



What can we make of the uncertain world we are in?

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“What affects mankind is inevitably our affair.”

- **interest rates**
- **inequalities**
- **isolationists**

Mad as hell

Why it's kicking off around the world

10

- stagnating middle classes
- stifled democracy
- wealth concentration

Albania

Algeria

• Bolivia

Brazil

• Catalonia

Chile

Colombia

Ecuador

England

France

• Hong Kong

• Iraq

Lebanon

Papua New Guinea

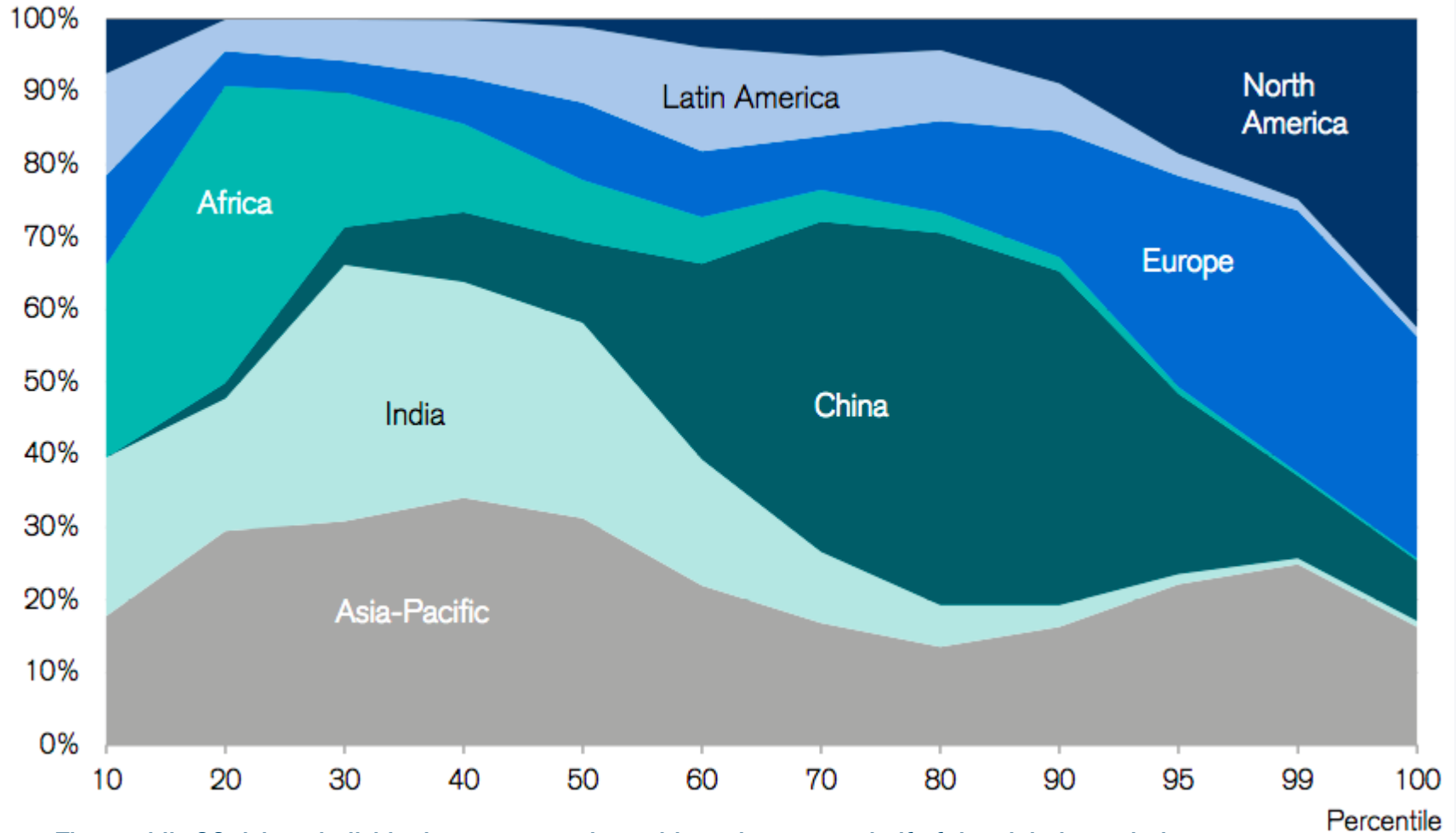
Peru

Russia

Venezuela

Source: The Guardian Weekly

Wealth creation has been uneven



- The world's 26 richest individuals own as much wealth as the poorest half of the global population.
- Europe & North America comprise 15% of the world's total population; Africa & India comprise over 25%.

Source : Global Wealth Report 2018, Credit Suisse Research Institute

"I would say that the level of relationship is a 10."



Source: Getty Images

Why “isolationism” has always inevitably failed ...



- **appeasement emboldens aggressors**
 - the “Chamberlain effect”
- **technology trumps territory**
 - the internet (social media) has no borders
- **bilateralism accentuates inequalities**
 - migration and economic refugees

BNZ Finance
Authorised Trustee
Investment
up to

18.00%
PER
ANNUM

INTEREST RATES PER CENT
 PER ANNUM

Term	\$1,000 and less than \$200,000
At call	13.00%
3 months then at call	16.50%
6 months then at call	18.00%
1 year	17.50%
2 years	16.00%
3 years	14.00%
4-5 years	13.00%

Rates for amounts over \$200,000 are available
 on request

Ask for a copy of the Prospectus at:-

- Any branch of Bank of New Zealand;
- Any BNZ Finance Office;
- Your Stockbroker.

All investments secured by Registered
 Debenture Stock, terms of which are detailed
 in the Prospectus registered 15 June 1987.

Applications will proceed only on receipt of a
 Form of Application issued with the
 Prospectus and any Trustees must obtain
 independent advice before investing in

**WHERE ELSE
 COULD YOU EARN THIS
 RATE SO EASILY?**

**TOP
 RATE**

18.25% **P.A.**

*No application forms - no deposit or
 withdrawal slips. With Rural Bank Telephone
 Call Deposits, simply use your telephone to get
 access to highly competitive returns linked to
 money market rates.*

CERTIFICATES OF DEPOSIT
((C.D.s)) INDICATIVE RATES
AS AT 24-9-87



Equiticorp
Finance
Group
Limited

Rate applies for amounts of \$20,000 or more.
 For a firm quote contact Phillipa Lowery.
 Phone (04) 727-516

30 DAYS	18.00%-19.25%
60 DAYS	18.00%-19.25%
90 DAYS	18.00%-19.25%

**12 MONTH
 FLOATING RATE
 TERM INVESTMENT**
 (Redeemable Shares)

19 **%**
p.a.

*** Current Rate.**

* Interest rate subject to monthly review in line with market conditions. Any new rate shall be no less than the Society's highest current advertised rate for term investments as at the review date.

NEW ZEALAND
make it Permanent
BUILDING SOCIETY

prime
MERCHANT FINANCE LIMITED

22%

Per Annum
12 Month Term

Allotments for SECURED DEPOSITS will be made
 only on receipt of an application form issued with the
 prospectus registered 7th August 1987.

- 18.9% increase in the CPI for the year to the June 1987 quarter

Source: The Evening Post : September 1987

November Monetary Policy Statement

- OCR unchanged at 1.00%, (minus 0.75% since November 2018)
- Inflation : 1.5%



“Employment remains around its maximum sustainable level while inflation remains below the 2% target mid-point, but within our target range (1% to 3%).”

“Interest rates will need to remain at low levels for a prolonged period to ensure inflation reaches the mid-point of our target range”

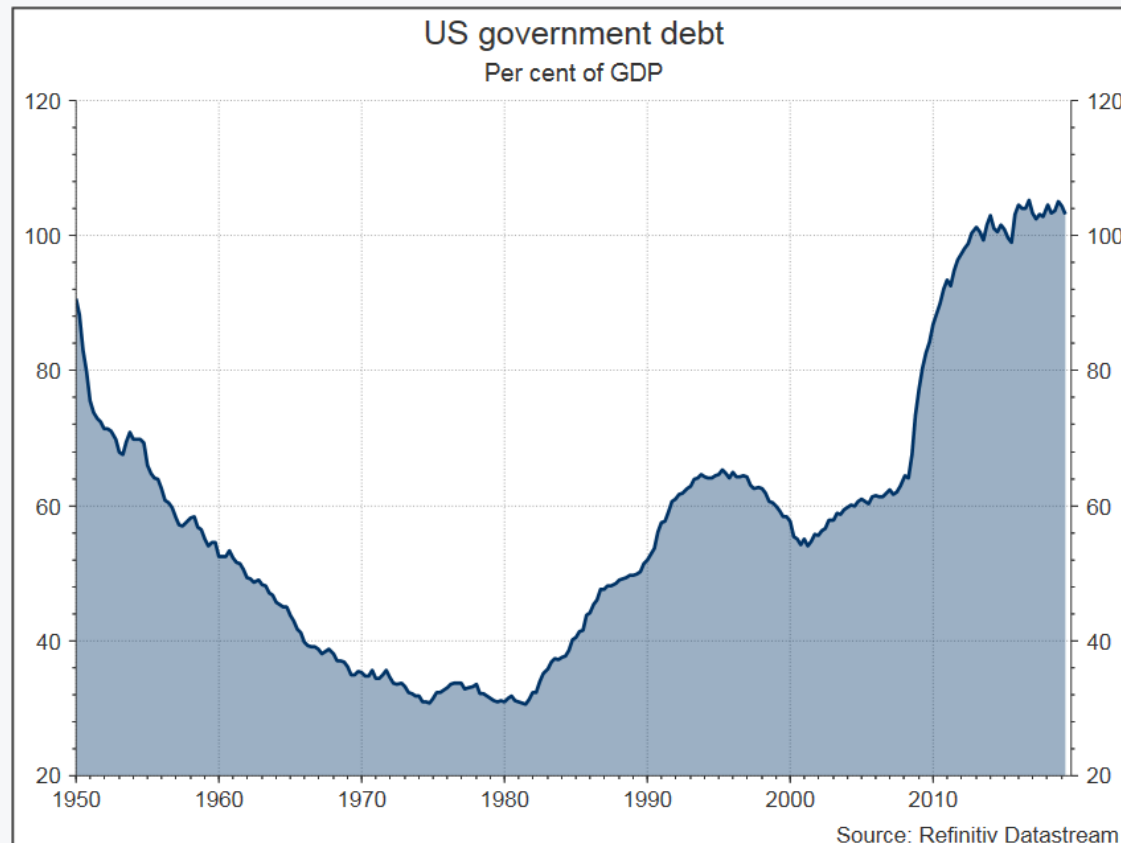
Factors to consider

- The overlay of politics and economics make the current environment “different”
 - Brexit, Middle East, South America
 - Protectionism – USA versus China
 - Attitudes to globalisation
 - Geopolitical pressures will intensify
- Not your “normal” slowdown in growth around the globe
- Are we set to follow Japan?
- China – can they hold it all together?
- What does the world look like if monetary policy is now ineffective?
- Italy 10-year bond yields are 1% yet government debt is >100% GDP. Credit risk being ignored.

US GDP growth – longest expansion in history

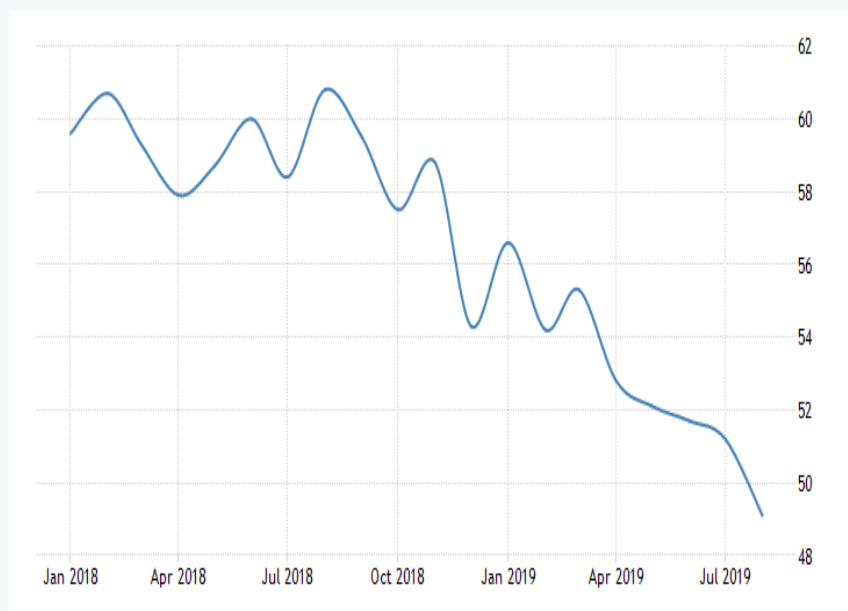


But the fiscal position now is worse than post WWII



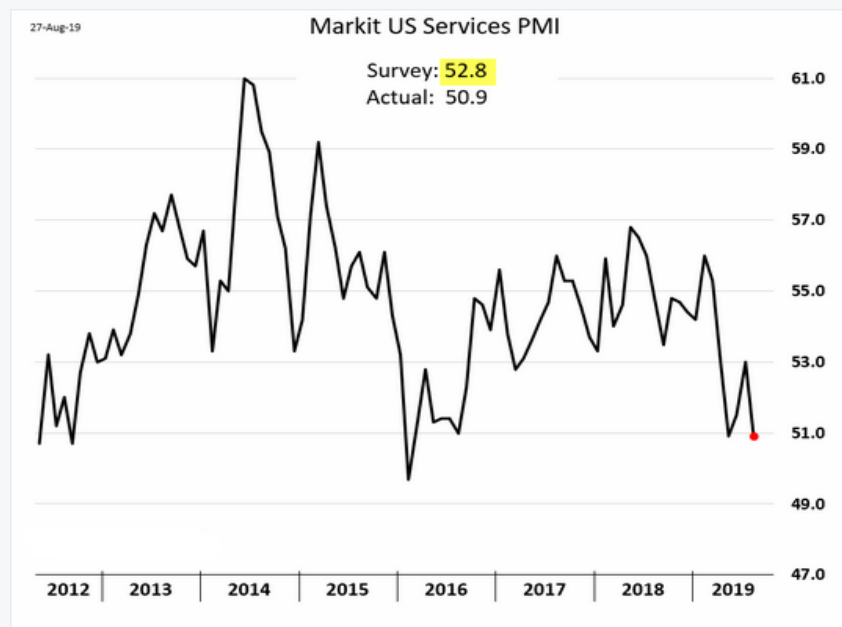
Slumping manufacturing offset by strong services

US ISM manufacturing PMI



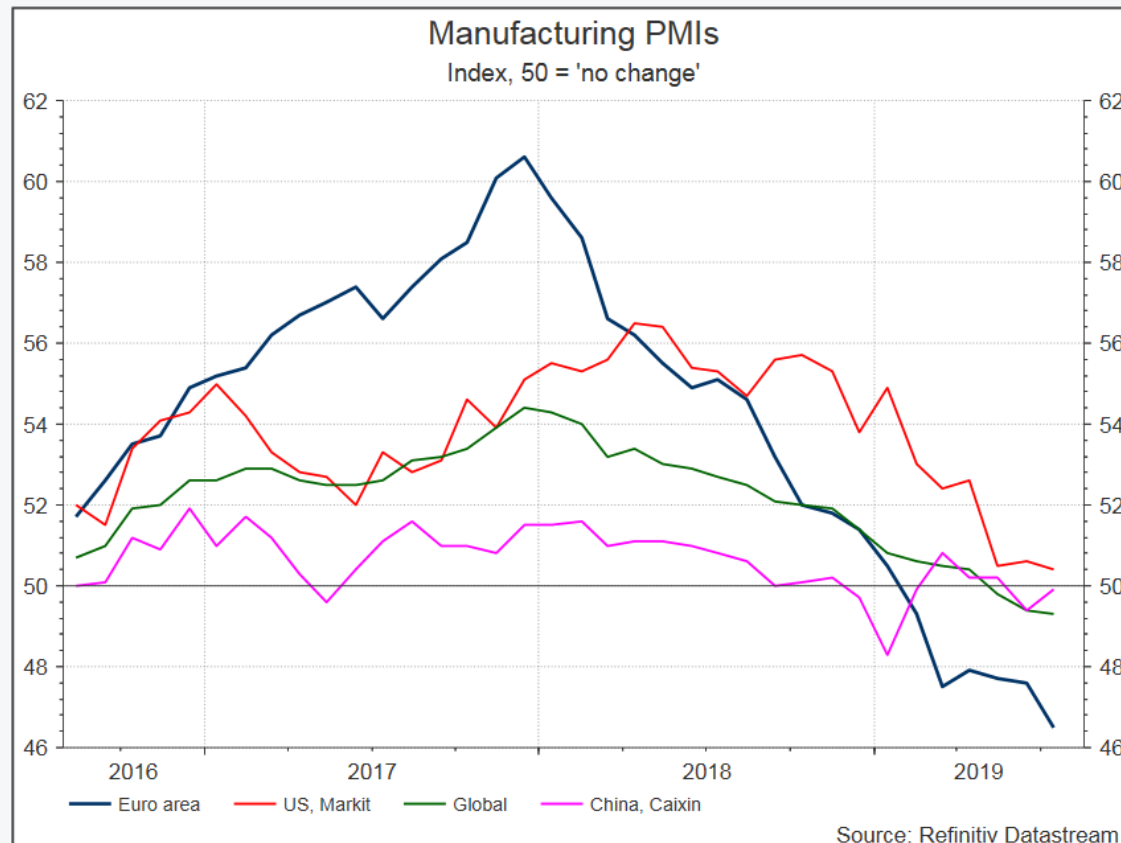
Source: Trading economics

US Markit services PMI

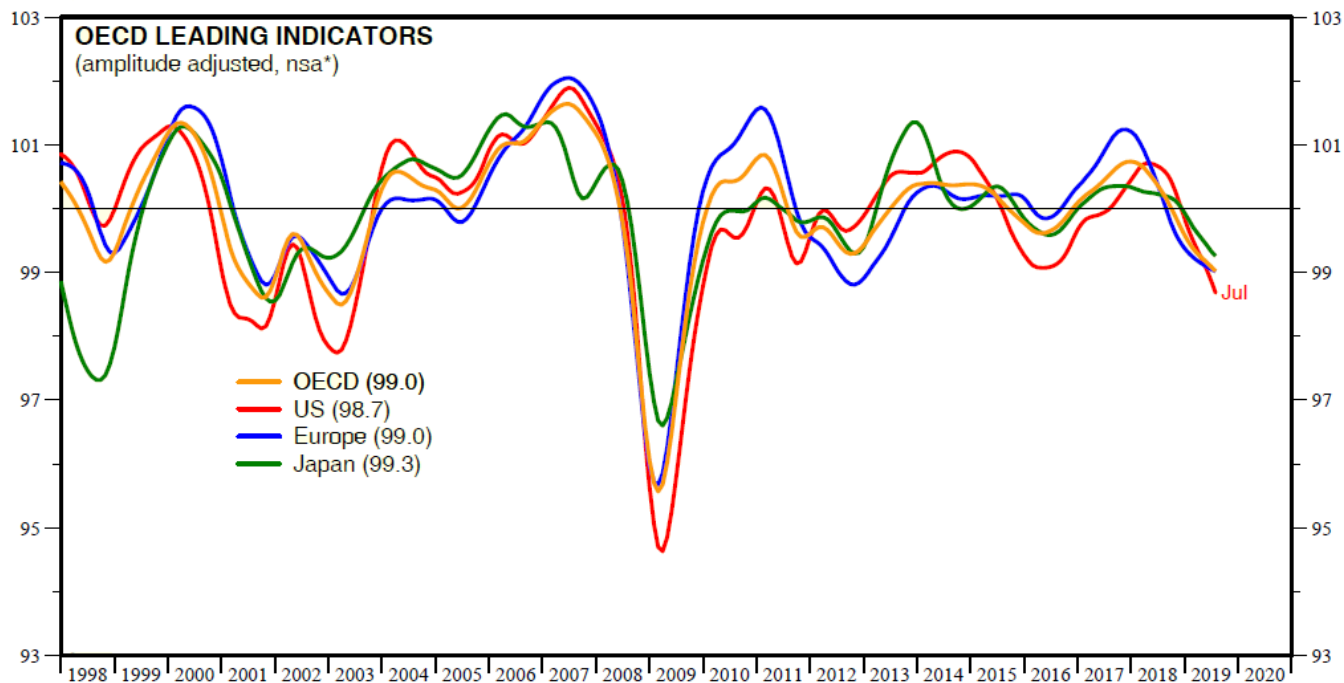


Source: Bloomberg, WSJ

Manufacturing recession is global



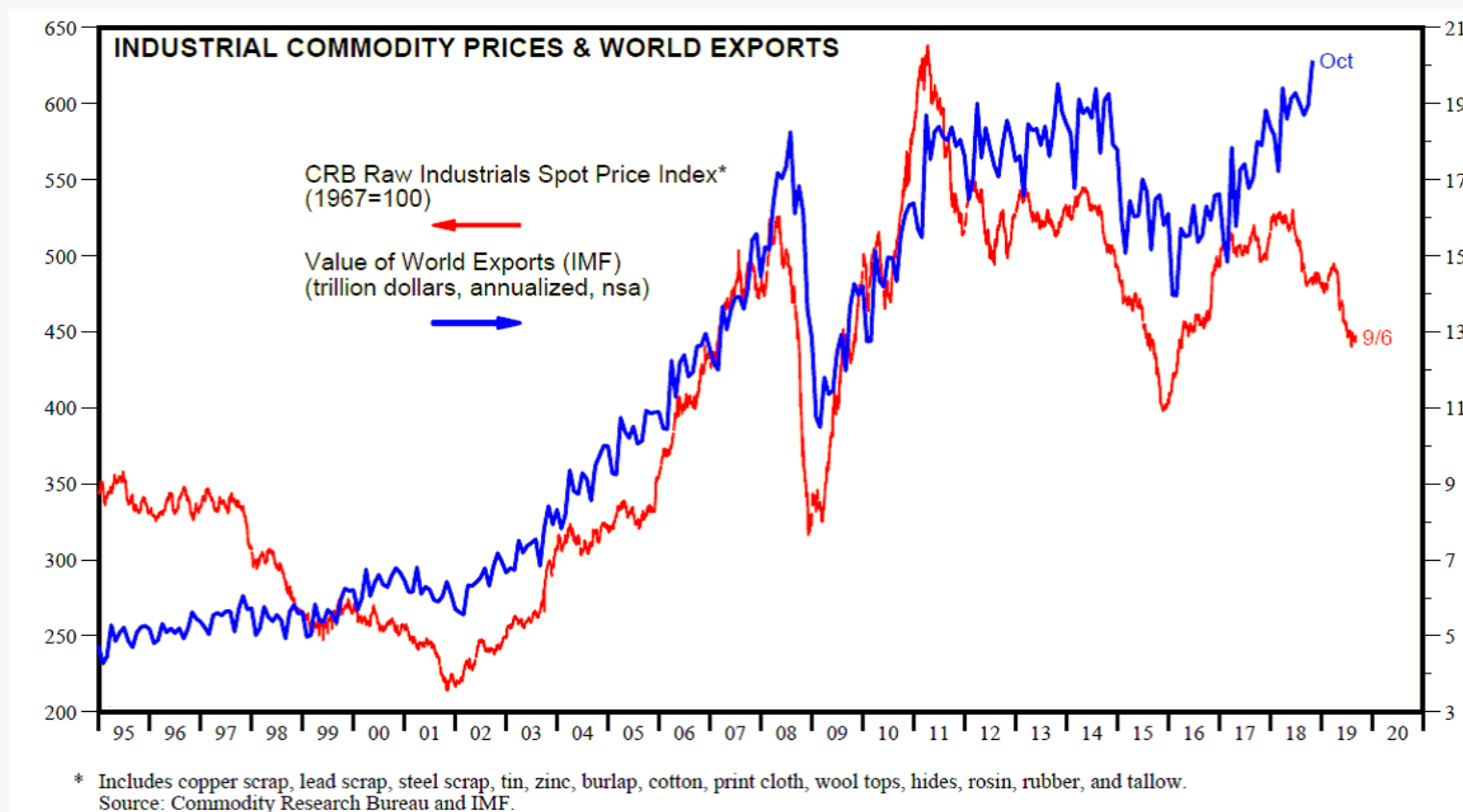
Leading indicators suggest slowing global growth



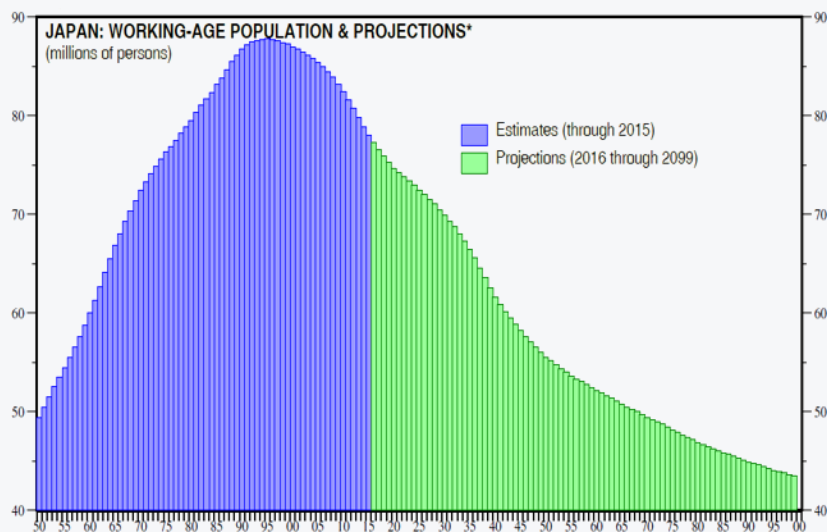
* A reading above 100 that is rising predicts expansion, above 100 and falling a downturn, below 100 and falling a slowdown, and below 100 and rising a recovery.

Source: OECD and Haver Analytics.

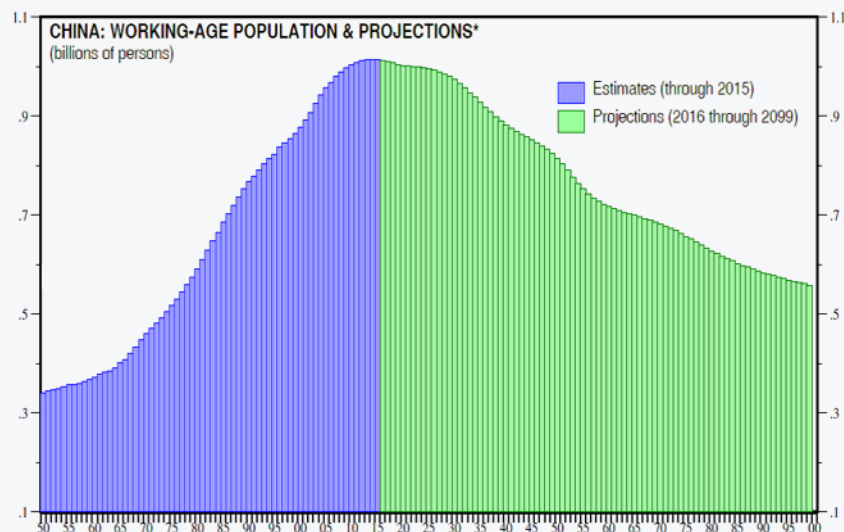
World exports expected to follow commodity prices down



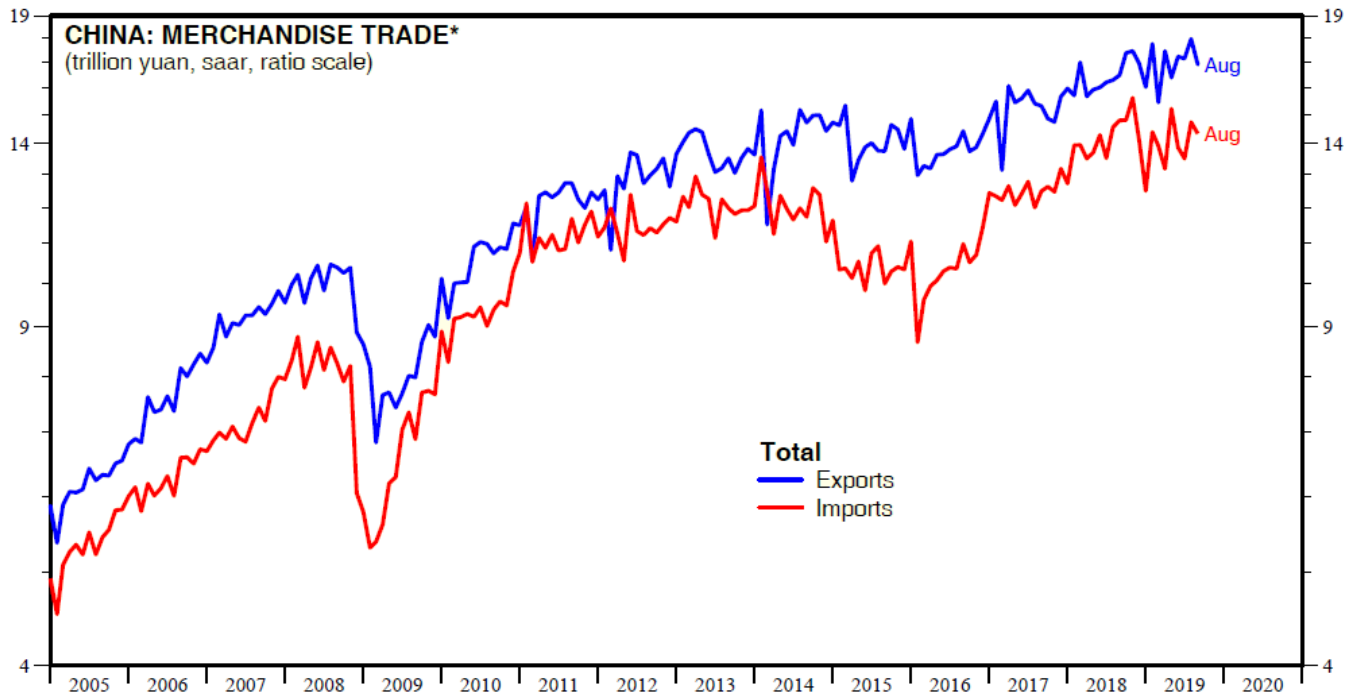
Aging demographics could be supressing demand?



*Persons 15-64 years old. Source: United Nations

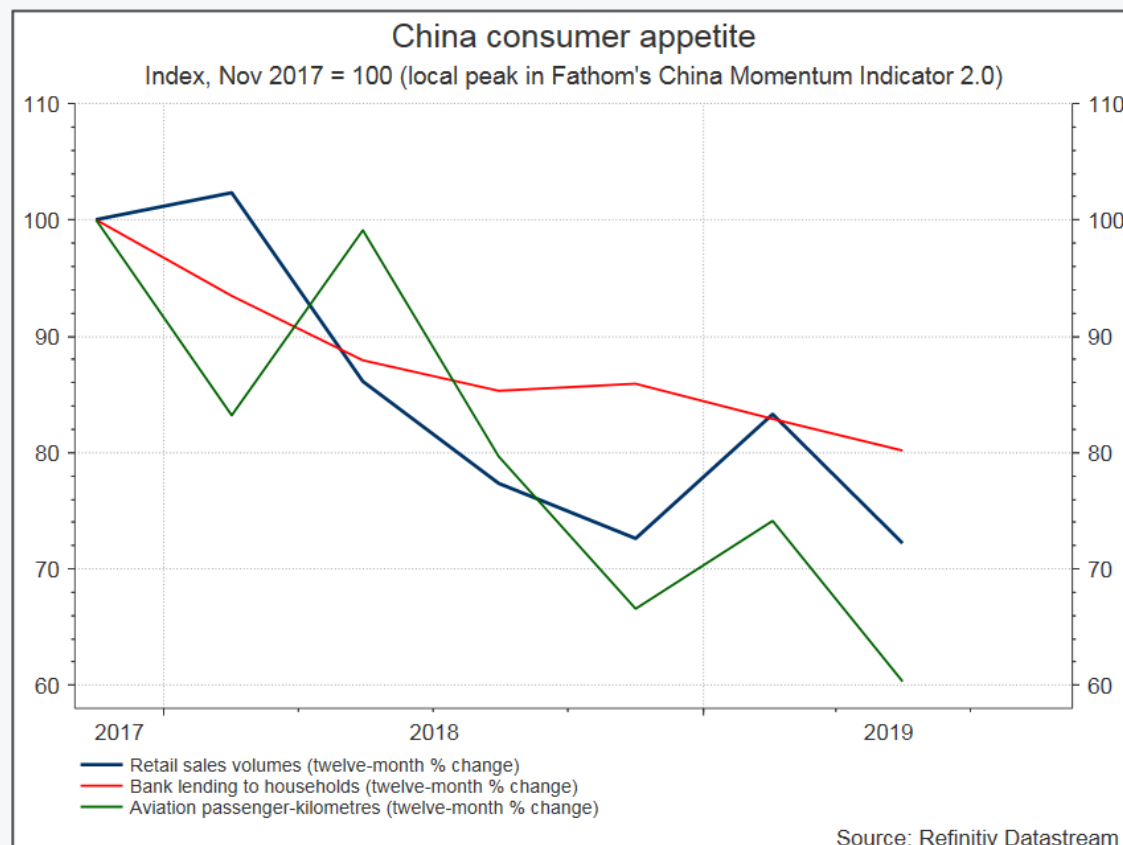


Flat China trade only due to devalued currency

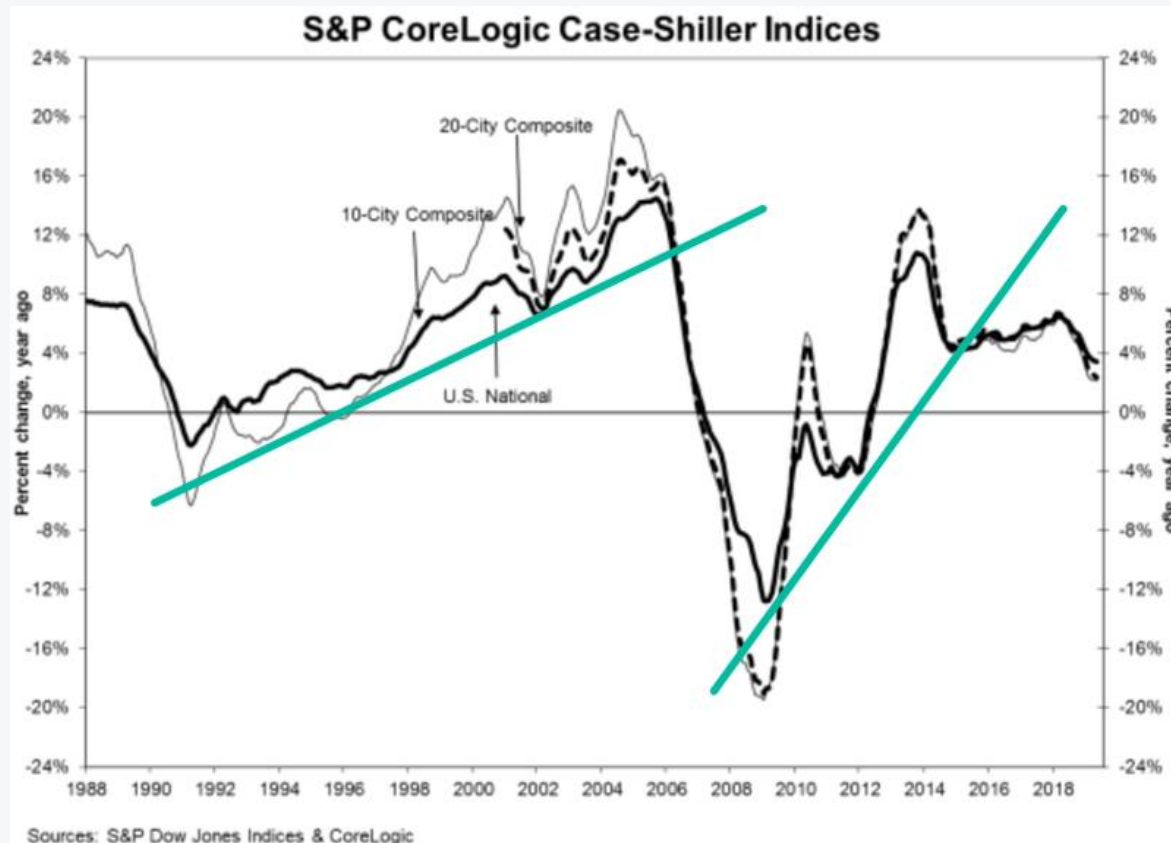


* Excluding Hong Kong.
Source: China Customs and Haver Analytics.

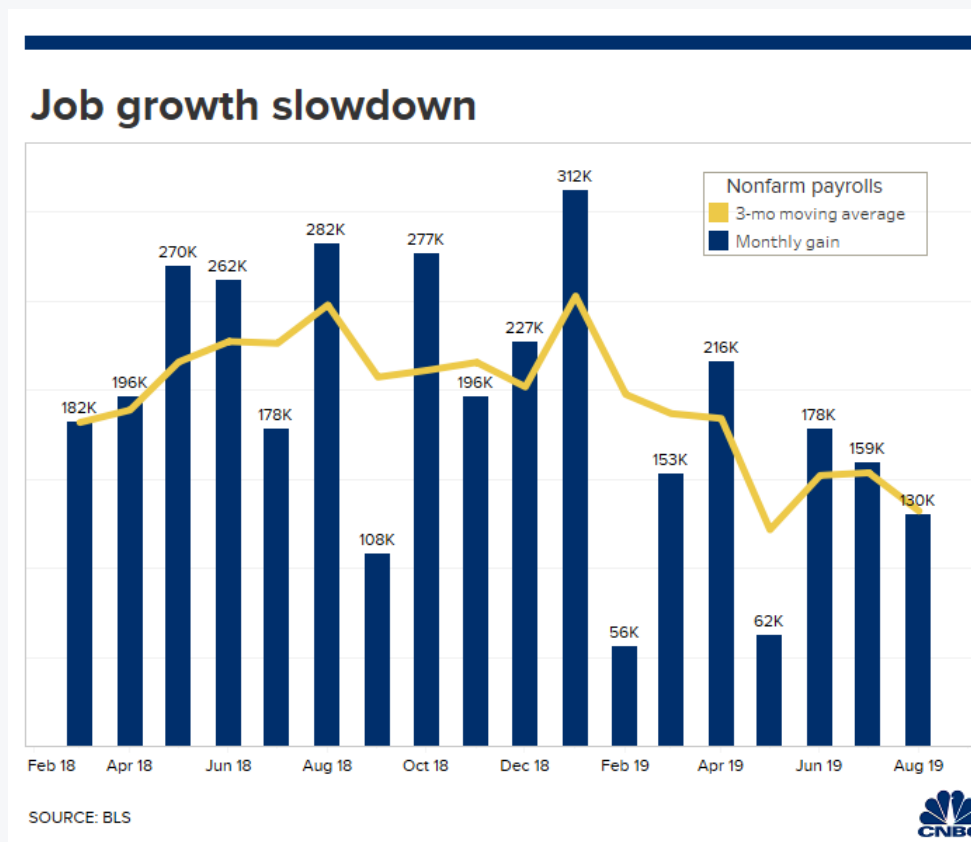
China's consumer has become much more cautious



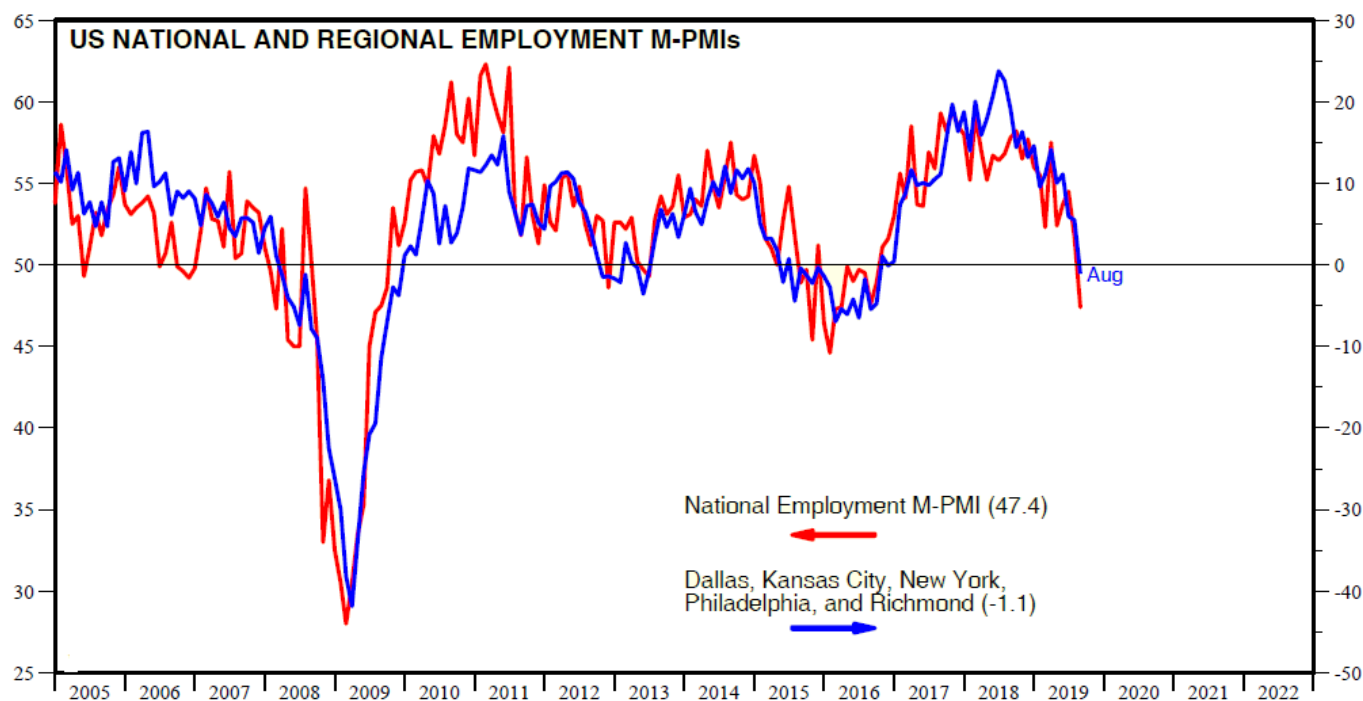
US house price growth is slowing quickly now



And US jobs growth is slowing

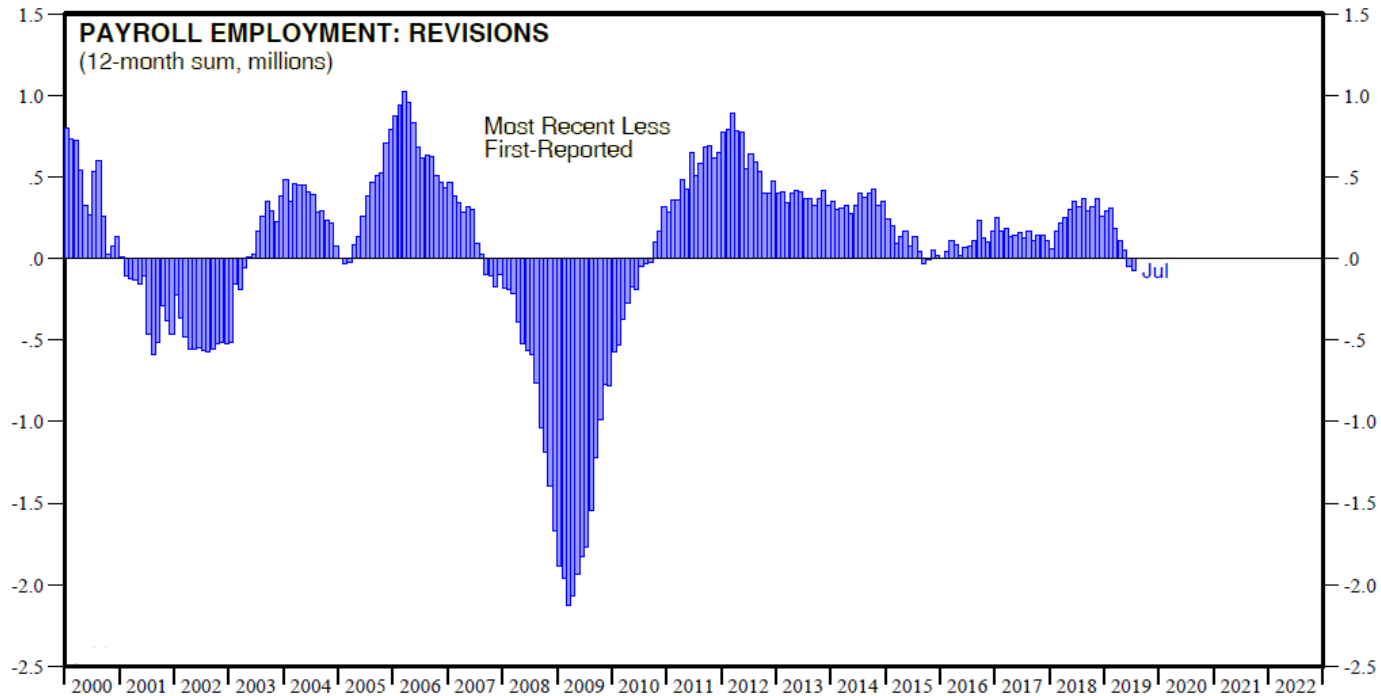


Trend outlook for US employment declining



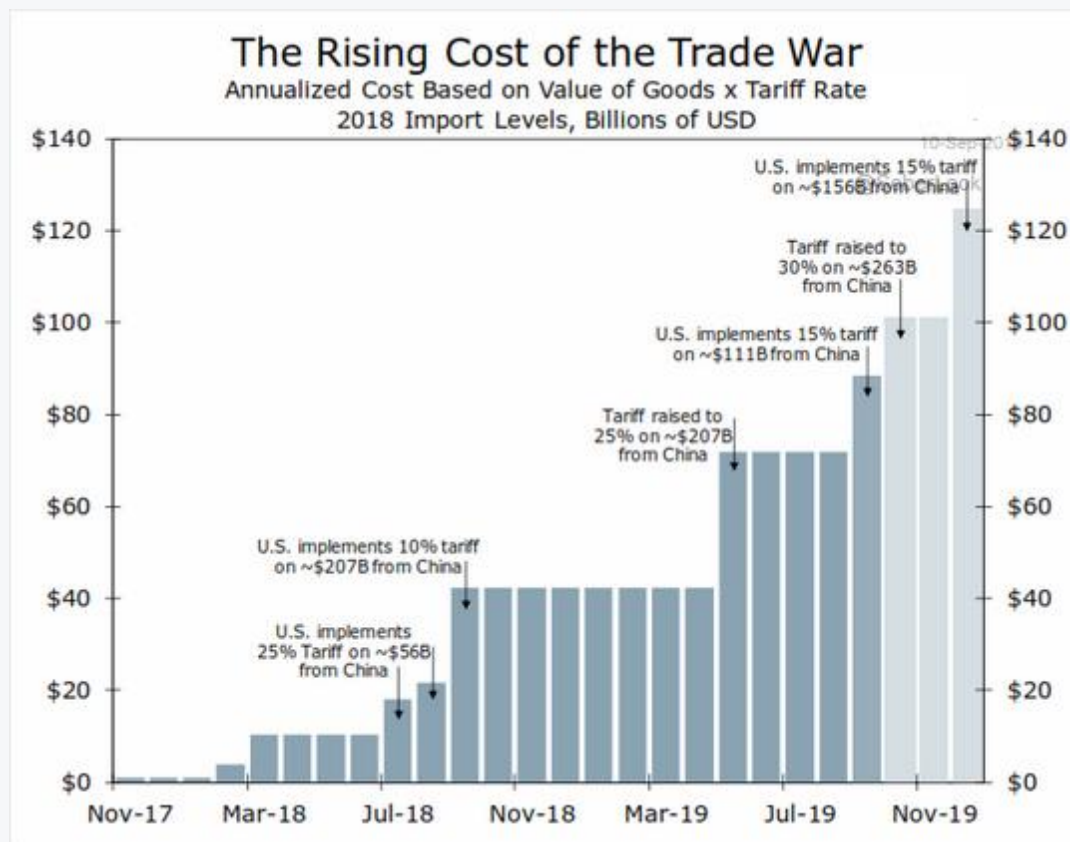
Source: Federal Reserve Banks of Dallas, Kansas City, New York, Philadelphia, and Richmond.

Recessions tend to accompany negative payroll revisions



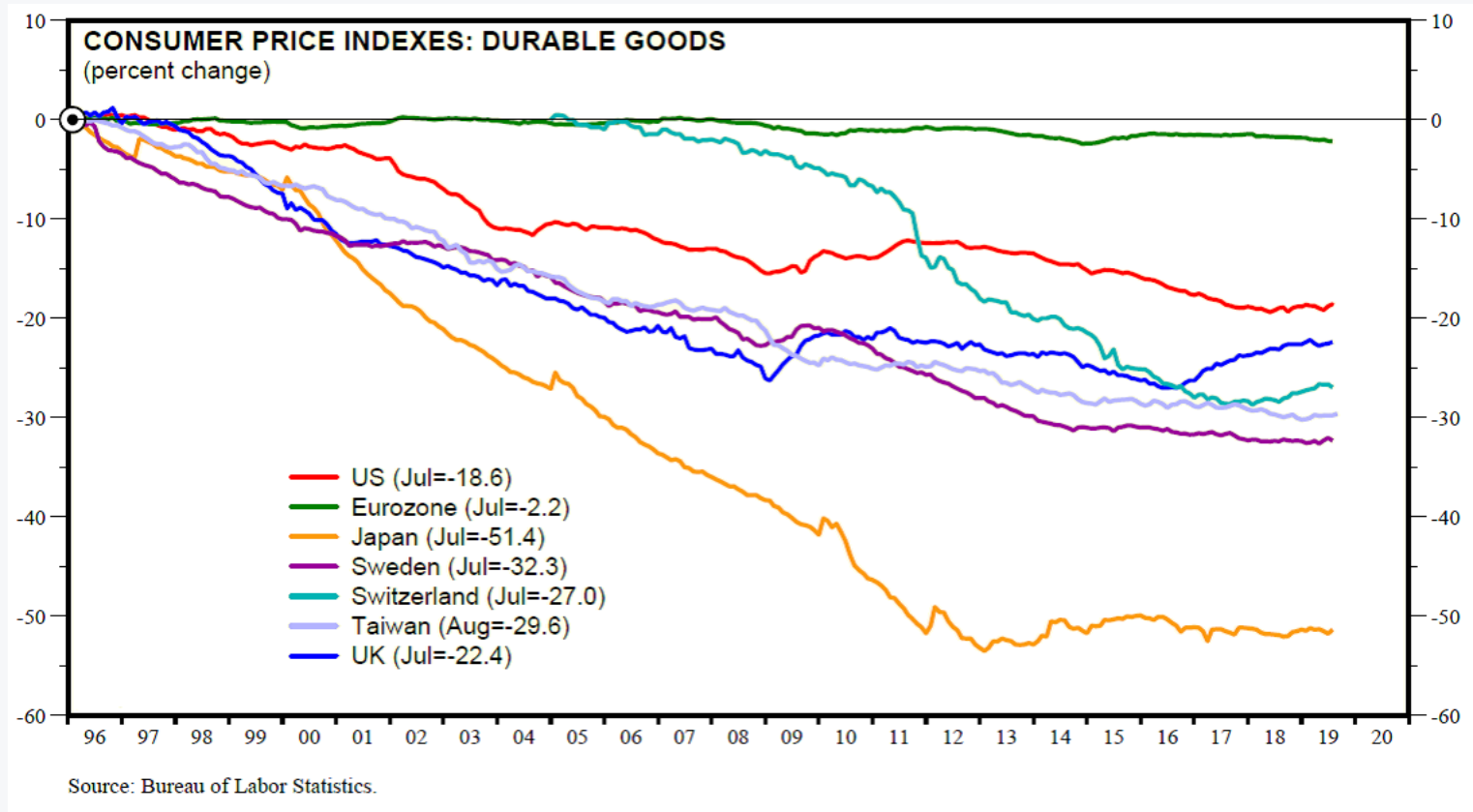
Source: Bureau of Labor Statistics.

The US consumer is about to feel price pain

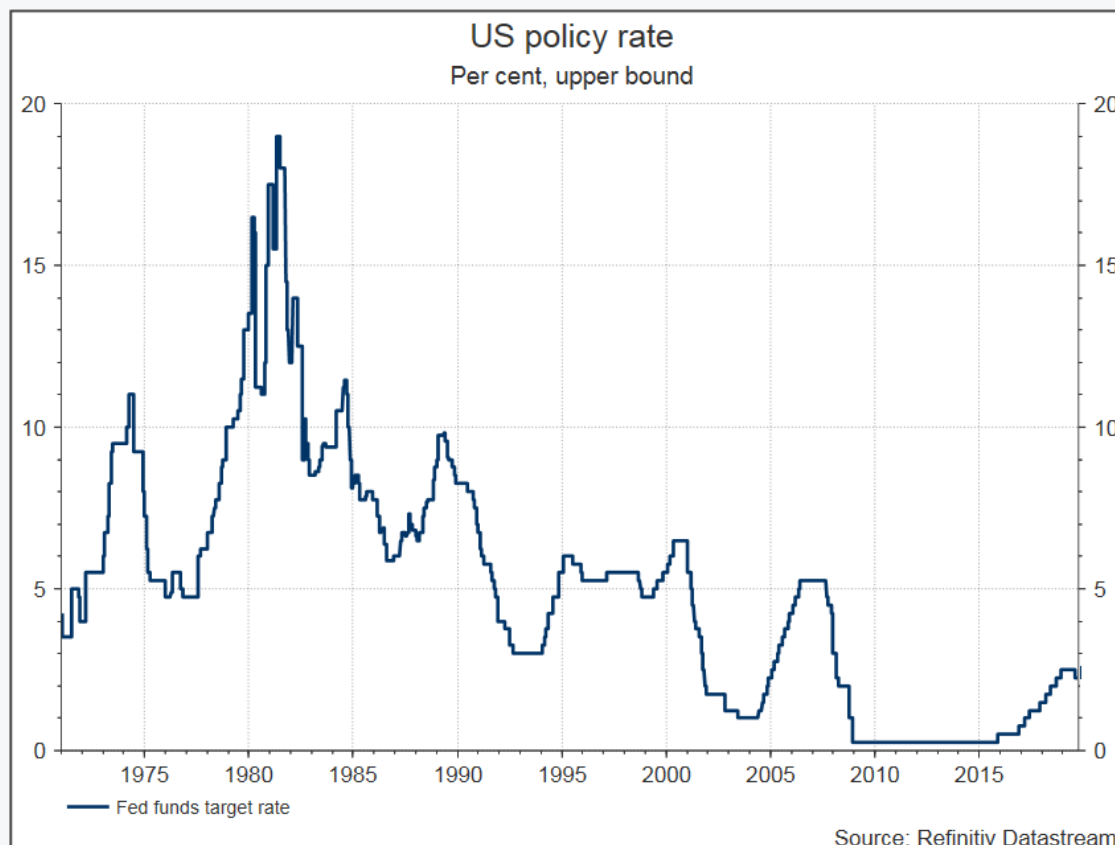


Source: *WSJ, Daily Shot*

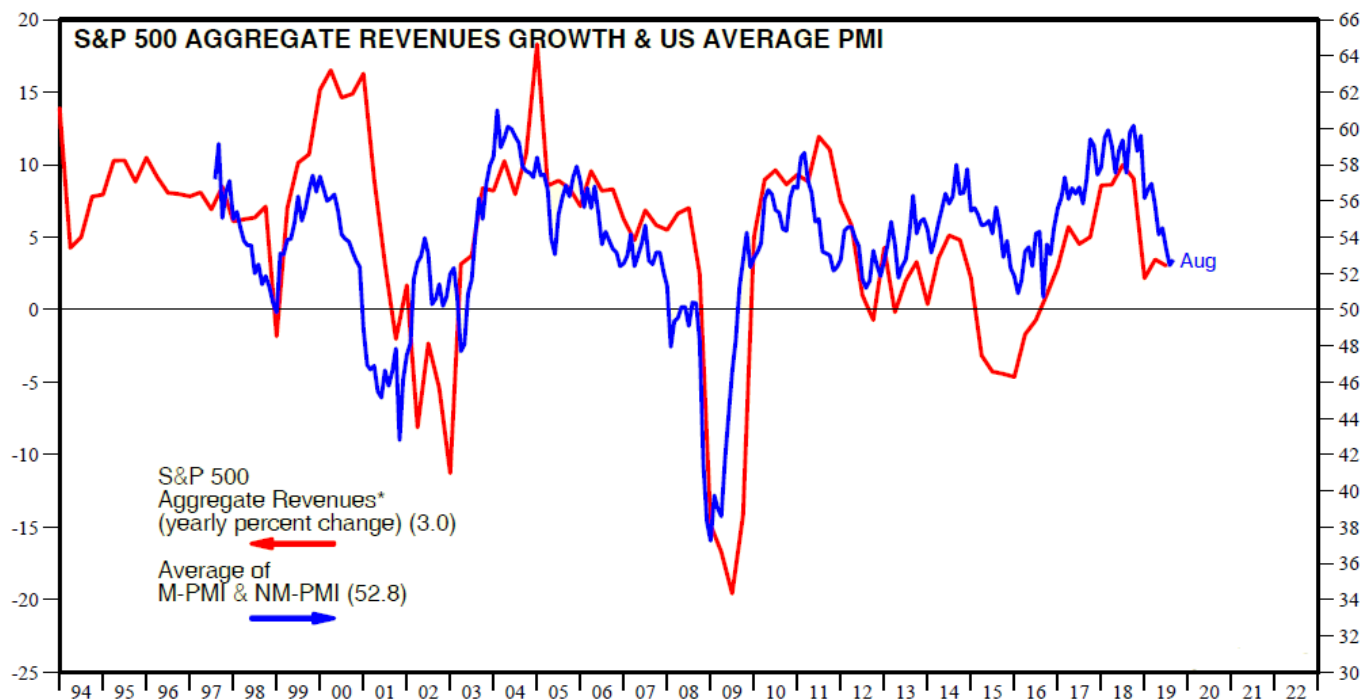
Globalisation and technology continues to drive durable goods deflation



Fed only has 225bp of rates to cut this cycle



As activity slows, so does earnings growth



* S&P quarterly data, not per share. Revenues are derived by multiplying S&P 500 revenues per share by the S&P 500 divisor for each quarter.
Source: Standard & Poor's and Institute for Supply Management.

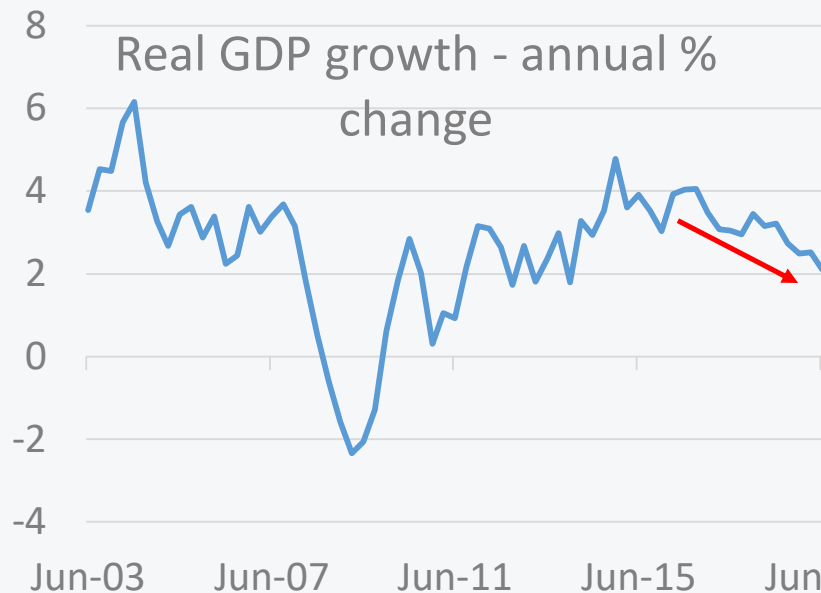
If E falls, US equity valuations harder to justify



And earnings downgrades are coming



NZ still has growth, but it's slower paced



Why has growth slowed?

- Capacity
- Global scene
- End of cycle – watching structural indicators
- Some asset classes adjusting
- Lots of change which is unsettling
- Easing migration
- Weak confidence

A slower pace of growth is not a downturn – yet!

Source: Bagrie Economics, Statistics NZ

World population projections. Disruption is here for agriculture but the world still needs to eat

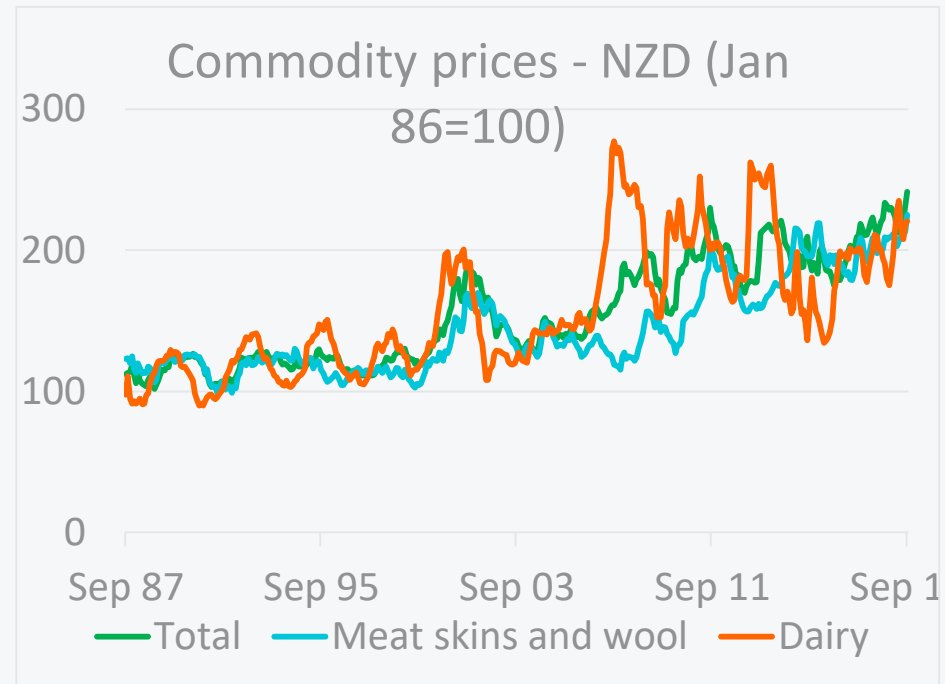
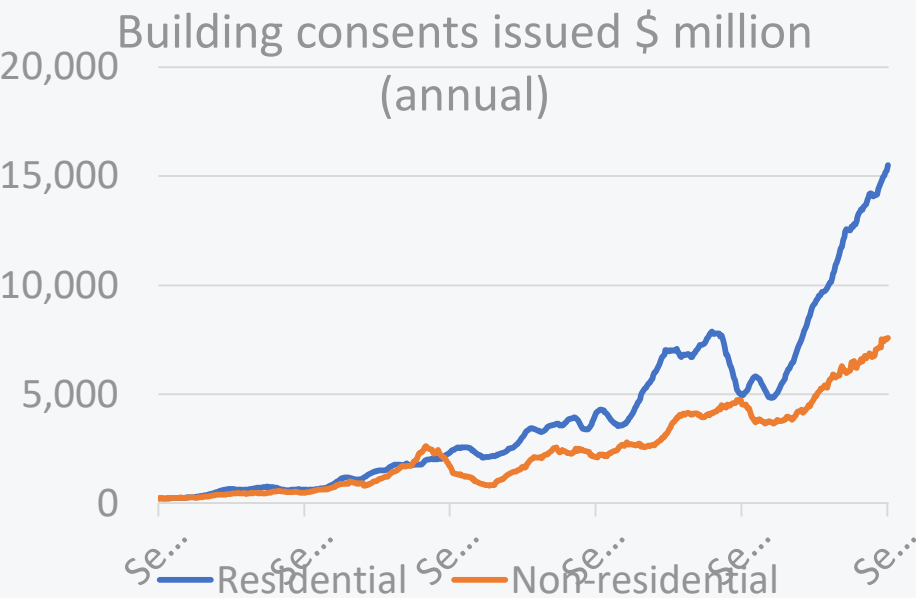
- ❑ The world population is projected to **9.9 billion** in 2050
- ❑ That's up **2.3 billion** from an estimated 7.6 billion now
- ❑ Africa's population to more than double by 2050 to 2.6 billion
- ❑ Asia will rise about 717 million to **5.3 billion**
- ❑ Europe (including Russia) will see a decline in population from 746 million to 730 million
- ❑ The population in the Americas is seen increasing to 1.2 billion from 1 billion now
- ❑ **India +309m. Nigeria +215m. Congo +132m. Pakistan +106m**
- ❑ The population of 38 countries will be smaller in 2050 than in 2018. **China -50m. Japan -25m. Russia -9m. Germany -4m**
- ❑ Australia 24 to 35m. NZ 4.8 to 6.3m

Source: Population Reference Bureau – 2018 World Population Data Sheet, Bagrie Economics

What normally drives a downturn in NZ?

- ☐ Global recession
- ☐ Asset bubble that pops / weakness in structural indicators
- ☐ Emergence of inflation drives up interest rates
- ☐ Incompetence
 - Central bank takes interest rates too far or don't respond quickly enough
 - Tends to impact quickly
 - Government delivers poor policy
 - Tends to be take time to impact

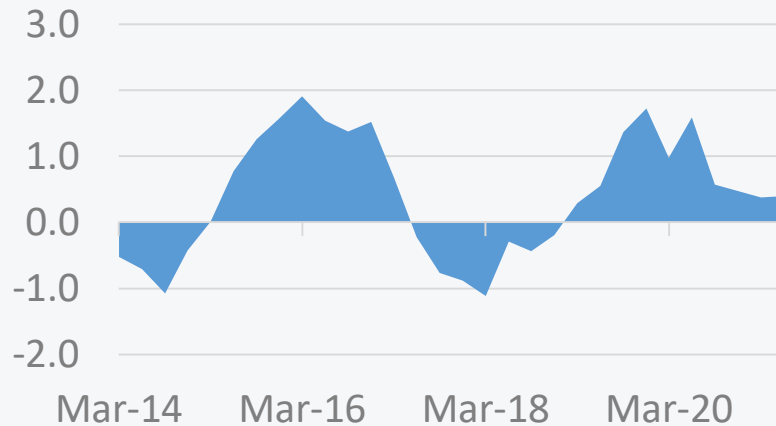
Strong levels of building activity and high commodity prices



Source: Bagrie Economics, ANZ, Statistics NZ

RBNZ expects asset prices to lift / people to spend

Projected impact of interest rate changes on house prices (%) – quarterly boost



Key topics to think about

- August / September has seen the property market lift
- How low can physical borrowing rates go? There is a limit
- Could negative interest rates come to NZ?
- Will people borrow and spend more?

Source: Bagrie Economics, RBNZ

What are we observing

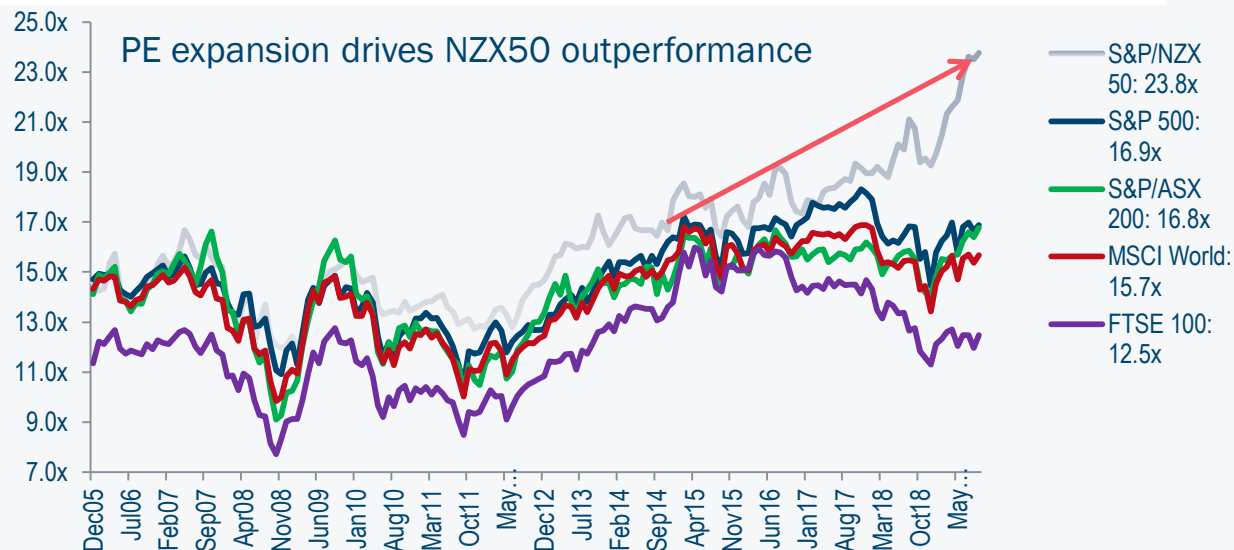
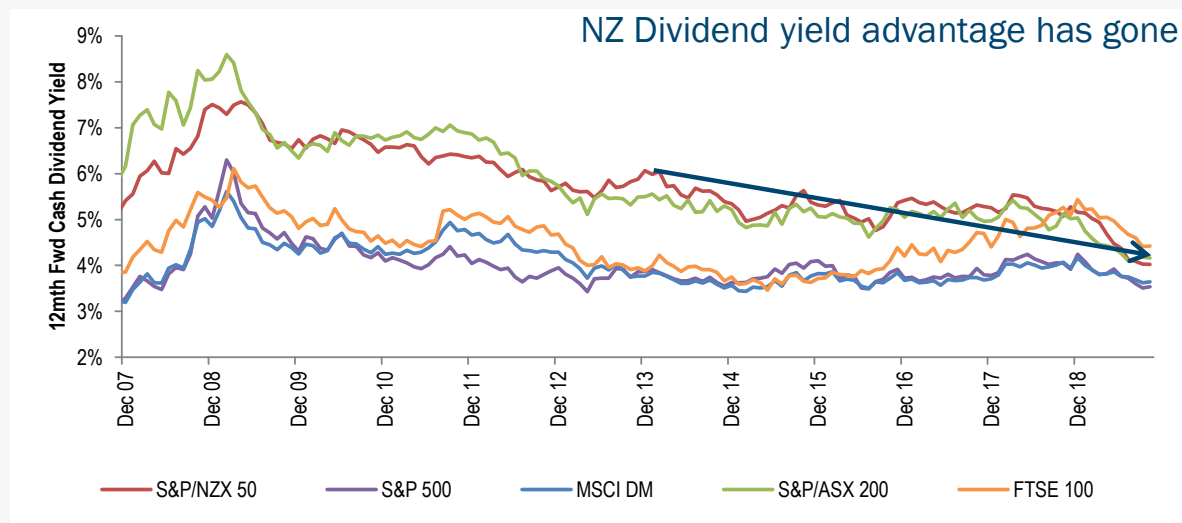
Clouds are swirling

- Banks are tightening credit availability, particularly to rural and property sectors
- House prices are falling in Auckland
- Lending to agriculture sector has hit its aggregated cap
- Increasing financial distress is evident across the dairy sector, including Fonterra

The good news

- NZ has enjoyed 18 years of excellent returns across all segments: equities, property, farming, fixed interest
- NZ has been the best performing market in the world over the past 18 years
- NZ has outperformed the Australian equity market by 100% over the past 7 years

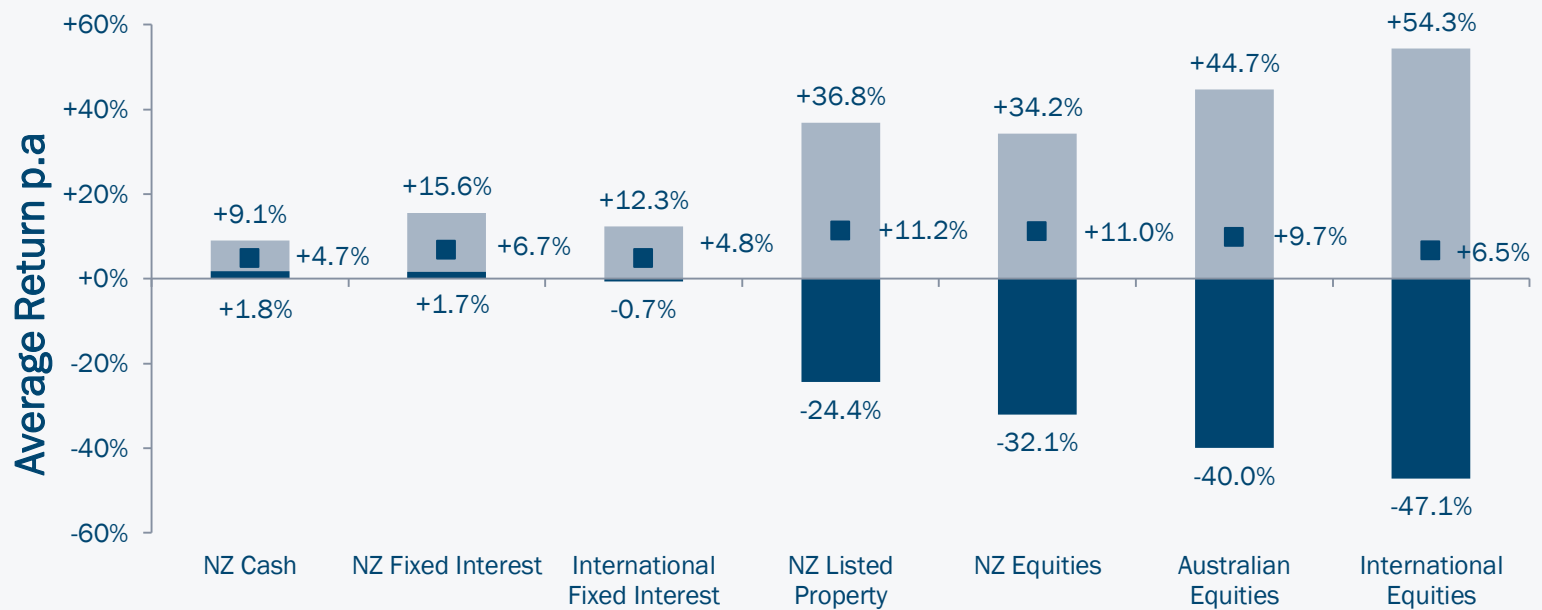
NZ Equities vs the World



Source: Forsyth Barr Research

Returns over time

This graph shows the range of returns (high-low) and average returns on key investment classes over the past 20 years.

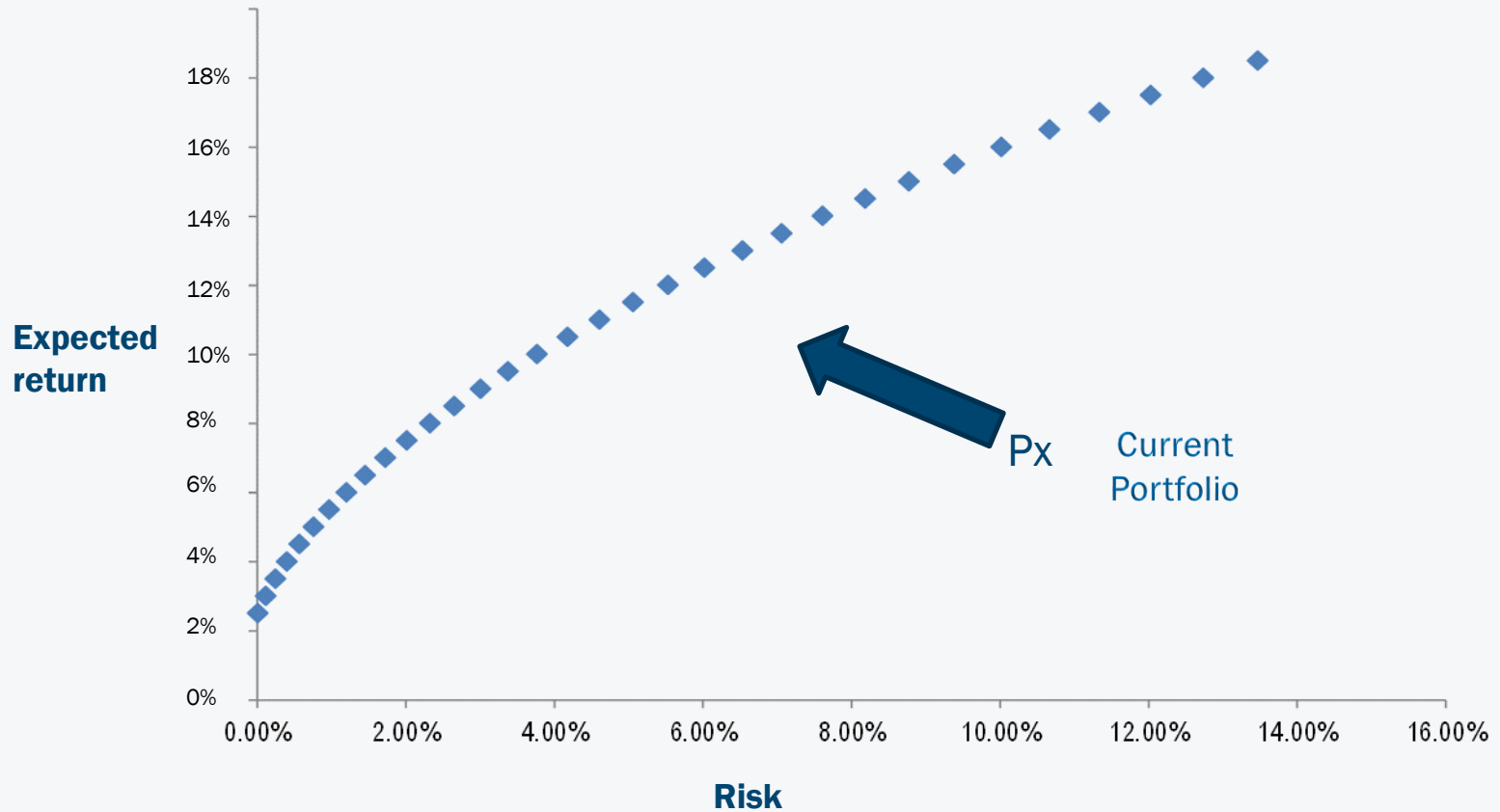


Sources: Iress, Ord Minnett, Forsyth Barr Research

Past performance is not a guarantee of future performance. All returns are based in the local currency i.e. A\$ for Australia, US\$ for international.

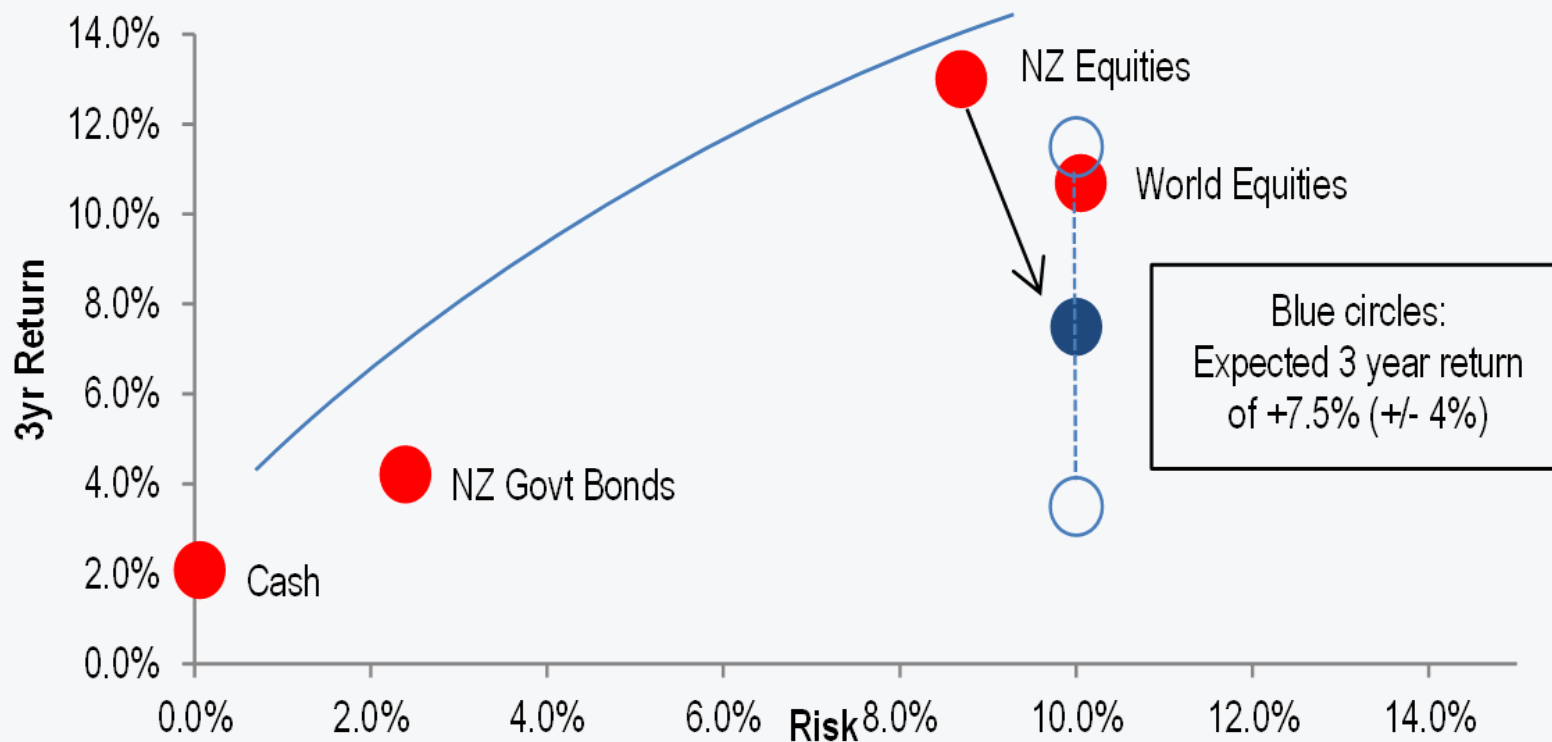
Our guiding principle is “North-West”

The goal: To achieve a higher return with less risk



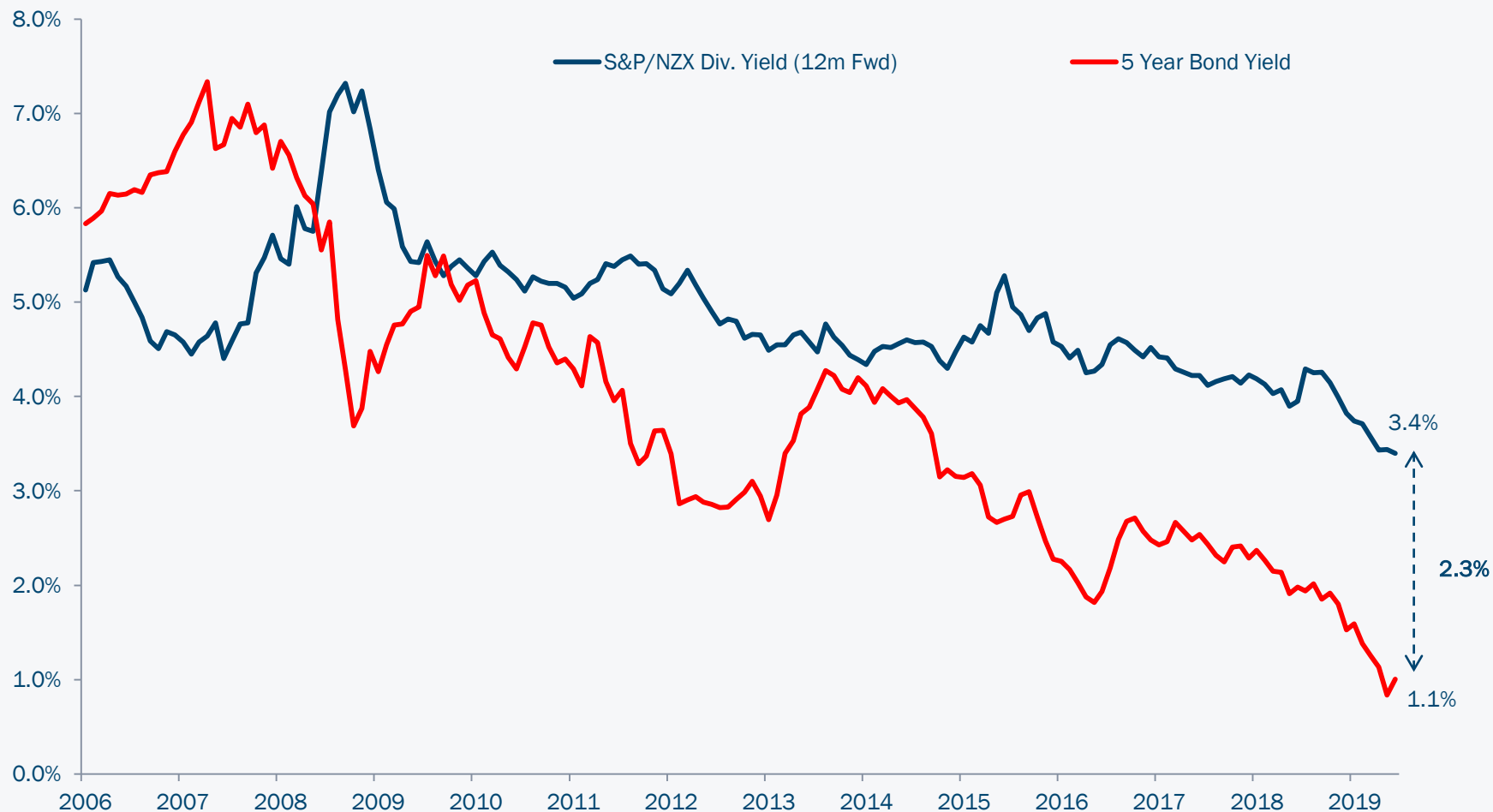
Source: Forsyth Barr Research

Risk return: NZ equities moving South East



Source: Forsyth Barr Research

Dividend yields and bond rates over time



Source: Forsyth Barr Research

Higher yields are not without risk

	Dividend Yield	5 Year Bond Yield	Premium
New Zealand	3.4%	1.1%	+2.3%
Australia	4.1%	0.9%	+3.2%
United States	2.1%	1.7%	+0.4%
United Kingdom	4.7%	0.6%	+4.1%
Germany	3.1%	-0.5%	+3.7%

Source: Forsyth Barr Research

-
- The prospect/impact of lower/negative interest rates accentuates investor focus on alternatives, however risks need to be carefully considered.

Consequences of listening to the Armageddonists

The consequences of listening to the Armageddonists, 2010-2019

Performance impact of shifting \$1 from the S&P 500 to the Barclay's Aggregate Bond Index, measured from the week of the Armageddonist comment in Table 1 to November 8, 2019



Source: JPMAM, Bloomberg. November 8, 2019. Using weekly S&P 500 and Barclay's Aggregate data.



Thank You