

# New Zealand Equity Monthly November 2023

New Zealand equities back to where they started after eventful 2023

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## Interest rates and inflation continue to be key drivers for New Zealand equities

Interest rates and inflation have continued to dominate the New Zealand equity market in 2023. This is illustrated by a comparison between the performance of the S&P/NZX 50 Index of New Zealand's 50 largest stocks by float-adjusted market capitalization (the NZX 50) and New Zealand 10-year government bond yields. While the equity market's performance is driven by the underlying performances of companies as shown in stock earnings and stock guidance, it also reflects movements in New Zealand 10-year government bond yields, with which it has shown a strong inverse relationship. The NZX 50 started 2023 strongly with a 6% rise in the first few months, while yields moved the opposite way and declined. The market subsequently trod water with returns of approximately 4% until about the middle of the year, at which point investors began to assume that 10-year bond yields were on a steady upward track. In October, New Zealand's equity market experienced a large drawdown and the 10-year government bond yield hit 5.6%.

## Strong November has returned market to level seen at start of year

November was a stronger month for equities given that central banks around the world began suggesting that interest rates have peaked. While we do not expect to see any rate cuts in the near term, investors appear to believe that the worst is over in terms of rate increases. That view has been beneficial for New Zealand's equity market, which bounced back by about 4% in November. As a result of the recent upturn, the market has swung downward by 6% and then upward by 6% this year to date. This total movement of 12% has brought equities back to where they started the year.

## AI and election result to be among drivers of market in 2024

Although there was no notable news on AI in November, the topic is worth noting from the perspective of the year overall. Businesses are now focusing on how they can use the technology to increase efficiency, reduce costs and grow revenue. In our view, the use of AI by businesses is still at a very early stage, with more developments set to occur next year and after. In addition, given that New Zealand's election in October resulted in a change of government from the centre-left Labour Party to a centre-right coalition led by the National Party, its aftermath will also shape the stock market going forward. From a policy perspective, the new government's removal of depreciation for taxation purposes for commercial buildings is likely to impact the property sector.

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