

# Yovich & Co. Market Update

26<sup>th</sup> March 2023

As at 24th March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
<b>Previous Week</b>	11725.62	7188.18	3250.55	7335.40	31861.98	11630.51	0.9356	0.6269	4.75%
<b>Week Close</b>	11580.81	7137.60	3265.65	7405.45	32237.53	11823.96	0.9333	0.6202	4.75%
<b>Change</b>	-1.23%	-0.70%	0.46%	0.95%	1.18%	1.66%	-0.25%	-1.06%	0.00%

The US market made a further recovery last week, as fears of a banking crisis subsided, and the Federal Reserve nears the end of the rate-hiking cycle. The S&P500 Index was up 1.39%, and the NASDAQ recovered by 1.66%. The NZ and Australian markets moved lower during the week however, down 1.23% and 0.70% respectively.

The Federal Reserve in the US increased its policy rate by a further 0.25% last week, moving the upper limit of the Fed Funds Rate to 5.00%, the highest since 2007. The Fed's economic projections showed the funds rate ending at 5.1% this year, before declining next year, while markets see only a 25% chance of a 0.25% at the next Fed decision in May. This may suggest the rate may already be at or near the peak.

The Bank of England also raised its policy rate by 0.25% last week, taking it to 4.25%, the highest level since 2008, following an inflation report of 10.4%, above forecasts. Markets expect one more 0.25% increase, which would see the rate peak at 4.50%.

US Treasury yields continued to fall last week, as investors continue to move capital into safe assets. The 2-year Treasury rate was down 38bps to 3.78%, while the 10-year Treasury rate was down 17bps to 3.38%. In NZ, the 2-year swap rate fell by 27bps to 4.87%, while the 5-year swap rate fell by 24bps to 4.32%.

The USD was down again last week, with the US Dollar Index down 0.71%. The NZD however lost ground against the USD, moving to 0.6202, as risk-off sentiment drove investors away from commodity currencies. The Dow Jones Commodity Index recovered some ground following two weeks of decline, up by 0.58%, and the price of Brent Crude oil recovered by 3.3% to close the week just under US\$75 per barrel.

In NZ, a Canstar survey shows that two-thirds of mortgage holders are cutting back on spending to meet higher repayments. Due to higher interest rates, average first home buyers remain worse off than two years ago, despite meaningful house price declines, as repayments have increased.

The biggest movers of the week ending 24 <sup>th</sup> March 2023			
Up		Down	
Fisher & Paykel Healthcare	4.39%	The Warehouse Group	-15.90%
KMD Brands	4.00%	Synlait Milk	-15.79%
Spark	1.85%	Scales Corporation	-7.72%
Skellerup Holdings	1.03%	Kiwi Property Group	-7.14%
Chorus	1.00%	Argosy Property	-6.99%

## Market Spotlight – Volatility

Since the start of 2022, we have seen downward corrections in global sharemarkets, coupled with ongoing heightened volatility. If we look back to early 2020 when the Covid pandemic hit the world, the initial response from sharemarkets was a heavy decline. This was swiftly turned around however as central banks dramatically lowered interest rates, and conducted quantitative easing to avoid a recession. Asset prices ballooned as a result during 2020, and to some extent this continued during 2021. By 2022, the effect of lockdowns and clogged global supply chains caught up with us, with fewer goods being produced and transported, and the monetary policy that flooded existing assets with extra money, resulted in the return of high inflation (meaning a loss of purchasing power).

Inflation caused central banks to change tack and start lifting interest rates, and reversing quantitative easing, causing asset prices to reverse course downwards. Exacerbating the return of inflation was the Russian invasion of Ukraine, which pushed up commodity prices, including oil, which had a significant effect on prices throughout the economy. Since then, central banks have progressively raised rates to curb inflation, and within an aggressive timeframe. The Reserve Bank of NZ, for example, has raised the Official Cash Rate (OCR) from 0.25% in October 2021 to 4.75% in February 2023.

This sparked a rollercoaster ride for sharemarkets due to the ongoing uncertainty of how long it will take to get on top of rampant inflation. Markets hang on every news report, jumping at any suggestion that inflation is slowing down, then falling at the next piece of news that suggests the opposite.

### **CBOE Volatility Index (VIX)**

The VIX index represents the market's expectations for volatility in the US S&P500 Index over the coming 30 days. 2022 saw heightened levels for the VIX index due to the uncertainty in markets. This seemed to settle somewhat during the end of 2022 and the start of 2023. However, the collapse of Silicon Valley Bank in the US, and subsequent fears of contagion in the banking industry, caused the VIX index to rise by 34% during the week of 10<sup>th</sup> March. However, this movement was subdued when compared against the MOVE Index of US Treasury volatility.

### **MOVE Index**

What the VIX Index is for stocks, the MOVE Index is the VIX for bonds. It is a well-recognised measure of US interest rate volatility that tracks the movement in US Treasury yield volatility implied by options pricing. The movements in bond markets caused by the banking crisis saw the MOVE Index reach its highest levels since 2008. Heightened risk aversion has pushed investors towards the safety of bonds, lowering yields.

### **What Should Investors Do?**

The best protection against volatility is a diversified portfolio of investments. Investors should work with their investment adviser to stay focussed on the strategy they set in their investment plan. This will help to minimise losses caused by trying to gamble on the timing of the market. Maintaining a 'time in the market' approach will let time smooth out the volatility that is ever-present in markets.

## Investment News

### **Contact Energy (CEN.NZ) Launches Green Bond Offer**

Contact Energy is offering up to \$200m of 6-year fixed rate, unsubordinated green bonds. The bonds are expected to be assigned a credit rating of BBB. The margin range is 1.35% to 1.50%, and the minimum interest rate is 5.40%pa. The proceeds will be used for the financing and refinancing of renewable generation and other eligible green assets.

**Current Share Price: \$7.22, Consensus Target Price: \$9.01**

### Goodman Property Trust (GMT.NZ) – Preliminary Valuation

Goodman advises that the FY23 annual result is expected to include a reduction in fair value of its property assets by \$238m, or 4.7%. Draft valuation reports indicate that GMT's portfolio will be valued at around \$4.8b. The forecast valuation movement is expected to reduce net tangible assets by around 17 cents per unit. The CEO has said that with occupancy over 99%, and annual market rental growth of 19%, these factors have reduced the impact of softening capitalisation rates on valuations. The weighted average cap rate is forecast to be 5.2%, compared to 4.2% in March 2022.

**Current Share Price:** \$2.00, **Consensus Target Price:** \$2.02

### KMD Brands (KMD.NZ) – First-Half Profit Returns to Positive

KMD Brands announced its first-half results for FY23, with sales of \$547.9m, up 34.5% on the 1H22, and underlying net profit of \$16.5m, up from -\$5.1m in 1H22. The sales growth was supported by the return of international travel and tourism, while the margin improved, reflecting Kathmandu's improved performance. A dividend of 3cps was declared.

**Current Share Price:** \$1.04, **Consensus Target Price:** \$1.35

### The Warehouse Group (WHS.NZ) – First-Half Profit Down 53.4%

The Warehouse announced its first-half results, with group sales of \$1.8b, up 4.8% due to a strong first quarter. Contributing to the increased sales was the grocery division, with sales up 34.0%. Gross margin however was down to 32.7%, from 34.7%, due to increased investment in MarketClub and Grocery. Operating expenditure was also up 3.5% due to increased information systems costs. Adjusted net profit of \$19.6m was down 53.4% from 1H22. The Board has decided not to pay an interim dividend as the economic outlook is very challenging, but has reserved the decision to pay a dividend on the full year result.

**Current Share Price:** \$2.01, **Consensus Target Price:** \$2.03