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Dear Client

Some Questions for Investors in 2024

Has a major economic downturn been avoided?

Many would argue we're already in recession because the New Zealand economy has contracted in three of the last four quarters. This period has also seen record immigration, so on a per capita basis we've actually gone backwards.

That shouldn't be any great surprise, given the last two years have seen the most aggressive increase in mortgage rates since the 1980s.

Given this environment investment markets have held up well, although it has been a very bumpy ride. Globally diversified investors have fared much better than NZ because the US economy proved very resilient in 2023.

Investment markets have become increasingly confident that the US equivalent of our Reserve Bank, the Federal Reserve, might've pulled off a soft landing, rather than the high interest rates pushing the US economy into a recession.
However, some economists still see a slowdown on the horizon, so some caution is still required.

Will mortgage and term deposit rates fall this year?

Yes, which means this is probably as good as it gets for bank savers, and life should become easier for borrowers from here on in.

At 5.50%, the Official Cash Rate (OCR) is the highest since 2008, and the latest Reserve Bank of New Zealand (RBNZ) forecasts suggest up to four rate cuts in 2024, which means the OCR could end this year as low as 4.50%.

If that occurs, the 1-year mortgage rate might be closer to 6% (compared with above 7% today), and 6-month deposit rates could fall to about 5% (down from 6% today).

Will the housing market rebound continue?

After surging to high levels during the COVID-19 period, national house prices fell almost 20% between November 2021 and May 2023. Since then, they've rebounded about 5%.

Expert commentators suggest house prices are likely to keep rising in 2024 on the back of improving confidence, strong immigration and the lower interest rates. Rising unemployment and mortgage rates that will stay reasonably high will probably dampen any prospect of another boom however.

Can international share markets keep performing well?

Yes, but as always there will likely be some bumps on the way.

The reasons for this is in lower inflation and therefore lower interest rates. The first Federal Reserve rate cut could be as early as March, and 4 or 5 more to follow during 2024. However, if rate cuts happen a little slower than hoped, some of the recent gains could reverse.

Of course, AI has also driven a lot of the rises in share prices. If the benefits prove harder to realise than the markets have assumed, then the high-flying companies in this area could see their share prices trimmed.

It's also a presidential election year in the US, which could add to the volatility. However, in the 15 election years since 1960, US shares have only fallen on two occasions (2000 and 2008).

Are New Zealand shares likely to drag the chain again?

The New Zealand market has lagged global shares since 2020, after beating them for 7 out of the 10 years prior to that.

Last year the NZX 50 index gained 2.6% well behind the 22.8% return from global shares.

One reason for this is that our market is more sensitive to interest rates. Our share market is dominated by power companies, infrastructure and real estate, which perform well when interest rates are stable or falling, rather than rising sharply as has been the case these last two years.

A fall in domestic interest rates could well see our share market start to catch up.

Have investors who've been on the sidelines missed the boat?

No, but they will if they stay out of the bond and share markets for too long.
2023 turned out to be a very good year for well-diversified investors, investing in quality shares and bonds in NZ and internationally.

New Zealand bonds had its strongest year since 2014 with a gain of 7.5%, and while local shares went sideways, international shares had strong gains.

Diversified investors made around 7% in 2023, after fees. Those with more in shares earned 9-11%.

Cash in the bank earned around 5% during 2023 (with the entirety of that being taxable).

While better than in the recent past, term deposit returns haven't kept pace with inflation. As a result, investors who sat on the sidelines throughout 2023 are slightly less wealthy than they were a year ago.

If this has prompted any thoughts for you, please contact me to discuss – or let me know if you want your investments reviewed.

Best regards

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