Balance Wealth Winter Update

April – June 2025

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Well diversified investors are able to benefit from these successes and reap good investment returns, even in uncertain times.

Market Commentary

Several global share markets reached new all-time highs in the recent quarter.

That may appear surprising given the tenor of the daily headlines which seem to resolutely focus on only the most uncertain or worrying events. The recent quarter was again dominated by headlines featuring conflict in Ukraine and the Middle East, mass deportations in the US, tariff-driven trade upheaval, and ongoing cost of living issues. These are not trivial matters.

And yet, businesses the world over are continuing to deploy their resources and capital in the pursuit of profits and growth. They will be adapting their business plans to the changing environment around them, uncertain as it has been, and are on average rising to this challenge. A few will fail; that's always a potential outcome of taking business risk, but many more are succeeding. Some are succeeding spectacularly.

Importantly, well diversified investors are able to benefit from these successes and reap good investment returns, even in uncertain times.

US tariff update

The US tariffs announced with such fanfare on 'Liberation Day' (2 April 2025) remain a source of confusion. With many of the more recent tariff-related announcements having been delivered in snippets via President Trump's social media platform (Truth Social), or in soundbites from TV interviews, the details around this are still far from settled.

Share markets reacted very negatively in early April, when the so-called reciprocal tariffs were first announced, but since then, implementation of the tariffs was paused and eventually delayed by 90 days (to 9 July) to allow time for the US to negotiate trade deals with the rest of the world.

However, with little evidence of progress on concluding many new trade deals, the Trump administration pivoted again in early July and announced they would now be sending all countries a letter outlining what their tariff rate with the US will be, with a revised implementation date of 1 August.

At least, at the time of writing, that is the current understanding.

Uncertainty around this remains high because whatever the Trump administration say about tariffs on any given day doesn't necessarily bear any resemblance to what they eventually do. It's reasonable to assume that *something* will happen on or around 1 August. However, given the messaging around this has a habit of changing from week to week, it would be foolish to think we can be confident about exactly what will be implemented, and when.

> Share markets have largely accepted that tariffs in some shape or form are coming, and have 'gotten on with business', delivering solid returns in the second quarter.

It is still anticipated that imposition of sizable, widespread US tariffs will have an impact on global trade, inflation and economic growth, but it is just impossible to know today whether that impact will be large or small, fleeting or long term.

Pleasingly, in spite of this uncertainty, share markets have largely accepted that tariffs in some shape or form are coming, and have 'gotten on with business', delivering solid returns in the second quarter.

In many ways this is a vote of confidence that good businesses will be able to successfully find ways to adapt to the new tariff environment, whatever it turns out to be. For US businesses this may mean rethinking supply chains where possible; for international businesses, it may mean cultivating additional markets outside the US.

One thing's for sure – businesses and consumers looking to maximise their own self-interest (i.e. greater profits for firms and lower prices for consumers), will not just do nothing. We will all continue to watch this evolving policy area with much interest.

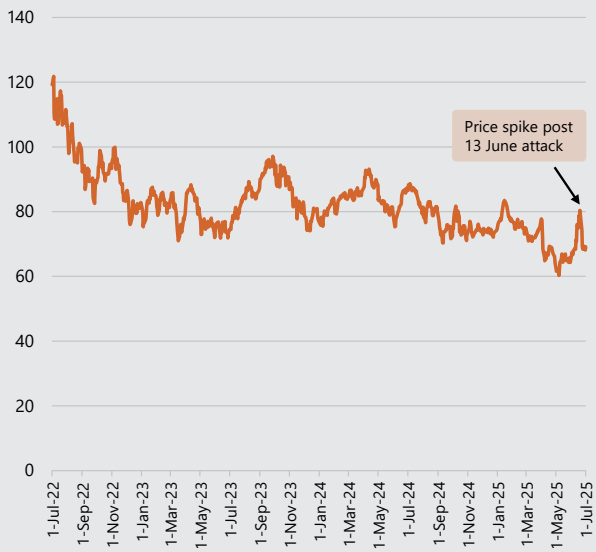
The Middle East and oil prices

Ongoing conflict in the Middle East is always unsettling, but the market reaction to recent events has been much lower than initially feared.

Serious conflict of any kind will generally hurt investment markets, at least temporarily, and can also deliver wider economic impacts, such as higher inflation. In this regard, higher energy prices are often a key contributor. This is why, during geopolitical flashpoints like the recent Iran bombing, the potential impact on the oil supply and price often becomes a point of considerable market and media attention.

Following Israel's attack on Iran on 13 June, the price of Brent Crude oil quickly jumped 10% amidst concerns about potential future disruptions in oil supply.

Brent Crude oil *(USD per barrel)*



Source: https://www.investing.com/commodities/brent-oil-historical-data

At the time, it was widely reported that one potential mode of retaliation by Iran could include "closing" the Strait of Hormuz, a sea passage critical to global oil transit. Such an action would naturally constrain oil supplies, increasing oil prices and eating into profits of almost all businesses.

However, the Strait of Hormuz is a comparatively wide channel of international waters and could not easily be 'closed'. Additionally, with much of the oil passing through the Strait originating from Iran's neighbours (Saudi Arabia, Iraq, UAE and Kuwait), disrupting access to these waters would significantly increase the risk of further isolation for Iran.

With concerns about significant Iranian retaliation easing, the oil price quickly retraced back to its pre-conflict range. This suggests the markets do not currently anticipate any significant supply issues or inflationary impact to materialise from the present conflict.

The New Zealand economy

The impact of Covid-19 on the New Zealand economy has persisted well beyond the relatively short-lived, but very serious, health risk which peaked in 2020/21.

When national borders closed and international supply chains became disrupted, New Zealand's export-led economy faced some immediate headwinds, and these headwinds have taken a long time to recede.

New Zealand's Gross Domestic Product (GDP) performance in recent years reflects this very clearly. GDP measures the total market value of all goods and services produced within a country during a specific time period, usually a year or a quarter. If a country is *expanding* its production of goods and services, the change in GDP will be positive, and if total goods and services production is *contracting*, the change in GDP will be negative.

Since March 2020, there have been 21 calendar quarters (with a quarter being three months long), and in seven of these quarters the change in GDP was negative. This includes two periods when the change in GDP was negative in back-to-back quarters, signifying a technical recession.

How does that compare to the pre-Covid period?

Pretty badly as it turns out. Prior to March 2020, you have to go right back to the March quarter of 2013 (a full 28 quarters earlier) to find the last time New Zealand's quarterly GDP change was negative.

The current New Zealand government has made economic growth one of its primary objectives this term and the six months from September 2024 to March 2025 recorded New Zealand's best six-month change in GDP performance in over three years. On the back of this result, hopes were increasing that sustainable growth had finally returned.

> The Reserve Bank has continued with a pause on interest rates, although markets currently still expect one or two further 0.25% rate cuts later this year.

Unfortunately, indicators during the April to June quarter appear to have lost a little momentum. Filled jobs and the number of job advertisements have declined which suggests further upward pressure on the unemployment rate as the same number of New Zealanders compete for fewer jobs.

The housing market also appears to have slowed again with house price growth moderating and the 'days to sell' lengthening amidst lower sales volumes overall.

Although the performance of the primary sector remains a clear bright spot, farmers have so far favoured paying down debt and increasing cash balances, meaning the financial flow-through to the broader economy has been limited.

For now, the Reserve Bank has continued with a pause on interest rates, although markets currently still expect one or two further 0.25% rate cuts later this year.

Is there a 'best' time to invest?

Studies of investor behaviour reveal that if share markets have been strong, investors are more likely to think it's a good time to invest, while if markets have been weak, they are more likely to think about delaying investing or, even worse, exiting the market. Of course, there are also some contrarians out there who take the opposite view.

With a number of global share markets currently at or near their historical high points, contrarians are more likely to be thinking shares have had a pretty good run overall and *'maybe I should wait for a pullback before investing'*.

It's human nature to wonder whether investing today will be the 'perfect' time, but without ever being able to know tomorrow's news in advance, anyone choosing to invest on any day has to accept a degree of uncertainty.

However, because share markets on average go up over time, the best time to invest (statistically speaking) is always as soon as you can. Once invested, the next best decision is to stay invested. Delaying investing or waiting for a hoped-for market pullback before doing so, is often more likely to leave you worse off. When we analyse the long-term history of major market returns, the data supports this conclusion.

Below is a graph that takes into account the last 99 years of US share market returns (based on the return of the S&P 500 Index). This is a useful dataset, because the US market is a significant driver of global share returns and we have almost 100 years of data to work with.

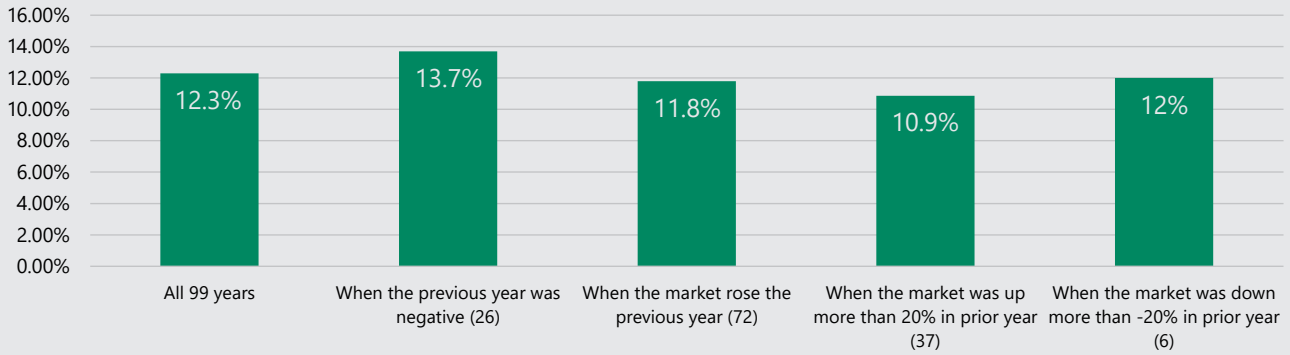
This graph reveals the average calendar year return of the US share market in *the year immediately after* it was:

- **Negative** (which happened 26 times over that timeframe)
- **Positive** (72 times)
- **Up by more than 20%** (37 times)
- **Down by more than 20%** (6 times).

What's remarkable is how similar these results are. Whether the US share market has been negative, or up by more than 20% in the previous year, the subsequent calendar year return has averaged between 10.9% and 13.7% p.a., which is very close to its long run average.

With a return profile that looks like this, simply *being* invested and *staying* invested is much more important than trying to time your entry point.

Average calendar year of the US share market based on previous year's return



Source: Annual S&P 500 Index Returns 01/1926 to 12/2024, In US dollars and Consilium Calculations

Achieving your fairy tale ending

If we need to take an amount of investment risk to help grow our financial assets over time, and many of us do, then emotionally coping with uncertainty is an important first step.

While having a functioning crystal ball to turn to may be a nice idea, they only exist in fairy tales. In reality, no-one can consistently and correctly guess what the future holds. Of course, there are always people in the world who will claim possession of special skills in this area, but such claims usually fail a robust analysis and are not supported by decades of market evidence.

Thankfully, we don't need to chase rainbows to end up with our own 'pot of gold'. We can do so by design.

Each of us can achieve our own financial independence with the diligent pursuit of actions that, over time, will grow our future wealth.

Yes, investing is complex, sometimes highly emotionally challenging, and involves taking risk that will occasionally test our behavioural urges. But it is absolutely possible to invest effectively and successfully by following sound advice and adopting a prudent strategy, suited to your individual needs and circumstances.

To anyone who has reached this part of the report, congratulations are in order, because that is *exactly* what you are doing.

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Key market movements for the quarter

The second quarter of 2025 started with elevated volatility due to the Trump administration's 'Liberation Day' tariff announcements. However, global shares ultimately delivered significant gains as the markets perceived the strong rhetoric on Liberation Day might not be matched by the eventual (delayed) tariff implementation.

Almost all share markets followed a similar pattern this quarter, first weakening in early April due to tariff announcements, before rebounding throughout the rest of the quarter. Emerging markets and Australian shares led the pack, delivering excellent gains, with developed markets lagging but still posting a strong quarter. This pattern reflected the almost singular focus of global markets on international trade policy developments over the quarter.

Most bond markets posted gains, with yields marginally lower across most major markets. Generally, yield curves steepened with longer dated bond yields falling less than their shorter dated counterparts.

+9.3%
(hedged to NZD)

+3.8%
(unhedged)

International shares

Developed share markets enjoyed a strong second quarter of 2025, primarily driven by reduced trade pressure as several countries seemingly made progress on trade deals with the US.

The US market had a strong quarter, with Information Technology and Communication Services leading the way as investors regained their appetite for 'Magnificent Seven' stocks and the artificial intelligence theme. The second quarter also brought with it several positive economic developments and a strong corporate earnings season, which further boosted performance. Despite ongoing pressure from the Trump administration to cut interest rates, the US Federal Reserve continued to hold the Federal Funds rate steady at 4.25% - 4.5%. While opinions vary on the timing of future interest rate cuts, most committee members agree that there will be further cuts.

The Japanese share market had a strong second quarter following an initial sharp drop due to the Trump administration's 'reciprocal' tariff announcements. Since then, progress on trade deals with China and other key trading partners has eased recession fears and led to a strong recovery, with the Nikkei 225 Index up +13.6% for the quarter.

Eurozone markets also made gains in the second quarter, with the S&P Europe 350 Index rallying +0.8% in local currency terms. Europe's rearmament campaign has begun to stall, with the agreement at the recent NATO summit for countries to lift defence spending running into a headwind called 'European fiscal reality'.

The US dollar was significantly weaker through the quarter which meant noticeably higher reported returns for investors holding hedged foreign assets.

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

+4.5%

Emerging markets shares

Emerging markets shares (unhedged) led their developed market counterparts in the second quarter of 2025 with the MSCI Emerging Markets Index posting a +4.5% gain. Major markets like China lagged the group while Korea, Taiwan and Latin America roared higher.

Chinese markets posted tepid gains after a volatile second quarter. China was a primary target of the Trump administration's 'Liberation Day' tariffs, which led to a sharp drop in April. While a temporary truce was announced in May to allow for negotiations, by June, Chinese shipments to the US had plunged by -35% putting export driven sectors under pressure. Large technology companies listed in Hong Kong outperformed mainland China shares as the technology theme returned to favour.

India ended its losing streak in the second quarter, with the Nifty 50 Index up +8.5%. While this marks a strong turn in momentum for the Indian stock market, it still lags other emerging markets like Taiwan, which has stronger growth prospects tied to the artificial intelligence theme.

South Korea posted strong double digit returns in the second quarter as political instability subsided following the election of a new president in early June. Taiwan posted robust gains, continuing to benefit from positive investor sentiment for artificial intelligence. Taiwan Semiconductor Manufacturing Company (TSMC) made double digit returns for the quarter – and given it makes up 30% of the Taiwanese stock market, this is a major driver of returns.

Latin American equities delivered an exceptional quarter, with the S&P Latin America 40 Index rising +13.9%. Gains were primarily driven by Mexican and Brazilian shares, while Chile and Peru indices also posted robust gains. All sectors in Latin America gained except for Energy, with technology heavy sectors Information Technology, Consumer Discretionary and Communication Services leading the charge, all up around +30%.

Source: MSCI Emerging Markets Index (gross div.)

New Zealand shares

+2.8%

New Zealand's S&P/NZX 50 Index was up in the second quarter of 2025 but is still trading below its 2024 all-time high.

After a sharp drop at the beginning of the quarter, in concert with global markets, NZ shares had a strong recovery in May, before trading sideways for the remainder of the quarter.

The Reserve Bank of New Zealand (RBNZ) continued its interest rate cutting cycle throughout the quarter, with the Official Cash Rate (OCR) now sitting at 3.25%. This has supported the NZ economy, as lower borrowing costs increase disposable income for consumers and business investment. The path forward for interest rates is uncertain and may depend on the impact of global trade disputes on NZ growth and inflation. This is likely to remain uncertain for some time, but the RBNZ believes that the current OCR is in 'neutral' territory, meaning further changes will largely be dependent on incoming economic data.

Manawa Energy led the pack in the S&P/NZX 50 Index this quarter, rising +27.6% following an acquisition by Contact Energy at a premium to the trading price at the announcement date.

Other winners for the quarter included Tourism Holdings (+27.1%) and Turners Automotive Group (+21.7%).

On the other side of the ledger, Vulcan Steel, KMD Brands and SkyCity Entertainment all lost around -25%, steadily declining throughout the quarter.

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

Australian shares

+7.4%

The Australian share market had a fantastic second quarter, with the S&P/ASX 200 Index rising +7.4%. After a rocky start, the market steadily increased through May and June, reaching new record highs previously set earlier this year.

The Reserve Bank of Australia (RBA) continued its interest rate cutting cycle in the second quarter, with one -0.25% cut in May, bringing the cash rate to 3.85%. The RBA maintains that low and stable inflation is its priority, and in an uncertain environment, it will move cautiously in cutting interest rates, even as inflation continues to fall. This stance was reinforced by its decision to hold at 3.85% at the July 7 meeting last week.

All sectors except for Materials reported gains, with Information Technology leading the pack, posting a +28.4% gain, and Financials coming in second with a +15.8% gain.

JB Hi-Fi Ltd and Cochlear Ltd were the two biggest winners among the largest 50 Australian companies, up +47.5% and +34.2% respectively. On the downside, the worst performer was Sonic Healthcare Ltd, down -9.6% for the quarter. Notably, only five of the top 50 companies posted losses for the quarter.

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

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

International fixed interest

+1.2%

The second quarter of 2025 saw yield curves steepen marginally, although overall, yields were relatively stable.

US Treasury markets had a busy quarter. Longer dated bond yields rose, reflecting growing concerns over the US debt, federal deficit and the impact of protectionist trade policies. Meanwhile, shorter dated US bond yields fell after weakening economic data led the US Federal Reserve to adopt a more cautious tone. Despite a few committee members becoming more cautious, Federal Reserve Chairman, Jerome Powell, reiterated his 'wait and see' approach to interest rate cuts. Markets are currently anticipating around 0.65% of additional rate cuts by the end of 2025.

The US 10-year bond yield rose from 4.21% to 4.23% through the quarter, with the two-year bond moving from 4.03% to 3.97%, maintaining a positive yield premium for longer duration bonds. The Japanese 10-year fell from 1.47% to 1.43% and key European rates in Germany, Italy and France fell around -0.15%.

With trade policy fears increasing economic uncertainty, the European Central Bank reduced interest rates twice, in April and June, to close out the quarter around 2%.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) was up +1.2% over the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) rose +1.3%.

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

+1.3%

New Zealand fixed interest

The Reserve Bank of New Zealand (RBNZ) cut New Zealand's Official Cash Rate (OCR) by another -0.50% to 3.25% in the second quarter.

The key focus for the RBNZ remains on global and domestic growth fears, as the New Zealand economy's recovery continues to move slowly, and US trade protectionist policies raise additional risks from abroad.

On the back of a mixed global bond market, the New Zealand 10-year bond was down slightly, moving from 4.59% to 4.56%.

The S&P/NZX A-Grade Corporate Bond Index gained +1.3% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index gained +1.5%.

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

Table 1: Assets class returns to 30 June 2025

Assets 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)	9.3%	13.5%	17.4%	14.1%	10.9%
	MSCI World ex Australia Index (net div.)	3.8%	16.3%	19.4%	15.9%	11.9%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	4.5%	15.9%	11.1%	8.5%	6.4%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	2.8%	8.3%	5.9%	2.7%	9.2%
Australian shares	S&P/ASX 200 Index (total return)	7.4%	12.2%	12.7%	12.1%	8.3%
International fixed interest	FTSE World Government Bond Index 1-5 years (hedged to NZD)	1.2%	5.6%	3.4%	1.3%	2.2%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	1.3%	5.5%	3.0%	-0.1%	2.5%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	1.3%	7.4%	5.2%	1.4%	3.3%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	0.9%	4.4%	4.9%	3.2%	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 magic of the managed fund

Let's talk about shares for a minute. No matter how you invest, there are really just two ways to make money from owning shares:

1. You receive a slice of the profits (called dividends), or
2. You sell your shares to someone else for more than you paid (that's capital gain).

That's it. Anything else is simply a different way of packaging those two outcomes.

And when it comes to owning shares, most people do it in one of two ways:

- They buy individual shares, one by one, or
- They invest in a managed fund, which owns the shares on their behalf.

Now, you've probably noticed we're big fans of managed funds. It's not because we can't buy individual shares, we absolutely can and at very low cost. Thanks to efficient platform technology, we can buy and sell shares in markets like New Zealand, Australia, and the US for as little as 0.07%. That's well below the 1% or more that some brokers might charge.

If buying shares directly is so inexpensive, why do we still prefer managed funds?

Let's take a look at some numbers, starting with New Zealand.

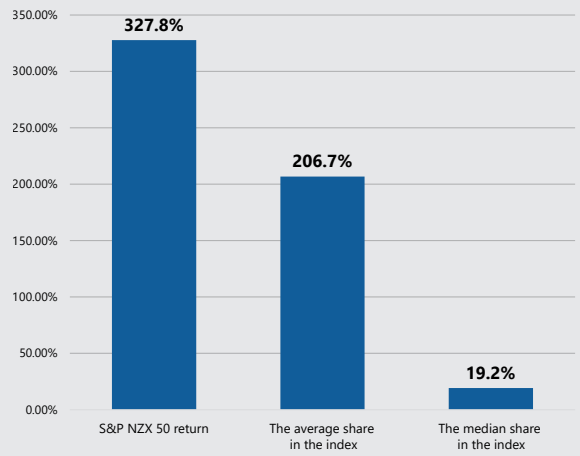
Take the S&P/NZX 50 Index, which tracks the 50 largest companies on the NZ stock exchange. You can buy a fund that closely mirrors this index, or you can try to pick and choose among the individual companies the index contains.

So, which approach works better?

Over the past 20 years (to the end of 2024):

- The index as a whole returned +327.8% - more than quadrupling in value.
- The average company in the index returned +206.7%.
- The median (middle) company returned just +19.2%. That's barely ahead of inflation.

S&P NZX 50 cumulative returns 20 years ending 2024



Source: S&P Dow Jones Indices LLC, Bloomberg, Data from Dec 31, 2004, to Dec 31 2024.

Let that sink in.

The index outperformed the average, and the average outperformed the median. What does that tell us?

> That's the real magic of owning a well-diversified fund: broad exposure to the upside without needing to predict the future.

It means the index's performance was driven by a relatively small number of superstar companies. When you own the full index (as you do with a fund), you automatically own the winners. You don't have to guess which ones will deliver outsized returns, you capture them by default. That's the real magic of owning a well-diversified fund: broad exposure to the upside without needing to predict the future.

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You might be thinking, *"Okay, but why not just buy the big winners ahead of time?"*

Of course, everyone wants to own the next Fisher & Paykel before it takes off (and buying after the rise isn't quite as effective). But here's the problem: consistently picking those companies in advance is extremely difficult, even for professional fund managers.

Why? Because the odds are stacked against you.

Research by Hendrik Bessembinder (Arizona State University) found that over the long term, most individual shares underperform even super low-risk US Treasury Bills. In fact, just 4% of all US shares have accounted for nearly all of the wealth created in the US share market since 1926.

In other words, unless you happen to pick that small handful of exceptional companies, chances are you'll miss out on most of the market's growth.

And it's not just a New Zealand story. The same pattern shows up around the world. Over the past 20 years, the S&P 500 has risen by more than +600%, but most individual shares within it lagged far behind. Funds that matched the market did well because they held on to Amazon, Apple, Microsoft, and Nvidia all the way up.

There are many benefits to using well-constructed managed funds, but here are some of the key ones:

GLOBAL DIVERSIFICATION
Our portfolios hold over 8,000 companies across 40+ countries.

OPERATIONAL SIMPLICITY
No need to worry about foreign exchange, new listings, corporate actions, or shareholder paperwork.

EFFICIENT REBALANCING
Funds automatically adjust weights and holdings.

LOW-COST ACCESS TO SCALE
You get institutional-level pricing and execution.

EASY DEPOSITS AND WITHDRAWALS
Easy to invest or withdraw without needing to decide which specific shares to buy or sell.

Imagine trying to manage all that by yourself – buying thousands of companies, tracking currency movements, rebalancing monthly, processing dividends from dozens of markets. With managed funds, all of that's taken care of, usually for a fraction of a percent per year.

So here's the real point:

By using well-constructed managed funds, you:

- **Achieve broad diversification**
- **Outperform most of the individual companies in the index**
- **Avoid the high risk of over-allocating to individual companies that do poorly**
- **Simplify your investing**
- **Free yourself to focus on what matters more; your financial plan**

It's not just more convenient – it's a smarter way to invest.

That's the magic of the managed fund.