

Tailorednz Summer Update

October – December 2024

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The solid share market returns in 2024 imply a general market expectation of better economic times ahead.

Market Commentary

After finishing the year with another generally positive quarter for diversified investment portfolios, 2024 is set to be remembered fondly by investors.

The strong 12 month returns from most share markets sit in contrast to a global economic environment still searching for its post-Covid equilibrium. In New Zealand, for example, the local S&P/NZX 50 Index (gross with imputation) gained 12.2% for the year. However, the environment facing workers and households was characterised by slowing growth, lingering inflation, weakening house prices, high interest rates and rising unemployment.

This apparent disconnect between markets and the real world is because long-term investors consistently look to the future. That means current market prices (and returns), are not just based on observed economic conditions, they also reflect the future expectations of all market participants.

In many ways, the solid share market returns in 2024 imply a general market expectation of better economic times ahead. Hopefully, for workers, households and investors alike, this will be delivered over the coming 12 months and beyond.

Political changes and Ukraine's ongoing conflict

After a highly unorthodox contest, with sitting president and presumptive Democratic nominee Joe Biden pulling out of the race in July, Donald Trump eventually prevailed over Kamala Harris in November to win a second term as US president.

While the president campaigned on a raft of issues, including the mass deportation of illegal immigrants and imposing widespread trade tariffs, the world now watches with interest to see exactly which initiatives the incoming administration will look to prioritise.

Political instability was also a feature in Europe during the quarter, with Germany and France in the spotlight. In Germany, the three-party governing coalition collapsed in November after Chancellor Olaf Scholz sacked his finance minister. This paves the way for new elections to be held in February.

In France, Prime Minister Michel Barnier was ousted in a no-confidence vote as other parties declined to back his budget. On 12 December French President Emmanuel Macron named centrist ally Francois Bayrou as Barnier's replacement, after several days of tense political gridlock.

Further east, the Russian invasion of Ukraine will tick over the three-year mark in the coming quarter and is sadly showing no signs of concluding.

Republicans returned to power in the US

We often note that the government of the day has little influence over whether investment markets go up or down. Moving from Labour to National (in NZ) or from Democrats to Republicans (in the US) typically results in minor policy tinkering, but usually not wholesale changes that could spook or energise markets.

This is what makes the result of the recent US elections more intriguing. The Republican Party, headed by President Donald Trump, secured a grip on power in Washington that is uncommon in US postwar history.

In 2025, the Republicans will control the White House, the Senate and the House of Representatives. Republican appointees already represent a majority on the US Supreme Court and heavily populate the federal judiciary. It is also highly likely that Republican political appointees will more widely and deeply populate agencies that make up the US federal regulatory system.

Such political dominance is rare.



History suggests that when one party wields significant power, big changes can ensue. In 1933, President Roosevelt used expansive powers to usher in the 'New Deal' addressing the Great Depression. In 1965, President Johnson introduced the most significant changes in US public policy and politics since the Civil War, passing legislation to establish Medicare and Medicaid and to enact landmark law via the Voting Rights Act and Civil Rights Act.

No president since, not even Ronald Reagan, has had the opportunity to enact his agenda to the extent now available to incoming President Trump.

What the Trump administration does with that power could very well have a significant impact on markets. The biggest unknown is how much of the pre-election campaign rhetoric will ultimately end up being pursued as policy.

As we saw during the first Trump presidency, making campaign promises was easy, while delivering the promised outcomes was rather more difficult.

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Early indicators

Initially, many global share markets responded positively to the US election result, with the S&P 500 Index in the US rising 2.5% the very next day. US share prices were buoyed by expectations that the promised policies would result in lower taxes, reduced regulation and stronger growth.

Those would potentially all be positive outcomes, but the starting point for the new administration's policies, is a US economy that is already close to full capacity. Any significant increase in spending from here, due to tax cuts or increased business investment, runs an increased risk of being inflationary.

Mindful of this, the US Federal Reserve has already scaled back its projections of interest rate cuts in 2025 to just two. Of course, if inflation were to actually start heading higher again, the Federal Reserve wouldn't just slow down its rate cutting plans, it might stop cutting interest rates altogether, and need to consider increasing rates again.

That outcome becomes more likely if, as promised, widespread new tariffs are imposed on imports and the large-scale deportation of migrant workers occurs. Both of these initiatives would negatively impact economic output in the US which, again, would likely result in higher inflation.

Currency markets

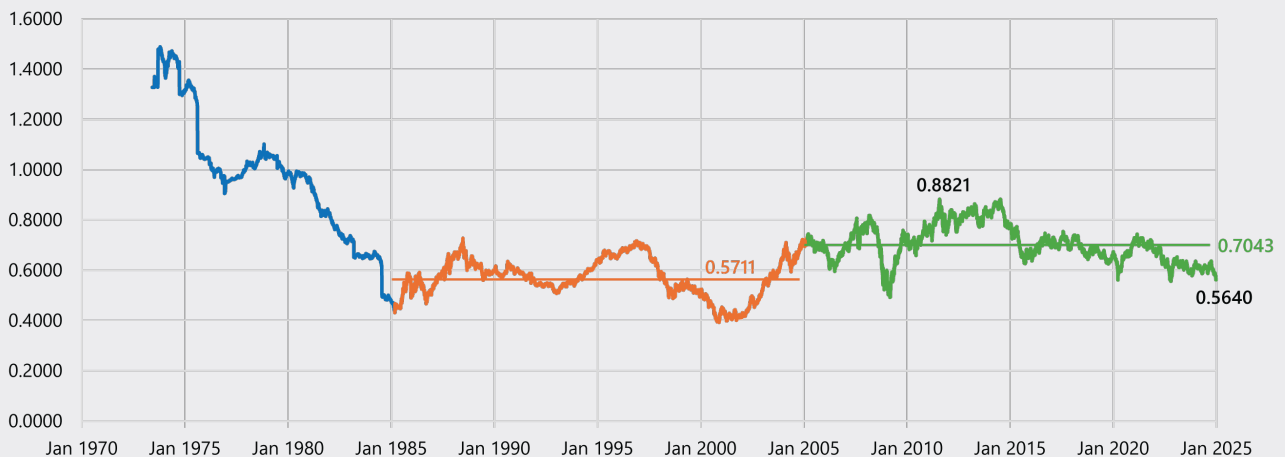
Following the Republican victory, the prospect of stronger growth, rising share prices and higher interest rates could potentially attract increased capital flows from abroad into the US. If inflows into US assets increase, this would be supportive of a strengthening US dollar.

If the US dollar does strengthen further against the NZ dollar, it will be extending a general downward trend for our own currency that began in July 2014 when the NZD/USD exchange rate touched 0.8821. At the end of 2024, this exchange rate was sitting at 0.5640, representing a decline of about 36% in nine and a half years.

That's a significant change over time but, if we take a look at the relationship between the US dollar and NZ dollar going back to 1973, it is far from unprecedented.

The fluctuating NZ dollar

The NZD/USD chart below is broken down into three time periods



The first (**blue line**) is a 12 year period from June 1973 to March 1985, which shows the NZ dollar weakening fast against the US dollar. At the start of this period one NZ dollar was worth about US \$1.40 and by mid-1985, one NZ dollar was buying less than US \$0.50.

For those who remember these times, it was a period of real economic stress in New Zealand. The oil shock of 1973 caused oil prices to soar and hurt global trade, which impacted New Zealand due to our reliance on agricultural exports. A period of very high inflation and low growth followed. This only began to be effectively addressed by the David Lange-led Labour government of 1984 which started to shift New Zealand towards a more open, market-oriented economy. Included amongst these changes was the floating of the NZ dollar on 4 March 1985.

The second period (**orange line**) is the first 20 years since the NZ dollar was floated, from early 1985 to early 2005. The significant economic and regulatory reforms of the late 1980s ultimately led to a period of sustained growth in the 1990s. The NZD/USD rate averaged 0.5711 over this 20 year period (fluctuating widely) and, by the end of the period, was slightly above US \$0.72.

The third period (**green line**) covers the last 20 years from early 2005 to the end of 2024. A series of crises including the Global Financial Crisis (2007 to 2009), the Christchurch earthquakes (2010/11 and aftermath) and Covid-19 pandemic (2019 to 2022) contributed different stresses to the New Zealand economy. The most recent leaving a legacy of high inflation and low growth which the New Zealand government continues to wrestle with today. Although the NZ dollar has fallen well below its 2014 high, the NZD/USD exchange rate averaged 0.7043 over this 20 year period (again, fluctuating widely) and, by the end of December 2024, was sitting at US \$0.56.

What all of the above should reinforce (bearing in mind we only commented on factors from a New Zealand perspective) is the myriad of influences that can impact exchange rates. The assumed policies of the new Trump-led administration, while potentially significant, are only one of many.

Where the exchange rate may go over the next 20 days, let alone the next 20 years, is anyone's guess.

Digital currencies

On the subject of currency, it seems appropriate to comment again on the recent rise in popularity of digital or cryptocurrencies, with the 'flagbearer' for this cohort being Bitcoin.

While we can easily tell you the current market price of Bitcoin, it is almost impossible to determine its true value. The distinction is subtle. No one knows the actual worth of Bitcoin. It's a completely digital asset with no physical backing and no expected future cashflows. Its value is primarily determined by what other people are willing to pay for it, based on a speculative 'belief' around its potential future value. This is why Bitcoin, or any other cryptocurrency, doesn't form part of a traditional diversified portfolio. Without being able to accurately value these assets, we do not have a forward-looking expected return rationale for holding them.

Unfortunately, the absence of clear investment fundamentals means investors can justify (to themselves) paying almost anything for Bitcoin if they really want to. And, as speculative assets go, Bitcoin has certainly experienced a remarkable run. In the five years from January 2020 to the end of December 2024, the Bitcoin price has increased by a factor of 13x (approximately 1,200%). As a comparison, the S&P 500 Index in the US went up by about 80% over the same period.

Ardent fans like to argue that cryptocurrencies are the ultimate hedge against US dollar debasement or even the collapse of our entire economic structure (assuming, of course, that we will still have functioning internet!). By that logic, some have attempted to portray cryptocurrencies as some kind of 'safe' asset. The problem with this argument is that Bitcoin, as pack leader, is monumentally volatile (part of the reason it has achieved such high returns so far) and it defies logic to claim that something so volatile can be regarded as a safe asset.



As long-term investors, most of us know how volatile shares are and how uncomfortable it can be to continue to hold on to them when share markets are experiencing weakness. But the volatility of shares pales in comparison with the volatility of Bitcoin.

Volatility (or risk) is often best understood when we think of the propensity for making a loss which, as human beings, we rather dislike. In the table below, we summarise a breakdown of the largest **negative daily returns** for both Bitcoin and the S&P 500 Index over the last 12 years (1 January 2013 to 31 December 2024).

The comparison is stark:

SINGLE DAY PRICE FALLS	📍 BITCOIN	S&P 500 INDEX
-5% or worse	296	5
-10% or worse	71	1
-20% or worse	10	-
-50% or worse	1	-

Source: Investing.com. Returns presented are in US Dollar terms

The S&P 500 Index has fallen 5% or more on a single day on just five occasions over this period. Bitcoin managed that on a staggering 296 occasions.

We suggest that any asset that has demonstrated an ability to lose more than 50% of its value **in a single day** (as Bitcoin has) cannot seriously be considered safe.

However, if people enjoy investing in cryptocurrency, and are not putting at risk more than they can afford to lose, then their financial downsides are at least being managed.

First and foremost, it's important to understand it for what it is – a highly speculative asset that should not be regarded as a reliable hedge against anything.

The more things change, the more things stay the same

Big changes in the US political landscape could usher in significant new policy settings and potentially lead to an altered growth profile for the US economy. This might be good for investors and give a boost to the US dollar. But it could also be inflationary. As we know in New Zealand, addressing rising inflation can lead to some less favourable outcomes like rising interest rates and higher mortgage costs.

In the short run, it's hard to know exactly what changes to expect in the US, and over what timeframe. However, what we can reasonably expect is that President Trump – first and foremost a businessman – will not be looking to derail corporate America.

While short-term noise and uncertainty has increased, we can be confident that good businesses that generate returns and profits, creating employment and growth, will continue to thrive under this administration and into the future. We can expect this in the US, in New Zealand and around the world.

And although Bitcoin promoters might like to suggest otherwise, we are not standing on the edge of a systemic collapse, where only guns and butter (and Bitcoin!) can provide us with any meaningful protection.

As always, the best investment strategy in the face of uncertainty is to be aware of your ability to take and withstand risk and to stay well diversified across good quality assets.

The long-term benefit of that approach never changes.

Key market movements for the quarter

The underlying performance of global shares were mixed during the October to December quarter. Overall, markets advanced thanks to gains in the US and Japan, while weakness prevailed throughout most of Europe.

US shares received a boost following Donald Trump's victory in the November presidential election, but other regions came under pressure amid concerns this could usher in a new era of trade protectionism. A key plank of Trump's campaign was the imposition of widespread foreign trade tariffs, with China often being singled out as a primary target. Emerging markets shares, headed by weakness in Chinese shares, were lower over the quarter.

Bond markets reflected the turbulent political landscape across Europe and the US with longer term bond yields generally rising in spite of many central banks cutting their cash rates, and with further rate cuts projected in 2025. Concerns about potential US tariffs revitalising inflation in America contributed to US Treasury Bonds losing ground over the quarter.

One of the notable winners was a much stronger US dollar, reinforced by the Federal Reserve suggesting interest rates may not need to be reduced as much as first thought. A stronger US dollar generally means a relatively weaker New Zealand dollar and holding a portion of unhedged foreign assets in portfolios added significantly to New Zealand investor returns in the recent quarter.



International shares

+2.0%
(hedged
to NZD)

Developed market equities delivered muted returns in the fourth quarter of 2024, with escalating tensions in the Middle East and Ukraine, political upheaval in Germany and France, and uncertainty in the US economy among the risks uppermost in investors' minds.

The US market continued its strong performance, with the S&P 500 Index up over +5% by early December in US dollar terms before the Federal Reserve suggested that fewer rate cuts may be needed in 2025, leading the market to give up a large portion of the quarter's gains.



+13.6%
(unhedged)

Eurozone markets were broadly down, with the MSCI Europe Index down -2.8% in local currency terms over the quarter. Political turmoil in Germany and France increased uncertainty at a time when the European Union is trying to adapt to a world where they cannot rely on cheap Russian energy and export led growth.

The UK FTSE 100 Index had a volatile path to a small decline (in British pounds) over the quarter. The UK continues to battle low growth and 'sticky' inflation which is a combination that traditional monetary policy is poorly equipped to fix in unison.

The Japanese share market had a solid end to 2024 with the Nikkei 225 Index up over +5% for the quarter (in Japanese yen). The market environment in Japan has experienced consumption growth and increased investment driving economic growth, while inflation declines toward target levels.

Against most major currencies, the New Zealand dollar was weaker through the quarter which meant higher reported returns for investors holding unhedged foreign assets. In particular, the NZ dollar depreciated by -13.5% against the US dollar over this period.

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



Emerging markets shares

+4.6%

Emerging markets shares generally experienced weak fourth quarter returns with the MSCI Emerging Markets Index (gross) down by -4.2% in local currency terms. However, due to the significant weakness of the New Zealand dollar, unhedged New Zealand investors experienced a useful gain of +4.6%.

Underlying market softness was driven by continued economic weakness in China and concerns over US President Trump's trade policies. Emerging economies rely heavily on trade and foreign direct investment, and Trump's protectionist policies would, if enacted, aim to increase investment in the US by using tariffs to increase the price of other countries' exports. This could lead to a degree of product substitution and decreased demand for emerging market exports.

After delivering a strong third quarter driven by the announcement of Chinese economic stimulus, Chinese shares performed poorly in the fourth quarter. Markets were disappointed by the lack of follow through in respect of the previously announced stimulus package, and are concerned that the aforementioned (potential) US tariffs would put more pressure on an already weak economy.

While a number of smaller emerging markets including the Czech Republic, Kuwait, Taiwan and UAE managed to deliver positive returns, it was negative returns of the largest index constituents (China, India, Brazil and Korea) which dragged the index lower. Taiwan delivered a solid return for the quarter, driven by the ongoing positive sentiment around artificial intelligence demand.

Taiwan led this group for the year as well, and with China also advancing the emerging markets shares asset class gained +13.7% in local currency returns. This was further enhanced to +22.1% for New Zealand investors due to the relatively weak New Zealand dollar.

Source: MSCI Emerging Markets Index (gross div.)



+5.6%

New Zealand shares

The New Zealand share market, as measured by the S&P/NZX 50 Index, extended its strong third quarter result by posting another tidy gain to end the year.

The New Zealand economy showed signs of further weakness in the lead up to Christmas, with unemployment climbing to 4.8% and retail sales volumes falling slightly, reflecting the ongoing pressure on household budgets.

With inflation seemingly now under control, the Reserve Bank ramped up its aggressive interest rate-cutting cycle to stimulate the economy, moving the OCR from 5.25% to 4.25% over the course of the fourth quarter, with further rate reductions expected in 2025.

With the beginning of the long-awaited easing in monetary conditions in New Zealand, several small consumer cyclical and healthcare firms delivered strong double-digit returns over the quarter. However, of the more index-relevant businesses, it was Auckland Airport (+16.5%), Contact Energy (+16.3%) and Fisher and Paykel Healthcare (+11.0%) which were leading the charge.

Interest in Auckland Airport shares increased as it was confirmed the Auckland Council sold its remaining 9.71% stake to UBS at a price of \$8.08, propelling the shares back to their highest price since April.

On the other side of the ledger, Mercury NZ Ltd disappointed by delivering a -9.3% return over the last three months.

After lagging other regions for most of the year, this quarter helped the New Zealand shares post a robust +12.2% return for the 2024 calendar year.

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



+0.8%

Australian shares

The Australian share market was slightly weaker in the final quarter, with the S&P/ASX 200 Total Return Index falling -0.8% (in Australian dollars). Weakness was evident in materials prices affected by China's slowdown and in soft commodity prices as relatively high interest rates continued to restrict consumer demand.

The Reserve Bank of Australia extended their interest rate pause through the fourth quarter, keeping the Australian cash rate at 4.35%. They continue to state they need more time, and a decrease in domestic demand, to gain confidence that inflation is sustainably within their target range of 2-3% (the September measure was 2.8%, the first time it has dipped below 3% since 2021). For the moment, the economic weakening that the Reserve Bank needs to see has stalled, with unemployment holding steady at 4.0% and wages continuing to rise.

Continued uncertainty around China's economic stimulus package and weaker iron ore prices over the final quarter contributed to lacklustre results for materials giants BHP (-13.9%) and Rio Tinto (-9.0%).

Offsetting these was a generally strong quarter for the equally important financials sector, with the big banks all contributing positively. National Australia Bank (+1.6%), Westpac Banking Corporation (+4.3%) and Commonwealth Bank of Australia (+13.2%) all enjoyed the continuation of relatively high interest rates in Australia, which was underpinned by the resilience demonstrated by the Australian economy overall.

With the Australian dollar slightly stronger against the New Zealand dollar over the quarter, the reported returns to New Zealand investors were marginally higher than the reported index returns.

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



+0.0%

International fixed interest

The fourth quarter of 2024 saw yields in fixed interest markets exhibit considerable volatility, primarily driven by geopolitical tensions, central bank actions and fluctuating inflation rates.

In the US, Treasury bond prices fell (i.e. yields rose) amid concerns over the potential inflationary impact of trade policies arising from a Republican victory in the presidential election.

While the US Federal Reserve delivered further rate cuts throughout the fourth quarter, it also adopted a more 'hawkish' tone, indicating that expected rate cuts in 2025 may now reduce from four to two. Because the US economy has shown a great deal of resilience, there is little need for the Federal Reserve to cut rates faster, especially if the potential imposition of new trade tariffs were to reignite fears about rising inflation.

The European Central Bank cut key European rates twice in the fourth quarter, the Bank of Japan maintained a steady 0.25% interest rate, while the Bank of England cut once in November to 4.75%.

The US 10-year bond yield rose from 3.79% to 4.57%, with the two-year bond yield moving from 3.65% to 4.24%, maintaining a positive yield premium for longer duration bonds. Germany's 10-year bond yield lifted from 2.13% to 2.36%, while the UK 10-year yield moved from 4.01% to 4.57%.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) was flat over the quarter, returning +0.0%, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) was down -1.2%.

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



New Zealand fixed interest

+1.1%

The Reserve Bank of New Zealand (RBNZ) cut New Zealand's Official Cash Rate by 0.50% on both 9 October and 27 November, reducing the rate from 5.25% to 4.25% heading into 2025.

Short-term inflation expectations are now below 3% and economic indicators broadly suggest the New Zealand economy is continuing to slow, with weaker housing data, decreased investment (as measured by building consents) and persistently lower retail sales all painting a picture of a softening economy. The question now for the RBNZ is how quickly to cut rates to ensure that the economy doesn't cool too far.

On the back of the general trend of rising bond yields internationally, the New Zealand 10-year bond yield increased from 4.28% to 4.61% over the quarter.

The S&P/NZX A-Grade Corporate Bond Index gained +1.1% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index gained +0.3%.

Source: S&P/NZX A-Grade Corporate Bond Index

Table 1: Asset class returns to 31 December 2024

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)	2.0%	21.6%	7.1%	11.2%	10.8%
	MSCI World ex Australia Index (net div.)	13.6%	34.5%	13.8%	15.5%	13.8%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	4.6%	22.1%	5.4%	6.0%	7.6%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	5.6%	12.2%	1.0%	3.4%	10.0%
Australian shares	S&P/ASX 200 Index (total return)	0.8%	14.4%	8.9%	9.3%	9.1%
International fixed interest	FTSE World Government Bond Index 1-5 years (hedged to NZD)	0.0%	4.1%	1.4%	1.3%	2.2%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	-1.2%	3.0%	-1.0%	0.2%	2.4%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	1.1%	6.8%	2.9%	1.9%	3.5%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	1.1%	5.4%	4.5%	2.8%	2.5%

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.

The hidden cost of playing it safe with term deposits

The end of the year is always a good time to reflect on financial decisions and lessons learned. While it's not our intent to dredge up bad memories, you may recall the multitude of headlines from 2021 and 2022 that sparked significant concerns about inflation and its impact:

"Inflation hits highest level in a decade"¹

"Cost of living crisis: Inflation surges to 5.9%"²

"NZ inflation hits 30-year high at 6.9%"³

"Soaring inflation: What it means for your wallet"⁴

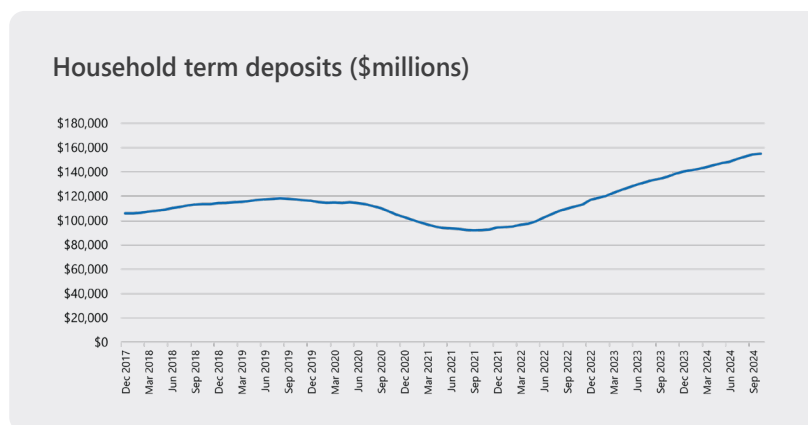
These headlines understandably fuelled anxiety among investors with many wondering what does this mean for my portfolio?



The impact of inflation and rising interest rates

In response to inflation pressures, the Reserve Bank of New Zealand (RBNZ) quickly raised interest rates from the historic lows seen during the post-COVID period. This move had a notable impact on term deposit (TD) rates, which climbed to 5-7%, making them suddenly more attractive than they had been for over a decade.

New Zealanders responded by shifting significant amounts of their money into TDs. Data from the RBNZ (see chart below) shows that investors moved strongly back into TDs from early 2022, commencing a trend which continues today.



With New Zealand interest rates on the rise at the time, this behaviour wasn't unexpected - higher interest rates often draw investors into fixed-term, 'safer' investments like TDs. By early 2023, average 2-year TD rates had risen to 5.35%⁶, up sharply from around 2.7% in early 2022. For many investors, this seemed like a safe and logical move amid volatile markets.

Unfortunately, while inflation helped push interest rates and TD rates higher, it didn't necessarily mean that TDs became a more attractive investment option.

The reality of TDs as inflation hedges

While TDs offered predictability and stability, they weren't (and aren't) the best tool to counter inflation. The chart on the next page shows how several different investments compared over the period from January 2023 to November 2024.

The key insight is that 2-year TDs just barely outpaced inflation before tax, but they underperformed bond funds and significantly underperformed other investment options like balanced portfolios, and aggressive equity-focused portfolios.

¹ Source: The New Zealand Herald, Date: October 19, 2021

² Source: Stuff.co.nz, Date: January 27, 2022

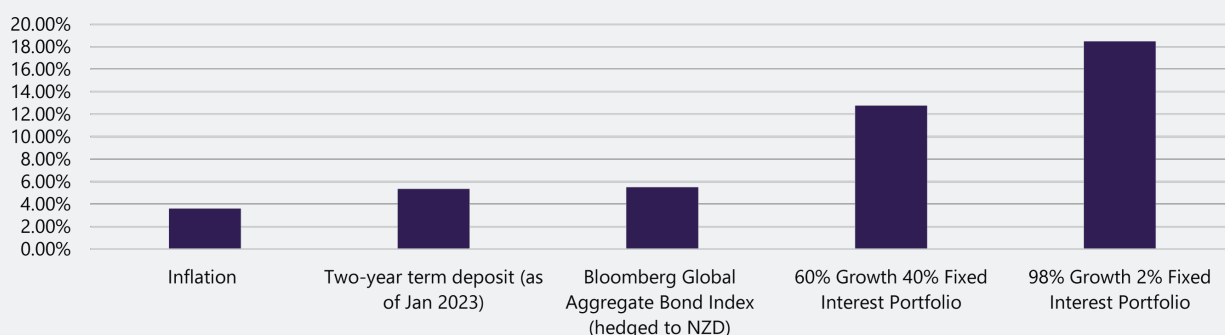
³ Source: RNZ (Radio New Zealand), Date: April 21, 2022

⁴ Source: Otago Daily Times, Date: April 22, 2022

⁵ Source: The Dominion Post, Date: May 1, 2022

⁶ Source: www.interest.co.nz

Annualised Returns Jan 2023 – November 2024



Source: Consilium calculations; inflation data from RBNZ Inflation Calculator. Due to data unavailability, inflation above is from Q4 2022 to Q3 2024.

In fact, if investors were rolling over TDs with shorter durations (like 6 months), then average TD rates were even lower than those highlighted in the chart above. For many investors in 6 month TDs over this period, their real return (i.e. after tax *and* inflation) would actually have been negative, particularly investors on higher marginal tax rates.

Why investors chose term deposits

Many investors turned to TDs in early 2023 because of:

- **Market losses in 2022:** Portfolios and bond funds suffered losses during 2022. Looking at prior annual returns early in 2023 meant facing red ink across nearly every asset class.
- **Emotional decisions:** With inflation dominating headlines and purchasing power eroding, TD rates above 5% seemed like a logical and enticing safe haven.
- **Fear of volatility:** Comparing recent losses in equity portfolios to 'guaranteed' returns from TDs made the latter seem like a no-brainer.

Looking back: lessons from 2023 and beyond

Two years later, the results are clear:

- Aggressive portfolios (98/2) returned over 18% per year on average.
- Inflation averaged just under 4% over the past 8 quarters as recorded on the RBNZ website eroding purchasing power but not dramatically.
- 2-year TDs returned a little over 5%, offering stability but failing to meaningfully grow wealth.

Could anyone have predicted these outcomes with certainty? No. But one thing remains clear - TDs are not the right tool to grow wealth or effectively counter inflation over the long term.

Why long-term investing works

Inflation increases the cost of goods and services, but businesses adapt. As prices rise, businesses typically see higher nominal earnings, which, over time, translate into higher equity valuations. This relationship isn't linear or immediate, but over the long term, it holds true – and it held true during this period as well. It means that when inflation pushes up prices and, effectively, company valuations, a diversified exposure to company shares can be a very effective long-term inflation hedge.

Investors who stayed the course and maintained diversified portfolios reaped the benefits of share growth and market recovery, far outpacing the returns from term deposits.

Key takeaways for investors

1. **Invest for the long term:** Avoid knee-jerk reactions to market volatility or media headlines.
2. **Tune out the noise:** Recent market performance and sensational headlines rarely offer the full picture.
3. **Avoid short-term comparisons:** Don't let attractive TD rates or recent losses dictate your financial strategy.
4. **Stay disciplined:** A diversified portfolio tailored to your goals and risk tolerance remains your best tool for growing wealth.
5. **Relax and enjoy the summer:** A long-term plan doesn't need your constant daily attention, so unplug and enjoy life while your money (and your adviser) works.

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.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Avg
New Zealand shares	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%	12.2%	8.0%
Australian shares	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%	14.4%	8.1%
Global large shares	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%	34.2%	9.4%
Global value shares	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%	26.1%	7.3%
Global small shares	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%	22.3%	8.9%
Emerging markets shares	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%	22.1%	7.6%
New Zealand property	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%	-2.5%	7.1%
Global property	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%	16.2%	6.4%
New Zealand fixed interest	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%	6.8%	5.2%
Hedged global bonds	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%	3.0%	5.0%
New Zealand Cash	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%	5.4%	3.7%
Portfolio 50/50	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%	12.0%	7.1%
Inflation	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%	2.1%*	2.6%

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Highest	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%	34.2%
	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%	26.1%
	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%	22.3%
	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%	22.1%
	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%	16.2%
	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%	14.4%
	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%	12.2%
	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%	12.0%
	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%	6.8%
	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%	5.4%
	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%	3.0%
Lowest	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%	-2.5%

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), **Global value shares** - MSCI World Value Index (Net div), **Global small shares** - MSCI World Small Cap Index (Net div), **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 2024 figure as at 17 January 2025.

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