Dear Client

No Gain Without Some Pain

I know you will be concerned about the volatility in the investment markets so I thought I would give you some insight into where the volatility is coming from and why staying the distance is the best course of action.

<u>High Market Volatility</u>

In the US September has historically been the worst month of the year for shares, and this flows on to global shares. It's living up to its name in 2022, with a rocky finish to the third quarter of the year looming.

During July and early August, share markets recovered around half their losses from the first half of the year, but have reversed some the gains over the last month. Bond markets too have been seeing losses as interest rates continue to rise. In the US, the two-year government bond yield recently hit 3.78 per cent, the highest since 2007.

<u>Falling NZ Currency</u>

These higher interest rates have led investors to invest more money in the US with the result that the US dollar hit has its highest levels since 2002. On the other side of this, the NZ dollar has fallen below US$0.60, that's the lowest it's been since May 2009, near the depths of the GFC.

It's not all bad for NZ investors however. In the USA stocks are down 17.2 per cent in 2022, although in NZ dollar terms the decline is a much more modest 5.6 per cent. This is the benefit of having some of your overseas investments unhedged in currency terms because, the fall of our currency during down times, can act as a shock absorber.

<u>Higher Interest Rates</u>

The culprit for all this upheaval is the dramatically higher interest rates – and the reason for the higher rates is rapidly rising inflation.

The US Federal reserve (the equivalent of our Reserve Bank) now expects the equivalent of their OCR to reach 4.6% in 2023, similar to where some economists expect the NZ rate to reach. Jerome Powell said "We have got to get inflation behind us." He went on further that **"Higher interest rates, slower growth and a softening labour market are all painful for the public that we serve, but they're not as painful as failing to restore price stability and having to come back and do it down the road again."**

The last time inflation accelerated like this was in the late 70's and central banks were too slow to raise interest rates to counter inflation - so we ended up paying up to 20% for our mortgages. It's best to tackle inflation now – I'm sure you will agree.

What's Next

Some say a recession is looming as a result of the strong rise in interest rates. However, the US and our economy are coming from positions of strength. Unemployment in the US is forecast at 3.8% by the end of this year and to reach 4.4% in 2023. Similarly, company earnings have been largely positive.

There's not much we can do but strap in and go along for the ride. We enjoyed a brief period of calm during July and August, but the ups and downs of this year don't seem to be behind us yet.

When markets turn, it can happen quickly and this will likely be when inflation is seen to be on its way down. Stay open-minded about using further weakness to your advantage, but apply a healthy dose of patience too.

Please let me know if you want to discuss your investments or want to review your portfolio.

Best regards

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