

New Zealand Fixed Income Monthly April 2025

New Zealand market demonstrating stability amid elevated global uncertainty

By Ian Bellew, Senior Fixed Income Manager, New Zealand
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Uncertainty over US tariffs and central bank actions dominates markets in April

April was a month of uncertainty for bonds as confusion over the likely direction of US policy flowed through to global financial markets. The early part of April saw significant volatility, including large movements in both US and New Zealand 10-year bond yields and sharp drops in major equity markets. Looking ahead, we believe that markets will also have to contend with greater uncertainty over central bank actions. Whereas central banks had previously been more explicit in their guidance, they now appear to be shifting to a more data-dependent approach based on a relatively wide range of potential outcomes. Given that caution naturally grows in times of heightened uncertainty, we feel that consumer and business spending are likely to fall as confidence over the future weakens.

Market seen maintaining stability despite New Zealand's reliance on exports

Although New Zealand may seem vulnerable to the current global situation given its reliance on exports and the importance of its trading relationship with the US, the country's agriculture sector has performed well in 2025 to date. We see this as a strong starting point for the year ahead. In our view, New Zealand's status as a safe haven during times of turbulence has often exceeded that of other markets. Although New Zealand's market is smaller and more concentrated than many others, we feel that it also offers a high degree of quality. One aspect of this is that New Zealand's bond and asset prices rarely see as much volatility as in the rest of the world. We believe that this held true during the recent tariff-related turmoil. Although much of the rest of the world endured spells of significant dysfunction, New Zealand's markets continued to function and largely returned to normality as the month progressed. In the case of bonds, we believe that this partly reflected a shortage of supply relative to demand, which kept New Zealand's market performing well relative to the rest of the world.

Likely direction of interest rates attracting attention amid global uncertainty

The outlook for New Zealand's interest rates is also attracting attention amid the current global uncertainty. New Zealand's Official Cash Rate (OCR) currently stands at 3.5% and the market has priced in an increased likelihood of the rate dropping lower than the "neutral" level at which interest rates are thought to be neither inflationary nor deflationary for the economy. This would entail a move below around 3.25% or 3%. In addition, the market has started to price in a terminal rate of slightly below 2.7%, which we see as relatively aggressive, and now expects the OCR to remain lower for longer.

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