

April 2009

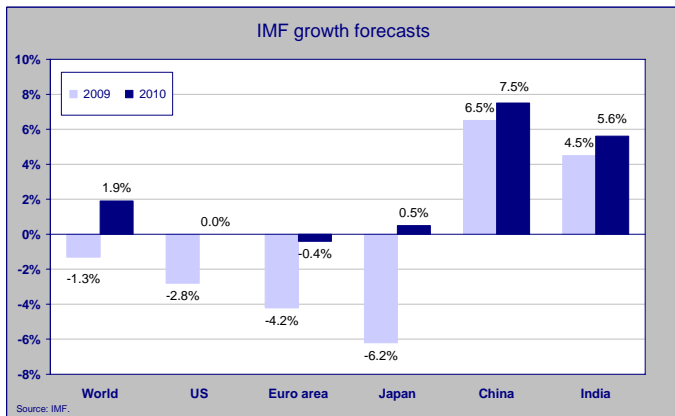
*"Victory belongs to the most persevering."*

*Napoleon Bonaparte*

### Global growth to improve, but only in 2010

In January, the International Monetary Fund (IMF) revised downward its forecast for global growth in 2009. This was followed by a further downward revision in April. It now believes the global economy will shrink by 1.3% this year, making this the most severe recession since World War II.

With asset values having fallen sharply across advanced and emerging economies there has been a decrease in household wealth, leading to less demand from consumers. A high level of uncertainty has also caused households and businesses to delay expenditures, thereby reducing the demand for consumer and capital goods. The good news is that the IMF expects a slow recovery to take hold next year with the global economy growing by 1.9%.



However, a sustained economic recovery will not be possible until the banking sector is restructured and credit markets are unclogged. With target interest rates close to zero in the US and Japan, and at 0.5% in the UK, the scope is limited for these countries' central banks to cut rates further.

For this reason, they are embarking on what is known as 'quantitative easing'. This is a process whereby central banks buy large quantities of securities from banks and, in this way, provide them with new money to lend. The securities they purchase may include government bonds, commercial loans, asset-backed securities and even shares. In doing so, a significant amount of new money is created to stimulate the economy.

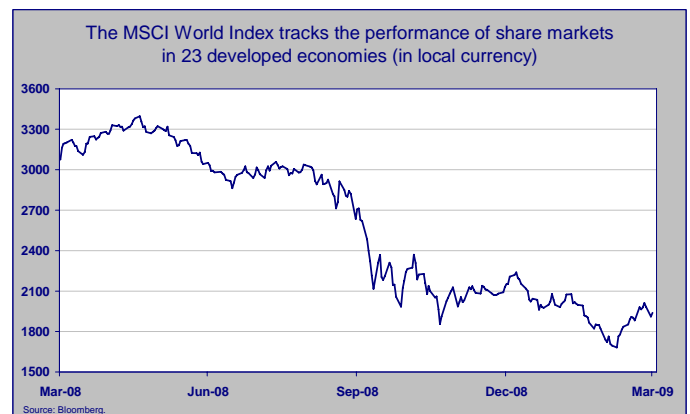
Governments around the world continue to introduce spending programmes to help stimulate growth within their economies. In February, President Barack Obama signed into law one of the largest pieces of legislation in US history - an economic stimulus package totalling US\$787b. Among other things, the package makes provision for modernising and improving the country's infrastructure, as well as tax breaks for individuals and businesses.

In New Zealand, Prime Minister John Key announced NZ\$500m in public-funded projects, with up to NZ\$100m of these earmarked to be under way by June. Essentially, the Government has brought forward a number of worthwhile projects to boost jobs in the construction sector. More specifically, these include extensive school refurbishments, state and regional highway projects, and the building and refurbishment of state housing. In addition, the Government also announced a NZ\$100m upgrade to the electricity grid.

### A bumpy ride for share markets

The year got off to a somewhat disconcerting start as share markets fell in January and February. Although they regained some of their losses in March, the MSCI World Index ended the quarter to 31 March down 9.9% in local currency (ie the currencies of those economies).

The share markets of most developed countries experienced double-digit declines over the period. The worst performing region was Europe where the Dow Euro Stoxx 50 Index was down 15.4% in local currency. By contrast, the best performing 'region' was emerging markets, with the MSCI Emerging Markets Index up 3.7% in local currency.

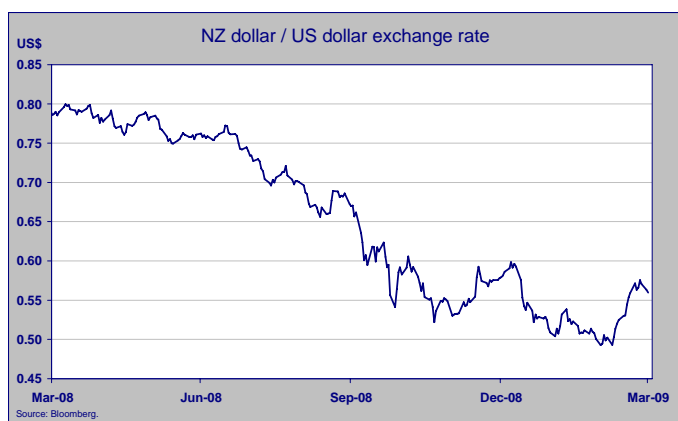


At the start of the year, investors returned from their holidays with the hope that market conditions would improve, only to be subjected to more negative economic data. The UK joined the US, Japan and Europe, as its economy entered a recession for the first time since 1991. Drug maker AstraZeneca, photo products maker Eastman Kodak, aircraft company Cessna, truck maker Oshkosh and investment services provider Charles Schwab were among a host of companies announcing they would cut their workforce.

The woes of the auto industry continued as US car maker Ford reported the biggest full-year loss in its history, while General Motors and Chrysler went cap in hand to the Government asking for additional bail-out money. But it wasn't all bad news as Exxon Mobil reported the largest annual profit in US history, making US\$45b on the back of record oil prices in 2008.

In March, share markets rallied as it appeared that investor confidence was returning to the beleaguered financial sector. Citigroup shares were up following the US bank's announcement that it was profitable in the first two months of the year. In the UK, Barclays announced it was in discussions over the possible sale of its iShares division in an effort to bolster its capital base. Share markets were also helped by comments from Federal Reserve Chairman Ben Bernanke that the recession in the US was likely to end this year.

As share markets weakened during January and February, investors' appetite for higher-yielding currencies waned and this led to a weakening of the New Zealand dollar against the US dollar. In March, the opposite occurred as share markets rallied and risk aversion among investors diminished, leading to a strengthening of the New Zealand dollar against the US dollar.

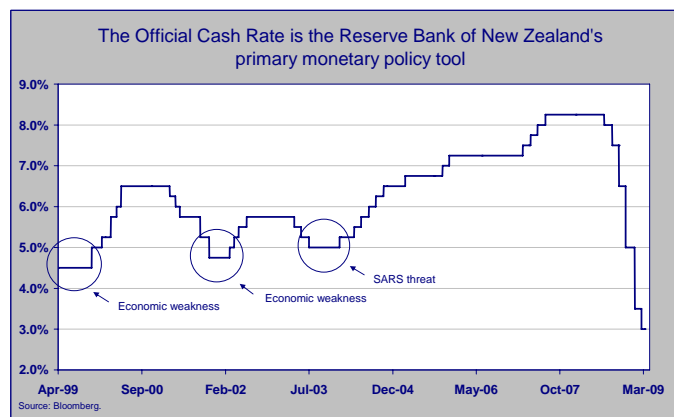


### Cash rates continue to fall

In New Zealand, the Reserve Bank continued with its easing stance by cutting the Official Cash Rate (OCR) by 1.50% in January and 0.50% in March. This action left the OCR at 3.00%, the lowest it has been since its introduction in 1999. As a result, rates offered by deposit-taking institutions have also moved lower. Gone are the days, for the time being anyway, of earning over 8% on your savings account.

The Reserve Bank of New Zealand expects to see economic activity trough in the middle of the year and then gradually picking up thereafter. As this happens the pace at which rates have been cut should slow.

The Reserve Bank certainly doesn't see the OCR nearing 0% as is the case in some countries. After all, New Zealand needs to retain its competitiveness in international capital markets. For many years, New Zealand has had one of the highest interest rates in the developed world which has facilitated its offshore funding activities.



### Housing affordability is a key factor

House prices in many countries have continued to fall. Since their highs in 2006 and 2007, house prices in the US have fallen 28%, in the UK they have fallen 17% and in New Zealand they have fallen 9% (to 31 December).

The global housing market boom led to a sharp decline in housing affordability which was one of the main factors that caused the bubble to burst. The US was one of the first countries to experience a downturn in residential property prices and, as such, has seen a greater downward move in prices by comparison. As a result, housing affordability in this country has improved dramatically.

In fact, in March the National Association of Realtors announced that housing affordability had reached the highest level since it started reporting this data in 1971. This bodes well for the US housing market.

The global financial crisis started with the US housing market and many market participants are of the view that it may end when there is a recovery in the US housing market.

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