QUAYSTREET
MONTHLY MARKET UPDATE

- AS AT 30 SEPTEMBER 2019 -

INTERNATIONAL MARKETS

Central bankers kick to touch

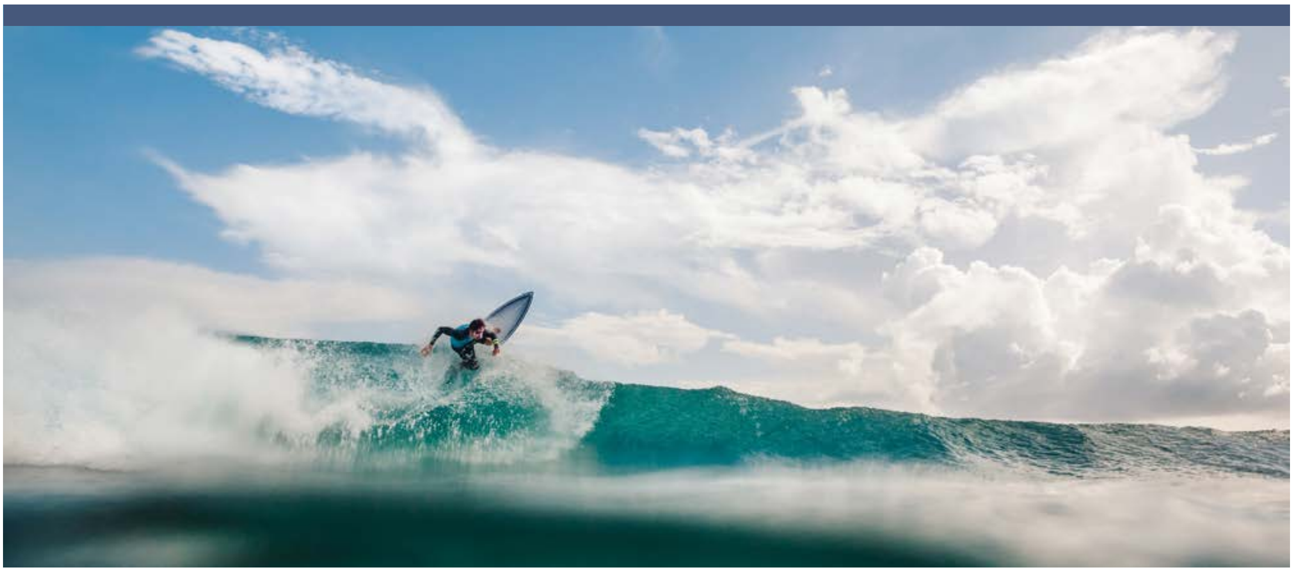
Global equity markets made solid gains this month as major central banks continued to add stimulus. The US-China trade tensions seemed to de-escalate on news that the US will delay tariffs as a "goodwill gesture" plus China exempted certain US agricultural products including soybeans and pork. The MSCI World (NZD) returned 2.7% where Japan and Europe were the top performing regions, with the Nikkei 225 and the Stoxx 600 Indices returning 5.8% and 3.7% respectively. The US market lagged, with the S&P 500 returning 1.9%. India was the standout performer in emerging markets with its Nifty 50 Index returning 4.1% for the month, largely driven by a surprise cut in the corporate tax rate from 30% to 22% to help revive domestic growth.

The US Federal Reserve (Fed) and the European Central Bank (ECB) eased by 25bp and 10bp respectively, citing slumping manufacturing activity and weak inflation as their main concerns. The decision to cut was met by an increasing number of dissenters within both the Fed and the ECB, illustrating an increasing divide amongst policy makers about the efficacy of monetary policy in the current ultra-low interest rate environment. Oil markets experienced a significant shock, after an attack on key Saudi oil refineries, which collectively produce approximately 5% of global oil supply. Oil prices rose sharply, with the WTI price surging 14.7% on first day of trading post the attack. Production was quickly restored to normal levels, which saw oil prices subsequently fall back to mid-50's range.

MARKET PERFORMANCE

INTERNATIONAL INDICES	1 MONTH RETURN	1 YEAR RETURN
MSCI WORLD (USD)	2.1%	1.8%
MSCI WORLD (NZD)	2.7%	7.7%
S&P 500 (USD)	1.9%	4.3%
STOXX 600 (EUR)	3.7%	5.7%
NIKKEI 225 (JPY)	5.8%	-7.8%

CURRENCIES	RATE	MONTHLY % CHANGE
AUD/NZD	0.9278	-1.29%
GBP/NZD	0.5094	-1.81%
EUR/NZD	0.5741	0.00%
USD/NZD	0.6260	-1.07%
JPY/NZD	67.701	0.82%



NEW ZEALAND MARKET

Surf to summit with Kathmandu

The local bourse was back to form in September as the S&P/NZX 50 Index returned 1.6%, with 40 of the 50 companies making positive total returns. The Index is up 24.0% year to date on a total return basis and continues to be one of the top performing indices among developed markets.

The top performer in the Index for a second consecutive month was Kathmandu (KMD), returning 23.3% after reporting full year profit at the top end of its guidance range. KMD also announced it would acquire surf wear group, Rip Curl for A$350m in an effort to further diversify the business. Another company making headlines, both positive and not so positive was Fonterra (FSF). Despite reporting a loss of $600m for FY19, the company's share price still returned 5.7%. There was some solace in the earnings per share being slightly higher than guidance provided earlier in the year, and the jury remains out on the company's ambitious new turnaround strategy.

Z Energy (ZEL) was the worst performing company in the Index, returning -11.7% after a material downgrade to its FY20 earnings guidance and lowering the top end of the dividend guidance range. The a2 Milk Company (ATM) again found itself on the wrong side of the Index where it fell 8.2%. A number of analysts downgraded earnings expectations post an investor day held by the company in Shanghai. One of the key themes from the investor day was that the company continues to prioritise revenue growth over short-term profits and is accelerating investment across the business.

MARKET PERFORMANCE

NEW ZEALAND INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/NZX50	1.6%	16.8%
S&P/NZX Mid Cap	2.7%	16.9%

All equity index returns are calculated on a total return basis.

NZ TOP 5 INDEX PERFORMERS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
Kathmandu Holdings	23.3%	4.7%
Fletcher Building	16.0%	-17.1%
Tourism Holdings	12.5%	-20.6%
Arvida Group	11.7%	18.0%
Restaurant Brands New Zealand	11.3%	44.5%

NZ BOTTOM 5 INDEX PERFORMERS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
Z Energy	-11.7%	-13.7%
a2 Milk Co	-8.2%	17.8%
Auckland International Airport	-4.9%	30.5%
Gentrack Group	-4.7%	-24.0%
Vista	-4.6%	0.3%

AUSTRALIAN MARKET

Money in the Banks

September saw the S&P/ASX 200 Index recoup most of the ground lost in August, with solid performance by the Big 4 banks driving most of the benchmark's 1.8% return for the month. Three-quarters of the way through 2019, the Index's total return now stands at 22.6%.

Best performer among the top 200 was Bellamy's, an infant nutrition company, which returned +73.6% after it entered into a takeover scheme with a Chinese suitor. Close behind was a 58.1% rebound for satellite communications network Speedcast, in a reversal of fortunes following a -58.9% return in August. Radiology software developer Pro Medicus, which returned -24.3%, was the worst performer for the month, clipping its stellar run (year to date return 155.7%).

MARKET PERFORMANCE

AUSTRALIAN INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/ASX200 (AUD)	1.8%	12.5%
S&P/ASX Small Cap (AUD)	2.6%	3.9%

All equity index returns are calculated on a total return basis.

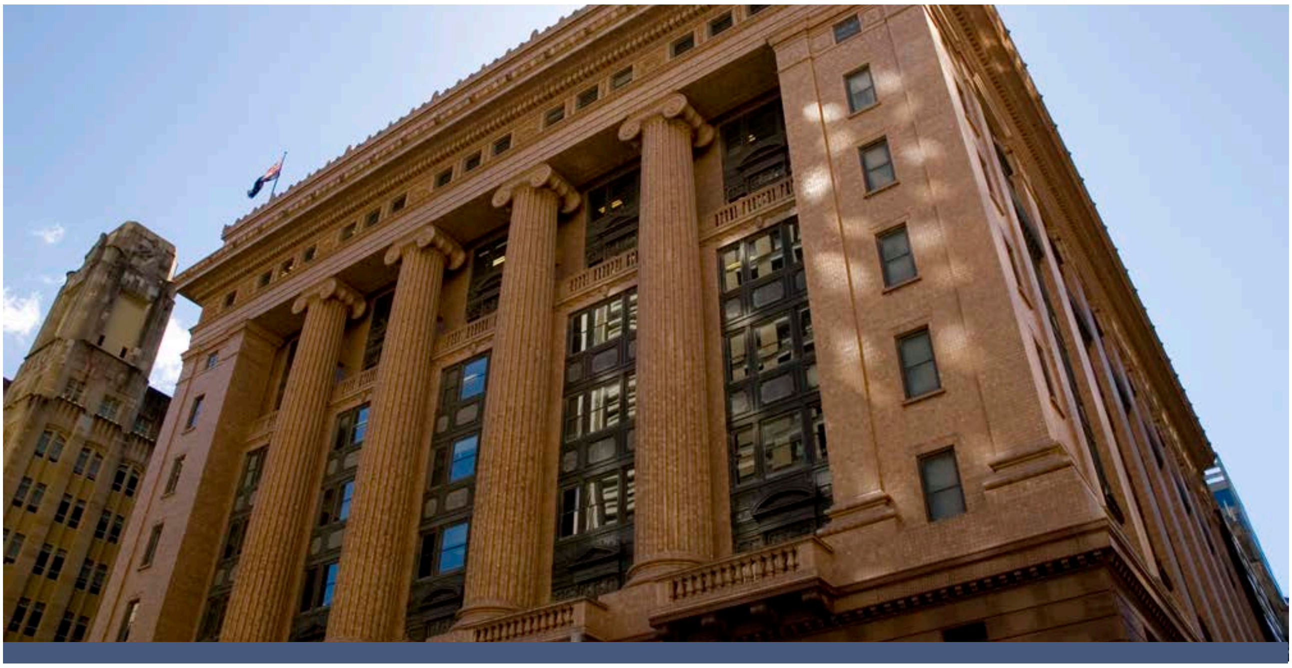
The disconnect between the apparent state of Australia's economy and its monetary policy became more pronounced. On the one hand, strong net exports helped produce Australia's first current account surplus since 1975, Sydney/Melbourne median property values lifted (both +1.7% in September), and employment data was not cause for concern. On the other, whilst the RBA held rates in September, its dovish signalling has now crystallised into a cut to 0.75%, a record low. Interestingly, the RBA's rhetoric has evolved from 'making inroads into spare capacity' to an explicit 'lower for longer' hint about interest rates, implying a less-than-rosy outlook.

AU TOP 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Energy	4.7%	-9.0%
Financials	4.1%	12.1%
Materials	3.1%	16.0%
Consumer Discretionary	3.0%	10.3%
Utilities	1.8%	10.9%

AU BOTTOM 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Telecommunications	-2.9%	8.8%
Property	-2.7%	18.3%
Health Care	-2.5%	15.7%
Information Technology	-0.6%	13.0%
Industrials	0.0%	15.1%



FIXED INTEREST MARKETS

The Business Blues

Global bond markets had a turbulent month with bond yields rising sharply in the first week of September but then reversing most of this move by month end. The result was negative returns for bond investors, with the Bloomberg Barclays Global Aggregate Bond Index (NZD hedged) falling by 0.6%, although this index was down by 1.6% at its intra month low. Central Banks delivered further easing, with the Fed and RBA both reducing cash rates by 25bp; and the ECB cutting by 10bp and restarting its asset purchase program at a monthly rate of €20 billion. However, these moves were largely anticipated by markets and if anything were a disappointment for those that were expecting more aggressive action. What has been interesting is that longer term bond yields have not fallen in response to these actions, resulting in a slightly steeper yield curve. The change has been very small but does highlight the diminishing impact that central banks are having on the market given that short term interest rates are already at very low levels, and market expectations of further monetary easing are already reflected in longer term bond yields.

In New Zealand, the RBNZ elected to leave the OCR unchanged at 1% following its surprising decision to cut rates by 0.5% back in August. The press release from the RBNZ highlighted similar risks to its outlook, namely global political and trade tensions, weak domestic business confidence and lack of capital investment. The latter two risks have become more relevant to New Zealand following the release of very weak business confidence data. Both the ANZ and NZIER surveys showed negative and declining business confidence and both were at levels not seen in several years. While the headline business confidence numbers are often not very reliable signals, the other components of both surveys were undeniably weak. The release of this data in conjunction with the interest rate cut in Australia have certainly increased the odds of another cut in the OCR before the end of the year.

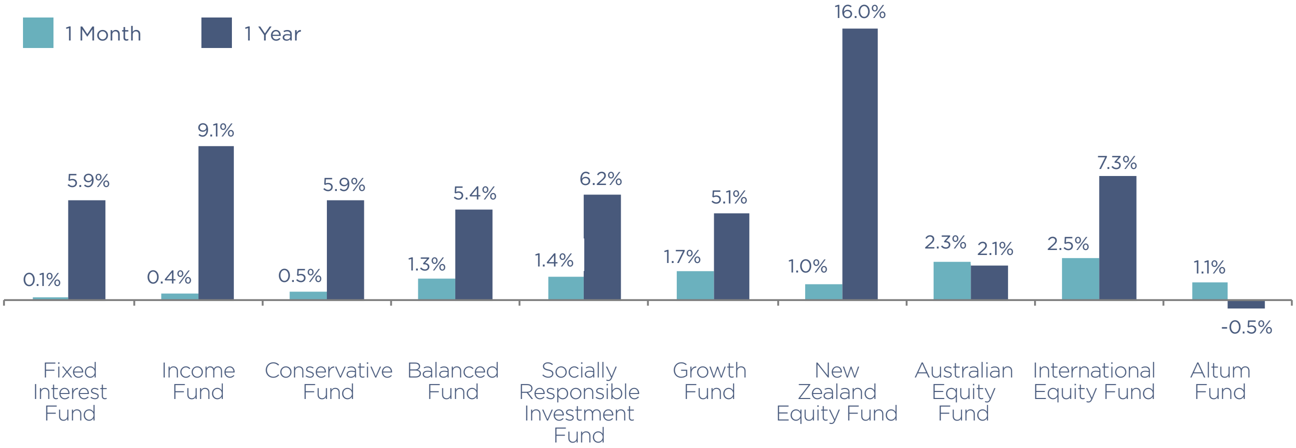
BOND INDICES

INDEX	1 MONTH RETURN	1 YEAR RETURN
NZ Government Bond	-0.07%	9.63%
NZ Inv. Grade Bond	-0.04%	7.84%
Australian Government Bond	-0.63%	12.71%
Australian Corporate Bond	-0.12%	9.20%
Barclays Global Agg Hedged (NZD)	-0.55%	9.96%

CURRENT INTEREST RATES

INTEREST RATES	RATE	RATE 1 YEAR AGO
NZ OCR	1.00%	1.75%
NZ 5yr Swap	0.94%	2.40%
NZ 10yr Gov	1.09%	2.61%
RBA Cash	1.00%	1.50%
AU 10yr Gov	1.02%	2.67%

FUND PERFORMANCE OVERVIEW



For more information, Unit Prices and Fund Updates visit quaystreet.com or contact our Client Services Team
0800 782 900 | info@quaystreet.com

QUAYSTREET®
ASSET MANAGEMENT