

Positioning Australian and New Zealand Equities in Global Equity Portfolios:

Insights for NZ-based Investors

Executive Summary

This paper examines the distinctive characteristics of the New Zealand and Australian equity markets – collectively referred to as AUNZ equities – and their roles within a diversified global portfolio. Despite their geographic proximity, these markets differ significantly in sector composition, macroeconomic sensitivity and thus have been shaped by unique economic environments that have driven their performance over various market cycles.

We begin by exploring the structural differences between the two markets. New Zealand's equity market is more defensively oriented, with a high concentration in sectors like Health Care and Utilities, and a heavy skew toward a few large, dividend-paying companies. This defensive tilt tends to result in lower volatility and higher income stability but may limit participation in global growth cycles. In contrast, Australia's market is dominated by cyclical sectors such as Materials and Financials and closely tied to global commodity demand and regional trade dynamics—particularly with China.

These structural characteristics contrast further with the broader global equity market, which is heavily weighted toward U.S.-dominated industries such as Technology, Healthcare, and Consumer Discretionary. This context is critical for understanding how Australian and NZ equities behave in different market environments and why their inclusion may enhance or detract from global diversification objectives.

The insights provided aim to inform industry participants about the unique investment opportunities and risks present in AUNZ equities and their strategic role in diversified portfolios. This analysis serves as a foundation for ongoing discussions around asset allocation and market exposure, especially when many KiwiSaver fund managers have significant tilt toward AUNZ equities.

KiwiSaver aggressive global equity funds, though designed to provide global broader market diversification, often allocate 20–30% or more to AUNZ equities¹. This persistent regional exposure reflects factors such as home and regional familiarity, regulatory preferences, and ease of access. While this exposure may offer diversification and defensive benefits, it risks overstating the strategic role of AUNZ markets—particularly given their combined share of less than 3% of global market capitalisation. A clearer understanding of how these markets differ in terms of sector makeup, concentration risks, and correlation behaviours is therefore

¹ The average AUNZ equities exposure was derived using a sample of 20 KiwiSaver Aggressive Funds, as identified in the Morningstar KiwiSaver Report (31 December 2024). Data was sourced from publicly available fund updates on the Disclose Register.

essential to ensure that global market diversification is not inadvertently compromised.

Background

Recent market events further illustrate the importance of this analysis. In April 2025, global equities came under pressure due to renewed global trade tensions, especially between US and China. Yet Australian equities stood out, with the S&P/ASX 200 rising 3.6% and recouping all of March's losses. The rally was broad-based, with 10 of 11 sectors posting gains, led by domestically oriented sectors such as Communication Services, IT, and Consumer Discretionary. At the same time, the ASX VIX fell below 12, signalling subdued volatility, while the U.S. VIX remained elevated near 25—highlighting a notable divergence in market sentiment.

This resilience reinforced the perception of Australian equities as a relative safe haven, attracting capital away from more politically exposed markets. Several factors contributed to this outperformance: a short-term rebound from previous losses, optimism about domestic conditions, falling interest rates, and the absence of any immediate deterioration in Australia's trade relationship with China. While global markets moved swiftly to price in the long-term risks of a slowdown in Chinese demand for commodities, investors viewed Australia as less vulnerable in the near term.

However, this perceived safety could easily break down. Australia's economy is structurally tied to China, particularly through its commodity exports. Prolonged geopolitical frictions could eventually erode Chinese demand, directly impacting the materials sector, which remains a core component of the Australian equity market. Although April's rally was driven by domestic sectors, the underlying exposure to global trade dynamics persists.

New Zealand equities, meanwhile, lagged in relative performance—consistent with their traditionally defensive profile and minimal ties to global trade tensions. The market's limited exposure to sectors like Materials and Energy meant it was largely insulated from the volatility associated with shifting commodity prices. At the same time, its relatively small allocation to domestically oriented growth sectors such as Consumer Discretionary and IT meant it did not benefit meaningfully from the recent rotation into local risk assets. While New Zealand remains a reliable defensive anchor in regional portfolios, its narrower sector mix and lower growth orientation may become a disadvantage during periods of broader market optimism.

In summary, while Australian equities demonstrated short-term resilience, and New Zealand equities continued to offer a risk buffer, long-term strategic allocations must consider the unique roles and limitations of both markets. For institutional and retail investors alike, a deep insight into the AUNZ region is essential to balance

potential benefits with the risks of overexposure, ensuring that portfolios remain diversified, strategically sound, and resilient in the face of evolving global challenges.

1. Introduction

AUNZ equities play a unique but often underexamined role within global equity portfolios. **While both New Zealand and Australia are frequently grouped together, due to geographic proximity, ease of access and regulatory familiarity, their equity markets differ substantially in structure, scale, and economic drivers.** Understanding these distinctions is critical to making informed asset allocation decisions, particularly when assessing whether to adjust regional exposures to improve portfolio outcomes.

This paper builds on the strategic context by offering a deeper, data-driven examination of the two markets' structural characteristics and investment implications. We begin by mapping the relative size and market capitalisation breakdowns of the NZ and Australian equity markets in comparison with global benchmarks. We then assess key attributes such as liquidity, institutional accessibility, index representation, and sector composition—factors that underpin the distinctive return profiles and volatility behaviours of each market.

We further draw on historical performance analysis and empirical testing to evaluate how New Zealand and Australian equities behave across different market regimes from the perspective of a New Zealand resident investor with NZD as their base currency. This includes examining rolling performance, analysing correlation dynamics, and running regression models to identify the macroeconomic and market conditions under which Australian, New Zealand, or global equities are more likely to outperform.

For the Australian equity allocation, we have decided to keep the returns unhedged. This rationale is rooted in a remarkably stable and high correlation between the S&P/ASX 200 total returns in AUD and NZD across a variety of market cycles. Over the 25 years to 30 April 2025, the average correlation has averaged 92%, consistently remaining above 87% even during periods of significant market stress and recovery. For instance, during the tech bust (2001–2003), the correlation was 87.9%; during the global financial crisis (2008–2009), it strengthened to 93.6%; and in the most recent five-year period (2020–2025), it reached 94.3%. This persistent and robust relationship suggests that currency movements have had a relatively limited impact on the returns of Australian equities for NZD-based investors. Consequently, the potential benefits of currency hedging are minimal, and leaving the Australian equity allocation unhedged avoids unnecessary hedging costs and operational complexity.

In contrast, we have opted to fully hedge the global equity allocation. Unlike the AUD/NZD dynamic, the correlation between global equity returns – proxied by the S&P World Total Return index – in NZD and USD terms is far less stable and more variable over time, highlighting the significant impact of currency movements on global equity returns for NZD-based investors. Over the past 25 years, the average correlation between the S&P World total return Index in NZD and USD terms was at 69.3%, with significant swings. For example, during the post-GFC recovery (2009–2010), the correlation dropped to just 31.9%, while during the COVID-19 crash and stimulus-led rebound (2019–2020), it surged to 92.0%. Even in the most recent five-year period (2020–2025), the correlation was a moderate 73.0%—not particularly low, but well below the stability observed in the AUD/NZD case. This variability demonstrates that currency effects can meaningfully alter the return profile of global equities for NZD investors. By fully hedging the S&P World Index exposure to NZD, we remove this added layer of complexity, allowing the analysis to focus more directly on the fundamental drivers of global equity returns—such as market structure, liquidity, institutional access, sector composition, and income characteristics. It should be noted that many model portfolios, choose to be partially hedged (50–75% is common) to reduce overall portfolio volatility. Overall global portfolio composition is beyond the scope of this paper.

Together, these insights aim to support a more informed dialogue around optimal portfolio positioning within the AUNZ region—particularly the question of whether increased Australian exposure should come at the expense of New Zealand allocations or broader global holdings. Rather than advocate for a one-size-fits-all approach, this paper equips investors with the tools needed to evaluate trade-offs and align regional allocations with long-term strategic goals.

2. Market Structure: Scale, Composition, and Global Footprint

To rigorously evaluate the strategic role of AUNZ equities, a foundational understanding of their market scale and composition relative to global benchmarks is essential. The sheer disparity in size between the New Zealand, Australian, and United States equity markets fundamentally shapes their respective influences, liquidity profiles, and the nature of opportunities they present within a global asset allocation framework.

2.1. Aggregate Market Capitalization and Constituent Base

As of 30 April 2025, the data underscores a significant scale differential. The NZ equity market, with a total market capitalization of approximately USD 91 billion

spread across ~116 listed constituents, represents a relatively small and concentrated listed equity market, accounting for less than 0.1% of global equity market capitalization. The Australian equity market, while notably larger at ~USD 2.0 trillion in market capitalization and comprising ~1,792 companies, although still constitutes a modest fraction - 1.4% - of the global equity landscape. Both are considerably smaller than the US equity market. Its approximately 5,466 listed entities collectively achieve a total market capitalization of USD 59.6 trillion, equivalent to 48.6% of the global total.

This vast difference in aggregate market value has profound implications. The dominance of the US market—representing nearly half of global equity capitalization—makes it the primary driver of global equity beta and a central, often unavoidable, component of diversified international portfolios. In contrast, the Australian equity market—an established player within the Asia-Pacific region—and the New Zealand market—a smaller niche segment—can offer meaningful diversification benefits, as their localised drivers often diverge from those of the dominant US market. However, due to their comparatively modest scale, their direct influence on broader global index performance remains limited.

2.2. Market Capitalization Segmentation and Structural Implications

The internal structure of these markets, when analysed by capitalization brackets, reveals further critical distinctions relevant to portfolio construction. Table 1 details the market capitalization breakdown for the New Zealand, Australian, and US equity markets. Beyond the raw figures, this segmentation reveals profound structural differences that define each market's character, risk profile, and potential role in global portfolios.

A striking divergence is immediately evident at the top of the market. The U.S. equity market stands out for its concentration of mega-cap companies—firms with valuations exceeding USD 200B—which collectively make up nearly half of the country's total market capitalization. These global giants, many of which are global leaders in technology, healthcare, and consumer sectors, exert a powerful influence on global equity indices and dominate investment flows worldwide. In contrast, Australia and New Zealand currently have no companies of this size, reflecting the different scale and maturity of their equity markets.

Table 1: Comparative Equity Market Structure by Capitalization

	New Zealand (NZX)	Australia (ASX)	US (NYSE/NASDAQ)
Total Equity Market Cap (\$USD)	~\$91B	~\$2.0T	~\$59.6T
Total Listed Companies	~116	~1,792	~5,466
Market Cap Bracket (USD)	% of Total Market Cap		
Mega Cap (>\$200B)	0%	0%	46.0%
Large Cap (\$10B–\$200B)	13%	68%	36.0%
Mid Cap (\$2B–\$10B)	56%	20%	4.0%
Small Cap (\$300M–\$2B)	24%	9%	0.8%
Micro Cap (<\$300M)	7%	3%	0.2%
Market Cap Bracket (USD)	# of Listed Companies		
Mega Cap (>\$200B)	0	0	39
Large Cap (\$10B–\$200B)	1	43	428
Mid Cap (\$2B–\$10B)	12	94	437
Small Cap (\$300M–\$2B)	29	232	1,311
Micro Cap (<\$300M)	73	1,423	3,251

Source: S&P Dow Jones Indices, ASX company directory, Sibilis Research; data as of 30 April 2025.

Moving down the capitalization spectrum, the large-cap segment (USD 10–200B) reveals where most of the market value resides in Australia. For the ASX, this tier is pivotal, constituting over two-thirds of its total capitalization and reflecting the dominance of its established blue-chip companies. While the US also features a sizable and diverse large-cap segment, it is proportionally less dominant than in Australia due to the mega-cap influence. The NZX's reliance on a single entity (Fisher & Paykel Healthcare) within this large-cap bracket underscores its higher concentration risk at the top end.

The mid-cap space (USD 2–10B) offers a different perspective. For New Zealand, this segment is proportionally the most significant, representing over half its market value and indicating that the "core" of its listed economy often lies with these medium-sized enterprises. While Australia also has a healthy mid-cap representation, it plays a more secondary role to its large-cap leaders. In the US, despite a large absolute number of mid-cap firms, their collective market share is relatively small, overshadowed by the giants above them. This suggests that investors seeking exposure to the primary economic engines of the AUNZ region might find compelling opportunities within this mid-cap tier.

Finally, the small-cap (USD 300M–2B) and micro-cap (<USD 300M) segments illustrate the "long tail" present in all three markets. While these smaller companies are numerous, particularly in the US and Australia, their aggregate contribution to

total market capitalization is modest. For investors, this extensive base of smaller firms can offer growth potential and diversification, but often comes with heightened considerations around liquidity, research coverage, and volatility—factors that are particularly relevant in the smaller AUNZ markets.

In essence, the capitalization structure of each market paints a contrasting landscape: the US as a top-heavy global powerhouse, Australia as a market led by influential large-cap entities supported by a broad range of smaller companies, and New Zealand as a more concentrated market where firms classified as mid-cap globally represent the core of its listed economy.

3. Liquidity and Institutional Access

The differences in capitalization structure outlined above translate directly into meaningful variations in liquidity, turnover, and market accessibility—especially from an institutional investor’s perspective. In general, markets with higher concentrations in large- and mega-cap stocks tend to offer deeper liquidity, narrower bid–ask spreads, and greater capacity for scalable investment strategies.

In New Zealand, the dominance of mid- and small-cap firms—with only one large-cap constituent and no mega-caps—limits overall market depth. Average daily turnover on the NZX has remained around NZD 150 million², and liquidity is concentrated in a handful of names. Many smaller stocks are thinly traded, with wide bid–ask spreads often exceeding 30 basis points. This limited liquidity increases execution costs, introduces risks of adverse price movement, and makes it more challenging to build large positions without affecting market prices.

By contrast, the Australian market, with over two-thirds of its capitalization in large-cap firms, offers a more institutional-grade trading environment. The ASX consistently ranks among the most liquid exchanges in the Asia-Pacific region, with daily volumes exceeding AUD 5 billion. Large-cap stocks—many of which are household names in the Financials and Materials sectors—enjoy tight bid–ask spreads (<5 bps) and strong institutional participation. Even the mid- and small-cap segments on the ASX benefit from a relatively robust liquidity profile compared to the NZ counterparts.

In the United States, the concentration of mega-cap firms at the top of the market translates into unparalleled liquidity and market access. The S&P 500 stocks routinely see billions in daily turnover, and bid–ask spreads for many of these names fall below 1 basis point. Besides the stock market itself, there are also many liquid

² According to NZX trading statistics, in April 2025, the total traded value on the NZX was approximately NZD 3 billion, with an average daily turnover of around NZD 143 million. This rose in May 2025 to NZD 4.2 billion in total traded value and an average daily turnover of approximately NZD 200 million, likely reflecting improved investor sentiment following heightened volatility in April.

options and futures to trade, as well as a wide variety of ETFs covering different parts of the market. This strong market setup allows for near-frictionless execution, frequent rebalancing, and large strategic positioning, making U.S. equities the global standard for market liquidity.

Liquidity is a byproduct of scale and structure—and nowhere is this more evident than in the sharp contrast between the deep, institutional-grade trading environment of the U.S. and Australia versus the more constrained, concentrated liquidity in New Zealand.

The NZX's mid-cap heavy profile and concentration in smaller firms imply thinner trading and higher transaction costs, while the ASX's broad base of large- and mid-cap stocks supports more efficient trading. The U.S. market, shaped by its mega-cap dominance, remains the most liquid and scalable globally. These characteristics have direct implications for benchmark selection and the practicality of implementing strategic equity allocations—an issue we address next.

4. Benchmark Representation

A well-constructed benchmark must strike a balance between broad market representation and practical investability. The preceding discussion on liquidity underscores why this balance is especially crucial in markets with less depth—like New Zealand—and why benchmark design cannot be one-size-fits-all.

In New Zealand, the S&P/NZX 50 Index remains the flagship benchmark, covering approximately 90% of the NZX's free-float market capitalization. However, this representation is heavily skewed by the presence of a few large constituents—such as Fisher & Paykel Healthcare, Auckland International Airport and Infratil—which together can comprise more than 30% of the index. Additionally, the exclusion of many smaller, less liquid firms is not just a practical choice but a necessary one. In a market where the bottom quintile of listed companies may be thinly traded, including them in a benchmark would undermine its effectiveness for institutional implementation. Thus, the NZX 50 reflects a pragmatic approach: broad market coverage by capitalization, but with a narrower, more investable universe shaped by liquidity constraints.

The Australian market, by contrast, supports a broader and more segmented range of benchmarks. The S&P/ASX 100, ASX 200, ASX 300, and ASX All Ordinaries provide scalable exposure options across different breadth levels. Because the ASX has a broader base of investable names—including over 100 large-cap stocks and hundreds of tradeable mid-caps—benchmark constructors can offer indices with higher stock counts while maintaining the ease of implementation. The result is more flexibility for product structuring, whether targeting large-cap exposure, core-satellite blends, or factor strategies.

In developed global markets, the depth and breadth of equity universes—particularly across North America, Europe, and parts of Asia—support the construction of benchmarks that achieve both comprehensive coverage and strong liquidity profile. Indices such as the S&P World, FTSE Developed, and S&P Developed Broad Market Index span thousands of constituents across multiple countries yet remain accessible to institutional investors due to the presence of deep, liquid markets and robust trading infrastructure. The size and depth of developed markets support low-cost index replication through techniques like optimization and sampling where full replication is impractical.

Across all markets, benchmark construction must reconcile two imperatives: representativeness and implementability. In deep markets like the U.S. or other major developed markets, the two align closely. In smaller markets like New Zealand, trade-offs are unavoidable. Knowing where to draw the line—between broad market coverage and ease of execution—is key to building well-informed portfolios and designing strategies that are both benchmark-aligned and practical to implement.

For the purpose of the following performance and correlation analysis, we adopt the S&P/NZX 50, S&P/ASX 200, and S&P World Index as representative benchmarks for the New Zealand, Australian, and global developed equity markets, respectively. These indices serve as proxies for investable exposure and are widely used by institutional investors in strategic asset allocation. By anchoring our empirical evaluation to these benchmarks, we ensure a consistent and practical basis for comparing return characteristics, volatility patterns, and diversification potential across regions.

To gain deeper insight, the following section provides a detailed study of each index, examining their index structure, sector compositions, and yield profiles, which are critical to understanding their unique investment characteristics and performance drivers.

5. Equity Market Indices: New Zealand, Australia, and Global Developed Markets

5.1. Index structure

The S&P/NZX 50, S&P/ASX 200, and S&P World Index each reflect unique market structures and levels of diversification. The S&P/NZX 50 captures the 50 largest and most liquid stocks on the New Zealand Stock Exchange and is notably concentrated, with the top 10 holdings typically accounting for over 60% (67.7% as at 30 April 2025) of the index.

The S&P/ASX 200, while broader, also exhibits concentration, particularly in its top sectors and companies, with the top 10 constituents usually comprising around 50% of the index (48.3% as at 30 April 2025), largely driven by Australia’s heavyweight financial and resource stocks.

In contrast, the S&P World Index offers much broader diversification with over 1,400 constituents across 24 developed markets, and while it remains heavily influenced by the U.S. (typically 70% of index weight), its top 10 holdings generally make up 20–25% (23.9% as at 30 April 2025) of the total index—reducing idiosyncratic risk. Although all three indices are float-adjusted market cap weighted, their levels of concentration and exposure to single markets or companies vary considerably.

Table 2: Comparative Summary of Index structure and Concentration Risk

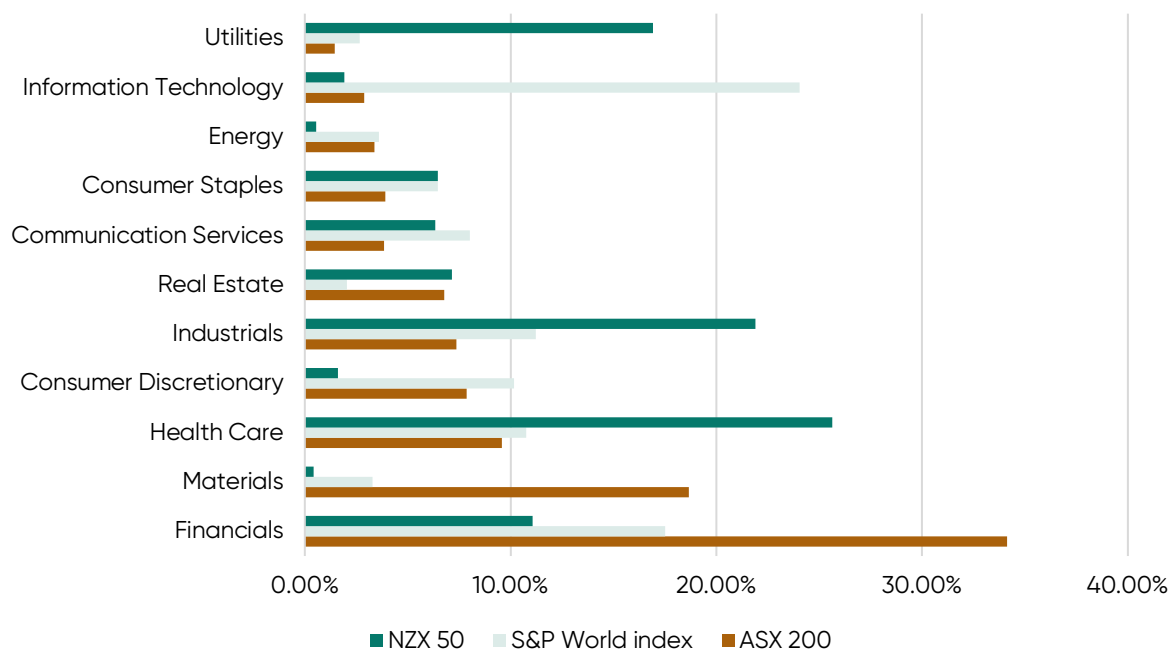
Feature	S&P/NZX 50	S&P/ASX 200	S&P World Index
Geographic Focus	New Zealand	Australia	Global (24 Developed Markets)
Number of Holdings	50	200	1,421
Index Weighting	Float-adjusted market cap	Float-adjusted market cap	Float-adjusted market cap
Top 5 Holdings Weight	47.3%	33.5%	17.5%
Top 10 Holdings Weight	67.7%	48.3%	23.9%
Top 20 Holdings Weight	85.3%	62.6%	31.4%

Source: S&P Dow Jones Indices, data as of 30 April 2025

5.2. Sector composition

A closer look at the sector composition of the S&P/NZX 50 (green), S&P/ASX 200 (orange), and S&P World Index (black) reveals how the economic DNA of each market is reflected in its corporate makeup.

Figure 1: Sector compositions of the S&P/NZX 50, S&P/ASX 200 and S&P World index



Source: S&P Dow Jones Indices, data as of 30 April 2025

The S&P/NZX 50 is marked by a concentrated sector profile, with Health Care (~25%), Industrials (~20%), and Utilities (~17%) together representing over 60% of the index. This concentration points to a market dominated by a handful of large, often globally active firms. Meanwhile, sectors like Technology and Materials hold minimal presence, indicating a relatively narrow industrial base focused on defensive, yield-generating industries.

In contrast, the S&P/ASX 200 offers greater sector breadth but remains heavily weighted toward Financials (~35%) and Materials (~19%). This weighting mirrors Australia's economic reliance on banking and commodity exports, exposing the index to fluctuations in credit cycles, commodity prices, and global demand for resources.

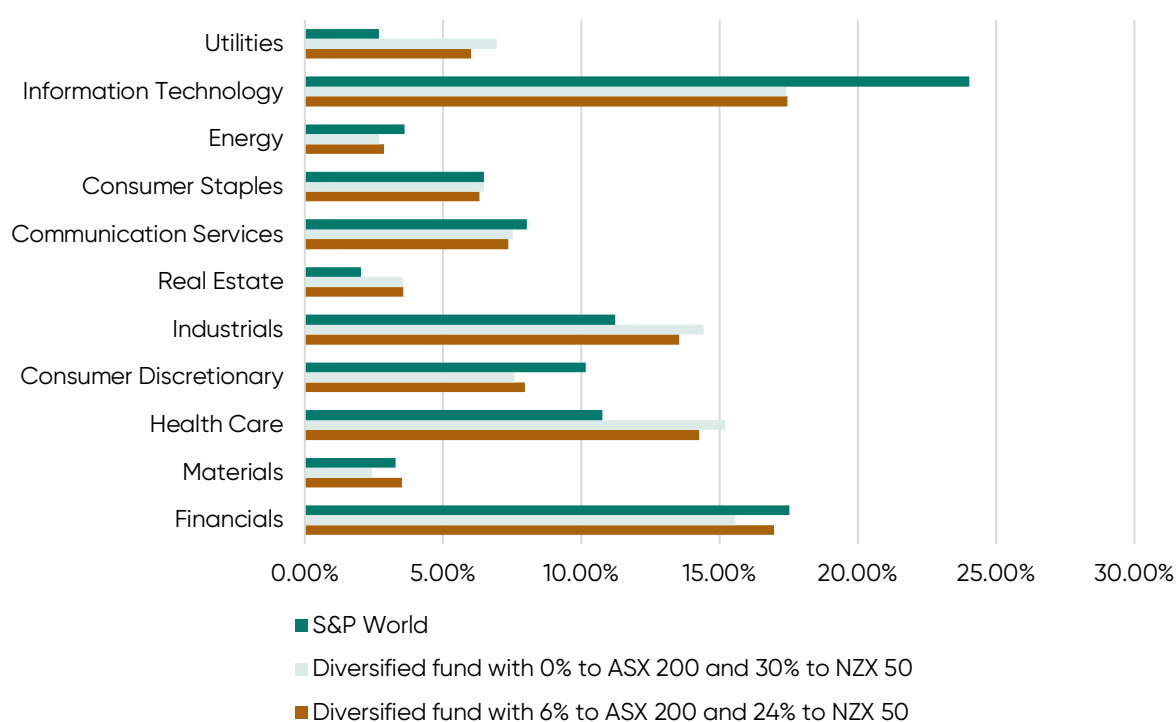
The S&P World Index stands apart with a broadly diversified sector mix, where no single sector exceeds ~25%. It features significant allocations to Information Technology (24%), Financials (17.5%), and Health Care (10.7%), providing balanced exposure across both growth and defensive sectors. This diversity reflects the global market's broad participation in innovation, digital transformation, and consumption trends—especially driven by large U.S. technology firms.

These varied sector exposures across the S&P/NZX 50, S&P/ASX 200, and S&P World not only reflect the unique economic compositions of each market but also

carry significant implications for global portfolio construction—particularly for New Zealand-based investors.

In practice, many KiwiSaver funds allocate between 20–30% of their equity portfolios to Australian and New Zealand equities. As of 31 December 2024, the average aggressive KiwiSaver fund held 23.97%³³ in these regional markets—enough to meaningfully reshape the sector profile of what might otherwise be a globally broad-based strategy.

Figure 2: Sector allocation in a diversified global equity portfolio



Source: S&P Dow Jones Indices, data as of 30 April 2025

As can be seen from Figure 2, an immediate effect is a **reduction in the portfolio's reliance on technology-driven performance**. Both the ASX 200 and NZX 50 are structurally underweight in Information Technology, which significantly lowers the overall tech exposure compared to a pure S&P World allocation. This helps mitigate concentration risk in global tech giants and reduces sensitivity to tech-led market cycles.

At the same time, **sector alignment with global benchmarks is largely maintained in other areas**. Financials, Health Care, Industrials, and Consumer Discretionary remain broadly in line. The main shifts include:

³³ The average AUNZ equities exposure of 23.97% was calculated from fund updates for the quarter ending 31 December 2024, using a sample of 20 KiwiSaver Aggressive Funds identified in the Morningstar KiwiSaver Report: 31 December 2024

A **modest overweight to Materials**, due to Australia's resource-rich economy, and
A **higher allocation to Utilities, Industrials, and Health Care**, reflecting New Zealand's stable, yield-focused sectors.

These changes contribute to a more balanced and diversified risk profile. The added exposure to income-generating, stable sectors from New Zealand—such as Utilities and Health Care—enhances defensiveness, while Australia's strong representation in Financials and resource-linked industries introduces sensitivity to economic growth and commodity demand.

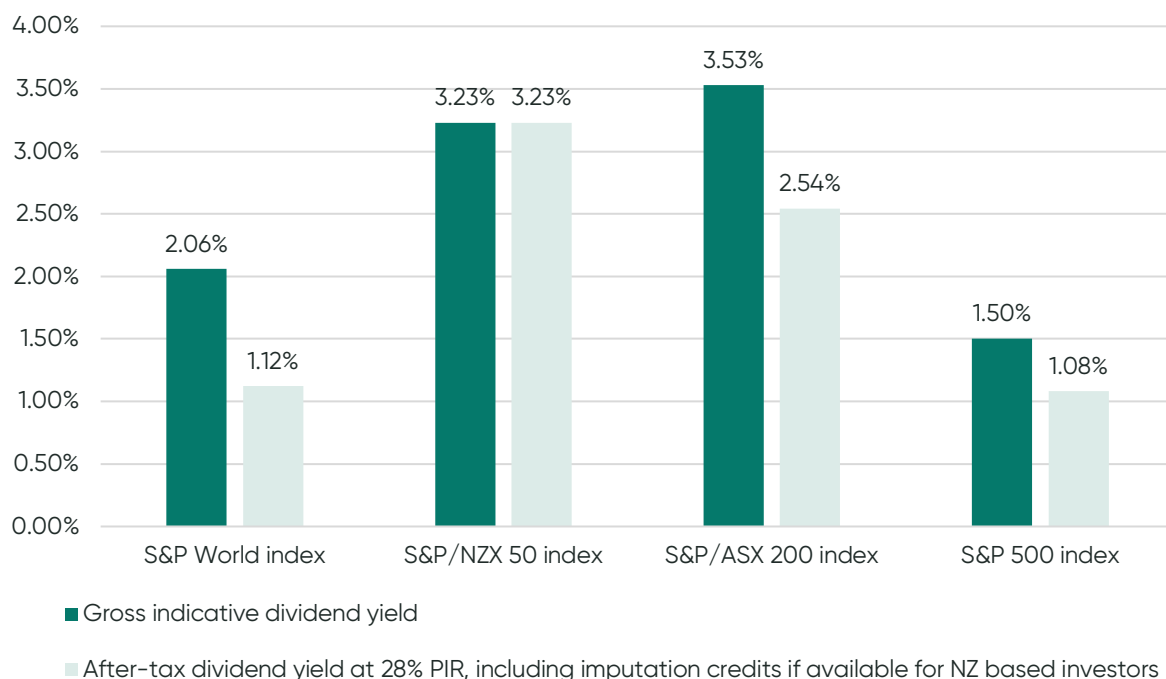
Together, these regional exposures can help stabilise returns across varying market conditions. When global technology stocks underperform, this allocation may offer meaningful downside protection. However, in periods of strong, tech-led rallies, the portfolio may lag a pure global broad market strategy such as the S&P World Index.

5.3. Dividend yields and tax treatments

Building on the sector tilt, the variation in dividend yields and tax implications further shape the attractiveness of allocating to AUNZ equities. The NZX 50's heavy tilt toward defensive sectors underpins a stable and relatively high gross dividend yield of 3.23% (as of 30 April 2025). The ASX 200 offers a comparable yield of 3.53%, supported by strong dividend payouts from major banks and mining companies.

These sectors generate consistent cash flows, allowing them to return profits to shareholders—even as their earnings move with economic and commodity cycles. In contrast, the S&P World index and S&P 500 index offer more modest yields of 2.06% and 1.50%, respectively, reflecting its growth orientation and lower emphasis on income.

Figure 3: Gross and after-tax dividend yields across different equity markets



Source: S&P Dow Jones Indices. Data from 30 April 2024 to 30 April 2025. **Note:** *Gross indicative dividend yield* is calculated as the difference between the 12-month total return and price return. *After-tax dividend yield at 28% PIR* is based on the difference between the 12-month **net total return** (after withholding taxes, where applicable) and price return, adjusted for a 28% PIR and imputation credits if available.

However, gross yields alone do not capture the full picture for NZ-based investors. The underlying tax treatment—particularly the availability of imputation franking credits, exposure to withholding taxes, and the application of the Foreign Investment Fund (FIF) regime can materially alter net outcomes. A closer look at after-tax dividend yields reveals how these structural tax differences influence the true income advantage of AUNZ equities

For New Zealand tax residents, these yield profiles are tightly linked to the underlying tax treatments, which significantly influence after-tax returns. NZ equities, when held via Portfolio Investment Entities (PIEs), benefit from highly tax-efficient structures: investors pay tax at their Prescribed Investor Rate (PIR) on actual income such as dividends and realised gains, while capital gains themselves are not taxed. The availability of NZ imputation credits—reflecting tax already paid by NZ companies—further reduces the effective tax burden for a NZ resident investor. Importantly, NZ PIEs are free from the complexities of Foreign Investment Fund (FIF) rules.

Australian equities, also accessible through PIE funds with ASX exemptions, are taxed similarly on actual income, with capital gains exempt inside the PIE. However, NZ investors cannot utilise Australian franking credits, which diminishes the tax

efficiency somewhat. Australian dividends may be subject to withholding tax unless fully franked, though withholding credits often offset this impact within the PIE structure.

For example, assuming a gross dividend yield of 3.23% and a 28% PIR, both New Zealand and Australian equities initially appear to offer the same after-tax yield of 2.33%. In the New Zealand case, a 3.23% cash dividend is accompanied by a 0.9% imputation credit, which offsets the tax due on the grossed-up income. By contrast, the 3.23% dividend from Australian equities is fully taxable, resulting in the same 0.9% tax cost—without the benefit of franking credits. As a result, all else being equal, NZ equities often deliver an after-tax income advantage of around 0.9%.

This is consistent with Figure 3, where the after-tax yield on the ASX 200 for the 12 months to 30 April 2025 is approximately 0.7% lower than that of the NZX 50 given the higher gross dividend yield for the ASX 200. Global equities, conversely, generally carry a more complex and less favourable tax regime for NZ investors.

Investments via PIE funds are typically subject to the FIF rules, most commonly the Fair Dividend Rate (FDR) method, which taxes 5% of the portfolio's market value annually as a "deemed dividend"—regardless of actual income received. This results in tax payments even when dividend yields are lower than 5% and returns are low or negative. Capital gains are not taxed directly, and imputation or franking credits are unavailable.

For income-seeking investors, NZ and AU equities offer compelling after-tax yields, while global equities favour long-term capital growth. But do these characteristics translate into better overall outcomes? The next section turns to historical performance analysis and empirical testing to evaluate how New Zealand and Australian equities have shaped risk, return, and consistency in real portfolios.

6. Empirical analysis of market cycles and portfolio implications

Over the past two decades, the S&P/NZX 50 (TR-NZD), S&P/ASX 200 (TR-NZD), and S&P World (TR – NZD Hedged) indices have each demonstrated unique performance patterns across various market regimes.

6.1. Regional distinctions: New Zealand vs Australia

Panel 1 of Figure 4 underscores or reconfirms a key point: while New Zealand and Australia are often viewed as natural peers given their regional ties, their equity markets behave quite differently. Despite overlapping investor bases and similar monetary policy settings, the rolling correlation between the NZX 50 and ASX 200 averages around 40%, peaking at around 60% in more aligned periods. This

moderate and variable relationship illustrates that even closely linked markets can offer meaningful diversification, particularly when local fundamentals or global catalysts diverge.

6.2. Global linkages and the role of timing: Adjusting for Time-Zone effects

Looking beyond the region, Panels 2 and 3 of Figure 4 track how Australian and New Zealand equities each correlates with global equities, using the S&P World (NZD Hedged) index as the benchmark.

Here, a critical methodological consideration comes into play: time-zone effects. Because New Zealand and Australian markets close several hours before key global exchanges—particularly those in the US, any global macro or risk events that unfold during US trading hours tend to be reflected in AUNZ markets only on the following trading day. This inherent lag means that daily return correlations between AUNZ and global equities can be misleading.

To correct for this structural misalignment, we apply a one-day lag to AUNZ returns when comparing them to global benchmarks. The impact of this adjustment is especially striking during periods of market stress.

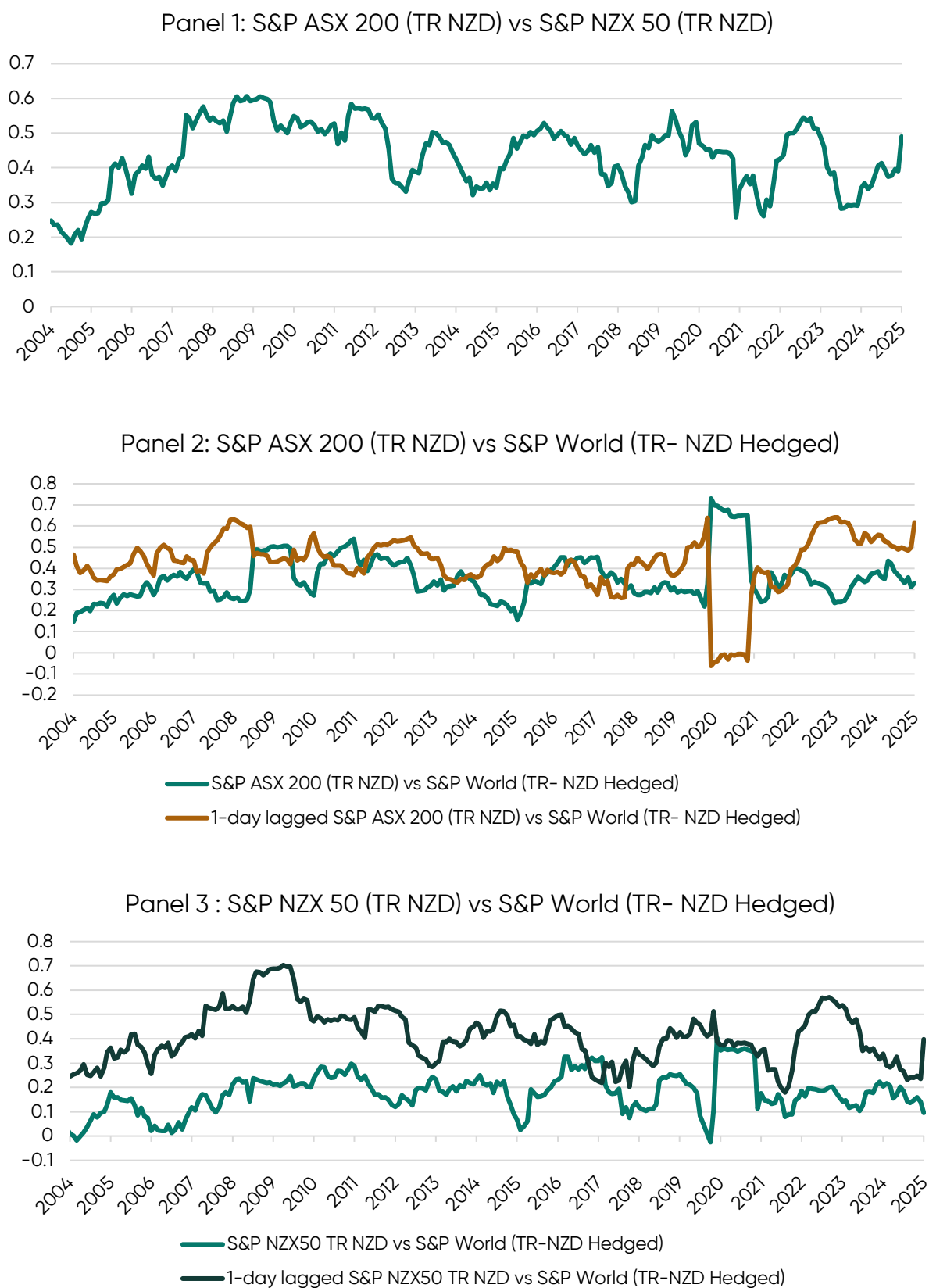
For instance, during the COVID-19 crash and stimulus-fuelled recovery (December 2019–January 2021), Australian equities appeared to be strongly correlated with global markets (65%) on an unadjusted basis. Yet after aligning the returns with global timing, the correlation flipped to -0.7% , revealing a completely different dynamic (Panel 2, Figure 4).

New Zealand displayed a similar pattern during the April 2022–April 2023 period, amid global slowdown, persistent inflation, and aggressive rate hikes. The raw average correlation with global equities was only 14.36%. But once the one-day lag was introduced, it jumped to 53.8%, highlighting the importance of proper alignment (Panel 3, Figure 4).

6.3. Correlations with Global equities – the Dynamic over time

Once time-zone effects are accounted for, longer-term patterns begin to emerge. During periods of relative calm, the 12-month rolling correlations between the ASX 200 and S&P World, and between the NZX 50 and S&P World, typically fall within a 40% to 65% range—moving in tandem as global sentiment dominates. However, during periods of global market stress or major economic shifts, correlations can diverge, highlighting the impact of local market structures and sector compositions.

Figure 4: 12-month rolling correlations across AUNZ and Global equity markets



Source: S&P Dow Jones Indices. Data from April 2003 to April 2025.

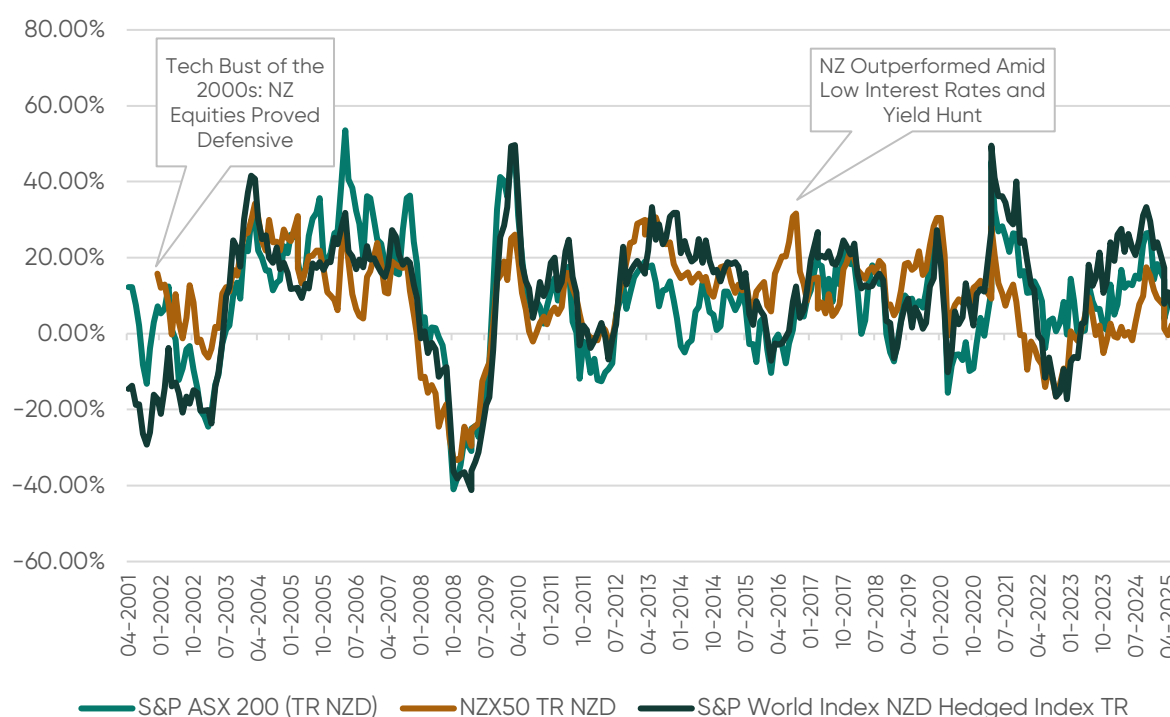
A particularly striking example occurred between December 2019 and January 2021, during the COVID-19 pandemic. In this period, the 12-month rolling correlation between the ASX 200 and S&P World dropped sharply to -0.74% , while the NZX 50's correlation with S&P World remained much higher at around 40% . This divergence was largely due to the pandemic's sector-specific impacts: global equities' rapid recovery was driven by technology and healthcare stocks, which make up a significant portion of the S&P World index but are underrepresented in the ASX 200.

Instead, the ASX 200 is dominated by financials and resources, sectors that struggled amid global uncertainty and commodity price volatility. In contrast, the NZX 50's defensive tilt toward utilities and health care meant its performance was more closely aligned with the resilient sectors that led the global rally, helping to sustain a higher correlation with the S&P World during this turbulent period.

6.4. Rolling returns reflect correlation dynamics

The patterns observed in the 12-month rolling correlations are closely mirrored in the 12-month rolling returns shown in Figure 5. The S&P World – driven by its broad sector representation and significant exposure to technology and healthcare – often sets the global trend. However, the figure highlights that local industry structures in Australia and New Zealand can lead to meaningful deviations from this trend, especially when sector-specific shocks or domestic factors come into play.

Figure 5: 12-month rolling returns of AUNZ and Global equity markets



Source: S&P Dow Jones Indices. Data from December 2000 to April 2025.

A clear example of this divergence was during the early 2000s tech bust (January 2001–June 2003). While both Australia and New Zealand had limited exposure to tech—the epicenter of the crash—their outcomes differed. The ASX 200 posted an average 12-month rolling return of -7.9% and maintained a 50% correlation with S&P World.

Meanwhile, the NZX 50 not only showed a lower correlation of 35% but also delivered a positive return of 3.65%, significantly outperforming the global benchmark, which fell by -15.5%. This outperformance was driven by the NZX 50's greater tilt toward domestically focused and defensive sectors, which proved more resilient during the global sell-off.

In contrast, the ASX 200—more exposed to global markets through its reliance on sectors like financials and materials—was more vulnerable to the broader downturn. Despite similarly low-tech exposure, differences in market structure and economic sensitivity led to contrasting outcomes, underscoring the diversification benefits of investing across markets with varying local dynamics.

6.5. Performance across market regimes

To better understand the relative strengths of New Zealand (S&P/NZX 50), Australia (S&P/ASX 200), and global equities (S&P World), Table 3 segments the period from 2001 to 2025 into distinct market regimes—spanning the pre-GFC expansion, GFC crisis, post-crisis recovery, Eurozone debt turmoil, commodity cycles, and the recent tech-led rally.

For each regime, we examine average rolling returns and correlation levels, revealing how each market responded to shifts in global macro conditions, policy changes, and sectoral trends.

Table 3: Comparative Performance and Correlation of NZ, AU, and Global Equities Across Market Regimes (2001–2025)

Start Date	End Date	Key Global Theme	Average 12-month rolling returns			Average 12-month rolling correlation with S&P World	
			NZX 50 (TR-NZD)	ASX 200 (TR-NZD)	S&P World (TR-NZD Hedged)	NZX 50	ASX 200
Jan-01	Jun-03	Tech bust	3.6%	-7.9%	-15.5%	34.6%	49.6%
Jan-04	Jan-08	Global expansion	14.7%	26.4%	17.9%	38.8%	44.3%
Feb-08	Sept-09	GFC crash	-17.2%	-18.1%	-27.1%	68.7%	44.1%
Oct-09	Feb-10	Post GFC recovery	10.0%	20.6%	22.7%	48.8%	48.0%
Mar-10	Aug-10	Eurozone Debt Fears	3.2%	8.2%	12.3%	48.2%	41.3%
Sept-10	Jun-11	Global Risk-On, Commodity Rally	10.6%	2.3%	11.9%	46.8%	42.2%
Jun-11	Apr-12	Eurozone Crisis & Global Growth Scare	-0.7%	-9.1%	-3.1%	50.5%	52.9%
Apr-12	Aug-15	Low Rates, Search for Yield, US Tech Ascendancy	17.3%	7.1%	21.2%	41.8%	40.4%
Aug-15	Dec-19	Late-Cycle Expansion, US Tech Dominance	15.5%	10.9%	12.6%	34.7%	39.1%
Dec-19	Jan-21	COVID-19 Crash & Stimulus-Led Recovery	13.0%	1.9%	11.4%	37.7%	-0.7%
Jan-21	Apr-22	Reopening Rally, Inflation Surge, Rate Hikes Begin	-5.4%	11.8%	10.8%	37.4%	35.9%
Apr-22	Apr-23	Global Slowdown, Persistent Inflation, Rate Hikes	1.1%	0.6%	2.7%	53.8%	64.1%
Apr-23	Apr-25	AI/Tech Boom, Sticky Inflation, Divergent Growth	6.2%	15.6%	22.5%	28.2%	52.3%

Source: S&P Dow Jones indices data.

NZ Equities: Outperformance in Global Stress and Low Yield Environments

New Zealand equities (NZX 50) tend to outperform during periods of global uncertainty, risk aversion, and low yield environments—such as the tech bust, Eurozone crisis, late-cycle tech phases, and the COVID crash/rebound. These periods are marked by heightened volatility, defensive positioning, or a global hunt for yield. The NZX 50's concentration in defensive, high-dividend sectors like utilities and healthcare attracts capital when investors seek stability and income, and its lower correlation with global equities during these times highlights its role as a

relatively safe haven. Notably, NZ outperformance is most pronounced when global markets are turbulent or when interest rates are low, as investors rotate toward assets that offer resilience and yield.

AU Equities: Outperformance in Global Booms and Risk-On Phases—But Not All Commodity Rallies

Periods when Australia (ASX 200) outperformed New Zealand (NZX 50) generally align with global booms, post-crisis rebounds (such as after the GFC), reopening and inflationary phases, and, in some cases, periods of elevated commodity prices during global slowdowns. These episodes are typically characterized by strong global growth, robust risk appetite, and surging demand for commodities—all of which play to the strengths of the ASX 200's heavy weighting in financials and resource sectors.

During reopening and demand-driven inflation periods, Australia benefited from a global rotation into cyclical and value stocks, as well as from elevated commodity prices fuelled by supply bottlenecks and infrastructure spending. Even in some slowdown/inflation environments—particularly when inflation was driven by supply shocks rather than demand destruction—Australia's resource sector provided relative resilience, allowing the ASX 200 to outperform defensive markets like New Zealand.

In these phases, the ASX 200 also tends to show a higher correlation with global equities, reflecting its sensitivity to international capital flows and macroeconomic trends. Overall, Australia's outperformance is most pronounced when the world is emerging from crisis, entering a new growth phase, or experiencing commodity-driven inflation, as seen after the GFC and during the post-pandemic reopening.

However, this relationship is not always guaranteed. For example, during the "Global Risk-On, Commodity Rally" period, the ASX 200 underperformed both NZ and global equities. This counterintuitive result can be attributed to sector headwinds outside resources (especially in financials which faced regulatory and domestic challenges), and the fact that the commodity rally's benefits accrued more to global mining giants and energy/industrial sectors in the S&P World than to the broader Australian market. This episode underscores that commodity rallies do not guarantee broad-based outperformance for Australian equities, especially when sector dynamics offset the gains from resources.

Global Equities: Tech-Led Outperformance in Innovation and Synchronized Growth Regimes

Global equities, as represented by the S&P World, have outperformed during periods of synchronized global recovery and, more recently, during tech-driven rallies. The index's heavy weighting to US technology and healthcare stocks means

it is particularly sensitive to innovation cycles and global economic surges. In the post-pandemic era, for example, the surge in AI and technology stocks propelled S&P World returns well ahead of both NZ and AU markets. However, this tech concentration also leaves global equities more exposed during tech-led downturns, as seen in the early 2000s.

Overall, the rotation between Australian and New Zealand equity outperformance appears to be driven less by domestic factors and more by shifts in global risk appetite, commodity cycles, and the prevailing interest rate environment. Australia excels when global growth and risk-taking are in favour, while New Zealand shines during uncertainty and yield-seeking phases. The interplay between each market's structure and the global macro backdrop is the key driver of these performance cycles.

6.6. Quantifying performance drivers – regression-based insights

To complement the regime-based analysis, we apply regression modelling to identify the key structural and macroeconomic factors driving the relative performance of New Zealand and Australian equities versus global equities. Two separate models were constructed to estimate monthly excess returns of NZ and AU equities relative to the S&P World (NZD Hedged), incorporating a mix of local and global explanatory variables.

New Zealand: Defensive Structure and Rate Sensitivity

The New Zealand model (Table 4) explains around **35%** of the variation in monthly excess returns versus global equities—a solid result given the complexity of market behaviour. Three factors stand out as both statistically and economically significant, pointing to two dominant themes: **New Zealand's defensive market profile, and its high sensitivity to interest rate movements**—both of which shape how it performs across different market environments.

Global risk sentiment: NZ equities tend to outperform when global volatility spikes. A 1% increase in the CBOE VIX is associated with a modest but consistent 0.02% gain in relative returns. This reflects the NZX 50's strong tilt toward defensive sectors such as Health Care (~25%), Industrials (~20%), and Utilities (~17%)—sectors that typically benefit from capital rotation during periods of global uncertainty.

Interest rate differentials: NZ equities are also highly sensitive to rising local rates. A 1% increase in New Zealand's 10-year government bond yield over the US leads to a 2.8% monthly underperformance versus global equities, on average. This reflects the valuation impact on sectors reliant on stable, long-duration cash flows—such

as Utilities, Industrials and Real Estate—where rising rates reduce present value, erode dividend appeal relative to bonds, and increase financing costs.

Technology underexposure: One of the clearest structural headwinds is New Zealand’s minimal exposure to high-growth sectors. With tech comprising just ~1% of the NZX 50 (vs. ~24% in the S&P World index), the market consistently lags when US technology stocks surge. A 1% rally in US tech is associated with a 0.24% drop in NZ’s relative return, highlighting how sector composition can limit upside in innovation-led market phases.

Table 4. Regression Results: Relative performance of NZ equities versus Global equities

Variable	Coefficient	Estimate	Std. Error	t value	Pr(> t)	Significance
Intercept	β_0	0.00	0.00	1.09	0.28	
NZ10yr_vs_US10yr _t	β_1	-2.18	0.77	-2.83	0.00	**
Δ CBOE.VIX _t	β_2	0.02	0.01	3.00	0.00	**
Δ US_PMI _t	β_3	0.04	0.04	0.95	0.34	
IT_Sector_spread _t	β_4	-0.24	0.03	-6.87	0.00	***
Δ US_PMI _t :	β_5	-0.86	0.50	-1.73	0.08	.
Model fits stats						
R-squared	Adj R-squared	F-statistic	p.value	df	AIC	BIC
34.74%	33.49%	27.89	< 0.0001	5	-1225	-1199

Australia: Stronger Alignment with Global Growth Cycles and Commodity Sensitivity

The Australian model (Table 5) explains over **52%** of the variation in monthly excess returns relative to global equities—indicating strong explanatory power and a good model fit. Several variables emerged as key drivers of performance, painting a picture of a market that benefits from global expansions, rising resource demand and reflationary regimes. Key findings include:

Commodity sensitivity: Unsurprisingly, a 1% rise in Australia’s commodity price index (in NZD) is linked to a 0.15% improvement in relative returns. With the ASX 200 heavily weighted in resource stocks, Australia is well-positioned to benefit from rising global demand for energy, metals, and agricultural goods.

Sector tilts: Australia’s equity market is structurally skewed toward Materials and Financials, sectors that are far more prominent in the ASX 200 than in the S&P World. Australia’s equity market is structurally skewed toward Materials and Financials, sectors that are far more prominent in the ASX 200 than in the S&P World index. To

account for this, the model controls for sector performance—revealing that each 1% gain in Materials and Financials contributes 0.15% and 0.18%, respectively, to Australia’s relative return. Importantly, even with these adjustments, commodity prices remain an independent and significant driver—reinforcing Australia's macro-level exposure to global resource cycles beyond its sector weights.

Volatility asymmetry: Rising global risk aversion (higher CBOE VIX) slightly supports Australia’s relative performance—likely through a lift in defensive resources like gold miners. However, rising domestic volatility (ASX 200 VIX) is a clear drag, dampening investor confidence and compressing valuations in rate-sensitive financials.

Technology drag: Similar to New Zealand, Australia’s lack of tech exposure becomes a disadvantage during innovation-led bull markets. A 1% surge in US tech stocks results in a 0.21% decline in relative return

Table 5. Regression Results: Relative performance of AU equities versus Global equities

Variable	Coefficient	Estimate	Std. Error	t value	Pr(> t)	Significance
(Intercept)	β_0	0.00	0.00	0.56	0.58	
$\Delta AUCommodity_NZD_t$	β_1	0.15	0.04	3.71	0.00	***
$AU10yr_vs_US10yr_t$	β_2	0.19	1.02	0.19	0.85	
$\Delta CBOE.VIX_t$	β_3	0.04	0.01	4.28	0.00	***
$\Delta ASX200VIX_t$	β_4	-0.05	0.01	-3.84	0.00	***
ΔUS_PMI_t	β_5	0.00	0.04	0.06	0.95	
$IT_Sector_spread_t$	β_6	-0.21	0.04	-9.48	0.00	***
$Materials_Tilt_t$	β_7	0.21	0.03	6.59	0.00	***
$Financials_Tilt_t$	β_8	0.18	0.03	5.73	0.00	***
ΔUS_CPI_t	β_9	-0.09	0.56	-0.16	0.87	
Model fits stats						
R-squared	adj R-squared	F-statistic	p.value	df	AIC	BIC
52.26%	50.09%	24.08	0.00	9	-983.95	-947.24

7. Investment outlook: Technology Strength in a More Complex Global Environment

The statistical analysis highlights how Australian and New Zealand equities have historically performed under different market regimes—commodity booms, global downturns, and tech-led rallies. These findings support a clear pattern: **Australian equities tend to outperform global equities mainly during commodity-driven booms**, when demand for resources is high. On the other hand, **global equities—especially those with large technology exposure—have led performance during tech-driven cycles**, like the current AI wave.

This sets the stage for the next section, which looks at what's driving markets going forward. Two key forces are shaping the outlook: the rapid growth of artificial intelligence and digital innovation, and a shift toward more protectionist trade policies—especially from the US.

The AI Boom: A Long-Term Growth Story

The current strength in technology, especially AI, is more than just a short-term trend. It is a long-term, structural change that will likely lead global markets in the coming years. Developments in AI, automation, cloud computing, and data are changing how businesses operate across all sectors. Big global companies—mostly based in the US and included in global benchmarks—are investing heavily in these technologies, which helps them grow and stay ahead of competitors.

History shows that when a sector is leading a real technology shift, it can outperform for a long time. Today's AI trend is already having a wide impact—from healthcare to manufacturing—and as adoption grows, so will its effect. This means portfolios with good exposure to global equities, especially tech-heavy ones, may benefit strongly from this trend.

Geopolitical Risks: A More Protectionist World

At the same time, the global environment is getting more complicated. The US is pushing a stronger "America First" approach, including tariffs and more control over trade. While the language can sound aggressive, the actual policy results are often softer than expected—sometimes called the "TACO" effect (Trump always chickens out). Even so, the risk of higher trade tension is still there.

For Australia and New Zealand, this brings both risks and chances. These two economies are very connected to global trade, especially with China and Asia. If trade barriers rise, it may hurt key export sectors like Australian resources or New

Zealand's dairy and tourism. These are important for local growth and investor confidence.

Sector Rotation and Investment Flows

During uncertain times, investors often move into defensive or locally focused sectors. Although Australia and New Zealand are seen as stable regions, their strong trade links can make them more vulnerable during global slowdowns.

Still, there are opportunities too. As supply chains shift—due to both politics and technology—some AUNZ companies that adjust quickly may benefit. Those that can take advantage of digital tools and regional integration could do well in this environment.

In this complex environment—where global tech leadership continues to strengthen while trade-related risks rise—**investors need to consider how to best balance regional and sector exposures. If an investor wants to increase exposure to Australian equities, it would appear to be more effective to reduce New Zealand allocation rather than global.**

This helps preserve portfolio diversification and risk-adjusted returns, as both AUNZ markets share similar characteristics—such as sector concentration and limited exposure to technology. In contrast, global equities offer broader sector representation and greater access to the long-term growth potential driven by innovation and digital transformation.

Conclusion

Markets will continue to evolve, and leadership can shift over time. But by combining insights from past performance with an understanding of structural global trends, investors can build more resilient, forward-looking portfolios.

In today's world—where innovation and uncertainty coexist—**staying globally diversified while selectively adjusting regional weights is key to capturing long-term opportunities without compromising balance.**

