

Synergy Investments

Newsletter

FOR QUARTER ENDING 30 SEPTEMBER 2025



The internet did change the world, but many unrealistic company valuations went from sky-high to cents in the dollar (or in some cases to zero) as investors eventually returned to fundamental valuation metrics linked to sales revenue, growth and profits.

The second highlighted period is the last three years where a cohort of mega cap companies have outperformed the wider market, spurred along by further advances in technology and, in particular, developments in artificial intelligence (AI).

This is not a prediction that AI related businesses today are about to suddenly underperform as they did following the dot.com crash. It is simply a reminder that the recent outperformance of the large cap segment of the US market is far from the norm that our recency-biased minds might have assumed.

Recency bias often leads us to make emotionally charged choices - such as holding shares for too long (when prices have risen), or selling out too soon (when prices have fallen).

New Zealand economy poised for better

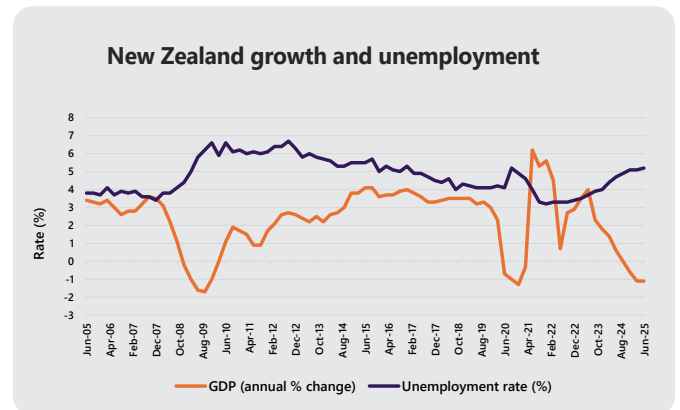
In August, the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) by 0.25% to 3.00% and followed this with a further 0.50% cut to 2.50% on 8 October, marking a low not seen in more than three years.



While global uncertainty was a contributing factor, the RBNZ noted across the two announcements that growth in the New Zealand economy had stalled, with cautious behaviour by households and businesses being mirrored by a soft labour market.

This is evidenced in the chart below showing the New Zealand growth rate (measured by annual Gross Domestic Product) and our associated unemployment rate over the past 20 years. It tells an interesting story.

Twenty years ago, economic growth in New Zealand was fairly steady at around 3% and unemployment was low at just under 4%. Then, without much warning, we were confronted with the Global Financial Crisis (GFC) in 2008/2009 and, as per the chart, its impact on New Zealand's growth and unemployment is unmistakable.



The GFC triggered the deepest global downturn since the 1930's. Economies contracted, international trade declined and millions of people around the world lost their jobs. New Zealand was not immune from these shockwaves. Over the 2008/2009 period, our unemployment rate increased to near 7% and our growth rate plummeted, with the economy contracting close to -2% in the year to 30 September 2009.

After spending the next 10 or 11 years gradually improving our economic growth and with unemployment easing back down to 4% again, in early 2020 the world was confronted with another unforeseen crisis – this one called Covid-19.

And look at what happened. Growth in New Zealand has been highly unstable ever since. This was initially due to lockdowns and border closures, and more recently due to our struggle to adapt to the much higher interest rates that were implemented after inflation spiked to levels not seen since the 1980's. In the midst of a more difficult growth environment, New Zealand's unemployment rate also moved back above 5%.

While the economy is struggling to get back to a more sustainable growth track, lower interest rates offer some hope that the headwinds facing local businesses may be starting to ease.

Since July 2024, the OCR has fallen from 5.5% to 2.5%, and in its 8 October announcement the RBNZ indicated it remains open to further reductions in future if conditions require it. At these much lower levels, we can reasonably expect lower financing costs to be a boost to New Zealand business activity, which would eventually flow through into higher growth and lower unemployment.

While the economy has faced a few challenging years since the arrival of Covid, the outlook ahead looks rather more positive.

The Trump tariffs – what's new?

It's too big a topic to write about in detail, but it's also too important to ignore.

One of the key policy issues hanging over markets continues to be the uncertain rollout of tariffs by the US. Although details remain fluid, it seems clear that the US is currently committed to adopting more aggressive trade protectionism. Their preferred approach has been to impose higher baseline tariffs, expanding country-specific tariffs, and reducing prior exemptions (such as the former de minimis rule that exempted tariffs on parcels worth less than USD 800).

Adding to the confusion is that tariffs are not just being spruiked for trade or economic protection reasons. They have also been trumpeted to as tool for promoting national security, greater border control, and even as a bargaining chip in geopolitical negotiations. While there isn't much historical evidence supporting some of these claims, that's not slowing down the Trump administration, who are relentlessly pressing ahead with its strategy.



However, regardless of the rationale, tariffs are slowly starting to result in increased costs for US supply chains and consumers, and some US industries are warning that higher input costs and inflation will lead to reduced competitiveness.

This tug-of-war between the tariff virtues being extolled by the Trump administration versus the real-world impact on consumer prices and supply chains may become a central issue in the run-up to the 2026 US mid-term elections on 3 November. If, by then, US consumers are still not seeing or feeling the benefits of these policies, there will be an opportunity for them to record their frustration at the ballot box.

The other fascinating aspect of this is that, on 30 August, a US appeals court ruled that most of the tariffs were illegal. Regardless, they allowed the tariffs to remain in place to give the Trump administration a chance to appeal to the US Supreme Court. The Supreme Court has subsequently granted a review and is scheduled to hear arguments in November.

As the centrepiece of the Trump administration's entire economic policy agenda, this appeal will be watched intently around the globe, where questions about the legality of the tariffs and the degree of independence of the US Supreme Court, will potentially all be answered at once.

The pros and cons of safe haven assets

A safe haven asset is an investment that investors are attracted to during times of market stress, or crisis, because it is expected to hold its value or even increase in value while riskier assets (like shares) might fall.

Key characteristics of such assets are:

1. They are easily understood and not reliant on a single market
2. Their value is stable or declines far less than other assets in downturns
3. They are easy to sell, even in stressed markets

The ultimate safe haven asset is probably cash, at least for short periods, as it is a very low risk asset and doesn't move in harmony with other assets. However, holding cash for long periods introduces an exposure to inflation risk.

Another traditional safe haven asset is US Treasury bonds or the US dollar. Often, when investors have sought shelter from stressed share markets, bonds issued by the US government are almost always highly sought after, due to the US's strong credit worthiness and the US dollar's role as global reserve currency.

The other safe haven asset that most people think of is gold. Its supply is limited, it's globally accepted and its value is not tied to any government.

The problem with safe haven assets is not so much knowing what they are, it's thinking that we can usefully time our entry into and out of them.



Buying a safe haven asset when times are tough is more likely to be a bad idea than a good one. Often a trade like this is considered when markets have already fallen to the point that investors don't feel they can tolerate staying invested any longer. Unfortunately, that frequently results in investors selling assets at a discount (i.e. when their expected future returns have risen significantly).

Then, in order to one day leave the safe haven asset and move back into risky assets, investors who were spooked on the way down are likely to want to see clear evidence that the markets are recovering. And, you guessed it, that tends to result in investors buying assets back after their prices have already gone up.

The aggregate effect is that an investor is likely to be worse off than if they had simply held on to their well-diversified portfolio of risky assets in the first place.

Investors also need to be aware that, in spite of their name, safe haven assets aren't always true to label and can also experience a decline in value for periods of time. Sometimes that can even coincide with the stressed market conditions that investors are seeking to avoid.

With many share markets currently cresting all-time highs, safe haven assets aren't getting much media attention. However, when that inevitably changes sometime in the future, just remember that sticking to a well-diversified, long term plan is quite often the best decision of all.

Final thoughts

If someone was able to tell you that over the next 20 years global shares would go up in over 75% of calendar quarters (three-monthly blocks) while delivering a compound annual return of 9.7%pa over the full period, your response should be only four words – “where do I sign?!”.

What's notable about those numbers is that this has been the actual performance of global shares hedged to the NZ dollar over the last 20 years despite recessions, geopolitical conflict, wars, a global financial crisis and a global pandemic. That should say something reassuring about the propensity for innovation, risk taking and capitalism to be extremely well rewarded over long time periods.

And, as shares form the growth engine of most traditional long term investment plans, that level of return goes a long way to helping all investors achieve their long term planning goals.

We have every reason to expect that markets and patient investors will continue to win out in the end.

Unforeseen life changes will inevitably occur, so adapting a plan to new information is always a good idea. But, otherwise, less is more. Maintaining good disciplines, avoiding investment fads, and resisting behavioural urges to take more (or less) risk as market conditions change, will all help propel you to your desired investment destination.

We don't know what the future holds, but we can know with certainty that the next 20 years will be full of news that we didn't expect. Some of it is likely to genuinely concern us when it happens. However, as in the last 20 years, we have every reason to expect that markets and patient investors will continue to win out in the end.



Key Market Movements

The third quarter of 2025 delivered exceptional returns across the board, with progress on US trade deals, ongoing strength in the technology sector and accommodative monetary policy being the key factors driving risk-on sentiment around the world.

In equities, both developed and emerging markets were strong, delivering +10% returns in NZD terms, with small pockets of weakness, notably Germany in developed markets and India in emerging markets. Australia and New Zealand both posted healthy gains but underperformed global markets due to ongoing economic challenges.

Most bond markets posted gains, with yields marginally lower across major markets. Longer dated bonds marginally outperformed. New Zealand fixed income outperformed global fixed income with substantial rate cuts driving down yields and economic concerns supporting the demand for bonds, a lower risk asset class.



+7.5%
(hedged
to NZD)

INTERNATIONAL SHARES

Developed markets posted robust returns underpinned by strength in the technology sector, easing monetary policy and progress on US trade deals.

US markets continued to climb, with easing monetary policy and strong corporate earnings improving sentiment toward risky assets, evidenced by small, momentum and growth factors outperforming throughout the quarter. Gains were concentrated in the Information Technology and Communication Services sectors, underscoring the impact of the AI boom on the equity market. Economic data releases were also constructive for markets, with second quarter GDP revised higher and strong consumer spending through the September quarter. Progress on trade deals through August further strengthened sentiment.

The Japanese share market posted double digit gains, propelled by structural reform and growing confidence in an earnings recovery. Cyclical sectors outperformed, while materials, energy and semiconductor shares benefited from the global AI boom.

European equities made gains through the quarter, though lagged the broader market. Germany and France dominated headlines. A -0.3% contraction in German GDP sparked recession fears and weak earnings from automakers Volkswagen and Porsche further weighed on the DAX, leaving it as the only major index to post a negative quarter. France experienced ongoing political instability, Prime Minister Lecornu replaced Bayrou after a no confidence vote in September, before resigning in early October and being reappointed four days later. The UK outpaced its European peers over the quarter, driven by stock-specific developments in the Healthcare and Defence sectors.

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



+16.6%

EMERGING MARKETS SHARES

Emerging markets (EM) shares had an outstanding quarter, with several key markets delivering over +20% returns. Gains in emerging markets were primarily driven by a weak US dollar, which boosts EM export competitiveness, eases debt burdens and encourages capital flows. Positive investor sentiment around the globe in relation to the AI boom and interest rate cuts from the US Federal Reserve also contributed to EM gains.

Chinese markets roared higher, supported by a weaker USD and positive sentiment. China's outperformance against the rest of the emerging markets was driven by progress in US-China trade talks, with China offering a USD 1 trillion investment in an attempt to reset US-China trade policies. Structural policy changes designed to combat deflation and continued stimulus measures have also contributed to optimism for the Chinese economy.

India was a notable laggard, one of the only major emerging markets to post a negative quarter. Ongoing concerns over the valuation of the equity market and weaker corporate earnings set the stage for a weak quarter, and the imposition of a 50% tariff by the US on key Indian exports sealed the deal. India has failed to make the same progress on trade deals with the US as other countries.

South Korea and Taiwan both posted strong gains, primarily driven by ongoing strength in the technology sector and the continuation of the AI boom. South Africa doesn't often feature in our economic commentary, however its place in the +20% club this quarter warrants acknowledgement. Gains were driven by strong precious metal prices.

Latin American equities posted a strong quarter in aggregate, with the S&P Latin America BMI up +9.5%, however results from individual markets within the region were mixed. The largest markets in the region – Brazil, Mexico and Chile all delivered robust gains, with benchmark indices up +5.0%, +10.0% and +9.0% respectively. Colombia also posted circa +10% returns while Argentina was a significant outlier, with the S&P Merval Index falling -11.1%. Latin America was primarily driven by the same factors driving global markets – trade agreements and positive risk sentiment, however lagged the rest of EM due to political uncertainty.

Source: MSCI Emerging Markets Index (gross div.)



+5.8%

NEW ZEALAND SHARES

New Zealand shares moved higher in the third quarter. The NZX 50 Index posted its second-best quarterly result since December 2020 and the index closed the quarter just below its 2021 all-time highs despite a challenging economic environment.

Local markets benefitted from a more positive global economic outlook, tied to progress on US trade deals and better global growth prospects. The supportive stance from the Reserve Bank of New Zealand (RBNZ), which followed a -0.25% rate cut in August (and an emergency -0.50% rate cut in early October), also buoyed the market. However, share price gains in New Zealand were ultimately limited by lower domestic growth estimates and weakening business confidence.

Small companies significantly outperformed the broad New Zealand market, with the S&P/NZX Small Cap Index up +18.5% for the quarter. Small companies are disproportionately impacted by interest rate changes, so 0.75% of rate cuts and more supportive rhetoric from the RBNZ drove a wedge between the performance of the Small Cap Index versus the broad market.

Heartland Group and Vulcan Steel led the NZX 50 Index this quarter, both up over +30%. Heartland has been rallying since its earnings outlook announcement in August. Other winners include Fonterra, Freightways Group, Stride Property and Channel Infrastructure, all up over +20%. On the other side of the ledger, SkyCity and Ebos Group both fell over -20% through the quarter.

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



+10.7%

AUSTRALIAN SHARES

The Australian share market underperformed global equities, posting a +4.7% gain in local currency terms. Small and mid-capitalisation companies outperformed significantly, with the S&P/ASX Small Ordinaries delivering +15.3% and the Emerging Companies Index posting a remarkable +29.6% gain. This can largely be attributed to the higher weight of technology companies in the Australian small and mid-capitalisation indices, which have been performing well, in line with global technology shares.

Monthly inflation estimates came in much higher than expected, rising from +1.9% year-on-year in June to +3.0% in August. Despite promising signs in global trade, consumer spending and the labour market, there is still significant uncertainty in these areas. There is also risk that the lagged effects of monetary easing could impact the persistence of consumption growth. This uncertainty, paired with elevated inflation led the Reserve Bank of Australia (RBA) to pause interest rate cuts, which the market took as a sign that further cuts were unlikely for the foreseeable future.

Materials, Utilities and Consumer Discretionary led the Australian market, all up double digits for the quarter. Healthcare fell -9.3% while the rest of the market was relatively flat.

In the top 50 ASX listed companies, Lynas Rare Earths was up over +100% driven by rising rare earth metal prices and efforts to diversify the rare earth supply chain away from China. Life360 also had a fantastic quarter, up +65.4% driven by strong earnings and a new partnership with AccuWeather.

With the Australian dollar significantly stronger against the New Zealand dollar over the quarter, the reported returns to New Zealand investors were circa +6% higher than the reported index returns.

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



+0.9%

INTERNATIONAL FIXED INTEREST

Yields across major markets were mixed, with US 10 Year Treasury yields falling from 4.23% to 4.15% while yields in other major markets such as Australia, Europe and Japan all rose over the period.

In the US, the balance of risks switched from upside inflation risk to downside growth risk. While inflation rose to +2.9% from April's low of +2.4%, the three months to August saw average monthly job gains fall to 29,000, down from 99,000 in the three months to May. As more data was released throughout the quarter, it became evident that the US economy may not be as robust as previously thought. The market had almost completely priced in a rate reduction from the Federal Reserve by the time the Federal Open Market Committee announced its -0.25% cut at the September meeting.

Evidence that Germany's defence and infrastructure spending would primarily benefit the domestic European economy and progress on tariff deals with the US led to an improvement in sentiment through Europe. Better growth prospects and confidence in risk assets led to an increase in yields across major economies. France lagged the rest of Europe amid ongoing political turmoil, and Fitch downgraded the nation's government bonds from AA- to A+ citing 'political fragmentation' and a 'weak fiscal record'.

The FTSE World Government Bond Index 1-5 Years (hedged to NZD) was up +0.7% over the quarter, while the broader Bloomberg Global Aggregate Bond Index (hedged to NZD) rose +0.9%.

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



+2.9%

NEW ZEALAND FIXED INTEREST

The RBNZ delivered another -0.25% interest rate cut in August (plus a further -0.50% reduction on 8 October), highlighting the continued economic challenges facing New Zealand.

Lower than expected growth, weakening business confidence and wage growth failing to catch up with CPI inflation over the past several years continue to weigh on the New Zealand economy. 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 yield was up for the quarter, moving from +4.48% to +4.67%.

The S&P/NZX A-Grade Corporate Bond Index gained +2.9% for the quarter, while the longer duration but higher quality S&P/NZX NZ Government Bond Index gained +0.8%.

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

Table 1: Asset class returns to 30 September 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)	7.5%	16.7%	22.5%	14.3%	12.5%
	MSCI World ex Australia Index (net div.)	12.9%	28.8%	22.4%	17.5%	13.6%
Emerging markets shares	MSCI Emerging Markets Index (gross div.)	16.6%	29.5%	17.4%	10.4%	9.5%
New Zealand shares	S&P/NZX 50 Index (gross with imputation credits)	5.8%	7.7%	7.1%	3.3%	10.0%
Australian shares	S&P/ASX 200 Index (total return)	10.7%	16.0%	15.1%	14.2%	10.5%
International fixed interest	FTSE World Government Bond Index 1-5 years (hedged to NZD)	0.7%	3.3%	4.3%	1.4%	2.1%
	Bloomberg Global Aggregate Bond Index (hedged to NZD)	0.9%	2.1%	4.6%	-0.1%	2.4%
New Zealand fixed interest	S&P/NZX A-Grade Corporate Bond Index	2.9%	6.5%	6.6%	1.6%	3.4%
New Zealand cash	New Zealand One-Month Bank Bill Yields Index	0.8%	3.8%	4.9%	3.3%	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 case for working beyond retirement age

Retirement no longer means what it used to. As more people work into their 60s, 70s and beyond, it's time to rethink what this life stage really looks like for you.

Conversations naturally shift the older you get. I always used to be asked, "What do you do for a living?" Now the question is, "When do you plan to retire?"

For me, the answer is "never". Sure, I don't plan to work 9 to 5 in my 90s. But the idea of never working again? That's not appealing at all.

I used to think I was the odd one out in this regard, but I now know I'm not. In fact, there are far more of us than most people realise, and the reason is simple: what keeps us ticking as people in our 60s, 70s and beyond is surprisingly similar to what motivates us in our 30s and 40s.

Work helps us flourish

Behavioural finance expert Dr Daniel Crosby made this point in his address at the Adviser 3.0 event. Dr Crosby is a proponent of the PERMA framework developed by the American psychologist Martin Seligman to explain the five things help us to "flourish" — positive emotion, engagement, relationships, meaning and accomplishment. Work, says Dr Crosby, can contribute to all five.

Of course, when you no longer need to work, it frees up time to do all sorts of other things that can also contribute to our general sense of wellbeing — particularly time with our loved ones. But we often take for granted the non-financial benefits that work provides, and, when those benefits disappear, they can leave a big gap in people's lives. As Dr Crosby writes in his new book, *The Soul of Wealth*, "Is it any wonder then that retirees are far more depressed than both the population broadly and same-aged non-retirees in particular?"

Someone else who sees the value in doing some form of work in later life is the financial planner and podcaster Pete Matthew. He too has just written a book, *The Meaningful Money Retirement Guide*, and, as Pete explained in a recent episode of *The Investing Show*, one of the book's key messages is that, for many people, stopping work altogether is a thoroughly bad idea.

"It's impossible to fully separate the idea of retirement from stopping work, but really, they're not necessarily linked," he writes. "For me, I have no plans to stop work, ever. Oh, it'll change form and frequency for sure, but doing nothing? That's unimaginable to me."

What's more, Pete Matthew argues, is that continuing to work, whether that's full- or part-time, paid or voluntary, is good for our health. "There's no doubt," he writes, "that a lifetime of work followed by doing absolutely nothing is a sure way to an early grave... The routine of work and its physical demands can be good for us, helping us to retain mental and bodily resilience for longer."



Work in later life really is good for us

That working in later life is good for us is not just a theory: it's an evidence-based fact. Several studies have shown how older adults who continue working report better physical health and lower incidence of chronic conditions compared to those who retire fully. Working beyond retirement age has also been associated with a reduced risk of mortality.

Retirement no longer means what it used to. As more people work into their 60s, 70s and beyond, it's time to rethink what this life stage really looks like for you.

A new paper in the June 2025 edition of *Labour Economics* by researchers from The Institute for Fiscal Studies, The University of Manchester and University College London evaluates the causal effect of continued employment on the health and cognition of older women in England. Staying in paid work, the study found, increases performance in cognitive tests, especially verbal fluency and delayed memory recall. Older women in non-sedentary roles, walked faster and had better physical mobility than those who didn't work.

The authors also found no evidence that the increase in the UK state pension age has had a detrimental impact on mental health. And the benefits of working in later life were most pronounced among women who are single.

Some people don't have a choice

So, carrying on working helps us to flourish as human beings, and it benefits our physical and mental health. But we should also remember that, for many people, working beyond traditional retirement age is a financial necessity.

Recent research from recruitment consultancy Robert Walters UK shows that 70% of UK professionals expect they will need to delay retirement for financial reasons. And among those who have already returned to work after retiring, 46% said financial pressures were the main reason.

According to research by Legal & General, around 2.8 million retired individuals in the UK are now back in employment. 37% of returner workers said they found they needed a higher income as a result of rising living costs.

Time to retire the R word?

For me, all of this serves to remind us that the very word "retirement" may have outlived its usefulness. The traditional "retire-at-65-and-stop-working" model no longer reflects modern longevity, aspirations or economic realities.

As more people shift to part-time roles, portfolio careers, volunteering or new ventures in later life, terms like "rewirement," "second act" or "post-career life" may better capture this evolving life stage.

To be clear, I'm not suggesting that the decision to carry on working is right for everyone. If you are financially prepared and emotionally ready to stop working altogether, complete retirement can offer



a deeply fulfilling lifestyle. The most important thing is making an informed, confident decision as to what you're retiring to — and that's where financial planning can play a crucial part.

Financial planning isn't just about ensuring you have the means to finish full-time employment and to enjoy the lifestyle you aspire to for the rest of your life. It's also about making sure your life has meaning, whether that entails work, rest, adventure or all of the above.

Victor Frankl, the Austrian psychiatrist and Holocaust survivor, was right when he wrote, "Ever more people today have the means to live, but no meaning to live for." What's the point in having one without the other?

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This month we celebrated 10 years of Synergy Investments!

The last decade has seen a wide range of global events creating movements in markets, from pandemics to wars and countless geopolitical tensions. Over this time, we have seen diligent investors rewarded for their patience and dedication to a long-term investment approach, and we are proud to have helped you on your investment journey.

Thank you for your continued support in helping us reach this milestone.

