Synergy Investments
Newsletter

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Synergy INVESTMENTS

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Market Commentary

Diversified investors had more reasons to smile as the markets began this year exactly as they left off last year - with another strong gain by most international share markets.

In the absence of any major new economic or geopolitical shocks, investment sentiment continued to be closely linked to changes in the inflation and interest rate landscape. On that front, the first quarter of 2024 saw another discernible shift in inflation and interest rate expectations.

With inflation remaining a primary concern globally, the European Central Bank, the Bank of England, and the US Federal Reserve all proceeded with greater caution during the quarter. All were very careful to avoid making premature declarations of victory over inflation. At the same time, the Bank of Japan increased interest rates for the first time in 17 years, signalling an end to their negative interest rate settings.

Meanwhile, global economic activity was on the upswing. The US economy continued to outperform expectations, buoyed by sustained consumer spending. While the eurozone's progress was slower, there were reasons for optimism there as well, with manufacturing showing signs of a revival.

Japan on the rise

While large US information technology companies have attracted most of the media attention in recent quarters, the performance of the Japanese share market has been largely unheralded.

For decades, international investors have had a frustrating relationship with Japan's share market, whose subdued returns have mirrored the country's protracted economic stagnation.

However, these days, Japanese shares are viewed much more positively, with the Nikkei 225 index gaining more than 20% in the first quarter to reach a 34-year high.

After limping through Japan's "lost decades" following the collapse of a massive asset bubble in the 1990s, Tokyo's benchmark share market index has quadrupled in value over the last 12 years and doubled since March 2020.

For Japan, the world's third largest economy, it has been a timely reawakening.

A weak Japanese yen, hovering at its lowest levels since the 1990s, has helped boost corporate profits and made Japanese companies, already cheap by international standards, even better value.

While analyst views are mixed about the prospects for Japanese shares from here, the improved performance of the Japanese share market in recent years has been undeniable.

Gold rush

What is going on with the price of gold? By the end of the first quarter of 2024, gold had hit a new all-time high of over USD2,200 an ounce.

From a valuation and expected returns perspective, making a case for gold as an investment asset is always challenging. The metal provides no cash flows, dividends, income or earnings of any kind. And yet, for thousands of years, gold has had a reputation of being valuable.

However, to get a better understanding of how gold has performed as an investment, it's helpful to look at longer-term returns.

From 1928 to 2023 the compound annual returns for US shares (S&P 500), US Government bonds (10 year Treasuries), Cash (3 month Treasury Bills) and Gold have been as follows[1]:

US Shares	+9.8% p.a.
US Government Bonds	+4.6% p.a.
Cash	+3.3% p.a.
Gold	+4.9% p.a.

So, gold has performed better than bonds and cash but has trailed the share market by a significant margin. But even this long term data requires some further context.

The price of gold was essentially controlled by the US government until 1971 when President Nixon ended the gold standard of converting US dollars to gold at a fixed rate. Over the following decade from 1971 to 1980, gold delivered a ten-year annualised return of 31.8% per year. Some might argue that meant gold was an amazing inflation hedge during that time. Others might say those massive returns were simply the gold price "catching-up" from the earlier decades in which the government artificially held the price down.

If you look at the gold price performance since 1980, it tells a very different story. From 1981-2023, gold has delivered an annualised return of just 3.0% per year, lagging the returns of US shares (+11.3%), US Government bonds (+6.7%) and Cash (+3.8%).

Even worse, since the US inflation rate over the same period has also been 3.0%, it means gold has delivered a real return over the last 43 calendar years of precisely zero. Not such a great inflation hedge after all!

Many assets will have their time in the sun and gold is certainly one of those at present. However, it is always important not to overemphasise great short term performance if there is no sound rationale for why those returns should persist over the long term.

New Zealand Incorporated

The first corporate reporting season of the year in New Zealand was mixed with more companies missing profit expectations than beating them and more post-result forecast earnings reductions than increases.

In general, these earnings downgrades reflect the difficult economic conditions facing many local businesses at present – their input costs (including labour and debt servicing) are increasing, while revenue is slowing.

With a negative GDP growth rate confirmed for the December quarter (confirming a return to a technical recession in the second half of 2023), the Reserve Bank of New Zealand (RBNZ) left domestic interest rates unchanged at their 28 February meeting.

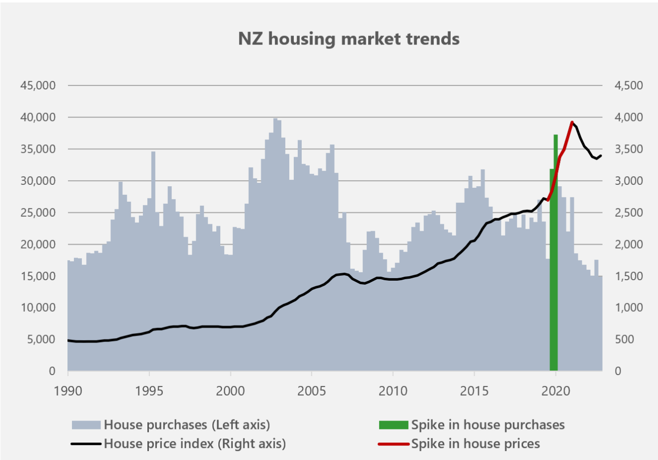
However, the RBNZ are of the view that the current tight monetary policy settings are starting to work as core inflation and most inflation expectations have declined.

Their updated forecast interest rate path also implies interest rate cuts starting slightly earlier than before – now in the first half of 2025, so the pathway to lower interest rates in New Zealand, seems to have edged just a little closer. Hopefully this will provide a little comfort for stretched businesses and homeowners.

The housing market

New Zealand consumers are feeling the pressure at present and some of this is linked to changes in the housing market.

As the chart below shows[2], the New Zealand housing market experienced a notable spike in purchases over the second half of 2020 (green bars). This was back when we were emerging from the initial Covid lockdown, flush with extra savings, and facing historically low interest rates. For many New Zealanders, whose DNA is steeped in property ownership, this represented an opportunity too appealing to pass up. The significant positive impact this subsequently had on house prices (orange line) is equally revealing.



More recently however, not only has the volume of house purchases progressively declined, so too has the New Zealand house price index. In fact, since its peak in December 2021, the house price index has declined -13.3%.

In just 18 months the mood of potential home buyers shifted from FOMO (fear of missing out) to FOOP (fear of over-paying), and part of that readjustment related to the swift increase in mortgage interest rates.

Most mortgage borrowers are now exposed to materially higher mortgage rates than those available only 2-3 years ago, as the average outstanding home mortgage rate has increased from below 3% in September 2021 to almost 6% today.

While this increase in average mortgage rates has been accompanied by a small increase in the number of home loans in arrears, it is not yet at concerning levels.

However, the trends suggest that New Zealand consumers, on average, are starting to feel the effects of the current monetary policy settings and it is something the RBNZ will be keeping a close watch on when they make their future interest rate decisions.

Long term perspective

For younger New Zealanders looking to start their careers or secure their place on the property ladder, the immediate outlook likely feels uncertain – particularly in respect of the economic environment (business health and job opportunities), and level of interest rates (mortgage costs).

For New Zealanders more established in their careers or even in retirement, this is simply the 2024 version of economic uncertainty they have witnessed countless times before.

Historically, each of these previous versions has plotted its own unique course, but the eventual outcomes have many characteristics in common – stronger economic performance, business growth, increased corporate profitability, house price gains, and long-term positive investment returns.

These outcomes aren't necessarily all delivered at exactly the same time, as we have seen in the last six months, with share markets reaching new highs in spite of some less than stellar economic news. However, they can be expected on average over time. This is why investors accustomed to investing for the long term can continue to have confidence in the progress they are making towards achieving their investment goals.

Key Market Movements

International share markets registered further strong gains in the first three months of 2024. A resilient US economy and ongoing investment enthusiasm for companies associated with artificial intelligence technologies were two of the key drivers.

US Federal Reserve Chairman, Jerome Powell, attempted to cool expectations of imminent interest rate cuts, but with the latest "dot plot" detailing US policymakers' expectations of three rate cuts later this year, share market investors were undeterred.

Global economic activity remained positive with the US economy continuing to lead the way. With easing US inflation contributing to rising real wages there, this has boosted US consumer spending and growth. Other regions are emerging from their post-Covid weakness at different rates. The Eurozone is seeing fledgling signs of a recovery in their services sector and manufacturing, while China's recovery also remains broadly intact, although the Chinese property sector continues to struggle.

A cautionary approach from most central banks reinforced the likelihood that interest rate cuts are now only expected to commence later this year (in some regions). This contributed to a period of low returns for bond markets as most long term government bond yields rose over the quarter.

INTERNATIONAL SHARES

+10.5% (hedged to NZD)

+15.4% (unhedged)

US and Eurozone share markets delivered strong gains in the first quarter of the year.

US shares were boosted by good corporate earnings announcements, including from some of the large technology companies. Economic data generally demonstrated the ongoing resilience of the economy with annualised GDP growth for the December quarter revised up to 3.4%.

Eurozone shares also posted strong gains in the first quarter. AI-related technologies continued to benefit from strong investor sentiment while financials, consumer discretionary and industrial companies also generally performed well. With signs of improving business activity and inflation continuing to moderate (the consumer price index moved from 2.9% in December to 2.4% in March), there were reasons for optimism.

UK shares also rose over the quarter in spite of official data showing the economy had entered a technical recession in the second half of 2023. The Japanese share market experienced an exceptionally strong rally with the Nikkei 225 index surpassing the 40,000 yen level and reaching a new all-time high.

Against most major currencies, the New Zealand dollar was weaker through the quarter which meant higher reported returns for investors holding unhedged foreign assets.

The MSCI World ex-Australia Index returned +10.5% for the quarter hedged to the New Zealand dollar and +15.4% for the unhedged index.

Source: MSCI World ex-Australia Index (net div.)

EMERGING MARKETS SHARES

+8.4%

Emerging markets shares delivered solid returns to unhedged investors, with the weaker New Zealand dollar helping amplify returns.

Despite rallying a little in the middle of the period, Chinese shares ended the quarter modestly lower as some caution remains about the outlook for the Chinese economy. However, investors in Taiwan, India and the Philippines saw share prices bouncing back from recent lows amidst cautious optimism that the period of gloom surrounding China may be slowly starting to lift.

Index heavyweight Taiwan outperformed strongly on the back of continued investor enthusiasm about artificial intelligence and the technology sector. January's presidential election saw the ruling Democratic Progressive party remain in power but lose its majority in parliament. The markets took this news in their stride as it makes continuation of the status quo more likely.

India also outperformed, helped by local currency strength ahead of April's general election, in which incumbent Prime Minister Modi seeks a third term. Korea posted a positive return but underperformed broader emerging markets due to weakness in speculative AI and battery companies.

While it was a moderate quarter overall for the underlying emerging markets group, with the MSCI Emerging Markets Index producing a quarterly return of +4.6% in local currency terms, the weaker New Zealand dollar magnified the gains to unhedged investors.

Source: MSCI Emerging Markets Index (gross div.)

NEW ZEALAND SHARES

+3.1%

The New Zealand share market, as measured by the S&P/NZX 50 Index, delivered a good return for the first quarter, even if it tended to lag the returns of a number of global peers.

The local share market has been facing slightly stronger 'headwinds' as inflation has stayed more elevated here necessitating a stronger monetary policy response. This, in turn, has brought with it some additional uncertainty and the potential for a larger slowdown in economic activity.

We received some initial insight into this when New Zealand's fourth quarter GDP figure came in below expectations at -0.1%. This signalled a return to a technical recession in New Zealand following a negative third quarter in 2023. The surprise in this data was that the significant injection of new migrants to New Zealand over recent months was still not enough to drag New Zealand's nominal GDP growth into the positives, as many had expected.

From within the top 50 companies, the best results came from a2 Milk (+47.4%) on the back of reported growth in revenue and profits, and cleantech solutions provider Gentrack Group (+34.4%), also on the back of very strong reported growth figures.

Unfortunately, a few notable companies didn't fare quite so well during the quarter with Fletcher Building (-13.8%), Tourism Holdings (-16.2%) and Ryman Healthcare (-22.9%) all feeling the effects of New Zealand's tighter economic conditions.

Source: S&P/NZX 50 Index (gross with imputation credits)

AUSTRALIAN SHARES

+6.6%

The Australian share market (S&P/ASX 200 Total Return Index) recorded a strong gain in the fourth quarter, rising +5.3% in Australian dollar terms.

Returns tended to be stronger in some of the lesser-known company names, with smaller companies, on average, delivering higher returns than larger companies. The global hype behind AI (and information technology companies more generally) resulted in information technology being the clear best performing sector over the quarter, albeit only representing 3% of the Australian market. Real estate, consumer discretionary and the important financials sector also performed well.

The materials sector was the only sector to decline over the quarter, dragged down by industry heavyweights BHP (-10.0%) and Rio Tinto (-7.4%), as iron ore prices fell by around 20% over the three months. The price of the mineral has drifted lower this year following a period of lower global economic growth and weaker demand from key markets, such as China.

While a number of very small Australian firms posted some significant gains, the most notable gains from firms inside the top 100 came from software applications firm Altium Ltd (+39.9%) and diversified real estate company Goodman Group (+33.6%).

With the Australian dollar relatively strong against the New Zealand dollar over the quarter, the reported returns to unhedged New Zealand investors rose to +6.6%.

Source: S&P/ASX 200 Index (total return)

INTERNATIONAL FIXED INTEREST

+0.2%

The first quarter of 2024 saw yet another 'topographical change' in the landscape of inflation and interest rate expectations.

Inflation continues to be the central concern for bond markets and, initially, the markets were anticipating faster central bank action to lower interest rates globally. However, these expectations were generally scaled back during the quarter with the major central banks all adopting a more overt "proceed with caution" approach.

In general, the central banks don't want to be seen to be premature in dropping interest rates and risking the embarrassment - and adverse economic impact - of potentially having to quickly backtrack by putting interest rates back up again. While this might only delay broader based interest rate reductions (in some regions) until later in the year, it was enough to send government bond yields higher over the first quarter.

The US 10 year bond yield climbed from 3.87% to 4.21%, with the two year bond yield moving from 4.25% to 4.63%. Germany's 10 year bond yield rose from 2.03% to 2.29%, while the UK 10 year yield moved from 3.54% to 3.98%.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) returned +0.2% for the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) was unchanged over the quarter.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)

NEW ZEALAND FIXED INTEREST

+0.6%

The Reserve Bank of New Zealand (RBNZ) shocked no-one by leaving interest rates unchanged in its 28 February meeting (and again, at time of writing, on 10 April).

Maintaining the same 'cautious' approach being adopted by many major central banks overseas, the RBNZ has made it clear they want to see inflation come back into their target band before considering interest rate reductions. While the approach is understandable, it has established an informal game of 'monetary policy chicken', whereby the RBNZ are projecting that interest rate reductions won't start before 2025, while an increasing number of market commentators are predicting, based on continuing weakness in the economy, that rate cuts could start as early as August this year.

While there is still time for the RBNZ to modify their view to align with the wider market, it has a clear risk aversion to the idea of cutting interest rates too early. While all participants are broadly in agreement the next rate movement is more likely to be downwards, for now we can only watch and wait (and guess) as to the likely timing.

On the back of the general trend of rising bond yields internationally, the New Zealand 10 year bond yield increased from 4.39% to 4.64% over the quarter.

The S&P/NZX A-Grade Corporate Bond Index gained +0.6% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index declined -0.2%.

The S&P/NZX A-Grade Corporate Bond Index gained +5.0% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index gained +7.3%. These strong results helped both indices post very respectable full year returns of +7.4% and +5.4% respectively in 2023.

Source: S&P/NZX A-Grade Corporate Bond Index

Table 1: Asset class returns to 31 March 2024

ASSET CLASS	INDEX NAME	3 MONTHS	1 YEAR	3 YEARS	5 YEARS	10 YEARS
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	10.5%	26.6%	9.3%	11.7%	10.9%
	MSCI World ex Australia Index (net div.)	15.4%	31.2%	14.5%	15.1%	13.7%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	8.4%	13.7%	0.4%	5.3%	7.3%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	3.1%	2.7%	-0.4%	5.0%	10.0%
Australian shares	S&P/ASX 200 Index (total return)	6.6%	16.8%	9.7%	10.1%	8.5%
International fixed interest	FTSE World Government Bond Index 1-5 Years (hedged to NZD)	0.2%	3.6%	0.0%	1.0%	2.2%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	0.0%	3.8%	-1.6%	0.5%	2.9%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	0.6%	5.5%	0.0%	1.2%	3.4%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	1.4%	5.7%	3.3%	2.3%	2.4%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging markets shares are invested on an unhedged basis, and therefore returns from these asset classes are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

5 Reasons Life Gets Better After Your 40s

As Carl Jung once said "Life really does begin at forty. Up until then you are just doing research."

In this article, New York Times bestselling author and speaker Chip Conley shares five key insights from his new book, ***Learning to Love Midlife: 12 Reasons Why Life Gets Better with Age.***

1. I'm relieved my body no longer defines me

Our obsession with getting older is so focused on the physical, on how it looks, that we don't prepare for what it feels like to experience midlife. Aging is a privilege, a gift of time. Yet so many of us focus our middle-age conversations on what we have lost: we share "organ recitals" of what body parts no longer work as they used to. Unlike a tree whose age is defined by its internal rings, we age in public, cursed or blessed with our external wrinkles. How we feel about our longevity is on display, not only in our attempts at concealment but in how we embrace or resist our additional years. For me, I felt comfortable in my own skin just as it started to sag.

What a relief it is to no longer be defined by my brawn or beauty. As we age, we realise that this rental vehicle we were issued at birth will have its inevitable dings and chipped paint, but what really matters as our body depreciates isn't what it looks like on the outside but how it feels on the inside. Yes, we need to maintain this vehicle, but it becomes less about short-term vanity and more about long-term maintenance. And that gives us so much more time to invest in the other important playing fields beyond the physical: the emotional, the relational, the mental, the vocational, and the spiritual.

2. I invest in my social wellness

It's revealing that the word "illness" starts with an "i," while "wellness" starts with "we." What if we look at our wellness as a shared responsibility, striving for social, not just personal, wellness? In midlife, we've often starved ourselves of friendships because we've been so busy with the spinning plates of being in the "sandwich generation" with a proliferation of professional and personal obligations. Social science research is conclusive that the most common variable for those living happy, healthy lives into their eighties and beyond is how invested they were in social relations in midlife.

Friends aren't a "nice-to-have." They're a "need-to-have." Our friends, family, and community are our "emotional insurance." The shorter life we have ahead of us, the more we prioritise our relationships in the moment. This is part of the reason that the U-curve of Happiness research shows that life begins at 50 as we get happier with each decade after bottoming out in our late 40s. As the Velveteen Rabbit suggests, "Generally, by the time you are Real, most of your hair has been loved off." One of my saving graces of midlife is just how authentic my relationships have become. I no longer show off to others. I show up for others.

3. I'm marveling at my wisdom

Knowledge is in my iPhone. Wisdom is in my gut (and, of course, my gut is getting bigger). Our painful life lessons are the raw material for our future wisdom. By midlife, we're experts in the school of life and are "first-class noticers" of our patterns. We're also more adept at moving from the left to the right brain such that we can be logical and lyrical in the same sentence. This crystallised intelligence, popularised in Arthur Brooks' book From Strength to Strength, is valuable because, in a world in which we're awash in knowledge, we're desperately in need of the distilled value of wisdom.

Wisdom is a social good. It's meant to be shared as a wise person makes everyone around them better. My experience, at 52, as the "modern elder," twice the age of my Airbnb colleagues, gave me a sense that I still had relevance, especially as a "motivational listener." Knowledge speaks, and wisdom listens.

It also gave me a taste of what Erik Erikson called "generativity," the desire to positively impact younger people in ways that will survive meIt also gave me a taste of what Erik Erikson called "generativity," the desire to positively impact younger people in ways that will survive me.

4. Assess your needs, and your wants

Midlife is when we outgrow our pursuit of happiness and start our practice of joy. If we joyously step off the treadmill and ruthlessly edit our lives, we create the space to become a beginner again. Curiosity and an openness to new experiences are two variables correlated with happiness later in life, so why not create the spaciousness to experience a second adulthood? Midlife offers the opportunity to move from human doing to human being.

Our experience of time changes as we age. After all, a year represents 10 percent of a 10-year-old's life but just 2 percent of a 50-year-old's life. Researchers explain that we gauge time by memorable events. The more such events, the slower time seems to pass, but because we often have fewer new things to remember as we age, life seems to accelerate. I learned how to surf and speak Spanish at 57 because I asked myself the following questions, "What do I know or have I done now that I wish I'd learned or did ten years ago? More importantly, 10 years from now, what will I regret if I don't learn it or do it now?" In midlife, we should always be a beginner at something. Experiencing new "firsts" in our lives stretches time.

5. I feel as if I'm growing whole.

We're growing old, but we're also growing whole. In the first half of our lives, our "selves" are compartmentalised: the person we are at work is often different from the person we are with our spouse and kids. By midlife, we start to re-member ourselves so that we feel integrated, not scattered. You start to feel a quiet comfort in yourself and in your connection with something bigger than you.

"In midlife, we should always be a beginner at something."

As Modern Elder Academy faculty member Richard Rohr suggests, "We live wholeness when we 're-member' our story and, through it, experience a deeper sense of being part of a greater whole." In our wholeness, we find a holiness, a stirring inside that draws us to meaning and spirit.

One of the beauties of creating the world's first midlife wisdom school, MEA, is witnessing people in their 40s, 50s, and 60s becoming whole in the presence of others becoming whole as well. Maybe the midlife "crisis" language should be replaced with a "chrysalis," such that midlife is a time when we transform from a caterpillar into a butterfly. You may think you're shattered in midlife, but this is just because life is offering you (with the help of your family and friends) the opportunity to feel the sense of accomplishment to put yourself back together again, piece by piece. Rest assured, you're not the only one doing this.

Source: https://nextbigideaclub.com/magazine/5-reasons-life-gets-better-40s-bookbite/47592/

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