

Quarterly Update



30 June 2021

Welcome

What a difference a few months make. Since our last update, much of the world's focus has turned to COVID vaccination programmes and what they might mean for human health, along with greater social freedom and economic growth.

The US economy has already awoken with a roar. However, there are challenges related to reigniting a US\$20-trillion economic engine. There are now signs of price pressures, bottlenecks and supply chain issues as the US economy rebounds from a very low base.

One of our most important roles as a fund manager is to periodically revisit our capital market assumptions and the resulting strategy we determine for how we allocate your investment across different types of assets (for example equities, bonds, cash).

We have completed our most-recent review and are now making some changes to the investment targets in our diversified funds. The aim is to give your investments greater resilience to meet the ever-shifting forces at play in global markets. For example, in an environment where interest rates are rising, we may increase how much we invest in cash, and reduce bond holdings.

As a default KiwiSaver provider, we will be offering a new lost-cost balanced fund. This fund will be available to all SuperLife KiwiSaver members. We will have more information for you about this in the coming months.

Enjoy the read.

Hugh Stevens
CEO, Smartshares

Do it online at
www.superlife.co.nz

Or email
superlife@superlife.co.nz

Or call
0800 27 87 37

Smartshares Limited is the issuer of SuperLife Invest, the SuperLife KiwiSaver scheme, the SuperLife UK pension transfer scheme and the SuperLife workplace savings scheme. The Product Disclosure Statements and Fund Updates for these schemes are available at www.superlife.co.nz/legal-doc.

Market update

There is some reason to cheer. The world's economic giant, the US, is no longer in hibernation.

The V-shaped economic recovery seen in the US – where the economy had a precipitous fall, followed by a sharp rebound – brings with it some teething pains.

There is euphoria on the one hand, as the US gets out of lockdown. Shopping malls have reopened, bars and restaurants are refilling, and consumer confidence has improved. On the other hand, there are bottlenecks and supply chain issues in the US. These are the challenges of reigniting a US\$20-trillion economy.

The US economy posted a sterling second quarter annual growth rate of 6.5% (advance estimate), after growing 6.3% in the first quarter of 2021.

The US economy's recovery has been a result of the massive and rapid vaccination programme across the country.

Another driver is the strong resolve by the US government to lift itself out of economic doldrums, and President Joe Biden's aggressive push for fiscal stimulus programmes.

Consumer confidence rose in June, and is at its highest level since the pandemic surged in March 2020, according to the Conference Board Consumer Confidence Index®.

The US consumer price index rose 5.4% in the year to June 2021, its sharpest climb since August 2008. However, the rise was against June 2020's unusually low inflation, when the US was facing a COVID-19 shutdown.

What remains to be seen is whether consumer confidence will continue a smooth upward trek or face some starts and stops in between.

The S&P 500 Index, which tracks 500 of the largest US companies, has risen 14.4% year in the six months to 30 June 2021, and 38.6% over 12 months.

Smaller-sized stocks continued their rebound seen during the last quarter. This was reflected in the Russell 2000 Index which was up 17% in the six months to 30 June 2021, and 60.3% over 12 months.

The NZX 50 Gross Index, the bellwether for our top 50 largest companies, is up 10.5% over 12 months but down 3.3% over six months.

The benchmark 10-year US government bond yielded 1.6% and the 10-year NZ government bond 1.8% at the start of June 2021.

International equities

In the June quarter, international shares, converted to NZ dollars, returned 7.5%. Over 12 months, returns were 30.5% (FTSE Developed All Cap Index NZD).

NZ equities

NZ equities, as measured by the S&P/NZX 50 Gross Index, returned 0.7% in the quarter and 10.5% over 12 months.

Australian equities

Australian equities, as measured by the S&P/ASX200 Total Returns Index, returned 8.3% in the quarter and 27.8% over 12 months.

Emerging markets

Emerging markets returned 5.7% in the quarter and 39.5% over 12 months (FTSE Emerging Markets All Cap).

International fixed interest/bonds

In line with a low interest rate environment, overseas bond returns were flat, at 1%, in the June quarter. Over 12 months, the returns were zero per cent due to very low, and sometime negative interest rates. (Bloomberg Barclays Global Aggregate Total Return Index, NZD hedged).

NZ bonds

NZ bond returned 0.3% in the quarter but over 12 months, returns fell 1.2% (S&P/NZX A-Grade Corporate Bond Index).

SuperLife funds

SuperLife Income, which does not have any exposure to equities, returned 0.5% in the June quarter, and 0.5% over 12 months.

SuperLife Conservative, invested mainly in income assets, returned 2.1% in the quarter, and 8.5% over 12 months.

SuperLife Balanced (which typically has 60% in equities/listed property and 40% in cash and fixed income) returned 3.7% in the quarter and 17.3% over 12 months.

SuperLife Growth returned 4.6% in the quarter. Over 12 months, returns were 22.9%.

SuperLife High Growth, invested mostly in higher risk assets such as equities and property stocks, returned 5.5% in the quarter and 28.9% over 12 months.

Ethica, a socially responsible diversified fund, returned 3.8% in the quarter and 20.3% over 12 months.

THOUGHTS ON INVESTMENT

The current market conditions sit in the realm of what is termed as a kind of ‘Goldilocks’ market. This term – borrowed from the classic childhood bedtime story Goldilocks and the Three Bears – describes a market that is ‘just right’ – neither too hot, nor too cold.

Investors have shown a healthy dose of caution and optimism in a world still climbing out of economic despair.

Although equities have had a good run in the last year, the price gains have been backed by solid rebounds in performance.

Of the 443 companies in the S&P 500 that have reported earnings to date for the second quarter of 2021, 87.4% have reported earnings above analysts’ expectations. Second and third quarter earnings are estimated to increase 93.1% and 29.8% respectively, from a year ago. (Source: Lipper Alpha Insight, 9 August 2021)

The rise of COVID-19’s Delta variant has caused several countries which were previously out of lockdowns to reimpose them, and others to introduce tighter social distancing and mask use rules.

Recently, the market was spooked by the possibility of the Federal Reserve raising

interest rates sooner than expected due to signs of rising inflationary pressures. These fears were abated, however, as the market warmed to the Fed’s position that the recent inflationary pressures were transitory, and not permanent in nature.

Federal Reserve officials are largely split over whether there are enough signals to put the brakes on keeping the money supply flowing.

What does all this mean for investors?

The next few months will continue to be a time for adjusting to the mild turbulence surrounding how much the interest rate environment will change, and the challenges of managing new COVID variants around the world.

- Equities have turned in some stellar returns for most of SuperLife’s funds in the March quarter, and stayed firm in the June quarter. However, investors should not expect the exceptional returns to be repeated as the gains were from a very low market seen in March 2020.
- Bonds have consistently trailed equities in the last 12 months. This situation is unlikely to change much unless inflation accelerates out of control to warrant a sharp revision to current interest rates.
- There has been a narrowing of yields between 10-year US treasury bills and corporate bonds (of a similar tenure)

reflecting investors are more confident of the prospects of an economic recovery, hence a higher tolerance for the risks associated with corporate bonds.

- Whether the yield spread (the difference in yields between treasury bills and corporate bonds) will continue to narrow depends on how much the market thinks the inflationary impact being felt is not a problem given it is growing from a low base last year.
- Investors will continue to be interested in bonds issued by companies with a track record of strong management, and good performance, given the low interest rate environment.
- Companies whose performance are tied to the rebound in the economy, will also continue to be attractive.
- While last year’s equities market was powered by big tech stocks, as the economy makes its comeback, smaller companies are also benefitting from the recovery.
- The S&P 500’s valuation no longer looks cheap. However investors are likely to continue looking for reasonable investments, and equities remain more attractive relative to bonds.

We are now a default KiwiSaver provider

SuperLife is now a default KiwiSaver provider. We will be offering a new low-cost balanced fund, which will be available to all members.

RETURNS AFTER TAX, COSTS AND FEES

SuperLife workplace savings scheme for the period ended 30 June 2021.

Where returns are not shown, the investment option was not available for the full period. The quarterly investment news includes returns for an investor in the SuperLife

workplace savings scheme not making contributions. For investors in SuperLife Invest, the SuperLife KiwiSaver scheme and the SuperLife UK pension transfer scheme, and for investors in the SuperLife workplace savings scheme making contributions, the returns may vary slightly.

Fund	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)	Fund	3 Months	6 Months	1 year	3 years (p.a.)	5 years (p.a.)	7 years (p.a.)
SuperLife Income	0.52%	-1.22%	0.54%	2.96%	2.58%	3.24%	US 500	8.02%	18.12%	28.31%	15.23%	16.39%	
SuperLife Conservative	2.12%	2.30%	8.52%	5.17%	5.20%	5.39%	US Large Growth	12.63%	16.09%	30.88%	21.53%	21.56%	
SuperLife Balanced	3.68%	6.07%	17.29%	7.51%	7.88%	7.47%	US Large Value	3.52%	19.53%	27.83%	9.39%	11.71%	
SuperLife Growth	4.57%	8.44%	22.94%	8.53%	9.39%	8.65%	US Mid Cap	7.41%	18.08%	34.09%	13.07%	14.55%	
SuperLife High Growth	5.50%	10.87%	28.92%	9.72%	10.83%	9.63%	US Small Cap	5.53%	18.60%	42.54%	11.31%	14.89%	
Ethica	3.81%	6.23%	20.33%	9.85%	8.04%	8.93%	Overseas Shares	6.39%	15.82%	27.51%	10.51%	12.98%	11.54%
S&P/NZX 50	0.52%						Overseas Shares (Currency Hedged)	6.32%	14.75%	34.43%	9.47%	11.87%	9.05%
NZ Shares	1.50%	-1.35%	20.79%	10.78%	10.16%	11.08%	Total World	6.73%	15.34%	27.92%	11.48%	13.55%	
NZ Top 50	1.50%	-1.34%	22.28%	12.58%	13.32%		Total World (NZD Hedged)	6.68%					
NZ Top 10	-0.97%	-7.59%	0.61%	11.09%	11.08%		Asia Pacific	0.97%	7.08%	19.12%	5.21%	9.43%	
NZ Mid Cap	2.98%	2.54%	27.31%	11.99%	14.02%		Emerging Markets	5.23%	11.36%	25.50%	8.91%	10.45%	7.72%
NZ Dividend	3.80%	-2.84%	24.54%	8.95%	8.38%		Europe	7.71%	14.99%	24.07%	6.60%	10.00%	
NZ Property	1.98%	-2.52%	20.26%	13.36%	9.83%		Global Property	7.01%	10.46%	27.35%	7.28%	6.40%	8.59%
S&P/ASX 200	6.16%						NZ Bonds	0.13%	-1.09%	-0.21%	2.95%	2.89%	3.67%
Australian Shares	8.17%	12.73%	30.86%	8.05%	10.77%	9.02%	S&P/NZX NZ Government Bond	0.01%					
Australian Top 20	7.43%	15.83%	29.48%	8.48%	10.60%		Overseas Bonds	0.39%	-1.06%	1.72%	3.24%	2.84%	
Australian Mid Cap	8.46%	10.44%	34.52%	10.38%	13.24%		Overseas Non-government Bonds	1.23%	-1.16%	1.33%	3.45%	2.20%	
Australian Dividend	6.80%	8.41%	20.04%	3.62%	6.53%		Global Aggregate Bond	0.39%					
Australian Financials	6.65%	21.47%	38.40%	5.10%	7.39%		NZ Cash	0.11%	0.23%	0.57%	1.22%	1.52%	
Australian Resources	5.79%	9.75%	27.85%	9.46%	18.40%		UK Cash	0.50%	3.16%	2.14%	0.30%	0.49%	
Australian Property	7.62%	9.60%	27.38%	6.28%	6.20%								

As with all investment decisions, what might be the right strategy over the medium or longer term may not pay off over the very short term. No one can consistently predict what will happen over the short term. Those acting upon the information in this newsletter do so entirely at their own risk. SuperLife does not accept liability for the results of any actions taken or not taken based on this information. While every effort has been made to ensure accuracy, no liability is accepted for errors or omissions in this newsletter.