BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Markets

The past few weeks have been an eventful period for financial markets, with the New Zealand general election, the US mid-term elections and ongoing geopolitical tensions all contributing to changes in investor sentiment. While these events have created periods of volatility, they have also highlighted the resilience of financial markets and the importance of maintaining a long-term investment perspective.

New Zealand's general election on November 7th produced a closely contested result, with the preliminary count indicating a narrow majority for the current National-led coalition. The final results are expected later this month, after which negotiations to establish the next government will begin. The uncertainty surrounding the election contributed to some caution in local financial markets. Investors were conscious of the possibility of prolonged coalition negotiations and the potential implications for future economic and fiscal policy. The New Zealand share market had previously reached a record high in August, before losing some momentum as the election approached. The New Zealand dollar also weakened against the US dollar, reflecting a combination of domestic uncertainty and broader international currency movements. Following the election, however, markets appeared to take the result largely in their stride. The NZX 50 subsequently reached another record high, supported in part by a decline in global oil prices and a more positive international market environment. For investors, the election reinforces the importance of looking beyond short-term political developments. While government policy can influence particular sectors and businesses, the long-term performance of the share market remains closely linked to company earnings, economic growth and investor confidence.

The US mid-term elections on November 3rd produced a significant change in the balance of power in Washington, with the Democrats gaining control of both the House of Representatives and the Senate. Financial markets initially responded positively to the result. Investors appeared to welcome the prospect of a more divided government, which could reduce the likelihood of major or unexpected policy changes over the remainder of the presidential term. The initial rally was particularly strong across US equities, although it was followed by a sharp reversal as concerns about technology valuations and the scale of investment in artificial intelligence resurfaced.

Technology and semiconductor stocks experienced some of the greatest volatility, reflecting questions about the sustainability of the enormous investment currently being made in AI infrastructure, as well as the possibility of increased regulatory scrutiny. This serves as a reminder that political developments can influence market sentiment, but they are rarely the only factor driving share prices. In the current environment, corporate earnings, interest-rate expectations and the outlook for technology investment remain equally important considerations.

Ongoing conflicts, particularly in the Middle East and around the Strait of Hormuz, continue to create uncertainty for the global economy. The disruption to energy supplies earlier in the year contributed to a significant increase in oil prices, raising concerns about inflation, economic growth and the potential for further interest-rate increases. More recently, oil prices have fallen sharply from their late-October highs, following developments that have raised hopes of a reduction in geopolitical tensions and a gradual normalisation of energy supplies. Lower oil prices are generally positive for the global economy. They can reduce transport and production costs, ease inflationary pressure and provide some relief to consumers and businesses. However, the situation remains uncertain. Any renewed escalation in conflict or disruption to shipping routes could quickly reverse these improvements and lead to further volatility in financial markets.

Investor sentiment has become more cautious following the recent market fluctuations. In the United States, concerns about the valuation of technology companies and the sustainability of AI-related investment have contributed to a pullback from recent market highs. At the same time, persistent inflation pressures have increased expectations that interest rates may remain higher for longer. These developments have created a more challenging environment for investors, particularly those with concentrated exposure to technology stocks or markets that have experienced strong gains. Nevertheless, the broader economic outlook remains supported by continued corporate earnings growth, investment in new technologies and the resilience of many major economies.

Periods of political uncertainty, geopolitical tension and changing economic expectations are an inevitable part of investing. While these events can create short-term market volatility, history demonstrates that attempting to predict the outcome of political events or timing market movements is extremely difficult.
For long-term investors, the most effective approach remains maintaining a diversified portfolio, ensuring investments are aligned with individual objectives and risk tolerance, and avoiding decisions driven solely by short-term market sentiment.

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