

Yovich & Co. Market Update

October 24th 2017

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Month	7930.40	5744.86	3348.94	7372.76	21830.31	6495.96	0.9203	0.7210	1.75%
Week Close	8129.55	5968.62	3378.65	7523.23	21674.51	6629.05	0.8911	0.6964	1.75%
Change	2.51%	3.89%	0.89%	2.04%	-0.71%	2.05%	-3.17%	-3.40%	0.00%

Market Themes

- Against all odds, Labour and Jacinda Ardern have formed a government with NZ First and the Greens.
- As I have mentioned over the past few months, although this outcome was unlikely, it had not concerned investors.
 - The share market eked out a small gain on Friday after the announcement was made.
 - Since Election Day on the 23rd of September, the NZ50 Gross index is up over 4%.
- The biggest impact from the election so far has been on the value of the Kiwi dollar. On Friday, the day after the Labour/NZ First/ Greens coalition was announced, the currency fell approximately 2% against the Aussie. Over the past month the Kiwi is down over 3% against the Greenback and Aussie dollars.
- Dairy related stocks have been the standout over the past four weeks with Synlait Milk up 46.06%, a2 Milk up 36.06% and Fonterra up 4.75%. Other winners included XERO (up 19.40%) and exporting, food producers Scales (up 8.31%) and Sanford (up 6.78%).
- The strong performance of the Aussie market has been broad based with the Consumer Staples sector leading the market close to record post GFC highs.
- The Tech Sector continues to outperform the wider market in the US with chip manufacturers such as Intel, NVIDIA and Micron Technology posting gains of over 9% for the previous month.

Investment News

Labour/NZ First/Greens – Initial Reaction

The reaction on the share market has been muted, with the biggest move happening in the currency. Here is a summary of what we know about the coalition's priorities and my thoughts on what this means for investors:

- The tone of the speeches from Jacinda Ardern and Winston Peters has been "Anti-Capitalist". This would normally be very negative for the share market and would scare off international capital but expectations are that socialist centric policy will focus on the obvious areas of concern and will be gradual.
- Changes to the Reserve Bank Act and mandate. With house affordability at record lows, there are expectations that the RBNZ will have greater responsibility on controlling not only inflation, but also maintaining full employment. This has already impacted the value of the Kiwi Dollar and seen the value of exporting companies move upwards.
- Tighter rules around Foreign Investment will have a negative impact on house prices as this will remove a significant amount of capital that has been a catalyst for sky rocketing house prices. The impact of this has already been seen in the retirement village sector with Ryman down 6.57%, Summerset down 6.38% and Arvida down 3.25% over the past week.
- Trade Agreements such as the TPP are likely to continue to be worked on although there will need to be work done on limiting foreign investment.
- The Minimum Wage is set to be increased by around 5% from \$15.75 per hour to \$16.50 per hour. The impact will be negative for those companies that pay a significant proportion of their staff at these levels.
- Labour's policy has been to reduce net migration by 20,000 – 30,000 from the record levels we had in July which was 72,400. This will have an impact on low wage employers. The fall in supply of labour will should be partially offset by more New Zealanders entering the labour force based on a higher minimum wage.
- 10,000 affordable homes should start to alleviate the under supply of houses, especially in Auckland.
- A resumption of payments into the New Zealand Superannuation Fund slightly undermines the establishment of KiwiSaver but will also be supportive of the share market.

Overall there does seem to be a few unknowns that are going to have wide ranging effects on parts of the economy so I am surprised that the markets is as optimistic as it is. On the other side of the coin, it also reiterates how much positive sentiment there is for the New Zealand economy based on strong fundamentals for food production, tourism and exports.