

QUAYSTREET MONTHLY MARKET UPDATE

- AS AT 31 DECEMBER 2020 -

INTERNATIONAL MARKETS

USD Goes To Seed

The benchmark MSCI World Index (NZD) continued its winning streak, rising 1.7% for the month and 8.6% for the year. Most major developed market indices posted solid returns, however it was emerging markets and commodities that were the standout performers. Both were propelled by the sliding US dollar and the increasing risk-on environment it is helping to create.

During the month US Fed Chairman Jay Powell gave his most up-beat view of the US economy since the pandemic broke, yet remained very dovish on the policy outlook. He made it clear the Fed does not intend to raise interest rates for at least three years, allowing the prospect of inflation well above its 2% target. This kept downward pressure on the US dollar as capital left the US in search of better returns.

Most commodity prices, along with commodity-driven currencies and equities had a good finish to the year. Copper tested eight-year highs while gold almost regained record levels reached in July. But the big moves in December came from agriculture, especially the grains, with corn and soybeans rising 15.3% and 12.6% respectively. Buying by the Chinese and dry weather in South America also contributed to the bullish sentiment.

Economic news from Europe has continued to improve with confidence surveys in Italy trending up while in Germany export prices improved helped by better demand from China. Coincidentally China, for the first time, edged out the US as the EU's largest trading partner.

MARKET PERFORMANCE

INTERNATIONAL INDICES	1 MONTH RETURN	1 YEAR RETURN
MSCI WORLD (USD)	4.2%	15.9%
MSCI WORLD (NZD)	1.7%	8.6%
S&P 500 (USD)	3.8%	18.4%
STOXX 50 (EUR)	1.8%	-3.2%
NIKKEI 225 (JPY)	4.0%	18.3%

CURRENCIES	RATE	MONTHLY % CHANGE
AUD/NZD	0.9337	-2.24%
GBP/NZD	0.5255	-0.17%
EUR/NZD	0.5880	-0.05%
USD/NZD	0.7184	2.38%
JPY/NZD	74.174	1.35%





NEW ZEALAND MARKET

No Daigou Stock

The New Zealand sharemarket ended the year on a high as the S&P/NZX 50 Index returned 2.5% for December, and a respectable 13.9% for the year. The monthly return was slightly behind most global peers excluding Australia, but was heavily skewed by the two Index heavyweights, a2 Milk (ATM, -18.2%) and Fisher & Paykel Healthcare (FPH, -7.6%) finishing at the bottom of the Index. Following a two day trading halt, ATM materially downgraded its FY21 guidance despite confirming guidance at the AGM just a month prior. The company cited larger than expected disruption in its Daigou (informal reseller) channel. This had a knock-on effect for Synlait Milk (SML, -3.7%) which manufactures infant formula for ATM. ATM also committed to the acquisition of a 75% stake in Southland processing company Matura Valley Milk to diversify some of its supply away from SML.

NZ TOP 5 INDEX PERFORMERS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
Pacific Edge	71.8%	916.7%
Infratil	22.7%	50.7%
Summerset Group Holdings	18.4%	43.5%
Meridian Energy	15.4%	56.8%
EBOS Group	15.3%	22.7%

MARKET PERFORMANCE

NEW ZEALAND INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/NZX50	2.5%	13.9%
S&P/NZX Mid Cap	5.9%	7.4%

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

The top performer for the month was Pacific Edge, which rallied 71.8% following multiple positive broker reports with target pricing well above the current price and a medical journal report highlighting the effectiveness of the company's Cxbladder test. Another strong performance came from Infratil (IFT, +22.7%) following an indicative proposal from AustralianSuper to acquire the company for NZ\$7.43 per share. IFT has since rejected the offer and said that no further engagement with AustralianSuper is planned at this time.

NZ BOTTOM 5 INDEX PERFORMERS

COMPANY NAME	1 MONTH RETURN	1 YEAR RETURN
a2 Milk	-18.2%	-19.6%
Fisher & Paykel Healthcare	-7.6%	50.4%
Restaurant Brands New Zealand	-5.7%	-17.2%
SKY Network Television	-4.2%	-57.2%
Vista	-4.0%	-51.1%

AUSTRALIAN MARKET

Pumping Iron

Rounding out a rollercoaster of a year, the S&P/ASX200 index returned 1.2% for December, taking its 2020 annual return to 1.4%. IT and Materials were the strongest sectors over the month, returning 9.5% and 8.8% respectively, whilst Utilities (-5.4%) and Healthcare (-4.9%) continued to lag.

Base metals miner IGO was the best performer, returning 37.4% after announcing a JV with China's Tianqi Lithium that will see it acquire interests in WA Lithium assets. Next best was a 28.5% return for iron ore miner Fortescue, as it continued to ride the A\$ iron ore price, which increased 13% in December and 52% over 2020. Biotech Mesoblast was the worst performer, returning -45.9% after updates on two of its cell therapies both disappointed. Trial results quashed optimism around commercial prospects

MARKET PERFORMANCE

AUSTRALIAN INDICES	1 MONTH RETURN	1 YEAR RETURN
S&P/ASX200 (AUD)	1.2%	1.4%
S&P/ASX Small Cap (AUD)	2.8%	9.2%

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

for the company's cardiovascular and Covid-19 respiratory treatments.

Key macroeconomic releases were unequivocally ahead of forecasts, with GDP, unemployment, building approvals, retail sales, and foreign trade all evidencing a faster than anticipated recovery. This was also reflected in the Australian Treasury's mid-year update (MYEFO), which brought forward the expected GDP turnaround and reduced the forecasted peak unemployment rate. Undoubtedly assisted by iron ore, the MYEFO now anticipates a 2020-2021 budget deficit A\$15.9b narrower than predicted six months earlier.

AU TOP 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Information Technology	9.5%	57.8%
Materials	8.8%	18.2%
Consumer Staples	2.3%	6.2%
Consumer Discretionary	1.0%	11.3%
Property	0.4%	-4.6%

AU BOTTOM 5 PERFORMING SECTORS

SECTOR	1 MONTH	1 YEAR
Utilities	-5.4%	-16.7%
Health Care	-4.9%	4.1%
Industrials	-2.7%	-12.3%
Energy	-0.9%	-27.6%
Telecommunications	-0.6%	4.6%



FIXED INTEREST MARKETS

Credit spreads continuing to tighten

December was less volatile than November with global bond yields trading in relatively narrow ranges. It was another positive month for riskier assets which led to continued outperformance of corporate bonds relative to government bonds. Taking the Bloomberg Barclays US Indices as examples, the Corporate High Yield Bond Index rose by 1.9% compared to the Corporate Bond Index (investment grade) which was up by 0.4%, while the Treasuries Index was down by 0.2%. These same indices returned 6.5%, 3.1% and -0.8% respectively for the quarter. The outperformance of corporate bonds has led to tighter credit spreads, with the yields on corporate bonds now offering less of a premium to government bonds than they were, and in many cases even less of a premium than before the onset of COVID-19.

A similar trend was evident in New Zealand but less pronounced due to the composition of the corporate bond market. Both the government and corporate bond indices experienced negative returns this month, with the S&P/NZX Investment Grade Corporate Bond Index falling by 0.2%, but still outperforming the S&P/NZX Government Bond Index, which was down by 0.9%. Over the quarter these returns are -1% and -2.8% respectively with both indices underperforming global markets. The reason for this is that New Zealand bond yields had fallen more significantly than global markets and some of this move has now been reversed. As an example, the yield of the 2031 New Zealand Government bond fell from 1.8% at the start of the year to a low of 0.5% in September 2020, but has since rebounded to reach 1% at the end of the year.

BOND INDICES

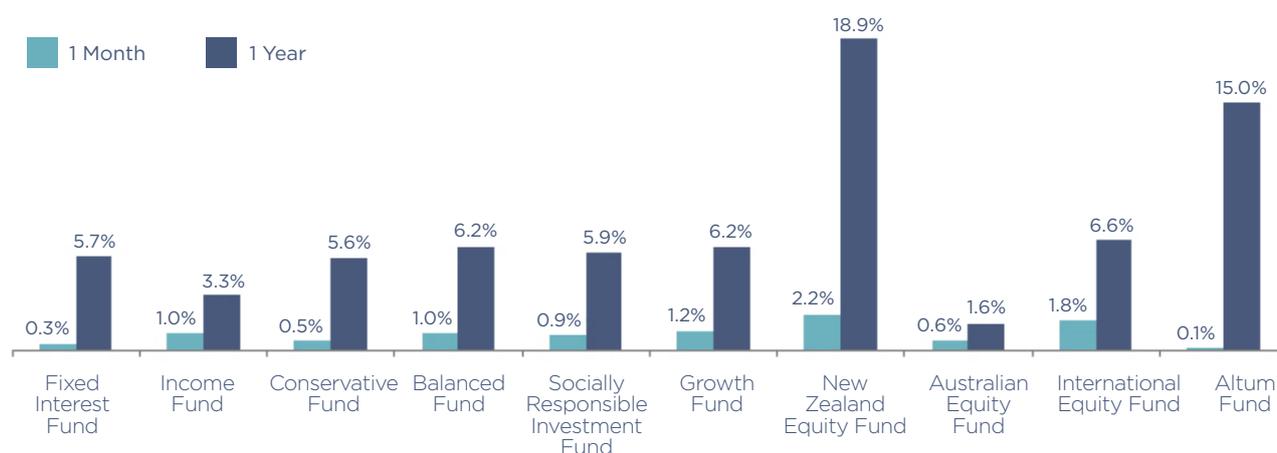
INDEX	1 MONTH RETURN	1 YEAR RETURN
Government Bond	-0.87%	5.42%
Inv. Grade Bond	-0.23%	5.43%
Australian Government Bond	-0.30%	4.82%
Australian Corporate Bond	0.15%	6.10%
Barclays Global Agg Hedged (NZD)	0.29%	5.41%

Above figures as at 31 October 2020.

CURRENT INTEREST RATES

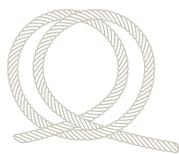
INTEREST RATES	RATE	RATE 1 YEAR AGO
NZ OCR	0.25%	1.00%
NZ 5yr Swap	0.54%	1.45%
NZ 10yr Gov	0.99%	1.65%
RBA Cash	0.10%	0.75%
AU 10yr Gov	0.97%	1.37%

FUND PERFORMANCE OVERVIEW



The above figures are before fees and taxes. See fund fact sheet for returns after fees and tax. Past performance is not a guide to future performance.

For more information, Unit Prices and Fund Updates visit quaystreet.com or contact our Client Services Team
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QUAYSTREET®

ASSET MANAGEMENT

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