

Yovich & Co. Market Update

6th February 2024

We hope you all had a restful festive season and are ready to embark on a successful year ahead. We look forward to continuing to work with you to achieve your investment goals and objectives.

Investment News

Close 31 January 2024	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	11770.49	7829.49	2974.93	7733.24	37689.54	15011.35	0.9274	0.6320	5.50%
Month Close	11872.10	7912.83	2788.55	7630.57	38150.30	15164.01	0.9314	0.6117	5.50%
Change	0.86%	1.06%	-6.27%	-1.33%	1.22%	1.02%	0.43%	-3.21%	0.00%

Last month witnessed another positive month for global share markets, extending the momentum from December. In the US, major indices such as the NASDAQ, Dow, All Orders Index (XAO.asx), and NZX50G, experienced gains of 1.22%, 1.22%, 1.06%, and 0.86% respectively. However, the NZD/USD pair continued its decline, dropping by 3.21% for the month of January.

The market anticipates no change to the Official Cash Rate (OCR) when the Reserve Bank of New Zealand (RBNZ) announces its OCR policies on 28 February. Governor Adrian Orr is scheduled to deliver a keynote speech at the NZ Economics Forum at the University of Waikato on 16 February. The theme will focus on the changing drivers of inflation and the continued relevance of an inflation target centered on 2%.

A key metric that the markets take notice of is the unemployment rate, which has risen from 3.9% to 4% for the three months ending 2023, slightly below economists' expectations of 4.3%. The rate has now returned to pre-pandemic levels after spending two years at historic lows. An increase in net migration grew the working-age population by 124,000 potential workers (3%) bringing the total to 4.3m. A negative reason for cooling the OCR rate is the increase in the labour cost index (measurement of the cost of the same standard job to employers) rising 4.3%, along with the average hourly earnings rising 6.9% to \$40.84.

The Global Dairy Prices continued with a fifth straight increase, climbing 4.2%. Strength was observed across Whole Milk Powder (WMP), Skim Milk Powder (SMP), Anhydrous Milkfat (AMP), and Butter, with increases of 3.4%, 4.6%, 3.3%, and 10.37% respectively. These results are expected to lead to an increase in the farmgate milk price.

The Reserve Bank of Australia (RBA) held rates at 4.35% and signalled a likelihood of maintaining this stance until February 2025. And also softening their forward guidance to "it will be some time yet before inflation is sustainably in the target range... a further increase in interest rates cannot be ruled out". The market reaction (bond yields and AUD higher) suggests the tone was more hawkish than market expectations.

In the Federal Open Market Committee meeting on 30 January, Jerome Powell held interest rates at 5.50%. This has been the fourth consecutive meeting at which rates have not changed. Markets are also forecasting no cut in the rate in March. The main reason for this is that economic activity has been expanding at a solid pace. Job gains have moderated since early last year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated.

The biggest movers of the Month ending 31 st January 2024			
Up		Down	
a2 Milk (ATM.nz)	11.96%	Oceania (OCA.nz)	-7.89%
Summerset (SUM.nz)	7.22%	KMD Brands (KMD.nz)	-6.67%
Hallenstein Glasson (HLG.nz)	5.96%	Heartland (HGH.nz)	-6.08%
Ebos Group (EBO.nz)	5.77%	Skellerup (SKL.nz)	-5.56%
Infratil (IFT.nz)	5.33%	Fletcher Building Limited (FBU.nz)	-5.44%

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Market Spotlight – Currency Hedged Investments

What do Currency Hedged Investments mean?

Currency hedging can help reduce the effect of foreign exchange rate fluctuations on international investments. Where an unhedged investment is fully exposed to the risk of currency fluctuations.

Let's look at an example of an un-hedged investment (excluding transaction costs).

A lot of our managed clients hold the asset Invesco QQQ Trust (QQQ.nas) in USD currency.

- On 1 January 2021, the NZD/USD was 0.7184 meaning that to purchase one \$1 USD it would cost \$1.39NZD (1/0.7184), and the QQQ.nas asset was US\$313.58 therefore costing NZ\$436.50.

Three years on (1 January 2024) one \$1 USD is now \$1.58 NZD (1/0.6335) and the assets price is US\$431.99 equating to NZ\$681.91.

We have three scenarios to play out:

- No change in currency: QQQ.nas US\$431.99/0.7184 is NZ\$601.32.**
The return from the asset value would be US\$118.41 ((US\$431.99-\$313.58)/\$313.58), and the return in an un-hedged or hedged asset would be the same at 37.75% ((NZ\$601.32-\$436.50)/\$436.50).
- NZD appreciates to 1/0.7589: QQQ.nas US\$431.99/0.7589 is NZ\$569.23.**
The asset value has still increased (37.75%) but the overall NZD profit will be reduced to 30.40% due to NZD currency appreciation, ((NZ\$569.23-\$436.50)/\$436.50).
- NZD depreciates to 1/0.6335: QQQ.nas US\$431.99/0.6335 is NZ\$681.91.**
Like the above scenarios, the asset price has increased 37.75% now the overall profit would be 56.22% ((NZ\$681.91-\$436.50)/\$436.50). In this example, the NZD depreciated against the USD increasing total NZD returns.

If your view is that the NZD currency is at a low against the USD and would still like to buy US or international assets to diversify your portfolio, there are options such as the Smartshares US 500 (NZD HEDGED) ETF (USH.nz) or Total World (NZD HEDGED) ETFT (TWH.nz). Both these investments are hedged to the NZD dollar, therefore these investments would provide exposure without the risk of currency fluctuations.

Company News

Briscoe Group Limited

The directors of Briscoe Group Limited announced unaudited sales for the full-year, 52-week period to 28 January 2024 of \$792.0 million, an increase of 0.78% on the \$785.9 million reported for last year. Both segments delivered sales growth - the homeware segment increased sales by 0.54% during the full year and the sporting goods segment increased by 1.17% for the full year. As announced earlier the Board expects full-year net profit after tax (NPAT) to be in excess of \$83 million which will represent at least 94% of last year's record NPAT of \$88.4m, due to a struggling retail environment. The Group is due to report its full year result, including announcement of final dividend, on Wednesday 13 March 2024.

Current Share Price: \$4.55, Consensus Target Price: \$4.87, Forecasted Gross Dividend: 6.18%.