

Market Commentary

December saw drastic worsening of Covid-19 infections across the northern hemisphere with the emergence of a more contagious strain and increased hospitalisations. The markets focused instead on the roll-out of vaccines and easing of political tensions in the US and Brexit. Major stock indices finished off the year on a good note hitting fresh record highs.

- Despite the roll-out of vaccines, Covid-19 infections worsened drastically across the northern hemisphere. The emergence of a more contagious type strain posed fresh worries and resulted in fresh waves of lockdown restrictions across the US & UK.
- Interest rates moved higher globally as markets looked forward to the roll-out of Covid-19 vaccines, coupled with a fiscal stimulus package deal in the US. The US Federal Reserve held their policy rate unchanged and remain committed to supporting the economic recovery.
- DoorDash & Airbnb's much anticipated listings debuted last month adding to what is now one of the busiest years for IPOs. On trend with the recent strength across risk assets, both companies soared on their first day of trading, well above their initial offering prices.

Portfolio Commentary

Lifetime Fixed Interest Trust

	Units	Unit Price	Market Value	%
Cash Fund	194,972.17	1.0514	204,993.74	100.00
Total			204,993.74	100.00

The Cash Fund returned 0.11% before fees and taxes in December, beating its benchmark the S&P/NZX Bank Bill 90-Day Index which returned 0.02%.

As expected, the RBNZ launched the Funding for Lending Programme for banks on December 7th, which gives banks access to 3-year loans at the OCR rate. We expect this action could suppress bank deposit rates even further as evidenced by Westpac just dropping their 1-year mortgage rate by 20 basis points to an all-time low of 2.29% for those buyers who have over 20% equity in their homes. The good news is that the RBNZ is now less likely to take the Official Cash Rate (OCR) negative, instead they are likely to hold the OCR at 0.25% for the next couple of years at least.

Lifetime VIP Balanced Fund

	Units	Unit Price	Market Value	%
Fixed Interest Fund	2,249,053.59	1.3848	3,114,489.40	41.94
Growth Fund	2,589,864.55	1.6651	4,312,383.46	58.06
Total			7,426,872.86	100.00

Fixed Interest Fund

The Fixed Interest Fund returned -0.27% before fees and taxes in December outperforming its benchmark which returned -0.87%.

The yield on a US 10-year Treasury rose 9 basis points to 0.91%. A continuing strong stock market, better economic numbers and a more competitive race in Georgia were all factors. Sentiment was also affected by an "all's kind of well that kind of ended well" with at least not a hard Brexit, new virus variants, a US president in full attack mode and spiking holiday-related cases. US interest rates hovered around the 0.9% mark throughout the month, and credit spreads stayed very tight despite an extra \$1 trillion of issuance this year, as companies have shored up their liquidity by issuing bonds.

In New Zealand, longer-term interest rates rose in December, as it became more apparent that the doomsday scenario was not going to happen. In the Treasury's Half Year Economic and Fiscal Update (HYEFU) on Dec 16th, the good news was that New Zealand's borrowing needs will be lower by NZ \$5 billion in FY20/21 and also lower

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in outlying years. That will leave debt:GDP at ~50%, not great vs the 19.2% we had going into Covid, but certainly manageable. Nevertheless, there are some clouds. Weak service industry data was understandable in the absence of foreign tourists, and logistics chains are being stretched.

All in all, it was a very quiet month for the portfolio. We tried hard to find decent company bonds, but it's a very illiquid time of year, not helped, of course, by the virus. We mostly added term deposits and let the average maturity of the portfolio run down a bit in the face of higher yields and therefore a better entry point in January.

Growth Fund

The Growth Fund returned 2.98% before tax and fees in December, 0.03% behind the MSCI All Country benchmark. The Global Quantitative equity strategy contributed positively, as did Alternatives, while Global Thematic and Core Global underperformed. The Kiwi dollar strengthened slightly against the US greenback last month, which is a negative for foreign currency returns.

December saw a drastic worsening of Covid-19 infections across the Northern Hemisphere, with the emergence of a more contagious strain and increased hospitalisations. The new variant of the virus is ~50% more contagious, which has infection rates topping previous highs and is pushing the limits on intensive care unit capacity. This forced governments across Europe and the US to implement new stringent lockdown measures to slow the spread of the virus.

Despite this, markets closed out the year on a high note, with the Dow Jones and S&P 500 indices reaching fresh all-time highs on New Year's Eve. Investors focused instead on greater certainty around Brexit, positive news surrounding further US stimulus, and the commencement of the roll-out of vaccines.

More than four years after the UK voted to leave the bloc, Britain and the European Union finally agreed on new Brexit trading arrangements, narrowly avoiding a potentially disastrous no-deal scenario. Now that it's no longer in the EU, the UK is free to set its own trade policy and can negotiate deals with other countries.

The market got what it wanted for Christmas (although, it was a little late and on the small side), as Congress finally voted to authorise the second round of stimulus payments to households as part of its roughly \$900 billion coronavirus relief bill. The Democrats still have a shot at completing a blue wave if they manage to win both Senate seats in Georgia in the run-off election on January 5, which would give them a majority and mean much more stimulus to come in the new year.

Positive sentiment was also affected by the beginning of the roll-out of vaccines during the month, with the first people receiving the Pfizer and Moderna vaccines. It is worth noting the logistical challenges of both vaccines, which require cold storage and are relatively expensive. So far, the number of people receiving the vaccines has failed to reach initial estimates. Nevertheless, an end to the Covid crisis now appears to be in sight, but the path to recovery may still be bumpy over the coming quarters.

Lifetime International Companies Fund

	Units	Unit Price	Market Value	%
Global Quantitative Fund – Hedged	1,629,412.79	1.2880	2,098,683.67	71.54
Global Quantitative Fund – Unhedged	688,031.69	1.2132	834,720.04	28.46
Total			2,933,403.71	100.00

The Global Quantitative fund returned 2.85% in December, 0.67% ahead of the MSCI AC benchmark as the US fiscal stimulus was approved by Congress and vaccine rollouts began, however a new wave with record case numbers and worrying new variants held sentiment in check. Winners for the month were cyclical with Materials, Small Caps and Emerging Markets well ahead.

After being on the wrong side of November's record junk rally, we clawed back some performance to leave the fund slightly ahead of benchmark for 2020. Top sectors for the month were Technology and Communications, led by Asian holdings (Baidu, Samsung, Lenovo) while the poorest sector was Discretionary where retailers disappointed (Best Buy, Whirlpool).

Our top-down positioning targets higher quality companies and sectors seen as more suited to the current environment. Stock selection favours companies with attractive metrics across earnings quality, capital efficiency, valuations, sentiment and sustainability. Over the month, we increased overweights in Materials and Discretionary (Shin-Etsu Chemical, Yum! Brands), and reduced allocation to Technology and Utilities (TSMC, CMS Energy). Technology, Industrials and Materials remain favoured sectors while Energy and Utilities remain our largest underweights.