

Economic and Market Commentary September Quarter 2025

Most asset classes enjoyed a strong September quarter

Markets enjoyed strong returns over the September quarter. On the macroeconomic front this was driven by interest rate cuts and economic data exceeding expectations for the US, Europe, and *most* of the Asia-Pacific Region – with the notable exception of New Zealand. The AI boom continued to drive up share prices of very large tech companies like Alphabet (Google) and Nvidia, but it is important to stress that gains were broad-based across countries and different sectors of the market.

The NZ dollar continued its fall over the quarter, leading to materially higher unhedged equity returns.

Global equity markets rose around 7.5% in the quarter in local currency and NZ dollar hedged terms, and a remarkable 12% on an unhedged basis (Figure 1). Over the year to September, unhedged global equity returns were around 29%, while NZD hedged returns were ‘only’ around 17%. The much stronger unhedged return is the flipside of our relatively poor economic performance. Markets have ‘priced in’ further material interest rate cuts by the RBNZ, and this caused our currency to decline a further 5% or so over the quarter against a range of currencies, including the US dollar, Euro, and Australian dollar.

Positive equity returns were broad-based, with Emerging Markets keeping pace with the blistering performance of developed market equities.

Within global equities, small cap stocks outperformed, rising by 13.5% in NZD terms, while value stocks underperformed, rising by ‘only’ around 10.5%. Both small and value ‘factors’ also underperformed over the year, which mainly reflects the US as opposed to other countries’ share markets. For example, Australian equities increased around 16% in NZD terms over the year, while value stocks increased around 23% and small caps around 27%. Our feature this quarter looks at global equities further. Emerging market equities returned 16% in the quarter and matched the performance of developed markets over the year. Rounding the pack, the NZ share market lagged, rising by around 5.8% in the quarter and 7.7% over the year.

While NZ’s poor economic performance hampered our share market it helped NZ bond returns

NZ bonds performed well given our lower interest rate outlook, rising by around 3% in the quarter and 6% over the year. In contrast, offshore bonds returned only around 1% in the quarter and 2% over the year as markets factored in stronger than expected economic data. As per our last update, rising fiscal risks are also impacting long-term interest rates. Interest rate sensitive global property and infrastructure performed relatively well given this, increasing by around 4% in NZD hedged terms, and 9% unhedged. Alternative asset classes, particularly gold and trend, also performed strongly in the quarter and have added considerable value relative to global bonds from which they are ‘funded’.

As per our last update, we continue to monitor US-centric risks. At home, while it has been another *annus horribilis* for our economy it is also very unusual to see a weak currency coinciding with very strong agricultural commodity prices. Rural NZ is starting to boom, and our external trade balance is improving, something that



generally leads our currency to appreciate over time. We can't forecast when the turn around will occur, but we can say the currency cycle is far from over (Figure 2).

Figure 1 – All the main asset classes have had positive returns in the quarter

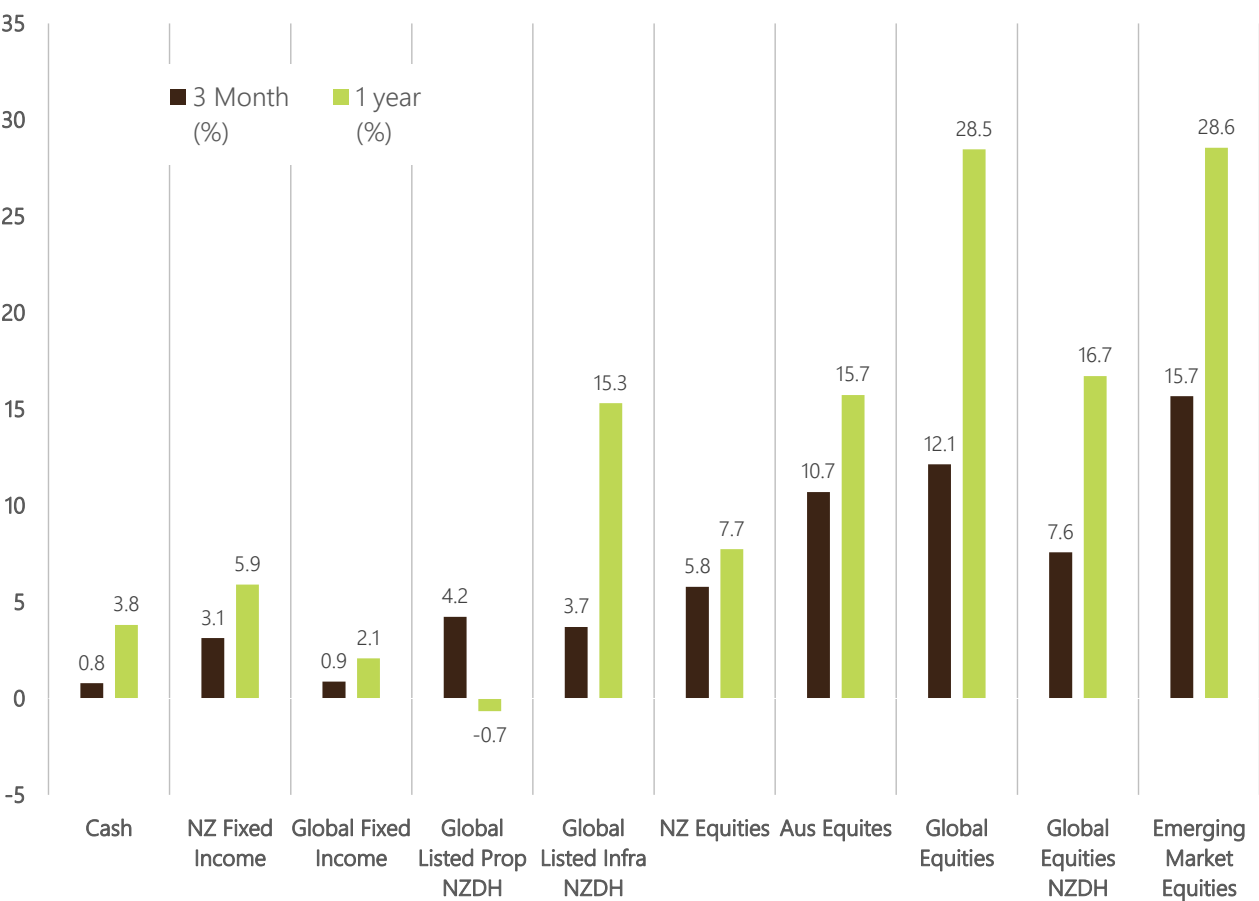


Figure 2 – Which way now for the kiwi dollar?

