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

Yovich & Co. Market Update

5th June 2023

As at 2nd June	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11830.03	7334.53	3212.50	7627.20	33093.34	12975.69	0.9276	0.6046	5.50%
Week Close	11880.90	7331.23	3230.07	7607.28	33762.76	13240.77	0.9172	0.6061	5.50%
Change	0.43%	-0.04%	0.55%	-0.26%	2.02%	2.04%	-1.12%	0.24%	0.00%

Share markets were mixed last week, with a modest increase in the NZ market of 0.43%, helped by strong gains for Arvida, Mercury, and Meridian. The US market had another strong week, increasing by 1.83%, as investors were encouraged by the resolution to the debt ceiling standoff, as well as evidence of slowing inflation and an easing labour market. The Australian and UK markets were negative however, down 0.04% and 0.26% respectively.

The ANZ Business Outlook survey showed improved business confidence in May, with the results being the highest since December 2021, albeit still well below the long-term average. The ISM manufacturing index in the US for May showed further contraction and falling prices, while the US jobs report showed an increase to unemployment from 3.4% to 3.7%, and slowing wage growth. Markets are now seeing a higher likelihood that the Federal Reserve pauses its rate hikes at its next meeting, and an improved chance of a soft landing for the US economy.

Interest rates in NZ decreased further last week slightly, following heavier falls from the previous week. The 2-year swap rate decreased by 5bps to 5.21%, while the 5-year swap rate decreased by 14bps to 4.44%. US interest rates also declined last week, reversing some of the increases of the previous week. The 2-year Treasury rate was down 17bps to 4.34%, while the 10-year Treasury rate was down 18bps to 3.61%.

The NZ dollar declined by 1.12% against the Australian dollar to 0.9172, as higher inflation in Australia increased the likelihood of a further rate rise by the RBA. The NZD was relatively unmoved against the USD however, and remains under the 0.61 mark. The Dow Jones Commodity Index was down by 0.45% last week, and the price of Brent Crude oil declined by 1.15% to finish below US$77 per barrel.

Data from Stats NZ suggests the labour market is showing few signs of cooling as surging immigration has led to a lift in employment. At the same time, the number of new dwellings consented is down 25.9% compared to April last year. ANZ has dialled-back its expectations for house price declines, forecasting a 1.6% quarterly increase in each of the September and December quarters, having previously predicted a 0.4% decline and 0.4% increase respectively.

The biggest movers of the week ending 2nd June 2023				
Up			**Down**	
Arvida Group	7.96%		Tourism Holdings	-4.64%
Pacific Edge	6.45%		Fletcher Building	-3.32%
Mercury NZ	5.56%		Ebos Group	-2.40%
Meridian Energy	4.21%		Kiwi Property Group	-2.19%
Ryman Healthcare	3.65%		Scales Corporation	-2.16%

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

Investment Topic – Risk & Diversification

Investing in the share market, like investing in property, comes with risks. This has been highlighted recently with the NZ share market falling during 2021-2022. The table below shows the annual returns for the NZ50 index over the last 5 years, as well as the Australian Top 200 index and the US S&P 500 index.

Year	NZ50	Aus (Top 200)	US (S&P 500)
2022	-14.5%	-5.45%	-19.44%
2021	-2.9%	13.02%	26.89%
2020	11.4%	-1.45%	16.26%
2019	26.0%	18.38%	28.88%
2018	1.35%	-6.9%	-6.24%

Investing in shares has proven to provide strong long-term returns, and indeed shares are an important asset class for investors to ensure they are protecting their wealth from inflation. However, as shown above, returns are not consistent; they are lumpy. The reality is that investing in shares comes with short-term volatility of returns, which includes negative returns, as experienced in the NZ market over two consecutive years in 2021 and 2022. So far in 2023, the NZ market has recovered by 2.50%, while the Australian and US markets have increased by 2.52% and 11.31% respectively.

Two main risks are business risk and market risk. Business risk refers to an individual company's ability to achieve its financial goals, and the likelihood of lower profits or failure. Market risk refers to the chance of an investor incurring losses due to factors that affect the entire share market. Factors can include interest rate changes, recessions, and geopolitical events. The most recent example here is the global supply chain constraints that have led to inflation, leading to interest rate rises, which in turn has pushed down asset prices, including shares. The effect is a general decline in values, in this case a global event, regardless of the individual companies being invested in on aggregate.

Risk Mitigation

While risks cannot be eliminated, investors can mitigate business risk by firstly focussing their investments on quality companies, with a proven track record of profitability, and a strong competitive advantage. Secondly, they can diversify their investments into different companies, sectors, and regions.

An investment portfolio's risk refers to the volatility of returns. Statistically, this can be measured by the standard deviation of returns. A lower standard deviation suggests the returns are more stable and predictable, and therefore less risky. One of the key benefits of diversification is that it can lower the standard deviation. By spreading their risk across a range of different shares, investors can reduce the impact of any one share or sector on their overall portfolio, which can lead to a more stable and predictable return profile.

Importantly, while diversification lowers the standard deviation of a share portfolio, it does not affect the portfolio's average return. An investor can therefore lower their risk by adding more shares into their portfolio, without compromising on the overall average return.

Market risk however cannot be mitigated by diversifying into different companies, as it refers to the risk of the entire market losing value. Investors should look to mitigate market risk by diversifying their investments between shares and bonds. Also, taking a long-term view of your investments can let you see past the short-term noise of market fluctuations.

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

Investment News

Arvida Group (ARV.NZ) – Underlying Profit Up 20%

Arvida Group announced its full-year results for FY23, showing a record underlying profit of $88.0m, up 20% from FY22. The new sales volume was down due to delays to the delivery programme, however the dollar amount was up 10% due to higher price and margin. The resale margin increased to 32% from 26% in FY22, and volumes increased 10%. Gearing remains within the target band of 25%-35%, at 30.5%. The final dividend is 2.35cps, taking the full-year dividend to 4.85cps, which is lower than FY22 of 5.50cps. Due to cost pressures, and the need to be prudent with cash flow, Arvida has amended their dividend policy for FY24 from a payout ratio of 40%-60% of underlying profit, to 30%-50%. FY24 dividend is forecast to be at the lower end of this range, while the FY23 dividend was 40%.
Current Share Price: $1.22, **Consensus Target Price**: $1.59

Mercury NZ (MCY.NZ) Considers Green Bond Offer

Mercury is considering making an offer of up to $100m of 5-year unsecured, unsubordinated fixed rate green bonds, with the ability to accept up to an additional $50m of oversubscriptions at Mercury's discretion. The bonds are expected to be assigned an issue credit rating of BBB+ by S&P Global Ratings. The proceeds of the bonds are intended to be earmarked to finance eligible green projects.
Current Share Price: $6.65, **Consensus Target Price**: $6.28