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Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Market Update

23rd January 2022

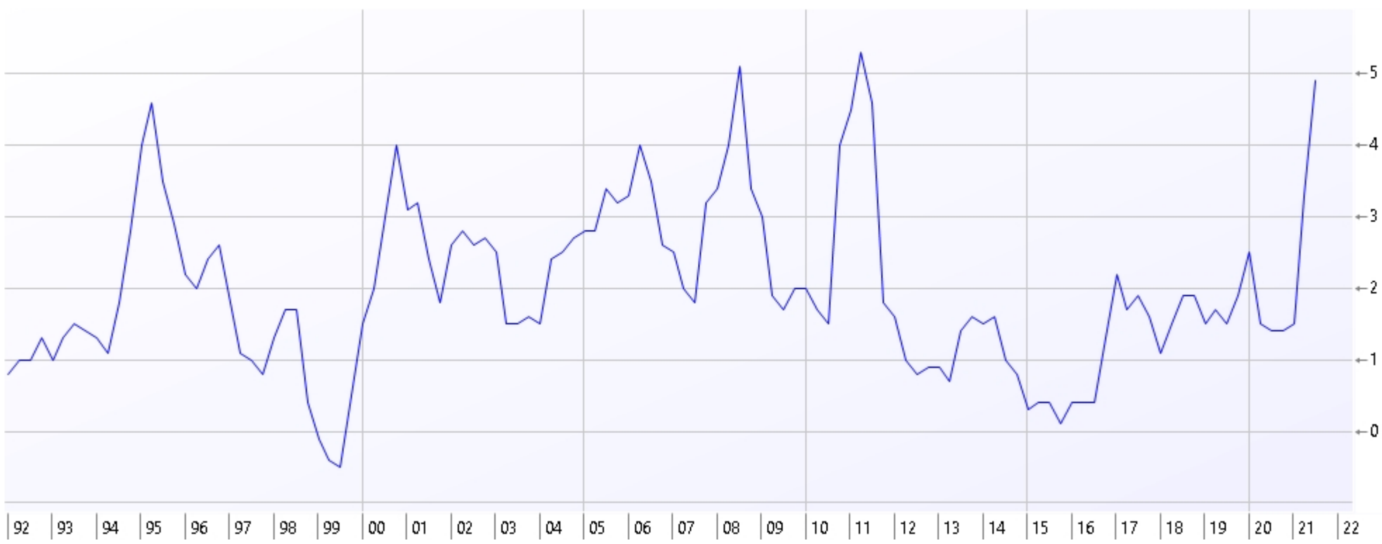
As at 21st January	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12790.16	7717.12	3521.26	7542.95	35911.81	14893.75	0.9438	0.6802	0.75%
Week Close	12348.00	7490.10	3522.57	7494.13	34265.37	13768.92	0.9353	0.6718	0.75%
Change	-3.46%	-2.94%	0.04%	-0.65%	-4.58%	-7.55%	-0.90%	-1.22%	0.00%

After a strong 2021 year, markets in the US have had a weak start to 2022 as US interest rates have risen sharply, with the Dow Jones falling 5.7% in January, while the NASDAQ has fallen 11.99%, due to the larger correction in technology stocks. The NZ market has fallen 6.68% this year.
The USD has made gains against all currencies, with the NZD dropping to 0.6718 USD.

The biggest movers of the week ending 21st January			
Up		**Down**	
EROAD	2.92%	Oceania Healthcare	-7.69%
Vista Group	2.30%	Fisher & Paykel Healthcare	-6.77%
Sky TV	2.06%	Mainfreight	-6.31%

Market Spotlight - Inflation

Inflation is topical given current supply chain constraints and labour shortages due to Covid lockdowns, putting pressure on the cost of goods. After a long period of sustained low inflation over the past 10 years, inflation has spiked to 4.9%, as shown in the chart below which shows annual inflation each quarter since 1992. We have to go back to June 2011 to see higher inflation, when it hit 5.3%.



How is Inflation Measured?

Inflation is the rise of the average price of goods and services, as estimated by the Consumer Price Index (CPI). The CPI is a basket of goods whose prices Statistics NZ calculates using sampling methods each quarter. This involves collecting around 100,000 prices through business surveys and website visits. The CPI basket includes 649 items that represent the range of goods and services that households purchase.

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What Causes Inflation?

Inflation occurs when aggregate demand for goods and services exceeds aggregate supply, which is occurring right now with global supply constraints leading to a shortage of supply of goods compared to demand. The unemployment rate has long been considered a gauge as to how much spare capacity an economy has for further supply of goods and services. Those that lived through the 1970s and early 80s might laugh at 5% inflation being considered high. During that time, inflation averaged 11%, due to oil shocks causing rapid petrol price increases, coupled with Muldoon-era expansive government spending increasing demand.

What Is the Effect of Inflation?

If inflation runs higher than wage increases, this erodes the purchasing power of workers, including pensioners. It also creates uncertainty for businesses about future price rises which can lead to more caution when considering investing and hiring new staff.
High inflation favours borrowers, as interest repayments are reduced in inflation-adjusted terms, while disadvantaging savers who see their real returns eroded from investments such as term deposits, where the interest rate received is not enough to compensate for inflation. Traditionally, real assets, such as equities, property, and commodities have performed best in times of high inflation.

How Do We Keep Inflation Under Control?

The Reserve Bank of New Zealand (RBNZ) is tasked with keeping inflation within the target range of 1% to 3% over the medium term. To do this, the RBNZ uses monetary policy via the Official Cash Rate (OCR) and more recently Large Scale Asset Purchases (LSAPs). While inflation has been low, the RBNZ has been lowering the OCR in order to encourage borrowing and investing to increase demand in the economy. It has also increased the supply of money in the economy via the LSAP programme, to enable more lending.
With inflation now increasing rapidly, the RBNZ has started to taper its LSAP programme, and has already raised the OCR, now at 0.75%, with further increases signalled for the coming year. We have seen the banks raising mortgage rates as a result already, and we should expect continued rises for both borrowers and savers.

Investment News

Pushpay (PPH.NZ) Launches ParishStaq for Catholic Churches

Leading payments and engagement solutions provider for faith-based and non-profit sectors, Pushpay, has launched ParishStaq, a digital giving and engagement technology for Catholic churches. ParishStaq delivers the solutions parishes need for church management, donations, and engagement. A recent study by Pushpay found that mobile church applications were top on the list for the most strategically important tools for Catholic churches in the next two to three years, and Covid has accelerated technology adoption among Catholic churches.
Current Share Price: $1.15, **Consensus Target Price**: $1.98