the 10-year yield rising from 2.72% to 2.85% but peaking at 3.00% in mid-June. Supply shortage and a slowing economy has seen the yield remain below the US for the first time in years.





New Zealand & Australian Equities

Equities (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZX50	8,943	7.5%	6.5%	17.5%	16.0%	15.0%	10.8%	9.8%
ASX200 (Local)	63,015	8.5%	4.3%	13.0%	9.0%	10.0%	6.4%	9.6%
ASX200 (NZD)		11.2%	3.3%	17.2%	7.6%	8.2%	4.8%	9.2%

The NZ share market reached an all-time high in late June whereas the Australian share market was at a 10-year high. Corporate earnings are rising but not as fast as the share price with valuations priced for perfection in expectation. Increasing Australian institutional interest in our 'growth' companies has seen their valuation at record high.

The Australian share market has been lifted by the resource sector as commodity prices, with oil in particular, at high levels. The gain in Australia is more surprising given the pressure on the financial sector in the quarter and the US / China trade tension could have significant impact on Australia.

International Equities

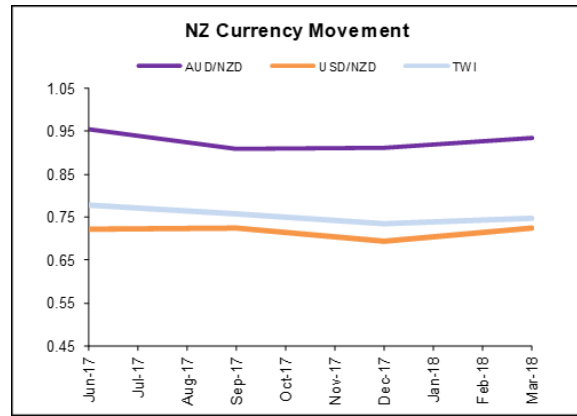
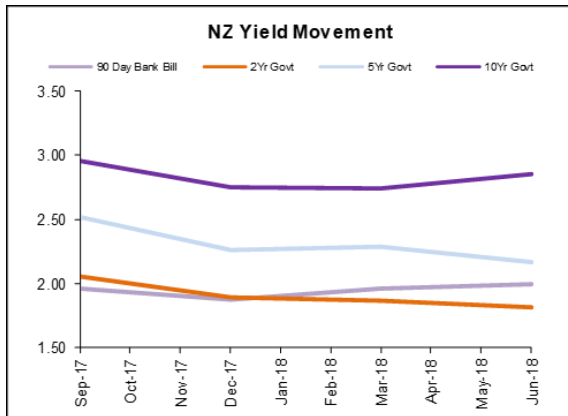
Equities (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
MSCI World (Local)	4,527	3.6%	1.3%	10.9%	8.6%	11.1%	7.2%	7.9%
MSCI World (NZD)		9.3%	5.7%	20.7%	8.7%	13.0%	7.6%	7.1%

The international share markets have risen from continued improvement in corporate earnings, particularly in the US but the markets have been volatile, fluctuating with trade war tensions and political trends in Europe. Both have contributed to increasing uncertainty and if interest rates were to rise from inflationary pressure, a market correction could follow.

The strength of the US dollar (stronger economy and rising interest rates) has seen the value of the NZ dollar fall from 72c to 67.4c over the quarter. This decline has accentuated the gain of offshore share markets for NZ investors.

Property (gross return)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZX Property	1,231	4.4%	-0.6%	4.6%	7.3%	9.7%	8.4%	9.2%
ASX200 Property (Local)	3,366	8.6%	1.8%	8.3%	5.4%	7.1%	0.3%	-0.2%
ASX200 Property (NZD)		11.3%	0.9%	12.3%	4.0%	5.3%	-1.2%	-0.6%
Currencies (% change)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
NZD / AUD	0.9180	-2.4%	0.9%	-3.6%	1.4%	1.6%	1.5%	0.3%
NZD / USD	0.6741	-6.9%	-5.0%	-8.0%	-0.2%	-2.7%	-1.2%	1.0%
NZ TWI	72.5	-2.3%	-2.5%	-7.6%	0.6%	-0.3%	0.7%	1.0%
Commodities (% change)	Level	3M	6M	1Y	3Y	5Y	10Y	15Y
Oil Prices (US\$/WTI)	74.15	14.2%	22.7%	61.1%	6.5%	-5.1%	-6.2%	6.2%
CRB Index	197.48	1.1%	1.9%	13.0%	-4.6%	-6.5%	-8.2%	-1.1%

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