

# Yovich & Co. Market Update

7<sup>th</sup> May 2023

As at 5th May	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12019.84	7500.95	3323.27	7870.57	34098.16	12226.58	0.9344	0.6171	5.25%
Week Close	11889.01	7413.08	3334.50	7778.38	33674.38	12235.41	0.9323	0.6274	5.25%
Change	-1.09%	-1.17%	0.34%	-1.17%	-1.24%	0.07%	-0.22%	1.66%	0.00%

Global share markets fell last week, led by the US. The S&P500 Index dropped 0.8%, as US regional banking stocks suffered from panic selling earlier in the week, however the market recovered some of the lost ground by the end of the week after the release of data showing solid jobs growth. The Dow Jones fell by 1.17%, however the NASDAQ index actually gained 0.07% over the week. The NZ market was down 1.09% for the week, while the Australian market was down 1.17%.

The Federal Reserve in the US hiked rates by a further 25bps last week, moving the upper bound of the Fed Funds Rate to 5.25%, which was largely expected in the market. Given the wording of the Fed, expectations are that this should be the final rate hike, however this will be data-dependent. The Reserve Bank of Australia also hiked rates last week, raising the cash rate by 25bps to 3.85%, which came as a surprise to the market given that their last decision was to pause their rate-hike cycle.

The labour market in NZ remains very tight, as the labour force report for the March quarter shows unemployment remained unchanged at 3.4%, compared to expectations of an increase to 3.5%. Wage growth accelerated, with average hourly earnings increasing 2.1%, taking the annual increase to 8.2%.

A weaker USD saw the NZD rise above the 0.63 mark before finishing the week at 0.6274 against the USD. The AUD was strong last week, with the NZD falling back slightly to 0.9323. The Dow Jones Commodity Index was down by 1.73%, and the price of Brent Crude oil fell for another week, down 5.36% to US\$75 per barrel.

The latest RBNZ data shows that there was a record amount of interest charged on residential mortgages in the March quarter (since data became available in 2014). Corelogic data shows that average house values fell another 0.6% in April.

New Zealand's Free Trade Agreement with the UK will come into force at the end of the month. From 31<sup>st</sup> May, tariffs on 97% of exports including wine and honey will be eliminated. It will take five years for dairy and 15 years for sheep and beef tariffs to be completely removed.

The biggest movers of the week ending 5 <sup>th</sup> May 2023			
Up		Down	
Fonterra Shareholders' Fund	8.12%	Synlait Milk	-11.18%
Serko	6.19%	Westpac Bank	-6.33%
Vista Group International	5.69%	SKYCITY Entertainment Group	-5.42%
Fletcher Building	4.44%	Pacific Edge	-5.38%
Scales Corporation	3.81%	Vulcan Steel	-4.73%

## Market Theme – Have Interest Rates Peaked?

Following months of sustained interest rate hikes over the past year or so, are we at the end of the cycle now? The Reserve Bank of NZ has now raised the OCR (Official Cash Rate) from 0.25% in October 2021 to 5.25% in April 2023, and is expected to raise it by another 25bps in the next meeting in May to 5.50%. In the US, the Federal Reserve has now raised the Fed funds rate from an upper limit of 0.25% in March 2022 to 5.25%, while the Reserve Bank of Australia has also lifted its cash rate, from 0.10% in May 2022 to 3.85%.

The market is now of the view that we are close to the peak in the current interest rate cycle, and there are some forecasts of interest rate cuts by year end. Fed Chair Powell said that while inflation has moderated somewhat since the middle of last year, inflation pressure is still high, and the labour market remains very tight, with labour demand still substantially exceeding the supply of available workers. Powell reinforced the Fed's focus of getting inflation back down to 2%, however there was no indication of further rate rises, with this being dependent on data.

The Reserve Bank of Australia had previously halted rate hikes, however resumed the upwards cycle last week with a 25bps rise, against expectations. The RBA said that the previous pause provided time to assess the state of the economy and the outlook. The recent inflation rate of 7% was a drop from the previous measure of 7.8%, but it was still considered too high, and the bank wants to return inflation to the target range within a reasonable timeframe.

With the rate hikes set to have an on-going effect on dampening demand in the economy for some time, the effect will be to slow economic growth. This is predicted by the market via the inverted yield curve, as long-term rates are lower than the short-term rates influenced by the OCR. Most forecasts are that interest rates offered in the market are now near or at peak levels, however it is uncertain how long it will be for rates to start coming down.

For investors with cash, there is the danger of waiting to time the market when considering investing in shares, as it is very hard to time it just right. As always, our approach is "time in the market", versus "timing the market". For those investors seeking to add to their bond portfolio, there is opportunity to get decent returns and lock them in on 5-7 year dated bonds.

For investors looking to add to their share portfolio, companies in defensive sectors are typically more resilient during times of slower economic growth. These include healthcare, consumer staples, and utilities.

## Investment News

### Auckland International Airport (AIA.NZ) Considers Retail Bond Offer

Auckland Airport is considering an offer of fixed rate bonds maturing in November 2028 (5.5-year term) to NZ retail investors and to institutional investors. It is expected that full details of the bond issue will be released during the week of 8<sup>th</sup> May 2023.

**Current Share Price:** \$8.75, **Consensus Target Price:** \$8.37

### ANZ Bank (ANZ.NZ) – Half-Year Cash NPAT Up 23%

ANZ Bank has announced its half-year results, showing growth in operating income of 18% compared to 1H22, while operating expenses increased by 4%. Cash NPAT of \$3.821b was an increase of 23% compared to 1H22. The net interest margin increased to 175bps from 158bps in 1H22, due to favourable deposit margins from a rising interest rate environment. An interim dividend of 81cps was announced, an increase from 72cps in 1H22.

**Current Share Price:** \$25.53, **Consensus Target Price:** \$27.46

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

Yovich  
& Co

WEALTH MANAGEMENT

### Manawa Energy (MNW.NZ) Advances Wind Farm in Central North Island

Manawa Energy has secured the rights to develop a circa 230 megawatt wind generation project in the central North Island, between Taihape and Waiouru. The CEO said Project Huriwaka was a well-known and highly regarded site for a potential wind farm. The project would be expected to generate around 800 gigawatt hours of electricity each year; enough to power 100,000 homes. The project is expected to take at least three years.

**Current Share Price:** \$4.96, **Consensus Target Price:** \$6.06