Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Brock Fannin (FSP 1002346)

Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Market Update

22nd January 2023

As at 20th January	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11754.44	7540.07	3195.31	7844.07	34302.61	11079.16	0.9151	0.6384	4.25%
Week Close	11977.48	7666.28	3264.81	7770.59	33375.49	11140.43	0.9290	0.6474	4.25%
Change	1.90%	1.67%	2.18%	-0.94%	-2.70%	0.55%	1.53%	1.41%	0.00%

Sharemarkets have started the new year off on a positive note. The NZ market is up 4.39% this year, including a strong increase of 1.90% in the last week. Notable movers in the last week were Fisher & Paykel Healthcare, up 11.04%, and Restaurant Brands and Summerset, up 9.40% and 6.31% respectively. Fisher & Paykel Healthcare is up 16.15% this year, owing to reports of strong sales revenue.

The US market was down slightly over last week, but is up 3.47% for the year, while the Australian market is up 1.69% over last week, and up 5.87% for the year. The UK market is down 0.94% last week, but still remains up 4.28% for the year.

Interest rates are down significantly for the year, with the 2-year US Treasury rate down 19bps to 4.19%, and the 10-year Treasury rate down 36bps to 3.48%. NZ rates are also down for the year, with the 2-year swap rate down 44bps to 4.94%, and the 5-year swap rate down 59bps to 4.27%.

The NZD has made gains against the USD this year, as risk appetite for commodity currencies has increased, as well as more weakness in the USD. The US Dollar index is down 1.43% for the year, and the NZD is up 1.87% against the USD to 0.6465. The Dow Jones Commodity Index is up slightly for the year by 0.67%, while the price of Brent Crude oil is up 1.91% for the year to US$87.

The Grocery Supplier Index, which measures the cost of grocery products supplied to Foodstuffs, showed the cost of groceries from suppliers rose 10.6% in the year to December. In particular, fresh produce prices were 24% higher year-on-year. According to QV CostBuilder, the average cost of building a home during December in NZ's main centres increased by 11.3% on the previous year. However, the rising cost of construction appears to be slowing following a 20.9% annual increase at its May 2022 update.

According to NZIER's latest outlook survey, a seasonally adjusted net 73% of businesses expect business conditions to worsen over the next 6 months vs a net 43% the previous quarter – the weakest result ever. Inflation indicators have intensified with a greater proportion of firms reporting cost increases and a greater proportion also raising prices. Westpac says business lending growth is set to slow sharply to between 3 and 4% this year, down from the 14% growth recorded last year, although will still be supported by higher-than-expected net migration this year from the return of international tourists and students.

The latest REINZ data highlighted the national median house price for December is down 14.6% from the peak of $925,000 in Nov 2021. Auckland's median, at $1,050,000, is down about 19% from peak ($1,300,000), while Wellington's at $790,000 dropped just over 20% during the year.

Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Brock Fannin (FSP 1002346)

Prime Minister Jacinda Ardern has stepped down, and will not stand for re-election, which has been set for 14th October. Chris Hipkins is set to take over as New Zealand's next Prime Minister, being the sole nominee to be the Labour Party's next leader. In his maiden speech as PM-elect, Hipkins noted he would look to "rein in programmes and projects that aren't essential right now", indicating a tightening of fiscal policy may be ahead.

The biggest movers of the week ending 20th January 2023				
Up			Down	
Fisher & Paykel Healthcare	11.04%		Pacific Edge	-9.26%
Restaurant Brands NZ	9.40%		Serko	-7.59%
Summerset Group	6.31%		Arvida Group	-5.13%
Sky Network Television	4.85%		The a2 Milk Company	-3.41%
KMD Brands	4.81%		SKYCITY Entertainment Group	-2.68%

Market Spotlight – Globalisation

From the end of the second World War, globalisation increased dramatically. Protectionist policies, including tariffs and subsidies, made way for trade liberalisation via free trade agreements. The world became more integrated via trade and the movement of people. Corporations from developed nations benefitted by offshoring production at much lower wage costs in developing nations, and buying raw materials much more cheaply, and this provided jobs and growth to those developing economies. It also opened up access to new consumers. NZ is a small trading nation that depends heavily on globalisation, with our exports dominated by primary goods and tourism, paying for all of the goods and services that we do not produce in NZ. Economies have grown to rely on the fast and efficient production and movement of goods along global supply chains, with the term 'just-in-time' being used as a supply chain strategy that resulted in little or no inventory build-up, and reduced storage costs. The major effect of globalisation has been rapid global growth, and it has also contributed to low inflation, resulting in central banks loosening monetary policy by reducing interest rates, which gradually declined to near zero in developed economies, and even went into negative territory in some countries.

The pandemic however saw borders close and international trade fall, and the effect has been a significant reduction in globalisation in the past two years. NZ's exports as a percentage of GDP have fallen from the high 20s before the pandemic to the low 20s in the last couple of years. This has disrupted established global supply chains, forcing businesses to find new suppliers and customers, and resulting in a reduction in aggregate supply. Businesses have moved from just-in-time supply chains to just-in-case, forcing higher inventory costs.

At the same time, we have seen a rise in protectionism in recent years, notably in the trade war between China and USA. We have also had the Russian invasion of Ukraine, which has increased energy prices, forcing economies to discover more reliable trading partners. Businesses to some extent have moved back from offshoring production, to 're-shoring' at home, or 'friend-shoring' closer to home. Inflation has returned, and with it higher interest rates.

New technology also reduces the gap between production costs in low-wage economies compared to high-wage economies. This will likely result in businesses investing more in automation, which requires large capital expenditure, but provides ongoing low marginal costs of production, and businesses looking for more resilient supply, requiring more warehousing capacity.

Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Brock Fannin (FSP 1002346)

Investment News

Fisher & Paykel Healthcare (FPH.NZ) Provides FY23 Revenue Guidance

The company expects full-year operating revenue for FY23 to be within the range of $1.55b-$1.60b. The managing director said that they are seeing increased sales of their Hospital hardware and consumables in China as the country manages its current wave of the virus. Also, an early start to the flu season in North America has fuelled increased demand.

Current Share Price: $26.25, **Consensus Target Price**: $22.86