

# Yovich & Co. Market Update

December 18<sup>th</sup> 2017

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Current Level	8235.09	6077.41	3289.99	7393.96	21858.32	6840.08	0.9105	0.6837	1.75%
January 2017	6970.66	5808.98	3154.32	7210.05	18085.45	5521.06	0.9537	0.6959	1.75%
Change	18.14%	4.62%	4.30%	2.55%	20.86%	23.89%	-4.53%	-1.75%	0.00%

From all of us at Yovich & Co. we wish you a Merry Christmas and a prosperous New Year. The office will be closed from Friday the 22<sup>nd</sup> of December and will reopen on January the 8<sup>th</sup>. Below is a summary of my year in review:

## Year in Review - Market Themes

- It was a surprisingly strong year for global markets, with many predicting that the bull market would end in 2017. It turned out to be the absolute opposite with the NZX 50 gross index recording its best performance since 2012.
- In 2016 there were plenty of political surprises and from a global perspective 2017 was a far more settled year politically. New Zealand however, caught the populist politics bug with “Jacindamania” gathering momentum and Winston Peters being given the balance of power to change the government.
- The winning streak on the New Zealand Stock market has stretched to six years.
- The markets total return since the start of this bull market (March 2009) now stands at 246%. This return is clearly not sustainable but in a low interest rate and low inflation economic environment there are fundamentals to support the current valuations.
- The Dairy Sector and specifically The A2 Milk Company (ATM.nz) was the clear standout this year. ATM had a break out year with Net Profit increasing almost 200% and the share price sky rocketing 290%. Synlait Milk Limited (SML.nz) also had their share price more than double as higher milk prices saw margins improve. Fonterra was also up for the year but with a far more modest return of 13.95%.
- Resource stocks across the Tasman continued their recovery with the large cap, diversified miners like Rio Tinto and BHP Billiton outperforming the broader index significantly. The Financials however, held the market back with their share prices making a small gain over the 12 months.
- The FTSE 100 index in London has recovered from the shock of Brexit to be trading back at record highs, although in a currency adjusted basis, the weak Sterling reduces the total return if reflected in NZD, USD or EUR.
- Any risk that Donald Trump might have derailed the US economy seems to be completely forgotten, with both the Dow Jones and the NASDAQ having one of their best performances over the last five years. Strong consumer confidence and jobs numbers are driving economic growth to the highest level in three years.
- With the OCR remaining at record lows, it has been an increasingly difficult time to invest in fixed interest investments such as Bonds and Term Deposits. The new Governments intention to increase the scope of the Reserves Bank’s mandate to focus on Full Employment as well as Inflation could see further measures come into effect to stimulate the economy and keep rates low.
- The Kiwi Dollar finally reversed the upbeat trend against the US and Aussie Dollars as the change of government saw international capital flow out of New Zealand due to the risk of reform of the Reserve Bank Act.

## Investment News

### First NZ Capital NZ Herald Stock Picks for 2018

The usual stock picks for next year are likely to be published on Boxing Day in The Herald. The FNZC 2017 basket of Fisher and Paykel Healthcare (FPH), Xero (XRO), Synlait (SML), Tegel (TGH), Contact Energy (CEN) returned approximately **+58%** for the year.

The 2018 picks are as follows:

- 1) EROAD (ERD \$3.20). Valuation upside is possible for US Earnings if they can continue to build traction on this part of their business. (12 Month Target Price: \$3.30)
- 2) Tilt Renewables (TLT \$2.02). “TLT’s existing wind portfolio provides a stable earnings base for investors, and helps support aggressive development rates and its Australian wind build opportunity is unquestionably large.” (12 Month Target Price: \$2.27)
- 3) Metlifecare (MET \$6.03). MET has an attractively positioned village portfolio with the positives accentuated over the last three years by a very strong property market. (12 Month Target Price: \$7.46)
- 4) Scales (SCL \$4.82). Favourable apple production levels and selling conditions in 2018 as well as potential tailwind from a weaker NZD could provide valuation upside. (12 Month Target Price: \$5.00)
- 5) NZ Refining (NZR \$2.56). NZR remains well positioned for FY17 with USD earnings providing a catalyst for re-rating if the NZD falls. (12 Month Target Price: \$2.95)