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# Yovich & Co. Market Update

12th February 2023

| As at 10th February | NZX 50G | All Ords | Shanghai | FTSE | Dow | NASDAQ | NZDAUD | NZDUSD | OCR |
|---|---|---|---|---|---|---|---|---|---|
| **Previous Week** | 12197.15 | 7771.81 | 3263.41 | 7901.80 | 33926.01 | 12006.96 | 0.9140 | 0.6359 | 4.25% |
| **Week Close** | 12178.76 | 7631.13 | 3260.67 | 7882.45 | 33869.27 | 11718.12 | 0.9118 | 0.6312 | 4.25% |
| **Change** | -0.15% | -1.81% | -0.08% | -0.24% | -0.17% | -2.41% | -0.24% | -0.73% | 0.00% |

After several positive weeks to start the year, global sharemarkets gave up some of those gains last week, as the inflation-related rollercoaster continues. Following the strong US jobs report the previous week, and a revised US CPI report, inflation expectations increased last week, leading interest rates to start moving upwards after falling for the past few weeks.

The NZ market was relatively flat, falling just 0.15%, however the Australian market was down 1.81% after the Reserve Bank of Australia's hawkish comments regarding the inflation outlook. The US market was down 1.11%, with the rate-sensitive NASDAQ the main mover, down 2.41%, while the Dow Jones was down just 0.17%. The UK market was also relatively flat, down 0.24%.

The Reserve Bank of Australia raised its cash rate last week by a further 25bps to 3.35%, with the RBA expecting that further rate hikes will be needed over the months ahead. The RBA stated that "if inflation were to become entrenched in people's expectations, it would be very costly to reduce later."

Market interest rates in the US moved upwards sharply, with the 2-year US Treasury rate up 38bps to 4.48%, and the 10-year Treasury rate up 29bps to 3.67%. NZ rates also moved upwards sharply, with the 2-year swap rate up 41bps to 5.11%, and the 5-year swap rate up 36bps to 4.44%.

The USD continued to rally last week following the previous week's jobs report, with the US Dollar Index increasing by 0.69%. The NZD was down against the USD as a result, dropping 0.73% to 0.6312. The Dow Jones Commodity Index was up 2.06%, while the price of Brent Crude oil recovered upwards by 8.4% to finish the week at US$86 per barrel.

The flooding in Auckland has applied additional pressure to NZ's construction pipeline, which is likely to be channelled into prices according to economists. With the construction industry already near capacity, the incremental work is likely to delay any construction downturn. The average size of new homes consented in New Zealand has fallen 30% over the last decade to 141sqm, however average construction cost (excl-land) has almost doubled from $1,493/sqm to $2,928/sqm.

The Prime Minister announced a $1.50 increase to NZ's minimum wage to $22.70/hour from April 1, in line with inflation. Retail NZ have said that the increase will make it harder to maintain pay relativities among staff.

Auckland council is reportedly seeking advisers to assist with a potential sell-down of its 18.09% stake in Auckland International Airport, worth  approximately $2.2b.

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| The biggest movers of the week ending 10th February 2023 | | | | |
|---|---|---|---|---|
| Up | | | Down | |
| Precinct Properties NZ | 3.94% | | Pacific Edge | -6.00% |
| Air New Zealand | 3.18% | | Ryman Healthcare | -5.52% |
| Vista Group International | 2.74% | | Argosy Property | -3.83% |
| Summerset Group | 2.57% | | Scales Corporation | -3.02% |
| Ebos Group | 2.44% | | Vital Healthcare Property Trust | -2.41% |

## Market Theme – Recession

In November 2022, the Reserve Bank of NZ forecast a mild recession in NZ during 2023, with a peak to trough decline in GDP of about 1%. Treasury has also forecast recession, with December's update predicting that the economy will shrink in the second, third, and fourth quarters of 2023. With this forecast in mind, what are the implications for investors?

Global sharemarkets have declined already during 2022 due to rising interest rates, so to some extent a recession is already priced in. How a recession affects the share market from here will depend on the extent to which subdued economic activity affects corporate earnings. For investors looking to tilt their portfolios according to a recession forecast, we have laid out below some investment types that have historically performed better during economic downturns.

- **Bonds** – Bonds are a relatively safe investment during a recession. They are less volatile than shares and provide a steady stream of income through interest payments.
- **Gold** - Gold has traditionally been considered a safe haven investment during times of economic uncertainty. It has a negative correlation with shares, meaning that when shares go down, gold tends to go up. For investors looking for exposure to gold, one option is the **Global X Metal Securities Australia Ltd** fund (GOLD.ASX). This fund is backed by physical allocated gold, and offers investors a cost-efficient and secure way to access physical gold.
- **Real Estate Investment Trusts (REITs)** - REITs allow investors to buy shares in a portfolio of commercial properties. Property tends to hold its value in times of inflation, and steady rental income streams offer a buffer against a recession. Options for investors include **Kiwi Property Group**, **Goodman Property Trust**, and **Vital Healthcare Property**.
- **Dividend Stocks** - Dividend stocks are companies that pay out more of their profits, providing a high dividend yield. Much like property stocks, stocks with a steady dividend stream can hold their value better during a recession. Companies in the healthcare sector, utilities, and consumer staples sector are likely to hold up better during a recession, as opposed to financials, energy, materials, industrials, consumer discretionary, and also technology if we see poor earnings growth. With this in mind, investors might look to power companies such as **Contact Energy** and **Mercury**, and also to **Spark** and **Chorus**.

Regardless of the economic outlook, investors should ensure that their investment portfolios are well diversified according to their individual risk profile, financial position, and investment goals. An investor looking to protect against a recession might tilt their portfolio towards more bonds than shares, and within their share exposure look to tilt towards defensive sectors that provide a reliable dividend.

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# Investment News

## Pushpay Holdings (PPH.NZ) Reconfirms and Narrows FY2023 Guidance

Pushpay holdings has advised that its trading performance for December and January was in line with expectations, and the company has now narrowed its guidance range for underlying EBITDAF from US$54m-$58m to US$55m- $57m. Pushpay expects positive operating revenue growth of between 5% and 6% for FY23.
**Current Share Price**: $1.31, **Consensus Target Price**: $1.42

## Genesis Energy (GNE.NZ) Purchases Solar Site

Genesis energy and its joint venture partner, FRV Australia, have secured a fully consented, large scale solar site near Lauriston on the Canterbury plains. The 90-hectare site will hold approximately 80,000 solar panels and generate enough renewable electricity to power close to 10,000 houses. The site is expected to start generating electricity next year.
**Current Share Price**: $2.87, **Consensus Target Price**: $2.88

## Freightways (FRE.NZ) – Name and Ticker Code Change

Freightways Ltd will be changing its name to Freightways Group Ltd, and its ticker code will change to FRW on Wednesday 1st March 2023.
**Current Share Price**: $9.60, **Consensus Target Price**: $10.88

## Contact Energy (CEN.NZ) To Co-Develop Grid-Scale Solar Farm at Christchurch Airport

Christchurch Airport has selected Contact Energy and international solar developer Lightsource bp as its partners to deliver phase one of Kowhai Park renewable energy precinct. Contact Energy and Lightsource bp have entered into an exclusive partnership to co-develop grid-scale solar farms in NZ. The solar farm will consist of around 300,000 solar panels, which will generate enough energy for the equivalent of approximately 36,000 homes, or approximately half of Christchurch's domestic flights being converted to low-emission technologies. In time, Kowhai Park will be home to green hydrogen generation.
**Current Share Price**: $7.78, **Consensus Target Price**: $8.99