

New Zealand Equity Monthly November 2024

Market's negative correlation with interest rates bodes well for coming years

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17 December 2024

Market's year-to-date performance has largely reflected interest rate moves

As 2025 approaches, New Zealand's equity market is nearing the end of a mixed year in which returns struggled when interest rates were high and strengthened when rates subsequently declined. The year-to-date performance of the S&P/NZX 50 Index of New Zealand's largest companies by market capitalisation illustrates this negative correlation. The index was largely flat until the end of June 2024, effectively generating a 0% return in those six months. During that period, New Zealand's Official Cash Rate (OCR) was at the elevated level of 5.5%, to which it had risen after a series of rate hikes by the Reserve Bank of New Zealand (RBNZ), the last of which occurred in May 2023. During the second half of 2024, however, the RBNZ adopted an unexpectedly dovish outlook and started the current cutting cycle with a 25-basis point (bp) reduction to 5.25% in August. That was followed by respective 50-bp cuts in October and November, bringing the OCR to its current level of 4.25%. With interest rates falling, New Zealand's equity market strengthened in the second half of 2024 and the S&P/NZX 50 Index had climbed by approximately 13% year-to-date as of 27 November. Virtually all of this rise was generated in November and the immediately preceding months.

Retail and property among sectors that have struggled under higher rates

A look at the S&P/NZX 50 Index's top performers and laggards for return in 2024 so far also demonstrates the impact higher interest rates had on various sectors of the economy. For example, given that consumers tend to tighten their belts when interest payments are high, it may be unsurprising that the retail environment has been challenging in 2024. Property values in the property sector also provide an example of the recent impact of interest rate movements. Specifically, after having declined over the past two to three years when rates were high, property portfolio values then showed signs of stabilising as rates moved lower. The August earnings reporting season provided further evidence of how challenging the first half of 2024 was for New Zealand's companies overall, with many of them showing high levels of caution in their outlook statements.

Consistency of negative correlation in recent years is positive sign for market

It is worth noting that the New Zealand stock market's negative correlation with interest rates has been discernible since before 2024. The S&P/NZX 50 Index has largely struggled in the past three years, during which the OCR climbed from 0.75% in November 2021 to the recent high of 5.5% seen from May 2023 until August 2024. In contrast, the market performed well in the preceding decade, when the OCR stayed in the low range of 0.25% to 3.5%. The RBNZ is projecting further declines in the OCR going forward. In our view, given the past data and the example provided by 2024, the interest rate environment should be a positive factor for the equity market in the coming years.

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