MORNINGSTAR®

Economic Update: New Zealand
November 2021

Morningstar Research
November 17, 2021

Important Disclosure
The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, please visit: https://shareholders.morningstar.com

Outlook for Investment Markets

World equity markets have risen further as the global economy continues to recover from the latest coronavirus outbreak, and the current upswing looks likely to continue through 2022: Global fund managers remain strongly overweight to growth assets. The two big issues for investors are inflation and monetary policy: It is still not clear whether current sharp rises in prices are largely transitory and linked to COVID-19 disruptions to supply chains, or more permanent. The likely reaction by central banks is also unclear, but interest rates globally look set to rise (and bond yields have already taken the initiative and risen ahead of central bank policy changes), and there is a risk that expensive and/or income-oriented assets are vulnerable to further interest increases. New Zealand mirrors the global issues: Its emergence from COVID-19 restrictions is happening relatively late by international standards, but 2022 should see the same pickup other economies are experiencing, and local business surveys are picking up the same intense cost pressures as their counterparts overseas.

New Zealand Cash and Fixed Interest — Review

Short-term interest rates have risen significantly in recent months: The 90-day bank bill yield was under 0.4% in late August but is now up to 0.85%. Bond yields are also higher: The 10-year government-bond yield was under 1.6% in August but is 2.65% now. The kiwi dollar has appreciated in overall value in recent months: Since interest rates started to increase from late August onwards, the currency has risen by 2.6%.

New Zealand Cash and Fixed Interest — Outlook

There is a strong consensus that the Reserve Bank of New Zealand, or RBNZ, will continue to raise the official cash rate, or OCR, after its initial 0.25% hike to 0.5% on Oct. 6. The forecasters at the big banks expect that the OCR will be around 2% by the end of next year, which will reflect the RBNZ's need to push back against high inflation (ANZ Bank, for example, thinks it will peak at 5.8% in the March quarter of next year) and a potentially overheating economy (ANZ's pick is that the unemployment rate will get as low as 3% next year). The futures market expects a similar trajectory for 90-day bank bills, which are expected to be 1.8% higher by the end of 2022.

Bondholders have had a difficult year: The S&P New Zealand aggregate bond index has lost 6.4% for the year to date. The good news is that the worst of the sell-off looks behind us, but the bad news is that there looks to be some further capital losses ahead. The big banks expect the 10-year yield to be in the 2.8% to 3.1% region by the end of next year.

The currency may have further to rise: Further interest-rate increases by the RBNZ are likely to maintain international interest-rate differentials even as overseas central banks also raise their rates, and the strong economy and record export commodity prices are also pluses. The Bank of New Zealand and ANZ see the kiwi at 72 U.S. cents at the end of next year, and Westpac sees it a bit higher again at 74 cents, compared with its current 70.2 cents. The wild card is investor confidence about the global economy in 2022: Forecasts of some further appreciation depend on the foreign-exchange markets remaining in a ‘risk on’ mood, which tends to support the kiwi dollar.

New Zealand Property — Review

New Zealand listed property has had a poor year. The S&P / NZX All Real Estate Index made little progress up to early September, and since then it has been steadily drifting downwards. For the year to date, it is now showing a capital loss of 4.4% and has returned an overall loss including dividends of 1.9% (1.5% including imputation credits).

New Zealand Property — Outlook

Colliers’ latest (September quarter) survey of commercial property investor confidence showed that investors were generally upbeat: A net 27% were optimistic, down a bit from its record high of 38% before the latest lockdowns, but still solid, with a pronounced sectoral tiering between very strong positive sentiment towards industrial and downbeat views on retail, with offices in the middle. The chances are, however, that the September results do not fully reflect the latest lockdown nor the recent rises in bond yields. The RBNZ’s *November Financial Stability Report* also noted another tiering, by quality: “Demand for high-quality office space also remains robust, especially for buildings close to the centres of Auckland and Wellington. In contrast, demand for lower-quality office space has been soft, reflected in declining rents. There is also a divergence in the retail property sector, with demand holding up mostly for properties in suburban areas, including malls”. The big listed names typically hold properties towards the premium end and should be spared the valuation hit to secondary properties, and there should be a post-lockdown pickup in trade as vaccinations increase. For the Colliers respondents, “The reduced likelihood of future lockdowns, the return of international tourists and the ability of migrants to enter the country to reduce staff and skills shortages and boost demand, were cited by a number of respondents as positive market influences”. But the pickup is still down the track, with the scale of the unwinding of restrictions still unclear, and in the interim, the bigger immediate issue is sharply lower interest-rate differentials relative to bonds: The sector’s 3.94% yield (Standard & Poor’s estimate) does not appear to be cutting it by comparison, and Colliers is likely correct that, “The rise in interest rates underway will likely add more caution to investment decision making and sentiment over the next 12 months”.

Australian & International Property — Review

The A-REITs have continued to perform well. The S&P / ASX200 A-REITs Index has made a capital gain of 14.8%, and its total return including dividends of 17.8% has narrowly outperformed the 16.9% total return from the S&P / ASX 200.

Overseas REITs have also been strong. For the year to date, the FTSE EPRA/NAREIT Global Index in U.S. dollars has produced a 16.7% capital gain and has returned 20.1% including dividends, slightly behind the 21.8% total return from the MSCI World Index. The outcome continues to be heavily dependent on the U.S. market, which returned 34.9%: Ex the U.S., the index was up by only 6.6%. The U.K. market also contributed, with a 20.8% return, but the Asia-Pacific region (1.7%) and the eurozone (0.6%) made

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or ‘regulated financial advice’ under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar’s full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product’s future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

little progress, while (as with the wider global share market) emerging markets were weak, with a loss of 7.5%.

Australian & International Property — Outlook

The strength of the A-REITs has been somewhat surprising and may say more about a correction from the oversold reaction to the 2020 COVID-19 outbreak--when investors had overestimated the operating hit to the sector and had underestimated the strength and scale of the subsequent rebound--and less about the immediate outlook. The results from the latest (September quarter) NAB commercial property survey showed that business conditions took a knock in the quarter because of the impact of lockdowns, but, more significantly, the forward-looking results did not shape up well. Admittedly, the hot industrial sector is on a trajectory of its own, with capital values and rents expected to increase over the next two years and vacancy levels expected to remain tight. But offices and (especially) retail are in a different place: Rents are expected to fall over the next 12 months (by 2% for offices and by 3.4% for retail properties) while capital values are expected to be steady for offices but fall further for retail (by 1.6%). Both sectors face oversupply relative to likely demand over the next three years. Ex industrial, it is not easy to see why the sector should continue to beat or match the wider share market, particularly as yield-oriented investors will increasingly compare the yield from the sector (currently 3.69%, according to Standard & Poor's) with the improving yields available from local bonds.

Globally, the asset class shares many of the same patterns, and it is not obvious that the REITs will be able to keep matching the wider equity asset class. While the latest (September quarter) results from the Royal Institution of Chartered Surveyors, or RICS, show that the upturn in the global economy is having some positive impact on the level of tenant demand for space, the big winner is once again industrial – "Unsurprisingly, it is the industrials / logistics area where demand is continuing to grow strongly and new supply is constrained" – with offices and retail not benefiting to anything like the same degree. The RICS respondents expect that valuations of prime offices will increase slightly over the coming year, but secondary offices, and both prime and secondary retail, are expected to see lower valuations. On top of a modest operating outlook, there is also the potential impact of higher interest rates: As RICS commented, "With central banks gearing up to begin tightening monetary policy (albeit only modestly initially) in response to the sharp uplift in inflation rates in recent months, this could potentially be one area of risk for real estate markets looking ahead".

Global Infrastructure — Review

The S&P Global Infrastructure index in U.S. dollars has done reasonably well in absolute terms but has substantially underperformed the wider global share market. For the year to date, the index is up 7.6% and has returned 9.9% including taxed dividends (12.7% when hedged into New Zealand dollars).

Global Infrastructure — Outlook

The outlook remains supportive for modest further gains. On the plus side, the long-delayed U.S. infrastructure USD 1 trillion spending package was signed into law by President Biden on Nov. 15 and will release funding for a wide range of substantial infrastructure investment: One early priority will be

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

ports, which were revealed to be substandard when faced with the post-COVID-19 resurge in shipping. The ongoing global recovery is also helping to restore the fortunes of the more cyclical patronage-dependent subsectors, though there is still a long way to go before the likes of airport passenger or toll road volumes return to pre-COVID-19 levels (if they ever do, given the likelihood of behavioural changes such as increased remote work patterns). There is also strong investor interest in green fuel technologies and infrastructure that supports and enhances Internet use and data transmission and storage. On the downside, the utilities continue to struggle, largely because of lags in adjusting their regulated tariffs to rises in interest rates: The S&P Global Utilities Index is barely ahead (up 1.1%) for the year and is down by 5% from its peak in August. And like other income-oriented equity sectors, the asset class remains vulnerable to rising bond yields: The yield on the index is currently only 2.95%, even lower than the 3.1% on the S&P Global REITs Index, leaving little room to appeal to income investors if bond yields rise further.

Australasian Equities — Review

The benchmark S&P / NZX50 Index continues to lag other developed economy share markets: For the year to date, it has lost 3.5% in capital value and returned an overall loss of 1.4% including dividend income. The headline result has been impacted by large falls in two of the top 10 names (A2 Milk and Meridian). Outside the top 10, which are down by 7.1%, shares have done rather better, with mid-caps recording a small 2.1% gain and small caps up by 12.7%.

Australian shares, in contrast, have been more in tune with the globally equity-friendly environment of 2021, and the S&P / ASX200 Index has made a capital gain of 13.0% and has returned 16.9% including dividends. The biggest contributors have been sectors bouncing back from COVID-19 setbacks: The banks have taken a much smaller hit than at first feared, and the financials ex the A-REITs are up by 25.3%, while the return of previously pent-up household demand has been good for the consumer discretionary sector, which is up by 23.9%. The miners, however, have lost ground: Although commodity prices are still generally high by historical standards, the recent weakness of the iron-ore price has contributed to a year-to-date 3.7% capital loss.

Australasian Equities — Outlook

Before the latest lockdowns, the economy had been in remarkably robust shape: In the September quarter, the unemployment rate had dropped to 3.4% from 4.0%, the lowest on record, against forecasters' expectations of 3.9%, and employment surged by 2% in the quarter against a much more modest consensus forecast of 0.4%.

But that was largely before the latest lockdowns kicked in in the second half of August, and since then, businesses have found the going tougher. The latest (October) BNZ – BusinessNZ survey of manufacturing showed the sector growing, despite the disruptions, but as the BNZ said, "we'd classify it more in the realm of some recovery from a large hit rather than an indication of outright strength". More worryingly, the BNZ – BusinessNZ survey of services, a much bigger sector, was dismal, showing "a sector with segments enduring significant pain. Disconcertingly, October's 44.6 result is nearly 2 full points back from September's already very weak 46.5. Moreover, this marks the third consecutive

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

month well below the breakeven 50 mark as Covid restrictions linger". The early results from the ANZ Bank November business survey also showed a lockdown-linked setback: "Business confidence fell 5 points and own activity expectations were down 6 points. Investment intentions fell 2 points, while employment intentions bucked the trend and rose 5 points", likely because businesses are prepared to hang on to staff because the pre-lockdown labour market was so tight.

On the plus side, businesses can look forward to improved conditions as restrictions are eventually lifted, but, unlike Australia, where firms are already feeling the benefit of opening up, it looks like it will be next year before the benefits are felt, and there is still no certainty on how quickly or to what extent the restrictions will be rolled back, especially in Auckland. On the downside, even if demand and production ramp up again next year, firms face profitability issues: ANZ found that "Expected profitability fell 3 points with a net 9% of firms expecting lower profits ahead. That is likely related to extreme cost pressures, with a net 89% of firms reporting higher costs, up 2, while only a net 65% are intending to raise their prices (which, while a lot smaller than the proportion of firms experiencing higher costs, is historically exceptionally high)". The eventual upturn will be helpful all round, but equity performance is likely to be selective, with the winners being those best placed to maintain profit margins in the face of the current wave of cost pressures.

In Australia, the corporates have been doing well. As the Reserve Bank of Australia commented in its November *Monetary Policy Statement*, "Aggregate underlying profits of ASX 200 companies increased to a record level in the first half of 2021. The increase in profits reflected a rebound from initial COVID-19 pandemic effects and strong earnings growth across a number of sectors. Most sectors returned to pre-pandemic earnings levels over this period, with the materials sector posting its highest level of profits in history as a result of elevated commodity prices, most notably iron ore". Even if iron ore has dropped since, it has not materially affected the overall strong operating conditions, with the RBA also pointing to the turnaround for the banks, "mainly reflecting decreased provisions for credit impairments and the writing back of earlier provisions, in line with the improved economic outlook", and the gusher of dividends, which are "at their highest level in history, helped by record dividends paid by some mining companies".

The latest business surveys suggest that corporates are well placed to benefit from a post-lockdown cyclical upswing. NAB's October business survey, for example, showed that "Overall, the results provide first indications of a strong rebound in activity as the major states emerge from lockdowns, with more improvement likely in November as Victorian restrictions continue to ease". IHS Markit's October performance of services index found a similar picture: "Overall business confidence improved in October to a level slightly above the series average (since 2016) as firms viewed the coming 12 months with greater optimism that business activity will continue to improve as COVID-19 restrictions gradually ease".

But, as in New Zealand, both surveys also identified strong input cost pressures. NAB's survey "continues to show a build-up in price pressures in the economy with the impact of elevated goods demand alongside supply chain disruptions and border restrictions pushing input cost inflation to the

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

highest level in a decade". IHS Markit's survey "continued to indicate persistent price pressures for Australian services firms and their clients, attributed to increases in input material, transportation and labour costs". In sum, there is a strong cyclical backing wind behind businesses, but the market is likely to most reward those companies who succeed in defending their profit margins.

International Fixed Interest — Review

This year's global spike in inflation rates has proved to be a very uncongenial environment for bond yields, which have risen both as investors have looked for greater returns to compensate for higher inflation and as they have started to anticipate tighter monetary policy ahead. In the U.S., for example, the 10-year Treasury yield, at 1.58%, is up by almost 0.7% for the year, and there has been a similar increase in the U.K.; in the eurozone, the 10-year German government yield is up by 0.3%, though it is still in negative yield territory at negative 0.26%. The resultant capital losses mean that, for the year to date, the Bloomberg Global Aggregate Index in U.S. dollars is down by 4.4%, with government bonds losing 6.1% and corporate bonds 2.7%.

International Fixed Interest — Outlook

Initially, the current rise in inflation looked to be transient. The view of what has come to be called 'Team Transitory' was that a lot of it was down to short-term and largely COVID-19-related issues: The IMF, for example, in its October forecasts, said that "In most cases, rising inflation reflects pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago ... for the most part, price pressures are expected to subside in 2022".

The IMF conceded, however, that 'Team Permanent' might still have a point: "Inflation risks are skewed to the upside and could materialize if pandemic-induced supply-demand mismatches continue longer than expected (including if the damage to supply potential turns out worse than anticipated), leading to more sustained price pressures and rising inflation expectations that prompt a faster-than-anticipated monetary normalization in advanced economies". In the event the upside inflation risk did indeed materialise in the U.S., consumer price inflation in October turned out to be much higher than expected – the 6.2% annual rate was the highest since 1990 – and even after stripping out volatile food and energy prices, the 'core' inflation rate of 4.6% was the highest since 1991.

There is clearly a large component of supply chain and other disruptions that will indeed drop away, but equally there are some greater risks that inflation may be more of an issue than previously thought. As a result, the financial markets are now leaning towards the idea that monetary policy will be tightened a bit earlier than previously anticipated. The Fed, for example, at its November meeting, started to wind back its programme of bond buying, and the futures markets now expect that the most likely timing for the first 0.25% hike in the Fed's 0% to 0.25% target range for the fed funds rate is at its June '22 meeting next year. The futures market expects either one or two further 0.25% increases by the end of '22.

Even if central banks make only limited and careful moves towards higher interest rates, bond investors may well decide for themselves that the yields on offer are inadequate compensation in a higher inflation

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

world. The IMF thinks that inflation in the developed economies will average 2.3% in 2022: Current bond yields (even before tax) in all the major markets are well short of providing adequate inflation protection. A global economy in the middle of a robust post-pandemic upswing, with upside inflationary risk and already inadequate yields, is likely to continue to prove a difficult environment for bonds.

International Equities — Review

World shares have continued their recovery from September's sell-off, and for the year to date the MSCI World Index of developed markets in U.S. dollars is up by 19.8%. The American market has been strongest – the S&P 500 is up by 24.7% and the Nasdaq by 23.1% – but most other major markets have done well, with the FTSE Eurofirst 300 Index up 22.6% (in euros) and the U.K.'s FTSE 100 up 13.7% (in sterling). Japan remains the laggard: The Nikkei is up 7.9% in yen, but the yen's weakness means Japanese shares are down 2.2% in U.S. dollars.

Emerging markets have struggled all year, and the MSCI Emerging Markets index for the year to date is marginally lower (negative 0.4%) in U.S. dollars. Among the key BRIC (Brazil, Russia, India, China) markets, the biggest influence on the weak overall asset-class outcome has been the Brazilian market, where the MSCI Brazil Index is down by 17.8%, but investors in Russia (MSCI Russia up 35.9%) and India (MSCI India up 28.5%) have done very well. China's performance has been somewhere in the middle of these extremes of weak and strong performance, but exactly where continues to depend on which index you prefer to follow: The Shanghai Composite, for example, is up by 4.3% in U.S. dollars, whereas the MSCI China is down by 11.4%.

International Equities — Outlook

The global economy continues to recover from the latest outbreak of COVID-19. The October J.P. Morgan Global Composite global activity index picked up a bit from September's reading, to signal 16 consecutive months of business expansion, despite the constraints of still disrupted supply chains and sharply higher input costs. It has helped, too, that the U.S. economy has picked up from what had been unexpectedly poor employment data in September, when there had been only 194,000 jobs compared with an anticipated 500,000: In October, new job creation rebounded back up to 531,000 and unemployment dropped to 4.6%, in both cases beating forecasters' expectations (450,000 jobs, 4.7% unemployment rate).

Businesses expect the recovery to continue, although at a slower pace than during the initial robust rebound from 2020's COVID-19 outbreak. IHS Markit conducts a global business outlook survey three times a year. Its latest (taken in October) found that "Companies' expectations regarding business activity in the coming year have generally held up well, although the headline global business activity net balance dipped to +31% in October from +38% in June. Sentiment was the lowest since this time last year, but remained well above that seen during the worst of the COVID-19 pandemic in 2020".

Ongoing growth should flow through to further growth in corporate profits and further support for equity prices. Data company FactSet's latest roundup of share analysts' expectations for 2022 showed that profits at the S&P 500 companies are expected to increase by 8.5%, with particularly strong profit

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

growth expected from the industrials (36.3%), consumer discretionary (31.3%) and the energy sector (29.6%). The analysts expect that these results would take the S&P 500 up to 5,153 in a year's time, which, at the time of the FactSet survey, was a 10.6% gain (9.8% from its level at time of writing).

Global fund managers are on board with the story of further equity gains. The November Bank of America Merrill Lynch survey showed that they remained heavily overweight to equities and in particular are tilted towards the U.S., Europe (other than the U.K.), banks, and tech. Ongoing growth means they are underweight to defensive sectors such as consumer staples and utilities, and they are also wary of emerging markets, possibly because they see indebted developing economies as being particularly vulnerable to higher interest costs on their debt. The main risks on the horizon are the interrelated issues of higher than anticipated inflation (picked as the top risk by 33% of the managers) and potential central bank interest-rate hikes (picked by 22%).

Performance periods unless otherwise stated generally refer to periods ended Nov. 12, 2021.

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'regulated financial advice' under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar's full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.

Copyright, Disclaimer and Other Information

This report has been issued and distributed by Morningstar Australasia Pty Ltd ABN: 95 090 665 544, AFSL: 240892 and/or Morningstar Research Limited NZBN: 9429039567505, subsidiaries of Morningstar, Inc.

To the extent the report contains any general advice or ‘regulated financial advice’ under New Zealand law this has been prepared by Morningstar Australasia Pty Ltd and/or Morningstar Research Ltd, without reference to your objectives, financial situation or needs. For more information please refer to our Financial Services Guide for Australian users and our Financial Advice Provider Disclosure Statement for New Zealand users. These are available at: www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement

Copyright

©The material contained in this document is copyright of Morningstar, Inc., its licensors and any related bodies corporate that are involved in the document's creation. All rights reserved. Except as permitted by the Copyright Act 1968 (Australia) or Copyright Act 1994 (New Zealand), you may not reproduce, transmit, disseminate, sell or publish this information without the written consent of Morningstar, Inc.

Trademarks

Morningstar and the Morningstar logo are registered trademarks of Morningstar, Inc.

Disclaimer

All care has been taken in preparing this report. However, please note we base our financial product research on current information provided to us by third parties (including financial product issuers) which we cannot necessarily verify. While we use all reasonable efforts to obtain information from reliable sources, we do not guarantee the data or content contained herein to be accurate, complete or timely. To the extent that our research is based on information received from other parties, no liability is accepted by Morningstar, its affiliates nor their content providers for errors contained in the report or omissions from the report. Morningstar determines its ratings on information disclosed to it by financial product issuers and on past performance of products. Past performance is no guarantee of future performance.

More Information

If you wish to obtain further information regarding this report, licensing and our services, please contact us on:

Morningstar.com.au subscribers
Tel: 1800 03 44 55
Email: help.au@morningstar.com

Advisers/Institutions/Others
Tel: +61 2 9276 4446
Email: helpdesk.au@morningstar.com

For further information on our analysts and research methodologies, we recommend you visit:
www.global.morningstar.com/au/researchdocuments

© 2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or ‘regulated financial advice’ under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Morningstar’s full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. Past performance does not necessarily indicate a financial product’s future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.