

Synergy Investments

Newsletter

FOR QUARTER ENDING 30 JUNE 2025



Market Commentary

Several global share markets reached new all-time highs in the recent quarter.

That may appear surprising given the tenor of the daily headlines which seem to resolutely focus on only the most uncertain or worrying events. The recent quarter was again dominated by headlines featuring conflict in Ukraine and the Middle East, mass deportations in the US, tariff-driven trade upheaval, and ongoing cost of living issues.

These are not trivial matters.

And yet, businesses the world over are continuing to deploy their resources and capital in the pursuit of profits and growth. They will be adapting their business plans to the changing environment around them, uncertain as it has been, and are on average rising to this challenge. A few will fail; that's always a potential outcome of taking business risk, but many more are succeeding. Some are succeeding spectacularly.

Importantly, well diversified investors are able to benefit from these successes and reap good investment returns, even in uncertain times.

US tariff update

The US tariffs announced with such fanfare on 'Liberation Day' (2 April 2025) remain a source of confusion.

With many of the more recent tariff-related announcements having been delivered in snippets via President Trump's social media platform (Truth Social), or in soundbites from TV interviews, the details around this are still far from settled.

Share markets reacted very negatively in early April, when the so-called reciprocal tariffs were first announced, but since then, implementation of the tariffs was paused and eventually delayed by 90 days (to 9 July) to allow time for the US to negotiate trade deals with the rest of the world.

Share markets have largely accepted that tariffs in some shape or form are coming, and have 'gotten on with business', delivering solid returns in the second quarter.



However, with little evidence of progress on concluding many new trade deals, the Trump administration pivoted again in early July and announced they would now be sending all countries a letter outlining what their tariff rate with the US will be, with a revised implementation date of 1 August.

At least, at the time of writing, that is the current understanding.

Uncertainty around this remains high because whatever the Trump administration say about tariffs on any given day doesn't necessarily bear any resemblance to what they eventually do. It's reasonable to assume that something will happen on or around 1 August. However, given the messaging around this has a habit of changing from week to week, it would be foolish to think we can be confident about exactly what will be implemented, and when.

It is still anticipated that imposition of sizable, widespread US tariffs will have an impact on global trade, inflation and economic growth, but it is just impossible to know today whether that impact will be large or small, fleeting or long term.

Pleasingly, in spite of this uncertainty, share markets have largely accepted that tariffs in some shape or form are coming, and have 'gotten on with business', delivering solid returns in the second quarter.

In many ways this is a vote of confidence that good businesses will be able to successfully find ways to adapt to the new tariff environment, whatever it turns out to be. For US businesses this may mean rethinking supply chains where possible; for international businesses, it may mean cultivating additional markets outside the US.

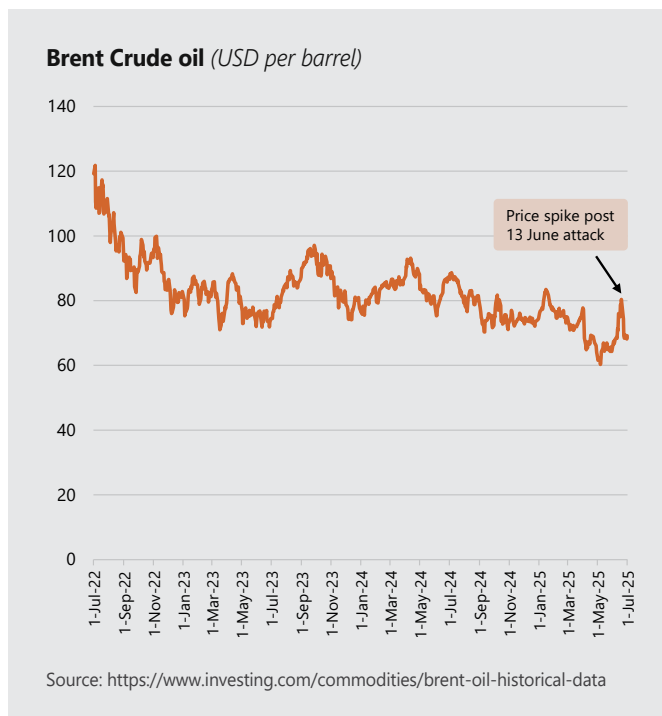
One thing's for sure – businesses and consumers looking to maximise their own self-interest (i.e. greater profits for firms and lower prices for consumers), will not just do nothing. We will all continue to watch this evolving policy area with much interest.

The Middle East and oil prices

Ongoing conflict in the Middle East is always unsettling, but the market reaction to recent events has been much lower than initially feared.

Serious conflict of any kind will generally hurt investment markets, at least temporarily, and can also deliver wider economic impacts, such as higher inflation. In this regard, higher energy prices are often a key contributor. This is why, during geopolitical flashpoints like the recent Iran bombing, the potential impact on the oil supply and price often becomes a point of considerable market and media attention.

Following Israel's attack on Iran on 13 June, the price of Brent Crude oil quickly jumped 10% amidst concerns about potential future disruptions in oil supply.



At the time, it was widely reported that one potential mode of retaliation by Iran could include 'closing' the Strait of Hormuz, a sea passage critical to global oil transit. Such an action would naturally constrain oil supplies, increasing oil prices and eating into profits of almost all businesses.

However, the Strait of Hormuz is a comparatively wide channel of international waters and could not easily be 'closed'. Additionally, with much of the oil passing through the Strait originating from Iran's neighbours (Saudi Arabia, Iraq, UAE and Kuwait), disrupting access to these waters would significantly increase the risk of further isolation for Iran.

With concerns about significant Iranian retaliation easing, the oil price quickly retraced back to its pre-conflict range. This suggests the markets do not currently anticipate any significant supply issues or inflationary impact to materialise from the present conflict.

The New Zealand economy

The impact of Covid-19 on the New Zealand economy has persisted well beyond the relatively short-lived, but very serious, health risk which peaked in 2020/21.

When national borders closed and international supply chains became disrupted, New Zealand's export-led economy faced some immediate headwinds, and these headwinds have taken a long time to recede.



New Zealand's Gross Domestic Product (GDP) performance in recent years reflects this very clearly. GDP measures the total market value of all goods and services produced within a country during a specific time period, usually a year or a quarter. If a country is expanding its production of goods and services, the change in GDP will be positive, and if total goods and services production is contracting, the change in GDP will be negative.

Since March 2020, there have been 21 calendar quarters (with a quarter being three months long), and in seven of these quarters the change in GDP was negative. This includes two periods when the change in GDP was negative in back-to-back quarters, signifying a technical recession.

How does that compare to the pre-Covid period?

Pretty badly as it turns out. Prior to March 2020, you have to go right back to the March quarter of 2013 (a full 28 quarters earlier) to find the last time New Zealand's quarterly GDP change was negative.

The current New Zealand government has made economic growth one of its primary objectives this term and the six months from September 2024 to March 2025 recorded New Zealand's best six-month change in GDP performance in over three years. On the back of this result, hopes were increasing that sustainable growth had finally returned.

Unfortunately, indicators during the April to June quarter appear to have lost a little momentum. Filled jobs and the number of job advertisements have declined, which suggests further upward pressure on the unemployment rate as the same number of New Zealanders compete for fewer jobs. The housing market also appears to have slowed again, with house price growth moderating and the 'days to sell' lengthening amidst lower sales volumes overall.

Although the performance of the primary sector remains a clear bright spot, farmers have so far favoured paying down debt and increasing cash balances, meaning the financial flow-through to the broader economy has been limited.

For now, the Reserve Bank has continued with a pause on interest rates, although markets currently still expect one or two further 0.25% rate cuts later this year.

Is there a 'best' time to invest?

Studies of investor behaviour reveal that if share markets have been strong, investors are more likely to think it's a good time to invest, while if markets have been weak, they are more likely to think about delaying investing or, even worse, exiting the market. Of course, there are also some contrarians out there who take the opposite view.

With a number of global share markets currently at or near their historical high points, contrarians are more likely to be thinking shares have had a pretty good run overall and 'maybe I should wait for a pullback before investing'.

It's human nature to wonder whether investing today will be the 'perfect' time, but without ever being able to know tomorrow's news in advance, anyone choosing to invest on any day has to accept a degree of uncertainty.

However, because share markets on average go up over time, the best time to invest (statistically speaking) is always as soon as you can. Once invested, the next best decision is to stay invested. Delaying investing or waiting for a hoped-for market pullback before doing so, is often more likely to leave you worse off.

When we analyse the long-term history of major market returns, the data supports this conclusion.

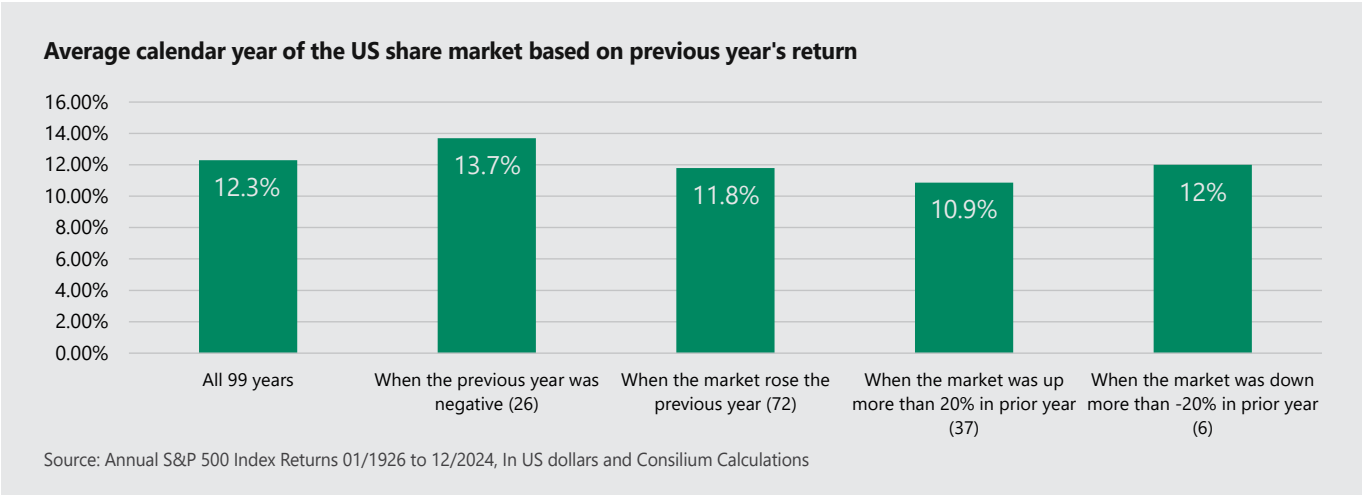
Below is a graph that takes into account the last 99 years of US share market returns (based on the return of the S&P 500 Index). This is a useful dataset, because the US market is a significant driver of global share returns and we have almost 100 years of data to work with.

This graph reveals the average calendar year return of the US share market in the year immediately after it was:

- ➖ **Negative** (which happened 26 times over that timeframe)
- ➕ **Positive** (72 times)
- ⬆️ **Up by more than 20%** (37 times)
- ⬇️ **Down by more than 20%** (6 times).

What's remarkable is how similar these results are. Whether the US share market has been negative, or up by more than 20% in the previous year, the subsequent calendar year return has averaged between 10.9% and 13.7% p.a., which is very close to its long run average.

With a return profile that looks like this, simply being invested and staying invested is much more important than trying to time your entry point.



Achieving your fairy tale ending

If we need to take an amount of investment risk to help grow our financial assets over time - and many of us do - then emotionally coping with uncertainty is an important first step.

While having a functioning crystal ball to turn to may be a nice idea, they only exist in fairy tales. In reality, no-one can consistently and correctly guess what the future holds. Of course, there are always people in the world who will claim possession of special skills in this area, but such claims usually fail a robust analysis and are not supported by decades of market evidence.

Thankfully, we don't need to chase rainbows to end up with our own 'pot of gold'. We can do so by design. Each of us can achieve our own financial independence with the diligent pursuit of actions that, over time, will grow our future wealth.

Yes, investing is complex, sometimes highly emotionally challenging, and involves taking risk that will occasionally test our behavioural urges. But it is absolutely possible to invest effectively and successfully by following sound advice and adopting a prudent strategy, suited to your individual needs and circumstances.

To anyone who has reached this part of the report, congratulations are in order, because that is exactly what you are doing.

Key Market Movements

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+9.3%
(hedged
to NZD)

INTERNATIONAL SHARES

Developed share markets enjoyed a strong second quarter of 2025, primarily driven by reduced trade pressure as several countries seemingly made progress on trade deals with the US.

The US market had a strong quarter, with Information Technology and Communication Services leading the way as investors regained their appetite for 'Magnificent Seven' stocks and the artificial intelligence theme. The second quarter also brought with it several positive economic developments and a strong corporate earnings season, which further boosted performance. Despite ongoing pressure from the Trump administration to cut interest rates, the US Federal Reserve continued to hold the Federal Funds rate steady at 4.25% – 4.5%. While opinions vary on the timing of future interest rate cuts, most committee members agree that there will be further cuts.



+3.8%
(unhedged)

The Japanese share market had a strong second quarter following an initial sharp drop due to the Trump administration's 'reciprocal' tariff announcements. Since then, progress on trade deals with China and other key trading partners has eased recession fears and led to a strong recovery, with the Nikkei 225 Index up +13.6% for the quarter.

Eurozone markets also made gains in the second quarter, with the S&P Europe 350 Index rallying +0.8% in local currency terms. Europe's rearmament campaign has begun to stall, with the agreement at the recent NATO summit for countries to lift defence spending running into a headwind called 'European fiscal reality'.

The US dollar was significantly weaker through the quarter which meant noticeably higher reported returns for investors holding hedged foreign assets.

Source: MSCI World ex-Australia Index (net div.)



+4.5%

EMERGING MARKETS SHARES

Emerging markets shares (unhedged) led their developed market counterparts in the second quarter of 2025 with the MSCI Emerging Markets Index posting a +4.5% gain. Major markets like China lagged the group while Korea, Taiwan and Latin America roared higher.

Chinese markets posted tepid gains after a volatile second quarter. China was a primary target of the Trump administration's 'Liberation Day' tariffs, which led to a sharp drop in April. While a temporary truce was announced in May to allow for negotiations, by June, Chinese shipments to the US had plunged by -35% putting export driven sectors under pressure. Large technology companies listed in Hong Kong outperformed mainland China shares as the technology theme returned to favour.

India ended its losing streak in the second quarter, with the Nifty 50 Index up +8.5%. While this marks a strong turn in momentum for the Indian stock market, it still lags other emerging markets like Taiwan, which has stronger growth prospects tied to the artificial intelligence theme.

South Korea posted strong double digit returns in the second quarter as political instability subsided following the election of a new president in early June. Taiwan posted robust gains, continuing to benefit from positive investor sentiment for artificial intelligence. Taiwan Semiconductor Manufacturing Company (TSMC) made double digit returns for the quarter – and given it makes up 30% of the Taiwanese stock market, this is a major driver of returns.

Latin American equities delivered an exceptional quarter, with the S&P Latin America 40 Index rising +13.9%. Gains were primarily driven by Mexican and Brazilian shares, while Chile and Peru indices also posted robust gains. All sectors in Latin America gained except for Energy, with technology heavy sectors Information Technology, Consumer Discretionary and Communication Services leading the charge, all up around +30%.

Source: MSCI Emerging Markets Index (gross div.)

Key Market Movements



+2.8%

NEW ZEALAND SHARES

New Zealand's S&P/NZX 50 Index was up in the second quarter of 2025 but is still trading below its 2024 all-time high.

After a sharp drop at the beginning of the quarter, in concert with global markets, NZ shares had a strong recovery in May, before trading sideways for the remainder of the quarter.

The Reserve Bank of New Zealand (RBNZ) continued its interest rate cutting cycle throughout the quarter, with the Official Cash Rate (OCR) now sitting at 3.25%. This has supported the NZ economy, as lower borrowing costs increase disposable income for consumers and business investment. The path forward for interest rates is uncertain and may depend on the impact of global trade disputes on NZ growth and inflation. This is likely to remain uncertain for some time, but the RBNZ believes that the current OCR is in 'neutral' territory, meaning further changes will largely be dependent on incoming economic data.

Manawa Energy led the pack in the S&P/NZX 50 Index this quarter, rising +27.6% following an acquisition by Contact Energy at a premium to the trading price at the announcement date.

Other winners for the quarter included Tourism Holdings (+27.1%) and Turners Automotive Group (+21.7%).

On the other side of the ledger, Vulcan Steel, KMD Brands and SkyCity Entertainment all lost around -25%, steadily declining throughout the quarter.

Source: S&P/NZX 50 Index (gross with imputation credits)



+7.4%

AUSTRALIAN SHARES

The Australian share market had a fantastic second quarter, with the S&P/ASX 200 Index rising +7.4%. After a rocky start, the market steadily increased through May and June, reaching new record highs previously set earlier this year.

The Reserve Bank of Australia (RBA) continued its interest rate cutting cycle in the second quarter, with one -0.25% cut in May, bringing the cash rate to 3.85%. The RBA maintains that low and stable inflation is its priority, and in an uncertain environment, it will move cautiously in cutting interest rates, even as inflation continues to fall. This stance was reinforced by its decision to hold at 3.85% at the July 7 meeting last week.

All sectors except for Materials reported gains, with Information Technology leading the pack, posting a +28.4% gain, and Financials coming in second with a +15.8% gain.

JB Hi-Fi Ltd and Cochlear Ltd were the two biggest winners among the largest 50 Australian companies, up +47.5% and +34.2% respectively. On the downside, the worst performer was Sonic Healthcare Ltd, down -9.6% for the quarter. Notably, only five of the top 50 companies posted losses for the quarter.

With the Australian dollar slightly weaker against the New Zealand dollar over the quarter, the reported returns to New Zealand investors were marginally lower than the reported index returns.

Source: S&P/ASX 200 Index (total return)



+1.2%

INTERNATIONAL FIXED INTEREST

The second quarter of 2025 saw yield curves steepen marginally, although overall, yields were relatively stable.

US Treasury markets had a busy quarter. Longer dated bond yields rose, reflecting growing concerns over the US debt, federal deficit and the impact of protectionist trade policies. Meanwhile, shorter dated US bond yields fell after weakening economic data led the US Federal Reserve to adopt a more cautious tone. Despite a few committee members becoming more cautious, Federal Reserve Chairman, Jerome Powell, reiterated his 'wait and see' approach to interest rate cuts. Markets are currently anticipating around 0.65% of additional rate cuts by the end of 2025.

The US 10-year bond yield rose from 4.21% to 4.23% through the quarter, with the two-year bond moving from 4.03% to 3.97%, maintaining a positive yield premium for longer duration bonds. The Japanese 10-year fell from 1.47% to 1.43% and key European rates in Germany, Italy and France fell around -0.15%.

With trade policy fears increasing economic uncertainty, the European Central Bank reduced interest rates twice, in April and June, to close out the quarter around 2%.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) was up +1.2% over the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) rose +1.3%.

Source: FTSE World Government Bond Index 1-5 Years (hedged to NZD)

**NEW ZEALAND FIXED INTEREST****+1.3%**

The Reserve Bank of New Zealand (RBNZ) cut New Zealand's Official Cash Rate (OCR) by another -0.50% to 3.25% in the second quarter.

The key focus for the RBNZ remains on global and domestic growth fears, as the New Zealand economy's recovery continues to move slowly, and US trade protectionist policies raise additional risks from abroad.

On the back of a mixed global bond market, the New Zealand 10-year bond was down slightly, moving from 4.59% to 4.56%.

The S&P/NZX A-Grade Corporate Bond Index gained +1.3% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index gained +1.5%.

Source: S&P/NZX A-Grade Corporate Bond Index

Table 1: Asset class returns to 30 June 2025

Assets class	Index Name	3 months	1 year	3 years	5 years	10 years
International shares	MSCI World ex Australia Index (net div., hedged to NZD)	9.3%	13.5%	17.4%	14.1%	10.9%
	MSCI World ex Australia Index (net div.)	3.8%	16.3%	19.4%	15.9%	11.9%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	4.5%	15.9%	11.1%	8.5%	6.4%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	2.8%	8.3%	5.9%	2.7%	9.2%
Australian shares	S&P/ASX 200 Index (total return)	7.4%	12.2%	12.7%	12.1%	8.3%
International fixed interest	FTSE World Government Bond Index 1-5 years (hedged to NZD)	1.2%	5.6%	3.4%	1.3%	2.2%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	1.3%	5.5%	3.0%	-0.1%	2.5%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	1.3%	7.4%	5.2%	1.4%	3.3%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	0.9%	4.4%	4.9%	3.2%	2.5%

Unless otherwise specified, all returns are expressed in NZD. We assume Australian shares and emerging markets shares are invested on an unhedged basis, and therefore returns from these asset classes are susceptible to movement in the value of the NZD. Index returns are before all costs and tax. Returns are annualised for time periods greater than one year.

The ultimate productivity hack is focus

Focus is about saying no.

Anyone can say no to bad ideas, but only a focused person will say no to good ideas.

Focus is something that people consistently bring up as a key to success. When Warren Buffett was asked the key to his success, he simply replied, "Focus." Bill Gates had the same reply. And Jonny Ive, mentioned it was the biggest lesson he learned from Steve Jobs:

This sounds really simplistic, but it still shocks me how few people actually practice this, and it's a struggle to practice, but is this issue of focus.

Jobs was one the most focused people in the world. While focus doesn't ensure you will be victorious, not being focused virtually ensures defeat.

The most misunderstood thing about focus is that it's not a light switch that you can simply turn on and off when you want to. It's more like a muscle that you have to practice every day.

Focus is not the sort of thing you aspire to ... or you decide on Monday. It's something you do every minute.

Since not doing something always gives you more time than doing something, Jobs would often test people, asking them, "How many things have you said no to?" or "What have you said no to?"

Focus is not the sort of thing you aspire to ... or you decide on Monday. It's something you do every minute.

People often tried to make things up, but Jobs would see right through them. This is a lesson Ive learned:

I would have these sacrificial things, because I wanted to be very honest about it. And so I'd say, "Well, I said no to this and no to that." But he knew that I wasn't vaguely interested in doing those things anyway, so there was no real sacrifice.

What focus means is saying no to something that you, with every bone in your body, you think is a phenomenal idea and you wake up thinking about it, but you say no to it because you're focusing on something else.



A world with abundant opportunities encourages poverty of commitment. And without commitment, you can't have focus. Without focus, your energy gets diffused, and its impact is reduced.

Filtering with focus

People and organisations tend to lose focus. It's entropy.

Staying focused requires a lot of effort and discipline. One clue outstanding people leave is that they tend to commit and focus on something for an abnormally long period, even if the results are not immediately visible. Jobs was fired. Gates slept at the office for a decade. Few had heard of Warren Buffett until the 1980s, nearly 30 years after he started. Imagine working 30 years on the same thing.

The only people you should hire are focused ones. The only competitors you should worry about are the focused ones.

People naturally lose focus when they forget that focus means saying no to good opportunities and good people. Average ideas are everywhere, and they try to pull you in. The more successful you are, the more people want to work with you.

If you start saying yes to average ideas, you quickly lose the space and time you need to execute on the great ones.

Focus is hard, and because it's hard, it also creates a hidden place to find opportunities.

Finding ideas

The focus of others creates opportunities. Since focus requires saying no, it also means that really smart people and strong competitors are saying no to really good ideas.

If you're trying to find your way in an organisation, it's worth thinking about the most focused people around you and asking them about the best idea they're not working on. While they might not say it directly, they'll leave clues a curious person will find.

If you're a company, it's worth thinking about what your strongest competition is not doing. You can often figure this out by interviewing smart people from the competition.



Energy into results

The people and organisations moving the fastest are the focused ones.

Not only do they focus on a few ideas, but within the scope of those ideas, they relentlessly focus on the key variables. Identifying the variables that matter comes with focus. When you commit to living with a problem, you understand things about it that the casual observer misses.

Focus converts energy into results. Why spend time on your 5th most important idea? All of the energy that goes toward anything that is not the most important thing comes at the expense of the most important thing.

Narrow the focus. Raise the standard. And set yourself apart.
