

New Zealand Equity Monthly February 2025

Despite challenges, interest rate cuts point to brighter future for stocks

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Weak corporate earnings highlight challenges facing firms

February was a challenging month for New Zealand's stock market. Following a weak corporate earnings season, the S&P/NZX 50 Index of the country's largest companies by market capitalisation was down by 3.5% as of 27 February. We feel that the market's performance mainly reflected poor results for the fiscal period ended in December 2024, which included very few positive updates. The announcements showed that the past six months have been an extremely challenging time for New Zealand's companies. This may not seem surprising given the weakness seen in New Zealand's recent economic data. Official figures released in December 2024¹, for example, revealed that the country's GDP declined by 1.0% on-quarter in the September 2024 quarter. At the same time, however, we think that the latest earnings season may have shown conditions to be more challenging than the market had been expecting. Furthermore, we found few signs of optimism and felt that companies' outlook statements were somewhat muted. This included multiple examples of companies downgrading their outlooks.

Interest rate cutting cycle points to brighter future for equity market

Looking ahead, however, we remain confident about the overall performance of the New Zealand equity market in 2025 and after. A key reason for this is the interest rate cutting cycle by the Reserve Bank of New Zealand (RBNZ) that is currently underway. Having been kept at the elevated level of 5.5% from May 2023 until August 2024, when the RBNZ started the current cycle, the Official Cash Rate now stands at 3.75% after the central bank's latest cut on 19 February. We expect that this will directly impact equity market performance as lower rates flow through to the economy. Corporate earnings should strengthen towards the end of 2025 as New Zealand's economy improves, and we feel that this will be reflected in earnings results in a year's time. We also expect that falls in interest rates on term deposits and bank deposits will make equity markets, including New Zealand's, more attractive as investors seek higher returns.

¹ <https://www.stats.govt.nz/information-releases/gross-domestic-product-september-2024-quarter/>

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