

Markets Monthly

10 November 2020



Sharemarkets take a rollercoaster ride

It's been a wild ride for sharemarkets. Appropriately for the Halloween season, there were plenty of things to spook equities during October, from rising COVID cases and new lockdowns around the world, to the Brexit standoff and anxiety about the US election. After strong gains at the beginning of the month, there were sharp tumbles for most non-Australasian indices in the latter half. Sharemarkets have since rallied in the aftermath of the US election results, with some market indices – including New Zealand's – back at all-time highs.

The massive monetary stimulus by central banks continue to influence deposit and mortgage rates. Similarly, bond yields remain at historic lows. There was little movement for most of October, but yields have since moved around a bit over the past week, easing post US-elections, but then lifting strongly on positive vaccine news.

There's been plenty of volatility in the NZD too, but it has stayed broadly higher against most of its peers.

Date		31-Oct-20	Month %	Quarter %	Year %	5-Year %
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	0.28	-0.03	-0.03	-0.85	-2.69
Fixed Interest	NZ 5-year gov't stock	0.03	0.01	-0.32	-0.99	-2.69
	NZ 10-year gov't	0.54	0.03	-0.21	-0.77	-2.76
	AUS 10-year gov't	0.83	-0.03	-0.01	-0.33	-1.81
	US 10-year gov't	0.81	0.17	0.29	-0.97	-1.35
Australasian Equities	NZ - NZX50 Capital (NZ\$)	5078	2.9%	2.3%	9.4%	69.7%
	- NZX50 Gross (NZ\$)	12084	2.9%	3.0%	12.0%	101.9%
Equities	AUS - All Ords (A\$)	6133	2.1%	1.2%	-9.4%	16.0%
International Equities	JAP - Nikkei (¥)	22977	-0.9%	5.8%	0.2%	20.4%
	UK - FT100 (£)	5577	-4.9%	-5.4%	-23.1%	-12.3%
	US - S&P500 (US\$)	3270	-2.8%	0.0%	7.7%	57.3%
	WORLD - MSCI (US\$)	2293	-3.1%	-0.5%	2.7%	34.4%
	- MSCI return in NZD		-3.8%	0.5%	-0.5%	36.5%
Exchange Rates	NZD/USD	0.6633	0.7%	-1.0%	3.2%	-1.5%
	NZD/AUD	0.9406	1.6%	1.3%	1.4%	-0.7%
	NZD/JPY	69.26	-0.4%	-0.9%	-0.8%	-15.2%
	NZD/GBP	0.5129	0.0%	0.5%	3.2%	16.6%
	NZD/EUR	0.5674	1.1%	0.7%	-1.4%	-7.5%
	NZ TWI	71.33	0.1%	-1.7%	0.8%	-2.2%

Equity indices are the respective end-of-month closes. Interest rates and exchanges rates are at 5pm NZ. Source ASB, Macrobond.

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Equities up, bond yields mixed on election result

There has been an awful lot for markets to digest over the past few weeks. A litany of negative COVID-related headlines proliferated around the world during October, as many countries experienced second waves and some broke dubious new records for infections and hospitalisations. Notably, new lockdowns restrictions were announced in France, Germany and the UK.

In response to worsening outbreaks and stuttering global growths, central banks generally continued their easing, or left policy settings unchanged, but signalled they were prepared to implement more stimulus if needed. The Bank of Japan stayed on hold, but made various noises around 'acting without hesitation' if more support is needed. The Bank of England similarly left its policy rate on hold but ramped up its quantitative easing programme by £150bn. The Bank of Canada was more conservative but adjusted its bond purchases to lower rates at longer maturities. The US Federal Reserve was generally keen to keep its head below the parapets given it was election season, and it held a low-key meeting at the beginning of November.

In Australasia, the RBA cut its key policy rates to 0.1% in a bid to provide further stimulus, with Governor Lowe explicitly stating "if we need to do more, we can and we will." Notably, there was no RBNZ meeting during the month, so we didn't get much further guidance on 'what's next' from the bank and will need to wait for the November MPS for more clues. The NZ General Election result was swift, and in line with expectations, which meant minimum uncertainty for financial markets.

And then of course there was the marquee event itself, as markets waited on the US Presidential election at the beginning of November. As at the time of writing, the major news agencies have called the election for challenger Joe Biden after a protracted count. President Donald Trump has refused to accept defeat and is vowing legal action, but it is not yet clear if any action Trump can take will change the situation. Democrats have retained control of the House of Representatives, whilst Republicans look likely to keep the Senate.

With so many different things going on, sharemarkets went on a bit of a rollercoaster ride over the course of the past six weeks. Most major equity indices enjoyed good rises at the beginning of the month, but there were substantial falls towards the end of the month as the COVID headlines worsened and pre-election nerves started to weigh. Then, when the result itself became clearer, we saw sharp lifts across the globe. A big boost to sentiment also came with Pfizer's announcement that its COVID-19 vaccine candidate has been 90% effective in global trials.

At first glance the response to the US election may seem counter-intuitive, with the split control of congress dampening the prospects for further fiscal stimulus in the new year. However, the result might actually be a bit of a 'goldilocks' outcome for equities. With a changing of the guard in the White House there may be a bit more predictability in Washington and an easing in trade tensions, but the split in the congress will limit the chances of big tax or regulatory changes. Still, we'll have to wait and see whether that lift in equities is sustained, of course. And despite the positive news from Pfizer and associated hopes that a vaccine could be on the way, it's still early days.

Bond yields remain at record lows, though some tenors – such as the NZ 10-year – managed small bumps during October. There was a noticeable fall in yields on the election result. Markets digested the fact that, with the prospects for further fiscal stimulus uncertain, the Fed might have to remain in the driver's seat when it comes to supporting the recovery. US yields have since recovered a bit, amid the Pfizer news, with the US 10-year yield hitting its highest point since March.

Currency markets also saw a bit of volatility during the month, but the NZD ended higher against most of its major peers. The post-election mood has also seen the recent weakness in the USD continue.

Income Assets

Asset	Instrument	31-Oct-20 Yield (%)	Month	Quarter	Year	5-Year
		Yield Change				
Cash	NZ Official Cash Rate	0.25	0.00	0.00	-0.75	-2.50
	NZ 90-day bank bill	0.28	-0.03	-0.03	-0.85	-2.69
	US 90-day bank bill	0.21	-0.01	-0.04	-1.69	-0.11
Fixed	NZ 5-year gov't stock	0.03	0.01	-0.32	-0.99	-2.69
Interest	NZ 10-year gov't	0.54	0.03	-0.21	-0.77	-2.76
	NZ 10-year swap	0.63	0.00	0.00	-0.80	-2.89
	AUS 10-year gov't	0.83	-0.03	-0.01	-0.33	-1.81
	US 10-year gov't	0.81	0.17	0.29	-0.97	-1.35

Cash

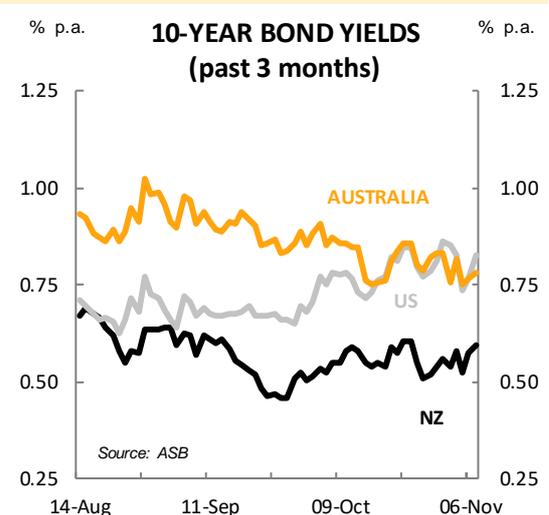
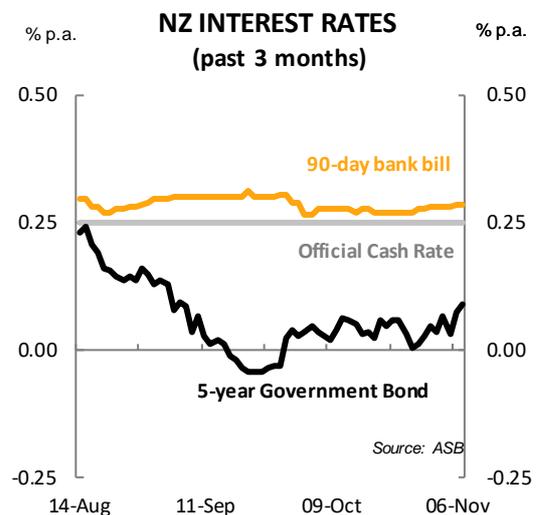
With no RBNZ meeting this month, NZ interest rates were broadly stable during October, continuing to trundle along historic lows. Still, the massive stimulus already rolled out by the RBNZ so far continues to work its way through to retail interest rates and records are being shattered left, right and centre. Term deposit rates are at historic lows, with some banks taking rates below 1% across all tenures. We'll get more information about the likely direction of travel at the next RBNZ meeting on Wednesday the 11th Nov. There is unlikely to be any change to the RBNZ's OCR settings, but we should get some more information about the 'Funding for Lending' programme (FLP) that the bank has previously signaled. The programme is designed to give bank's another source of stable, low cost funding. The details will play a

big part on how much we can actually expect the programme to impact retail rates. Our preview of the next MPS can be found [here](#), and our broader analysis of the FLP can be found [here](#). And of course, stay tuned for our review.

We continue to think the risk for savers is that term deposit rates remain low for an extended period (years) and could press even lower than today's levels over the year ahead. You can read more in our [Term Deposit](#) report, and the latest ASB term deposit rates [can be found here](#).

NZ Fixed Interest

After September's lows, there were some small lifts in NZ bond yields across a range of tenors during October, but the story is much the same as it was – yields are at historic lows and show little sign of moving up any time soon. With the RBNZ generally making slightly more aggressive noises on negative policy rates than its overseas peers, NZ fixed interest yields continue to remain well below their overseas counterparts. Whilst the fundamentals haven't changed, volatility did play a part towards the end of the month as election day approached. Like their international peers, NZ yields couldn't escape the jitters and we saw the 10-year ease slightly from its (still pretty low) peak of 0.63%. Things could be a little bit livelier this month depending on what the RBNZ says and does.



International Fixed Interest

A whole range of variables influenced global bonds over the month, with political uncertainties, central bank decisions and the shape of the COVID outbreak all key influences.

US 10-year yields rose over the month amid improving economic data, and rising hopes that the election would deliver unified control of government to the Democrats, resulting in a big stimulus package. The 10-year then fell sharply when the election result started coming in, and it became clear that the two houses of Congress would likely be split once again. The Fed also held its latest meeting after the month-end, but it was keen to keep a low profile during election season, and left settings unchanged. Yields have since lifted strongly in the aftermath of the Pfizer announcement, with the US-10 year hitting an eight month-high. Its sitting at 0.92% as at the time of writing.

By contrast, the yield on the Australian 10-year declined by 3bps. During October, markets increasingly expected the RBA to cut its policy rate at its next meeting, and sure enough, it delivered at the beginning of November, driving yields lower still. Unlike the RBNZ, the RBA remains openly sceptical of a negative policy rate, and the Aussie yields remain way above their kiwi counterparts despite the decline and the Australian cash rate.

In Europe, yields were down across the continent amid soggy data and the reposition of lockdown restrictions. They have since lifted in the aftermath of the Pfizer announcement, but the 10-year yields in Germany, France and Sweden are still negative. The UK 10-year went on a wild ride amidst a series of COVID and Brexit headlines, and has also had a sizable lift post the Pfizer announcement.

Outlook:

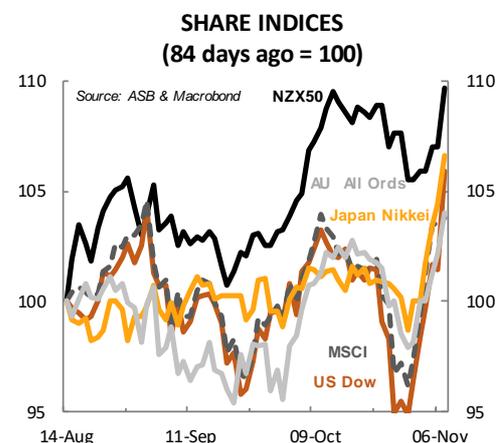
We continue to expect long-term investment grade yields to remain low, given very low inflation, the weak global economic outlook and the likelihood that the world's major central banks will maintain ultra-loose monetary policy settings for the foreseeable future. The decline in yields over the past year has boosted the value of bonds held within portfolios. But the low/negative interest rate environment is a significant constraint on the running yield of bond portfolios, and future returns.

Growth Assets

Asset	Index	31-Oct-20 Level	Month %	Quarter % Change	Year %	5-Year %p.a.
Equities	NZ - NZX50 Capital (NZ\$)	5078	2.9%	2.3%	9.4%	11.2%
	- NZX50 Gross (NZ\$)	12084	2.9%	3.0%	12.0%	15.1%
	AUS - All Ords (A\$)	6133	2.1%	1.2%	-9.4%	3.0%
	All Ords in NZD	6542	0.8%	0.3%	-10.4%	3.2%
	JAP - Nikkei (¥)	22977	-0.9%	5.8%	0.2%	3.8%
	UK - FT100 (£)	5577	-4.9%	-5.4%	-23.1%	-2.6%
	US - S&P500 (US\$)	3270	-2.8%	0.0%	7.7%	9.5%
	WORLD - MSCI (US\$)	2293	-3.1%	-0.5%	2.7%	6.1%

Australasian Equities

It's been quite a ride for the NZ sharemarket. First, there was a big lift over the early part of October, reaching a new high that coincided with the euphoria as Auckland moved back to COVID Alert Level 1. Any uncertainty about the local election didn't stop the rally over the first half of October. However, there were sizable tumbles later in the month as the US election day neared and investors here and around the world got the jitters. Still, the nervousness didn't erase all the gains, and the NZX50 Gross Index ended the month with a 2.9% lift. Since the US election day, we've seen the local market rally further (taking its cues from Wall Street) and set a fresh high in November.



There was a similar shape to the movement of the Australian market, which enjoyed an early-October rally, a subsequent fall that reversed some of the gains and then a big post-election rally. The fall across the Tasman was sharper than that for NZ, and it was also influenced by declines some of the major mining stocks, which were hurt by further falls in energy prices. All up, the Australian All Ords index ended the month up 2.1%, and its subsequent lift in early November has been so large that it has now passed its early October peak. The Australian benchmark is still down circa 10% on the record set at the start of the year though.

International Equities

The major global indices all ended October lower, but most have enjoyed substantial booms since US election day – and some lifts have been particularly dramatic. Prior to election day, some had thought that the best outcome for equities would be a clear outcome that resulting in unified control of Congress for one party, maximising the changes of a big economic stimulus package after months of failed talks. However, shares have boomed post-election day despite the two houses of congress and the White House remaining divided between the Democrats and Republicans. The result may be a bit of a ‘goldilocks’ outcome – with fewer erratic tweets and an easing in trade tensions, but no major tax or regulatory changes either.

The MSCI world index fell about 3.1% over October but had rebounded sharply post-election and is at a new high as at the time of writing. US sharemarkets saw big post-election booms after a choppy month too. The S&P500, the Dow and the Nasdaq all fell during October, but have recovered strongly as the election result became clearer, and at the time of writing are re-testing highs. The news that Pfizer’s COVID-19 vaccine candidate has been 90% effective in global trials has provided a further boost to sharemarkets.

European shares have also benefited from the positive mood on Wall Street and have each enjoyed post-election rallies of their own. The UK’s FTSE fell a whopping 4.9% during the month amid COVID cases and new lockdown measures but has since recovered some, but not all, of those losses. The German Dax and the pan-European Stoxx experienced similar moves. Japan’s Nikkei was one of the most stable indices, edging down by 0.9% after relatively little movement over the month. It too has since enjoyed a post-election bounce and is now at a 2020-high.

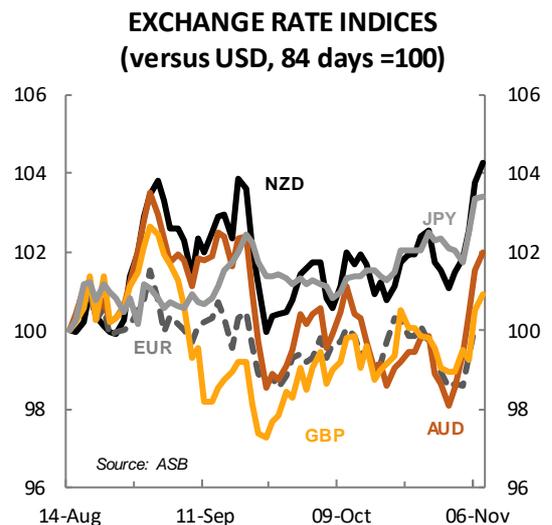
ASB Securities has more information on sharemarkets and trading [here](#).

Exchange Rates

Currency markets too were impacted by the litany of COVID and election-related headlines we saw during the month, and we saw a bit of volatility. Still, the weakness of the USD continued, reversing the lifts it enjoyed at the end of September. That trend has only continued in the aftermath of the election, with USD falling against most major crosses amid the ‘risk-on’ mood.

The NZD enjoyed lifts against most major currencies and was up by 0.7% against the USD and 1.6% against the AUD over October. Post-election, the NZD has continued its gains against the USD, getting back above 0.6800, but eased slightly against the AUD, with NZD/AUD back below 0.9400.

More information about currencies is available in ASB’s weekly economic report which can be [downloaded here](#).



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