

Bradley Nuttall Summer Update

October – December 2023

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Increased hopes for this goldilocks scenario... saw share prices surge.

Market Commentary

It was most appropriate that the fourth quarter of 2023 included Christmas, as it was indeed a quarter of many happy returns.

Global share markets delivered strong gains as market expectations about the future trajectory of interest rates changed markedly over the quarter. While the consensus view in the September quarter was for interest rates to remain 'higher for longer', the focus over the last three months was on the potential for the US Federal Reserve to successfully engineer a 'soft-landing' for the US economy (i.e. inflation coming back under control without unduly impacting the wider economy). Increased hopes for this goldilocks scenario, which is vastly more preferable than the economy slumping into recession, saw share prices surge.

Global bonds also joined the party. The idea that US interest rates could begin falling in 2024 led to a reduction in long term bond yields, which sent bond prices up sharply. For investors who had endured a difficult period in bond markets over the last two years, this represented a welcome holiday gift.

A noteworthy aspect in all of this is that, for the most part, not much had really changed. Yes, oil and gas prices did decline (which was a positive), but global interest rate policy settings were largely unchanged, conflict in the Ukraine and middle east continued, and businesses generally did not report dramatically improved profits or projections. The main ingredient that changed was investor expectations.

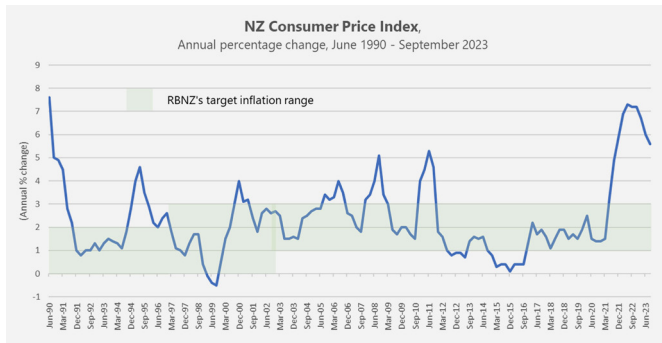
In September, when markets were anticipating interest rates being higher for longer, this impacted a number of important calculations, notably what the current price of bonds or shares should be. However, in a scenario where interest rates were now anticipated to be lower than previously expected, investors simultaneously reassessed asset valuations. What they had considered to be 'fair' prices in September were, within a matter of only a few weeks, considered to be 'cheap'. And, like any rational consumer wanting to buy if they think they're getting a bargain, investors did just that, pushing the prices of shares and bonds higher over the last three months of 2023.

When it comes to expectations changing, this can of course be a two-way street. Sometimes markets can overestimate potential future outcomes and when more up-to-date information becomes available, it can lead to a reduction in expectations. In those cases, prices will invariably go down. In the fourth quarter, however, that wasn't the case, and positively changing expectations provided markets with a tail wind.

Inflation

While investors have a natural interest in asset prices, central bankers are more focused on the prices of goods and services throughout the economy. Increases in the prices of goods and services is known as inflation, and central banks are tasked with, keeping that within targeted levels. In New Zealand's case the Reserve Bank of New Zealand (RBNZ) aims to keep inflation (measured by the Consumer Price Index) between 1% and 3% over the medium term.

As the chart below shows, up until the emergence of Covid-19, the RBNZ had generally been quite successful in achieving this.



For a period of time, we literally had a situation where far too much money was chasing too few goods.

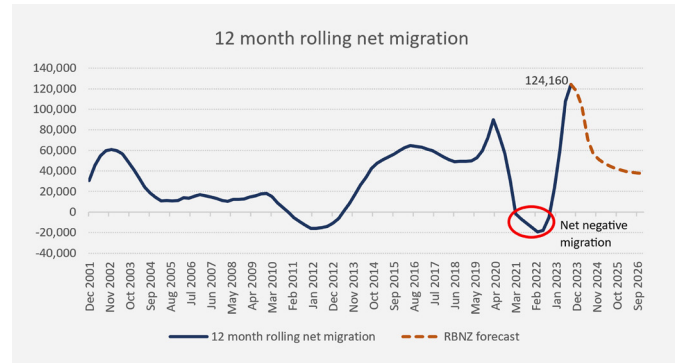
Unfortunately, the significant support payments made to businesses and workers to keep them solvent while Covid lockdowns were in place, eventually led to a spike in inflation in 2021/22. Once we all got out of lockdown, the world's factories (and broken supply chains) needed many more months to get operating again, and it quickly became clear that global production couldn't match the surging demand from cashed-up consumers. For a period of time, we literally had a situation where far too much money was chasing too few goods – classic inflationary conditions.

This phenomenon was experienced all over the world, but in New Zealand's case we have been slower to see inflation come back down again. The last official reading (for the 12 months ended September 2023) had domestic inflation at 5.6% - moving in the right direction from the high of 7.3% in mid 2022, but still well outside the RBNZ's 1% - 3% target band.

While the talk in the December quarter turned to the likelihood of US interest rates beginning to come down in 2024, the jury is still out about what will happen to New Zealand interest rates. Inflation in the US is only 3.1%, while ours is nearly double that, and the RBNZ will be reluctant to risk cutting interest rates too early for fear of reigniting another round of inflationary pressure here.

Migration

For the roughly two years when New Zealand's borders were closed, we experienced net negative migration. However, once borders were eventually re-opened, net migration skyrocketed. In the 12 months to September 2023 we have welcomed over 124,000 more people to New Zealand to live, over and above the number that have chosen to leave. As the chart below shows, that represents easily the largest annual increase in net migration this century.



As everyone that comes to New Zealand needs somewhere to live and will generally either buy or rent some accommodation, it's no wonder that unexpectedly high migration is now a significant factor in the RBNZ's sensitivity to high inflation. After all, housing costs make up almost 30% of the Consumer Price Index and almost half of New Zealand's non-tradable inflation.



From this current peak, the RBNZ are forecasting net migration to slow down quite quickly to a level of around 40,000 per annum by 2026. However, if this doesn't happen – if net migration stays higher for longer – then this is likely to put further pressure on rents and house prices and, unfortunately, inflation.


















In that event, for the RBNZ to continue to make progress towards meeting its medium term inflation target, they will either need to see greater disinflationary forces coming from other parts of the economy and/or consider a tighter monetary policy stance than they might otherwise prefer (i.e. higher interest rates).

The Magnificent 7

While the main US share index (the S&P 500 Total Return Index) was up 26.3% in 2023, it was the so called Magnificent 7 (comprising Meta, Amazon, Apple, Alphabet, Microsoft, Nvidia and Tesla) that was responsible for the majority of the returns.

The price performance of these companies has, without doubt, been heavily influenced by investors' growing fascination with the Artificial Intelligence (AI) story. However, history provides cautionary warnings about sky-high valuations driven by appealing stories.

As the table below demonstrates, with an average price-to-earnings (P/E) ratio of around 51, the valuations of the Magnificent 7 are fast approaching the lofty levels briefly attained by the major Nifty Fifty stocks of the 1960s and 1970s and dotcom companies in the late 1990s, just prior to them eventually crashing. What these earlier periods were both remembered for was the tendency for many investors to ignore fundamental company valuation metrics, and instead make investment decisions based on popular sentiment.

Nifty Fifty	1972 P/E	Tech Bubble	March 2000 P/E	Magnificent 7	Current trailing 12-month P/E*
	46		41		33
	74		100		80
	40		57		30
	36		51		28
	46				37
	95				72
					75
Average P/E	56	Average P/E	62	Average P/E	51

* from Yahoo finance, as at 10 January 2024

While none of the above is intended to forecast a pending crash, it is a cautionary reminder that the Magnificent 7 shares, which currently make up about 30% of the total market capitalisation of the S&P 500 index, are at historically high valuations.

For investors drawn to the AI hype, this should be considered very carefully before investing. But for most prudent, long term investors, those who are not over-allocating to just a handful of high-priced companies, the news is much better – the rest of the market has valuations that are much closer to, or below, their historical averages.

If we look at several market-wide funds supplied by the Vanguard Group, we can get a better understanding of this.

As at the end of November 2023 –

- The Vanguard **US Total Stock Market** ETF had a trailing 12-month P/E ratio of **21.8** (about its average over the last 40 years). However, if we excluded the Magnificent 7 from this calculation it would lower that figure significantly.
- The Vanguard **Total International** (i.e. non-US) ETF had a P/E of **11.0**, well below its historical average of about 21.
- The Vanguard **Emerging Markets** Stock Index ETF had a P/E of just **7.6**.

Outside of the Magnificent 7 companies, which have an average P/E of 51, broader share market valuations continue to look fair, or even attractive by historical standards.

This is where having access to professional investment advice can be extremely valuable. Individual investors often struggle with something called 'recency bias'. This leads to favouring assets that have performed well recently (for example Magnificent 7 companies) ahead of those that may have performed relatively poorly. However, professional advice usually acknowledges that chasing high priced shares can often result in overpaying and achieving an unattractive long term return as a result.

Investors are likely to make better progress towards their long term goals if they focus more of their attention on the parts of the market that are selling at a relative discount, where the expected future returns are often much higher.

A new year

In some ways, 2023 was a frustrating year. The ongoing media noise about ram raids, law and order, the cost of living crisis, doctor shortages, housing market weakness, migration issues, the election, and the conflicts in the middle east and Ukraine, drowned out just about everything else.

One of the things it certainly drowned out was that investment markets delivered some pretty nice returns. Australian, emerging market and international developed share markets delivered double-digit returns, and the bond markets that had been decidedly weak over the last two years bounced back with strong contributions.

Of course, it wasn't without a fair amount of volatility and uncertainty along the way, but when it comes to long term investing in risky assets, it rarely is.

If 2024 could be a repeat of 2023 in the markets, but with a happier news flow, it will be a year to look forward to!

As we enter the new year, portfolios continue to be well diversified and, as always, are well positioned to pick up returns wherever they may arise.

In the meantime, when markets are unpredictable (as they are) and forecasting the future is impossible (as it is), the best approach remains the one that strategic investors have been successfully applying for years.

That is, staying invested, staying well diversified, keeping costs low and staying patient.

Key market movements for the quarter

International share markets rebounded with a strong rally over the final three months of the year.

US inflation and economic growth rates both slowed further over the quarter, and Federal Reserve Chairman, Jerome Powell, indicated they were aware of the risk of keeping interest rates at restrictive levels for too long. This reinforced market expectations for potential US interest rate cuts in 2024.

More tellingly, this perceived shift in monetary policy direction from a 'higher-for-longer' stance to one of prospective interest rate cuts, resulted in the best quarterly performance of longer term global bonds in over two decades. It also supported an end of year rally in the US share market and renewed strength in share markets globally.

Sectors that are usually more sensitive to changes in interest rates, such as information technology, real estate and consumer discretionary companies generally led the way.

Although sharply lower prices for natural gas, crude oil, and gas oil contributed to lower inflationary pressures over the quarter, it also resulted in energy companies generally struggling to perform in an otherwise very positive market environment.



International shares

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

+9.4%
(hedged
to NZD)

Shares were supported by softer inflation figures in both regions, which raised hopes that interest rates may not only have peaked, but that rate cuts could become a reality sooner than previously expected.



Euro area annual inflation fell to 2.4% in November, when just a year previously it was recorded at 10.1%, while US consumer price inflation reduced to 3.1%. With economic growth also slowing in both regions, this data reinforced market expectations that the Federal Reserve (at least) has finished its rate hiking cycle and will move towards rate cuts in 2024.

+5.6%
(unhedged)

Energy companies lagged the broader market as oil and gas prices moved sharply lower, while interest rate sensitive sectors such as information technology and real estate generally outperformed.

Responding to the same themes of slowing economic growth and moderating inflation, the UK share market also rose over the quarter, although not as impressively as the US or Eurozone markets.

Against most major currencies, the New Zealand dollar was a little stronger through the quarter which meant lower reported returns for investors holding unhedged foreign assets.

The MSCI World ex-Australia Index returned +9.4% for the quarter hedged to the New Zealand dollar and +5.6% for the unhedged index. This completed impressive full year returns for both indices of +23.2% and +24.5% respectively.

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



Emerging markets shares

Despite pressure early in the quarter, when rising bond yields and conflict in the Middle East weighed on emerging market returns, the quarter ended positively, although behind developed market shares.

+2.3%

Signs of a 'soft landing' for the US economy and increased expectations for interest rate cuts in 2024 were supportive. However, mixed economic data in China continued to suggest a lacklustre economic recovery from their Covid-induced slowdown. The ongoing Chinese real estate crisis also continued to weigh on sentiment. As the leading emerging markets constituent, the weak performance of China over the quarter acted as a drag on the broader emerging market performance.

Poland was the top individual performer over the quarter as markets welcomed Donald Tusk's election as prime minister at the head of a pro-EU liberal coalition government, while Peru, Egypt and Mexico also posted strong double-digit returns. Brazil's outperformance was driven by ongoing signs of slowing inflation and the Brazilian central bank's resultant reduction in interest rates.

Taiwan was another notable performer, helped by strong returns from several technology-related stocks as the information technology sector globally outperformed.

While it was a solid quarter for the underlying emerging markets group, the stronger New Zealand dollar dampened some of those underlying gains. The MSCI Emerging Markets Index produced a quarterly return of +2.3% in unhedged New Zealand dollar terms, rounding out a +10.7% return for the full year.

Source: MSCI Emerging Markets Index (gross div.)



+4.3%

New Zealand shares

The New Zealand share market, as measured by the S&P/NZX 50 Index, recovered most of last quarter's weakness by delivering a +4.3% return from October to December. While several small companies outside the top 50 performed very strongly, more 'index-relevant' companies, on average, produced solid, if less spectacular, returns.

From within the top 50, Westpac, Auckland International Airport (AIA) and Fisher & Paykel Healthcare (F&P) led the way with quarterly returns ranging from 10.2% to 12.0%. Increased passenger numbers and a return to dividends provided a boost for AIA, while Westpac and F&P both announced improving profits.

While the news was positive for AIA it wasn't mirrored by our flag carrier Air New Zealand which has seen its share price trending downwards since September as the company has grappled with supply constraints and capacity pressures. Air New Zealand shares declined by -13.0% over the quarter.

Ryman Healthcare was another notable firm to experience weakness in the fourth quarter. Ryman's shares fell -6.5% following further write downs in the value of their investment properties, however the share price did stage a partial recovery in the last two weeks of December, as changing expectations about interest rates began to be seen as a positive for companies with exposure to property assets.

This fourth quarter gain of +4.3% helped the S&P/NZX 50 Index (gross with imputation credits) edge out of the negative and post a small gain of +3.5% for the calendar year.

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



+8.9%

Australian shares

The Australian share market (S&P/ASX 200 Total Return Index) registered a strong gain in the fourth quarter, rising +8.4% in Australian dollar terms.

While returns were generally quite evenly distributed across firms of different sizes, the notable exception was within the top 100 companies, where the largest 50 firms comfortably outperformed the next 50 firms. This was due in no small part to the five largest companies within the index - BHP, Rio Tinto, Commonwealth Bank of Australia, CSL Ltd and National Australia Bank - delivering quarterly returns of +13.9%, +19.5%, +11.8%, +14.3% and +8.5% respectively.

The reasons for these gains varied - BHP and Rio Tinto both benefited from a strong run up in iron ore prices over the quarter; bank lending margins generally improve when interest rates are rising (as they have been of late); and the share price of global biotechnology firm CSL ended on an upswing after a particularly volatile year.

In line with trends overseas, the energy sector was the clear laggard over the quarter given the backdrop of weaker international oil and gas prices. While a number of smaller Australian energy companies recorded good performances over the quarter, these performances were overshadowed by sector heavyweight Woodside Energy Group which delivered a -14.9% return.

While the return of the local Australian index was already impressive, the slightly stronger Australian dollar versus the New Zealand dollar over the quarter meant that reported returns to unhedged New Zealand investors increased a little further to +8.9%, taking the last 12 months return (also unhedged) to +13.0%.

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



+3.0%

International fixed interest

After a tough couple of years, the final quarter of the year was a very positive one for fixed income markets, resulting in their best quarterly performance in over two decades, according to the Bloomberg Global Aggregate indices.

The major driver of this performance was the perceived shift in monetary policy direction, away from a 'higher-for-longer' stance towards prospective rate cuts in 2024. This resulted in Government bond yields falling sharply, and the bond prices rising.

The US Federal Reserve kept interest rates unchanged throughout the quarter, with a much clearer shift to a more 'dovish' tone in December which accelerated the market rally. The revised dot plot - a chart showing the Federal Open Market Committee projections for the future federal funds rate - indicated that three rate cuts are now anticipated for 2024, up from the previously expected two.

Other major central banks also held rates steady, although they appeared more cautious about inflation. The European Central Bank made progress in its plan to unwind some of its Pandemic Emergency Purchase Programme support, while highlighting concerns about domestic inflation. However, the market has priced in several Eurozone rate cuts for next year. Meanwhile, the Bank of England's Monetary Policy Committee remained divided on further tightening.

As markets priced in easing conditions, government bond yields fell across the board. The US 10 year bond yield retreated from 4.58% to 3.87%, with the two year bond yield moving from 5.05% to 4.25%, slightly reducing the degree of inversion in the US yield curve. Germany's 10 year bond yield also fell from 2.84% to 2.03%, while the UK 10 year yield moved from 4.50% to 3.54%.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) returned +3.0% for the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) gained +5.7% due largely to the longer average duration of this index. Over the year, these indices returned +5.0% and +6.6% respectively.

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



New Zealand fixed interest

+5.0%

The Reserve Bank of New Zealand (RBNZ) surprised many with a 'hawkish hold' at its November Monetary Policy Statement meeting. In other words, while they did not announce an actual increase in interest rates, they signalled they were ready to increase them if inflation re-emerged.

What they did do was lift their Official Cash Rate (OCR) path to imply an 80% chance of a 0.25% interest rate hike next year. They also eliminated their prior forecast recession for the second half of 2023, reduced their unemployment rate forecast, and added to expectations of further house price gains. This is all despite almost all the economic data in recent months suggesting that monetary policy is working.

What appears to have changed at the RBNZ is –

- I. they are more concerned about high rates of net migration being inflationary (despite most evidence so far suggesting the opposite).
- II. their tolerance for inflation persisting above the 1% to 3% band has reduced.
- III. they are not happy with the market's anticipation of interest rate cuts next year and are looking to ward off any overconfidence that future interest rate cuts are fait accompli.

In spite of this, the longer term New Zealand government bond yields followed the international equivalents and fell significantly during the quarter, with the New Zealand 10 year bond yield declining from 5.34% to 4.39%.

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 December 2023

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)	9.4%	23.2%	7.9%	12.2%	10.0%
	MSCI World ex Australia Index (net div.)	5.6%	24.5%	12.0%	14.2%	11.6%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	2.3%	10.7%	-0.5%	5.3%	5.8%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	4.3%	3.5%	-2.7%	6.8%	10.6%
Australian shares	S&P/ASX 200 Index (total return)	8.9%	13.0%	9.5%	10.9%	7.9%
International fixed interest	FTSE World Government Bond Index 1-5 years (hedged to NZD)	3.0%	5.0%	-0.2%	1.1%	2.3%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	5.7%	6.6%	-2.4%	1.0%	3.2%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	5.0%	7.4%	-0.8%	1.6%	3.5%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	1.4%	5.5%	2.8%	2.1%	2.3%

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 reported 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.

2023: Another year that defied the experts



Towards the end of the calendar year, there's a natural tendency in the financial media to look both back and forward – back on the events of the past 12 months and forward to what we imagine the coming year might hold.

The assumption is we reach a transition point in December and there is some sort of dividing line between this year and the next. Of course, this is entirely arbitrary. Events are always unfolding in real time and what happens in one 12-month block has no automatic bearing on what happens in the next.

But those are the dictates of media publishing schedules. Newsrooms tend to thin out over the holiday season in December and January, so a lot of material for the summer months is prepared ahead of time. That is why forecasts are so prevalent at this time of the year.

What was forecast in 2023

If we go back to early 2023, the financial news service Bloomberg published its annual 'Almost Everything Wall Street Expects' year-in-preview article. As is usual with these things, the legions of forecasters had something for everyone.

If there was anything close to a consensus forecast, it was the increasing risk of global recession.

One analyst said a hard economic landing looked "unavoidable". But another said the global economy's "resilience may surprise". One said global equities would "plunge as recession hits". Another said shares would remain "range-bound". One said the US dollar would fall from its perch. Another said the relative growth outlook supported further US dollar gains. If there was anything close to a consensus forecast, it was the increasing risk of global recession.

To say the article was head-spinning is an understatement. But the range of views, many well-reasoned and supported by evidence, should not really be a surprise. That's the nature of markets. They represent the opinions of millions of participants with often wildly contrasting views about what might happen next.

And what did happen next? Well, what always happens. News and other information came into the market and was absorbed into prices. Much of that news was unexpected. That, after all, is the definition of news - new, unexpected and noteworthy events. Something that isn't surprising or remarkable rarely leads a news bulletin...or moves markets.



The major headlines

If we look at 2023 in retrospect, here are some of the major news events that dominated headlines:

- January – China relaxed COVID-era restrictions and reopened its borders. Jacinda Ardern announces retirement.
- February – The US Federal Reserve scaled back interest rate rises as inflation eased.
- March – US regional bank problems arose; Credit Suisse was forced to merge with UBS.
- April – US begins a study of possible rules to regulate AI, such as ChatGPT.
- May – The World Health Organisation declared an official end to the pandemic. The RBNZ paused rate hikes.
- June – Russian warlord Prigozhin, in a challenge to Putin, staged a march on Moscow.
- July – US inflation fell to a two-year low, raising hopes for an end to interest rate rises.
- August – China's economy slipped into deflation amid growing property sector strains.
- September – A rout in bond markets sent US Treasury 10-year yields to a 16-year high.
- October – Israel attacked Gaza in reprisal for a surprise Hamas assault on civilians. New Zealand elects a new government.
- November – US President Biden met China's leader Xi in a bid to mend relations.
- December – Israel-Hamas temporary truce ends. Putin confirms running for fifth term as Russian President.

In other words, it was another eventful year in the news. In 2020, the big, unexpected event was COVID. From 2021, it was the emergence of inflation. In 2022, it was Ukraine.

If you believed many of the forecasts at the start of 2023, a global recession looked to be on the cards this year. Yet, confounding the forecasters, the US economy continued to perform relatively strongly. In the third quarter of 2023, in fact, official figures showed it growing at an annualised rate of 5.2%.² That's a long way from recession.



Forecasts for New Zealand

New Zealand, too, proved resilient amid a slowdown in global activity and persistent inflation pressures. Having raised the official cash rate from a low of 0.25% to the current level of 5.50%, many expected New Zealand to go into an economic tailspin.

In December 2022 Stuff wrote an article, "Economists look ahead to 2023 with fear and anxiety." Here are a few of the comments from the article:

- Economic growth was expected to slow to 1% with stunted growth attributable to getting income under control.
- The ANZ bank projected an unemployment rate of 4.5% by the end of 2023.
- A weak economic outlook was put forward as a reason that the US S&P 500 Index was down almost 21% (at the time of writing in 2022).
- Bond markets had seen prices fall 10%, which was further reason for concern.
- Housing prices were also down.
- One bank head of research said, "2023 will be the year when all the warning signs come home to roost.... What we haven't necessarily seen yet is people taking into consideration the potential earnings hit on equities."

To be fair, around that time there were many such articles with equally gloomy predictions. Another on Newshub advised "Kiwis warned to 'prepare' as new grim picture of 'challenging' 2023 emerges". This one suggested that the Reserve Bank thought unemployment would reach 5.50% and ASB was reporting house prices could fall 25%.

By the end of the third quarter of 2023, economic activity was about 1.7% per annum growth. No recession yet. Unemployment was at about 3.9% (compared to 3.6% a year earlier). House prices hadn't come anywhere close to a 25% fall, at least outside of Wellington, and appeared to be starting to recover in the fourth quarter. Some regions, like Canterbury, were even reporting property valuation gains for the year. In the US, the S&P 500 delivered a return over 26% in 2023, the NZX 50 was close to flat, and most bond funds had returns above 5% for the year. These aren't exactly the kind of results that market participants originally told us we should await with fear and anxiety.

Broadly speaking, our portfolios did much better than the NZX 50 due to international diversification.



Lessons for the future

As we look ahead to 2024, be prepared for a barrage of forecasts in the coming weeks telling us what will happen to the economy, growth, inflation, unemployment and what all of that might mean for interest rates, share and bond prices, currencies and commodities.

Taking cues from these diverse opinions isn't really the basis for an investment strategy.

To be fair, these views are often interesting and entertaining to read. It's valid that people have different opinions on where markets might head. That's what makes a market, after all. But, as we've seen, taking cues from these diverse opinions isn't really the basis for an investment strategy.

What are presented as forecasts are really just assumptions. They can be based on many different variables. If any one of those variables change – say oil prices jump over \$US100 a barrel – a lot of other pieces of the puzzle can come unstuck very quickly.

Forecasting prices correctly and consistently requires an ability to accurately forecast future news. We've never seen anyone who could pull that off. And if they could, they really should start up a subscription service - 'Tomorrow's News Today'.

If you can't accurately predict the news or prices, what can you do?

We know that the average return in the share market over the past century or so has been around 10%. It's not a consistent return every year. There will of course be good years and bad years.

But those returns are available to disciplined and diversified long-term investors who count on the ability of human ingenuity in many areas to solve big challenges – like energy transition, biomedical breakthroughs or sustainable food production. Being a long-term investor gives you the opportunity to share in the wealth created by those kinds of innovations.

The fact is there will always be uncertainty. We can't say what will happen. But we can build life-long financial plans that are able to deal with what can happen.

That's something you can take to the bank.

With thanks to Jim Parker of Dimensional for contributing to this article.

Randomness of returns

This table shows each asset class in our portfolios and their returns over the past 20 years, as well as the returns of a 50/50 portfolio. There is no discernible pattern in the results from year to year. This makes it exceptionally challenging to pick in advance, the highest performing asset class each year. To achieve more consistent results, we invest in multiple asset classes. This ensures our portfolios always have some exposure to the highest returning sectors, whilst never being at risk of only being allocated to the lowest returning sectors. This is known as prudent diversification.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Avg
New Zealand shares	25.1%	10.0%	20.3%	-0.3%	-32.8%	18.9%	2.4%	-1.0%	24.2%	16.5%	17.5%	13.6%	10.1%	23.6%	6.0%	31.6%	14.6%	0.2%	-11.3%	3.5%	8.6%
Australian shares	21.0%	21.5%	29.6%	18.2%	-35.6%	42.1%	7.8%	-10.5%	15.0%	3.9%	1.8%	4.4%	9.0%	18.5%	-7.4%	22.6%	4.2%	16.2%	-0.1%	13.0%	8.4%
Global large shares	4.3%	15.7%	16.6%	-0.3%	-21.9%	4.5%	4.0%	-5.5%	9.4%	27.0%	10.6%	13.5%	5.3%	20.1%	-3.3%	27.0%	8.5%	28.2%	-11.4%	23.7%	8.0%
Global value shares	7.7%	15.8%	21.5%	-5.5%	-21.5%	1.8%	1.5%	-5.5%	9.1%	27.0%	9.3%	9.0%	10.0%	14.9%	-5.5%	21.1%	-7.4%	28.3%	1.2%	11.4%	6.5%
Global small shares	13.0%	22.3%	13.8%	-7.9%	-23.5%	15.9%	17.4%	-9.0%	11.0%	32.7%	7.4%	14.1%	10.4%	20.4%	-8.8%	25.5%	8.6%	21.8%	-12.1%	15.6%	8.5%
Emerging markets shares	14.1%	41.7%	28.3%	27.5%	-38.5%	43.5%	10.7%	-18.4%	11.6%	-2.3%	3.1%	-2.6%	9.9%	35.0%	-9.5%	18.5%	11.0%	2.7%	-13.4%	10.7%	7.2%
New Zealand property	20.0%	19.7%	24.9%	-4.3%	-20.8%	11.8%	3.4%	11.2%	20.5%	3.9%	24.2%	14.5%	3.8%	13.9%	10.9%	32.4%	5.0%	3.5%	-21.8%	6.2%	8.2%
Global property	25.2%	17.9%	38.3%	-20.8%	-28.7%	9.5%	15.1%	0.1%	17.7%	3.1%	28.7%	14.2%	4.1%	5.0%	-0.1%	23.0%	-14.5%	38.6%	-18.9%	10.8%	6.8%
New Zealand fixed interest	5.9%	6.3%	5.9%	2.7%	15.4%	5.7%	8.7%	9.3%	6.3%	1.9%	7.4%	5.8%	4.1%	5.8%	4.4%	5.2%	5.4%	-4.4%	-5.1%	7.4%	5.1%
Hedged global bonds	9.5%	9.1%	5.5%	8.9%	15.2%	3.5%	6.3%	8.3%	7.2%	2.2%	11.1%	4.5%	5.8%	4.0%	1.8%	7.5%	5.4%	-1.2%	-11.7%	6.6%	5.3%
New Zealand Cash	6.3%	7.3%	7.7%	8.6%	8.3%	3.1%	3.0%	2.7%	2.7%	2.7%	3.4%	3.3%	2.3%	1.9%	1.9%	1.5%	0.4%	0.4%	2.6%	5.5%	3.7%
Portfolio 50/50	11.7%	12.2%	16.0%	3.5%	-8.2%	17.0%	9.1%	0.1%	12.4%	9.1%	9.0%	6.2%	9.0%	12.3%	-2.0%	14.3%	6.0%	7.9%	-9.1%	10.1%	7.1%
Inflation	2.7%	3.2%	2.6%	3.2%	3.3%	2.1%	3.9%	1.9%	1.0%	1.6%	0.7%	0.1%	1.3%	1.6%	1.9%	1.9%	1.4%	5.9%	7.2%	5.3%*	2.6%

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Avg
Highest	25.2%	41.7%	38.3%	27.5%	15.4%	43.5%	17.4%	11.2%	24.2%	32.7%	28.7%	14.5%	10.4%	35.0%	10.9%	32.4%	14.6%	38.6%	2.6%	23.7%	8.6%
	25.1%	22.3%	29.6%	18.2%	15.2%	42.1%	15.1%	9.3%	20.5%	27.0%	24.2%	14.2%	10.1%	23.6%	6.0%	31.6%	11.0%	28.3%	1.2%	15.6%	8.4%
	21.0%	21.5%	28.3%	8.9%	8.3%	18.9%	10.7%	8.3%	17.7%	27.0%	17.5%	14.1%	10.0%	20.4%	4.4%	27.0%	8.6%	28.2%	-0.1%	13.0%	8.0%
	20.0%	19.7%	24.9%	8.6%	-8.2%	17.0%	9.1%	2.7%	15.0%	16.5%	11.1%	13.6%	9.9%	20.1%	1.9%	25.5%	8.5%	21.8%	-5.1%	11.4%	6.5%
	14.1%	17.9%	21.5%	3.5%	-20.8%	15.9%	8.7%	0.1%	12.4%	9.1%	10.6%	13.5%	9.0%	18.5%	1.8%	23.0%	6.0%	16.2%	-9.1%	10.8%	8.5%
	13.0%	15.8%	20.3%	2.7%	-21.5%	11.8%	7.8%	0.1%	11.6%	3.9%	9.3%	9.0%	9.0%	14.9%	-0.1%	22.6%	5.4%	7.9%	-11.3%	10.7%	8.0%
	11.7%	15.7%	16.6%	-0.3%	-21.9%	9.5%	6.3%	-1.0%	11.0%	3.9%	9.0%	6.2%	5.8%	13.9%	-2.0%	21.1%	5.4%	3.5%	-11.4%	10.1%	6.5%
	9.5%	12.2%	16.0%	-0.3%	-23.5%	5.7%	4.0%	-5.5%	9.4%	3.1%	7.4%	5.8%	5.3%	12.3%	-3.3%	18.5%	5.0%	2.7%	-11.7%	7.4%	8.5%
	7.7%	10.0%	13.8%	-4.3%	-28.7%	4.5%	3.4%	-5.5%	9.1%	2.7%	7.4%	4.5%	4.1%	5.8%	-5.5%	14.3%	4.2%	0.4%	-12.1%	6.6%	8.0%
	6.3%	9.1%	7.7%	-5.5%	-32.8%	3.5%	3.0%	-9.0%	7.2%	2.2%	3.4%	4.4%	4.1%	5.0%	-7.4%	7.5%	0.4%	0.2%	-13.4%	6.2%	8.0%
	5.9%	7.3%	5.9%	-7.9%	-35.6%	3.1%	2.4%	-10.5%	6.3%	1.9%	3.1%	3.3%	3.8%	4.0%	-8.8%	5.2%	-7.4%	-1.2%	-18.9%	5.5%	6.5%
Lowest	4.3%	6.3%	5.5%	-20.8%	-38.5%	1.8%	1.5%	-18.4%	2.7%	-2.3%	1.8%	-2.6%	2.3%	1.9%	-9.5%	1.5%	-14.5%	-4.4%	-21.8%	3.5%	8.6%

Source: New Zealand shares - S&P/NZX 50 Index (Gross with Ics), Australian shares - S&P/ASX 200 Index (Total return), Global large shares - MSCI World Index (Net div, AUD), Global value shares - MSCI World Value Index (Net div, AUD), Global small shares - MSCI World Small Cap Index (Net div, AUD), Emerging markets shares - MSCI Emerging Markets (Gross Div), New Zealand property - S&P/NZX All Real Estate Index (Gross with Ics), Global property - S&P Developed REIT Index (Net div), New Zealand fixed interest - S&P/NZX A-Grade Corporate Bond Index, Hedged global bonds - Bloomberg Global Aggregate Bond Index (NZD hedged), New Zealand cash - New Zealand One-Month Bank Bill Yields Index, 50/50 portfolio - portfolio returns net of manager fees, but gross of tax, adviser and platform fees. Inflation: Statistics NZ change in New Zealand Consumer Price Index from Jan 2003 to Present. *indicative 2023 figure as at 17 January 2024.