

Yovich & Co. Market Update

18th December 2022

The Year in Review

From all of us at Yovich & Co we wish you a Merry Christmas and a prosperous New Year. The office will be closed from 12.00pm Friday 23rd December and will reopen 4th January.

The table below shows the year-to-date change in markets from the start of 2022 to 16th December.

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
As at 16th December	11603.66	7336.53	3167.86	7332.12	32920.46	10705.41	0.9541	0.6368	4.25%
January 2022	13033.77	7779.21	3639.78	7384.54	36338.30	15644.97	0.9406	0.6839	0.75%
Change	-10.97%	-5.69%	-12.97%	-0.71%	-9.41%	-31.57%	1.43%	-6.89%	3.50%

- Following a strong year in 2021, global markets have fallen heavily this year, driven down by a very sharp and sustained rise in interest rates. In somewhat of a hangover from the Covid lockdown period, which saw central banks pump liquidity into economies, and governments increasing debt to assist people through the lockdowns, one of the major economic effects this has had is the return of inflation. This was not helped by Russia's invasion of Ukraine, which saw the price of oil and other commodities rise, putting more pressure on costs.
- As a result, central banks entered inflation-busting mode, slowly at first but then more and more aggressively as the inflation genie proved very difficult to put back in the bottle. In NZ, the inflation rate reached 7.3%, and the official cash rate was increased by 350 basis points to finish the year at 4.25%. In the US, the inflation rate peaked at 9.1%, and the Fed Funds Rate was increased by 400bps.
- Asset prices have fallen as interest rates have risen, including the housing market, the share market, and the bond market. Stocks with long-term growth expectations have been hit hardest, with the technology sector in the US seeing a sharper correction.
- The tech-heavy NASDAQ index in the US has therefore seen the largest drop during 2022, falling 31.6%, driven by the large technology companies such as Amazon (-47.3%), Meta (Facebook) (-64.5%), Alphabet (Google) (-37.7%), and Tesla (-57.4%).
- The Dow Jones index in the US has seen a much more modest fall of 9.4%.
- The NZ market has fallen by 11.0% during 2022, with the retirement sector and property sector being particularly affected. The Australian market held up much better, falling 5.7%, while the UK market has actually recovered in the last quarter to finish only slightly down by 0.7%. The banking and energy sectors have been strong performers this year, which make up a larger proportion of the Australian and UK markets.
- The REINZ House Price Index showed NZ houses fall 13.7% from the November 2021 peak to November 2022.
- The NZD has fallen this year against the USD, despite a recent recovery, while staying relatively flat against the AUD. Risk-off sentiment due to uncertainty this year has pushed investors towards the safety of the USD, seeing the USD increase strongly.

The biggest movers of the Year to Date to 16th December

Up		Down	
Tourism Holdings	25.42%	Serko	-65.57%
A2 Milk	18.38%	Pacific Edge	-61.65%
Spark	18.14%	Restaurant Brands	-54.49%
Chorus	14.64%	Ryman Healthcare	-52.57%
Infratil	8.75%	Oceania Healthcare	-41.04%

Performance of Stock Picks 2022

At the beginning of the year (Market Update 10th January), Yovich & Co picked our 10 preferred high yielding and growth stocks from a list of 26 Herald Broker Picks as published on 28th December 2021. The table below shows those 10 companies and how they have performed year to date to 16th December:

Company	Price 31/12/2021	Price 16/12/2022	Capital Movement
Pushpay	\$1.32	\$1.29	-2.27%
AFT Pharmaceuticals	\$4.48	\$3.63	-18.97%
SkyCity Entertainment Group	\$3.12	\$2.58	-17.31%
Arvida Group	\$1.97	\$1.19	-39.59%
Mainfreight	\$93.90	\$70.60	-24.81
Summerset Group	\$13.68	\$9.07	-33.70%
Comvita	\$3.56	\$3.19	-10.39%
Contact Energy	\$8.10	\$7.90	-2.47%
Freightways	\$12.85	\$9.90	-22.96%
Skellerup	\$6.34	\$5.59	-11.83%

Of the top 50 companies that make up the NZ50 index, only 11 companies were in positive territory year to date.

Economic News

The US Federal Reserve increased the Fed Funds Rate by 50bps to an upper limit of 4.50% last week, which was expected by the market. The share market did move downwards however based on hawkish comments by the Fed, reinforcing that ongoing hikes will be appropriate, with a forecast for the Fed Funds Rate to reach 5.1% next year. Chairman Jerome Powell said it was important to keep up the fight against inflation so that the expectation of higher prices does not become entrenched. While some economic commentators are forecasting a mild recession in the US in 2023, Jerome Powell said he feels the country can maintain modest growth.

Supply chain issues are slowly being resolved, and the price of oil has come down markedly from its peak, which should assist with inflation, however economic forecasts have proved insufficient this year, with significant updates from the RBNZ for example occurring within the space of a couple of months. On the positive side in NZ, the economy grew by 2.0% in the September quarter, beating expectations for 0.9% growth.

Volatility has been a theme of share markets throughout 2022, and this looks set to continue at least into the first half of 2023. The VIX Index (CBOE Market Volatility) is a measure of share market volatility expectations. The VIX has increased by 31% during 2022, albeit well down from the highs reached earlier in the year.

Investment News

Fonterra (FSF.NZ) – Fonterra and Nestle Agree Sale of DPA Brazil Joint Venture

Fonterra and Nestle have agreed the sale of their Dairy Partners Americas (DPA) Brazil JV to French dairy company Lactalis for approximately NZD\$210m. The deal is expected to be completed by mid-2023, subject to regulatory authority approvals. Fonterra's CEO says the sale is aligned with the Co-op's strategy of prioritising its NZ milk pool.

Current Share Price: \$3.28, Consensus Target Price: \$3.54

Contact Energy (CEN.NZ) Joins Dow Jones Sustainability Asia Pacific Index

Contact Energy has joined the Dow Jones Sustainability Asia Pacific Index, being the only new inclusion from NZ this year, and has achieved the second highest ranking of any NZ company. DJSI is a global benchmark for corporate sustainability based on environmental, social, and governance (ESG) performance. The index tracks the performance of the top 20% of the 600 largest companies in the Asia-Pacific developed region.

Current Share Price: \$7.90, **Consensus Target Price:** \$8.74

Meridian Energy (MEL.NZ) To build Ruakaka Battery Energy Storage System (BESS)

Meridian Energy will begin construction of the BESS in the first quarter of 2023, being NZ's first large-scale grid battery storage system. A North Island battery was originally part of the company's response package to Rio Tinto's termination of its electricity contract for the Tiwai Point Aluminium Smelter. As Meridian has developed the opportunity, the BESS business case proved to be an economic investment irrespective of Rio Tinto's future in NZ.

Current Share Price: \$5.095, **Consensus Target Price:** \$5.42

Spark (SPK.NZ) Announces Exit of Spark Sport

TVNZ will become the home of the majority of Spark Sport content from 1st July 2023. Agreement has been reached with NZ Cricket, meaning TVNZ will show matches run by NZ Cricket for three years from the start of the 2023/24 season.

Spark noted escalating content rights costs and a broader range of investment opportunities across its business as the key drivers of the decision. Spark's FY23 EBITDAI guidance remains unchanged.

Current Share Price: \$5.34, **Consensus Target Price:** \$5.18