

Economic and Market Commentary March Quarter 2025

Performances were mixed over the March quarter as tariff risks became a focus.

Risk asset returns were soft in general, but interest rate sensitive asset classes such as bonds and select alternatives performed well, in line with their diversification role.

Emerging markets equities along with European and UK markets also performed relatively well, reflecting some rotation out of US markets.

Performances were volatile month-on-month and mixed overall for the March quarter (see Figure 1). Risk assets such as NZ and global equities in general were soft, but interest rate sensitive asset classes such as bonds and infrastructure performed relatively well, as did emerging market equities.

Emerging concern around the US's imposition of tariffs was a key driver of performances. Tariffs increase consumer prices in countries that impose them, and they also reduce economic growth. On balance, markets have factored the growth impact to be more important for longer-term inflation, and hence longer-term interest rates fell over the quarter, boosting returns from bonds and other interest-rate sensitive asset classes. In addition, non-US equities (excepting NZ) and value stocks had better performances than US equities. This partly reflected investors rotating from relatively expensive US stocks to cheaper markets, but it also may have reflected concerns around US being the epicentre of any trade war (see Figure 2).

In the event, after the end of the March quarter on April 2nd the Trump Administration announced tariffs that were much larger than expected. Our feature this quarter discusses the potential implications of this for investment portfolios and for the New Zealand economy.

Market roundup

International and Australian shares fell around 3% this quarter in local currency terms and 2.5% in NZD hedged terms. This brought the annual results to around 13% in NZD terms, while NZD hedged returns were weaker at around 7% given the decline in the NZD vs the USD over the year to March. Value stocks strongly outperformed in the quarter, rising by around 3.7%. In contrast, global small caps fell around 4.8% whilst NZ stocks fell by around 6%, giving up the strong gain they had made in the December quarter.

Emerging markets again performed reasonably well, rising around 1.8% over the quarter. As mentioned, interest-rate sensitive global listed property and infrastructure also held up, with property increasing by around 0.5% and infrastructure by 3.5% (NZD hedged), bringing its annual result to around 19%

Bond market performances were also solid. New Zealand investment grade bonds increased 0.7% in the quarter, and around 5.9% over the year. International investment grade bond returns, increased around 1.1% in the quarter and 4.2% over the year.



Figure 1 – Mixed performances in the March quarter

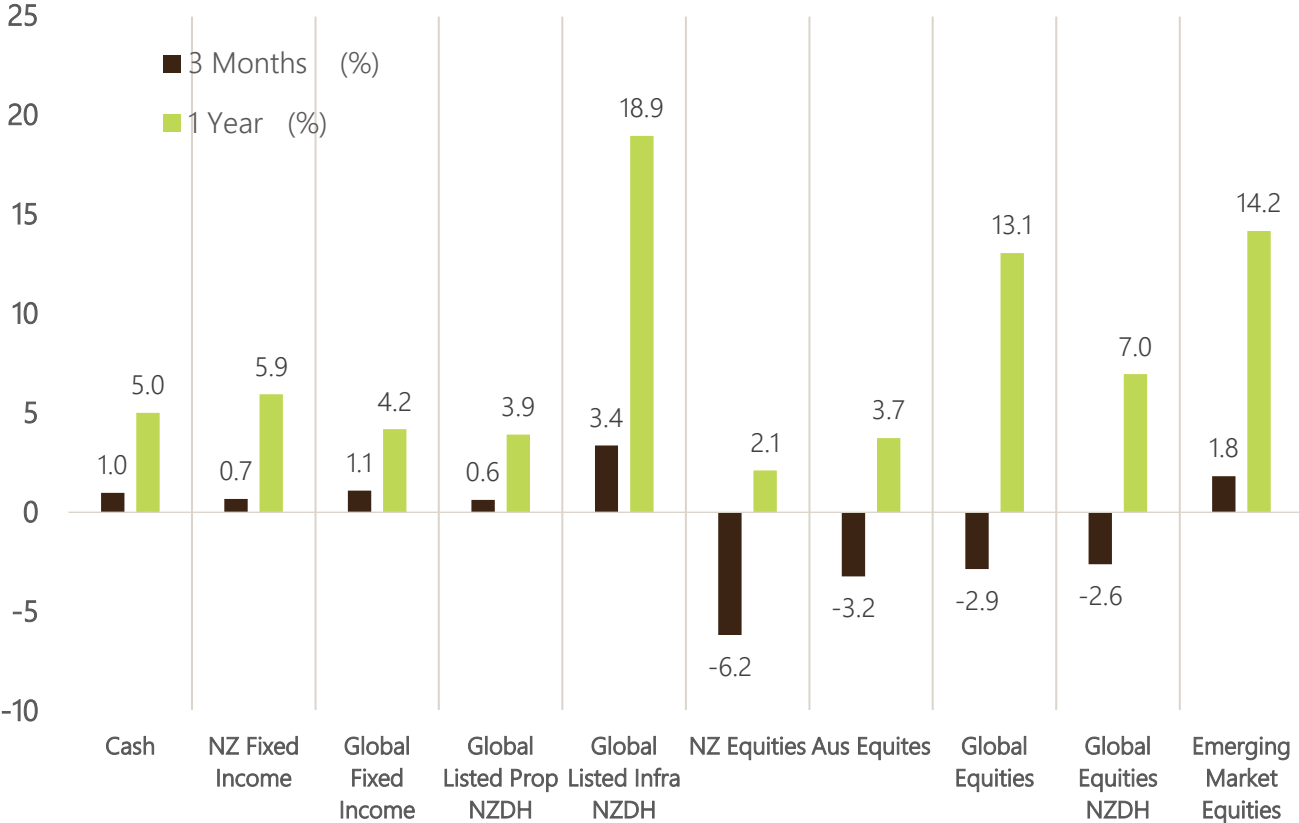
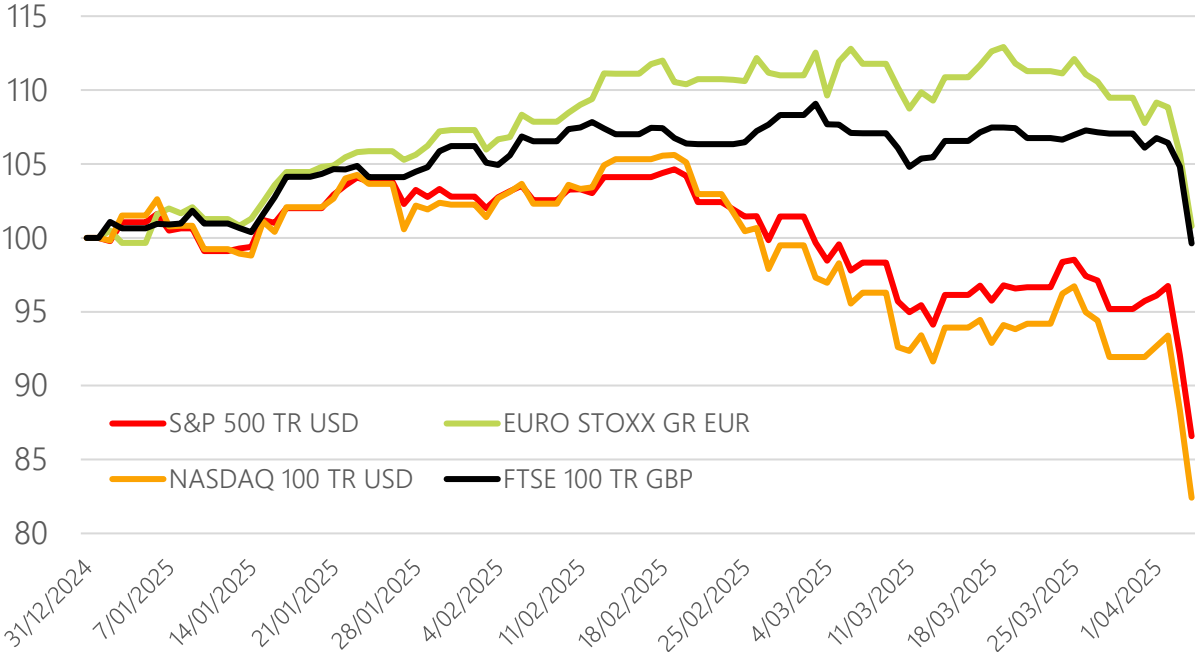


Figure 2: Is the US market losing its shine? (31 December 2024 – 4th April 2025)



Source: Morningstar and index provider

