Quarterly Update

SUPERLIFE
a Member of the NZX Group

30 September 2021

Welcome

As the COVID pandemic continues to affect countries and economies around the world, including New Zealand, it's largely been business as usual for our virtual teams at SuperLife.

We are proud to have been selected by the Government as one of the new default KiwiSaver providers from 1 December, and this has been an important area of focus. We are excited with the new customer experience tool we will be introducing for our default members, and the launch of the SuperLife Default Fund. This fund provides a balanced option for new default members and will also be available for all our other KiwiSaver members.

In 'Thoughts on investment strategy', our chief investment officer, Stuart Millar maintains that despite expectations of rising interest rates, bonds will find it hard to upstage equities which have been the stars.

Shares shine through as the asset class of choice for managed funds, KiwiSaver and other superannuation schemes, with the Reserve Bank's latest QMF Survey showing a total of nearly $250 billion under management at 30 June 2021. Enjoy the read!

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Market update

For many industry old hands, September has been known to be the slow month of the trading year.

Despite a slow September, market participants were largely pre-occupied with a few developing central themes.

The first is the reality of how tough it is to resuscitate an ailing economy. The second is the growing acceptance that COVID-19 is not going away anytime soon, and will be the new normal. The third is there is a finite flow to the aggressive funding coming from governments to keep the economic wheels churning, hence the days of low interest rates are over.

Given this backdrop, there was some evident shifts in consumer confidence during the quarter reviewed. The Conference Board Consumer Confidence Index® reported that U.S. consumer confidence hit a seven-month low in September due to resurging COVID-19 cases. This has led to concerns about the economy's near-term prospects. Another indicator, the University of Michigan Consumer Index survey, also showed consumers were less optimistic about the economy. Buying sentiment fell in September, to a low not seen since 1980.

U.S. consumer price inflation (CPI) rose by annual rate of 5.4% in September after rising 5.3% in August (Bureau of Labour Statistics). New Zealand's CPI rose by an annual rate of 4.9% in September after growing 3.3% in June.

Equities led the market during the September quarter. The S&P 500 Index, which tracks 500 of the largest US companies, has risen 28.1% over 12 months. In the September quarter, it rose 0.2% after rising 8.2% in the June quarter.

The S&P/NZX50 Gross Index has risen 13% over 12 months. In the September quarter, it rose 4.9% after a 0.7% rise in the June quarter.

Smaller stocks, tracked by the Russell 2000 Index, rose 46.2% over 12 months but fell 4.6% in the quarter after a 4.1% gain in the June quarter.

At the end of September, the benchmark U.S. 10-year government bond yielded 1.49% while the NZ 10-year government bond yielded 2.09%.

The VIX Index, a measure of expected volatility of the S&P 500, was at 23.14 at the end of September, up from 16.48 seen in August. The VIX Index was over 80 at the height of the pandemic in 2020.

International equities

In the September quarter, international shares, converted to NZ dollars, returned 0.8%. Over 12 months, returns were 24.9% (FTSE Developed All Cap Index in NZ dollars).

NZ equities

NZ equities returned 4.9% in the quarter and 13% over 12 months (S&P/NZX 50 Gross Index).

Australian equities

Australian equities returned 1.7% in the quarter and 30.6% over 12 months (S&P/ASX200 Total Returns Index).

Emerging markets

Emerging markets returns fell 6.4% in the quarter but rose 19.8% over 12 months (FTSE Emerging Markets All Cap).

International fixed interest/bonds

Overseas bonds returned 0.1% in the September quarter, reflecting a low interest rate environment.

Over 12 months, returns were down 0.6% as a result of very low, and sometimes negative interest rates (Bloomberg Barclays Global Aggregate Total Return Index, NZ dollar hedged).

NZ bonds

NZ bonds returns fell 1.3% in the quarter. Over 12 months, returns fell 4.1% (S&P/NZX A-Grade Corporate Bond Index).

SuperLife funds

SuperLife Income, which does not have exposure to equities, saw returns dropped 0.15% during the quarter and 0.84% over the year due largely to the low interest rate environment.

SuperLife Conservative, invested mainly in income assets, returned 0.18% during the quarter and 6.25% over 12 months.

SuperLife Balanced (which typically has 60% in equities/listed property and 40% in cash and fixed income) returned 0.55% in the quarter and 14% over 12 months.

SuperLife Growth returned 0.71% in the quarter and 18.87% over 12 months.

SuperLife High Growth, invested mostly in higher risk assets such as equities and property stocks, returned 0.89% in the quarter and 24.07% over 12 months.

Ethica, our socially responsible diversified fund, returned 0.58% in the quarter, and 15.09% over 12 months.

THOUGHTS ON INVESTMENT

There is a well-known adage from Wall Street – don't fight the Fed (The Federal Reserve of America, the central bank). For this reason Wall Street has since the June quarter been pre-occupied with trying to go with the flow of the Fed's next move.

There has been expectations for a while now that the Fed might start tightening money supply by raising the Fed fund rate, which is the rate banks use to peg their cost of funds.

The message is also loud and clear that the Fed will start to wind back its asset purchase programme. The Fed has been routinely buying US$120 billion of U.S. treasuries and debt securities each month. This purchase has lifted prices and lowered the yields of government securities. The aggressive asset purchases have meant a flow of cheaper funds to support economic rebuilding.

Other than the Fed, the European Central Bank also, in early September, announced it would pare back its bond-buying programme to a pace 'moderately lower' than the €80 billion (about NZ$133.50 billion) of monthly purchases seen in the first two quarters of 2021.

For some time now, the market has been expecting a 0.25% hike in the Fed fund rate, either in November or early 2022. How quickly the Fed will act on interest rates depends on whether it thinks the recent rise in inflation is transitory or permanent; and whether the economy's recovery can be sustained. At home, the New Zealand government had already stopped its large-scale asset purchase programme in July.

What does all this mean for investors?

The market has been and will continue to adjust its position based on the themes described above. For the time being, most investors watching the market will be less sanguine until economic numbers in the next quarter point to a more decisive economic growth picture.

- The equities market is going through a consolidation phase. Although there are jitters around the impact of the impending rise in interest rates, a correction of between 5 and 10% in the near to medium term will not be unusual given the market has had an amazing run.
- S&P 500 companies continued to report robust earnings in the September quarter (Source: Lipper Alpha Insight). Estimated year-on-year earnings growth (as at mid-October) was 29.6%in the September quarter and 22.2% in the fourth quarter. Third quarter growth estimated was higher than the five-year average of 7.1% and the highest seen in the same quarter since 2010. The energy, materials, industrials and IT sectors led the growth.
- Going forward, investors will be waiting to see whether rising interest rates will affect companies' margins, and if so, which ones will be able to absorb rising cost of funds, and how that will affect earnings. Companies with high valuation who are unable to absorb the higher cost of funds will be at risk.
- Bond yields have moved up slightly as governments pare back money supply injected into the system. However, this is unlikely to pose any major threat to the equities market. Overall, equities market will not have too big a hurdle to jump, to outperform bonds.
- Some investors are curious about whether they should shift their strategy given the rising interest rate environment. Traditionally, commodities, energy, and real property, are considered inflation hedges. There might be premiums attached to companies whose businesses typically weather inflation well.
- However, we remind investors not to be persuaded to switch in and out of funds. A good strategy is one that has a correct mix of asset classes, carefully picked to match one's risk profile and timeframe. Investors averse to high risks should always have a well-balanced diversified portfolio, with some hedges built in for inflation risks if their investment is also an income source.

RETURNS AFTER TAX, COSTS AND FEES

SuperLife workplace savings scheme for the period ended 30 September 2021.

Where returns are not shown, the investment option was not available for the full period. The quarterly investment news includes returns for an investor in the SuperLife workplace savings scheme not making contributions. For investors in SuperLife Invest, the SuperLife KiwiSaver scheme and the SuperLife UK pension transfer scheme, and for investors in the SuperLife workplace savings scheme making contributions, the returns may vary slightly.

Fund	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
SuperLife Income	-0.15%	0.37%	-0.84%	2.75%	2.26%	3.01%
SuperLife Conservative	0.18%	2.30%	6.25%	4.73%	4.62%	5.09%
SuperLife Balanced	0.55%	4.26%	14.00%	6.78%	7.01%	7.14%
SuperLife Growth	0.71%	5.31%	18.87%	7.56%	8.39%	8.25%
SuperLife High Growth	0.89%	6.44%	24.07%	8.57%	9.64%	9.12%
Ethica	0.58%	4.41%	15.09%	8.91%	7.42%	8.36%
S&P/NZX 50	4.52%	5.07%	12.02%			
NZ Shares	4.38%	5.95%	19.05%	10.66%	9.49%	11.22%
NZ Top 50	4.38%	5.94%	19.55%	12.48%	12.78%	
NZ Top 10	4.50%	3.49%	7.28%	11.36%	10.26%	
NZ Mid Cap	4.72%	7.84%	19.87%	11.78%	13.62%	
NZ Dividend	2.49%	6.38%	18.33%	8.23%	7.21%	
NZ Property	2.99%	5.03%	9.38%	12.37%	9.92%	
S&P/ASX 200	-1.49%	4.58%	23.13%			
Australian Shares	-0.36%	7.78%	29.27%	7.68%	8.78%	8.76%
Australian Top 20	-3.88%	3.26%	25.93%	6.67%	8.06%	
Australian Mid Cap	0.45%	8.95%	27.53%	9.40%	11.16%	
Australian Dividend	-6.93%	-0.60%	14.63%	1.78%	3.47%	
Australian Financials	1.47%	8.22%	48.21%	5.78%	5.95%	
Australian Resources	-12.81%	-7.76%	11.24%	4.44%	11.77%	
Australian Property	1.10%	8.80%	24.40%	6.13%	6.64%	

Fund	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
US 500	3.80%	12.12%	25.31%	13.25%	16.43%	
US Large Growth	3.69%	16.79%	22.64%	19.22%	21.36%	
US Large Value	2.23%	5.82%	27.28%	6.87%	11.50%	
US Mid Cap	3.17%	10.81%	30.95%	11.86%	14.09%	
US Small Cap	-0.14%	5.38%	37.40%	9.01%	13.33%	
Overseas Shares	1.59%	8.08%	24.44%	8.74%	12.22%	10.35%
Overseas Shares (Currency Hedged)	0.97%	7.35%	29.19%	8.02%	10.39%	8.83%
Total World	1.12%	7.93%	22.91%	9.67%	12.64%	
Total World (NZD Hedged)	1.12%	7.87%	27.22%			
Asia Pacific	-0.34%	0.62%	14.27%	3.80%	7.72%	
Emerging Markets	-7.27%	-2.42%	11.38%	5.57%	7.26%	5.38%
Europe	-0.36%	7.32%	21.33%	5.01%	8.64%	
Global Property	1.26%	8.35%	23.31%	7.21%	6.31%	8.28%
NZ Bonds	-0.71%	-0.57%	-2.49%	2.38%	2.48%	3.32%
S&P/NZX NZ Government Bond	-0.63%	-0.63%	-5.23%			
Overseas Bonds	0.27%	0.66%	0.54%	3.27%	2.53%	
Overseas Non-government Bonds	0.08%	1.31%	0.31%	3.35%	2.00%	
Global Aggregate Bond	-0.14%	0.25%	-2.59%			
NZ Cash	0.17%	0.28%	0.56%	1.13%	1.44%	
UK Cash	-0.91%	-0.41%	-0.08%	-0.50%	1.08%	

As with all investment decisions, what might be the right strategy over the medium or longer term may not pay off over the very short term. No one can consistently predict what will happen over the short term. Those acting upon the information in this newsletter do so entirely at their own risk. SuperLife does not accept liability for the results of any actions taken or not taken based on this information. While every effort has been made to ensure accuracy, no liability is accepted for errors or omissions in this newsletter.