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Yovich &Co WEALTH MANAGEMENT

Yovich & Co. Market Update

31st January 2022

As at 28th January	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12348.00	7490.10	3522.57	7494.13	34265.37	13768.92	0.9353	0.6718	0.75%
Week Close	11852.15	7266.34	3361.44	7466.07	34725.47	13770.57	0.9357	0.6542	0.75%
Change	-4.02%	-2.99%	-4.57%	-0.37%	1.34%	0.01%	0.05%	-2.62%	0.00%

The NZ market was down a further 4.02% in the last week, with only 3 companies recording gains. NZ CPI increased 5.9% in the year to December, being the biggest move in 31 years – more on that below.
The US yield curve continues to flatten with the 10-year Treasury rate 8bps lower at 1.78%, while the US 2-year rate is 2bps higher at 1.17%. The NZ 3-month Bank Bill rate was up 2bps over last week, to 1.035%.
In NZ property news, over 2021, the number of properties sold for $1m or more increased 69.1%YoY. Properties sold for over $1m accounted for 35.2% of sales, up from 21.4% in 2020.

The biggest movers of the week ending 28th January				
Up			Down	
EBOS Group	1.97%		Ryman Healthcare	-11.74%
A2 Milk	1.46%		EROAD	-10.93%
Restaurant Brands	0.69%		Serko	-10.26%

Market Theme – Inflation

In last week's Market Update, we put the spotlight on inflation given the spike recently. Since that update, we have now seen the results from the December quarter showing annual CPI inflation of 5.9%, being the highest inflation rate for 31 years. The largest contributors were:

- Housing costs (up 7.6%), which includes the cost of new homes excluding the land (up 16%);
- Transport costs (up 15%), which were mainly influenced by higher petrol prices (up 30%);
- Food prices (up 4.1%), including vegetables which were up 14%.

In response, the Reserve Bank of NZ (RBNZ) is expected to raise the Official Cash Rate (OCR) from its present rate of 0.75%, with most predictions seeing the OCR reach 2.00%-2.50% this year.

Rising inflation places a higher emphasis on pricing power, where companies' ability to raise prices to offset increasing costs becomes more important going forward. Sectors and companies that are better positioned to exert pricing power are those that have unique products or services, or scalability.
In the healthcare sector, which tends to relate to more essential services, we have **Fisher & Paykel Healthcare** (FPH), and **EBOS Group** (EBO). FPH holds a market leading position in their unique medical products, while EBO is the largest wholesaler of healthcare brands in NZ and Australia, providing large scale that results in lower operating costs.

Logistics is another area where scale is important to reduce costs, while consumers are buying more goods online, and expect quicker delivery. **Mainfreight** (MFT) is a global logistics provider with international exposure, while **Freightways** (FRE) is a domestic logistics provider that includes national courier services NZ Couriers and Post Haste Couriers.

In a rising interest rate environment, we expect banks' earnings to improve (think **ANZ** (ANZ) and **Commonwealth Bank of Australia** (CBA)), however banks are also exposed to housing where loan volumes have started to slow down.

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Investing in commodities can be a good hedge against inflation, and investors can gain exposure to this theme via the large Australian mining companies **BHP Group** (BHP) and **Rio Tinto** (RIO).

Market Highlight – Plunge in Technology Stocks

The US market has seen a strong rally over the past 18 months, and the current market correction is not entirely unexpected given the outlook of rising interest rates. The technology sector saw a long stretch of outperformance, and now the fear of rising interest rates has triggered a downward plunge, with the Nasdaq Composite down 14.7% this year, compared to 9.2% for the broader S&P 500. The larger stocks on the tech-heavy Nasdaq include Apple, Microsoft, Alphabet (Google), Amazon, and Meta Platforms (Facebook), which are all down at least 10% this year.
Technology stocks' values are usually weighted more towards their future earnings potential, and with interest rates increasing, investors are discounting those future earnings at a higher rate, with the result being present values of tech stocks have fallen further than the broader market.

Investment News

Genesis Energy (GNE.NZ) Extends its Sustainable Finance Programme

Genesis announced the designation of its 2047 Capital Bond (GN040) as a Green Capital Bond aligned to the Green Bond principles 2021 and the Climate Transition Finance Handbook as issued by the International Capital Markets Association. The company's ambitious sustainability targets include reductions across all scope of emissions, ramping up renewable energy generation, and a future of work programme. Genesis will pay a lower interest rate on the loan for achieving its goals but will have to pay higher interest if it falls short of its commitments.
Current Share Price: $2.67, **Consensus Target Price**: $3.08

Fonterra (FSF.NZ) Lifts Forecast Farmgate Milk Price to $9.20

Fonterra has lifted its forecast range for 2021/22 by 50 cents to $8.90-$9.50, with the midpoint, which farmers are paid off, lifting to $9.20. Fonterra CEO Miles Hurrell says the increase is the result of consistent demand for dairy at a time of constrained global milk supply. The company remains comfortable with their current 2021/22 earnings guidance of 25-35 cents per share.
Current Share Price: $3.50, **Consensus Target Price**: $4.41

Kiwi Property (KPG.NZ) Posts 9.6% Sales Growth in December 2021

Kiwi Property has reported a 9.6% increase in sales in December 2021 for its mixed-use shopping centres, as compared to December 2020. Sylvia Park was the company's top performing asset, achieving sales growth of 11.7%.
Current Share Price: $1.135, **Consensus Target Price**: $1.24

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