

Yovich & Co. Market Update

6th March 2022

As at 4th March	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11923.38	7273.64	3451.41	7489.46	34058.75	13694.62	0.9328	0.6743	1.00%
Week Close	12141.77	7395.31	3447.65	6987.14	33614.80	13313.44	0.9306	0.6858	1.00%
Change	1.83%	1.67%	-0.11%	-6.71%	-1.30%	-2.78%	-0.23%	1.71%	0.00%

The NZ market was up 1.83% over the week, recovering the loss from the week earlier.

War continues in Ukraine, while Russia has closed the Moscow Stock Exchange, and the Russian Ruble has sunk to a low of 0.0104 against the USD. The European Union, US, UK and allies have agreed to exclude seven Russian banks from the SWIFT messaging system, adding to the list of sanctions imposed on Russia. SWIFT (Society for Worldwide Interbank Financial Telecommunication) is the dominant messaging system underpinning global financial transactions, and was created by American and European banks. It is now jointly owned by more than 2,000 banks, and is overseen by the National Bank of Belgium, in partnership with major central banks including the Federal Reserve in the US and the Bank of England. Banning Russia will delay the payments it receives for its exports of oil and gas, adding costs and ultimately cutting off revenues to the Russian government.

Oil has soared to US\$118 per barrel, up 20% in the last week. This will add fuel to already high inflation.

US Federal Reserve Chair Jerome Powell has indicated that he plans to press ahead with interest rate increases this month, saying he's in favour of a 0.25 point increase, aimed at tackling the surging cost of living. Analysts expect a rate hike in March, which would be the first since 2018. Powell also stated he would be prepared to move more aggressively if inflation does not abate as fast as expected.

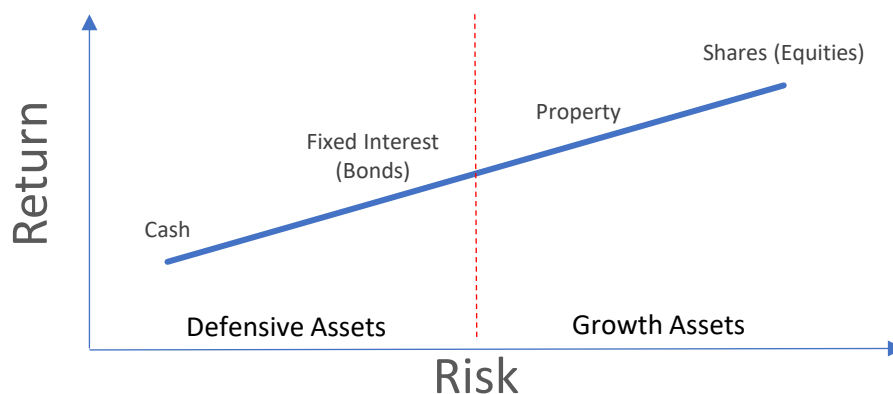
While the Euro has fallen against the USD as investors move towards safety away from Europe, the NZD and the AUD have also attracted safe-haven investment flows, with the NZD up 1.71% against the USD over the week, to 0.6858.

The biggest movers of the week ending 4 th March			
Up		Down	
Pushpay	11.83%	EROAD	-4.12%
Sky TV	9.80%	Fonterra Shareholders' Fund	-3.77%
Tourism Holdings	8.10%	Westpac	-3.33%

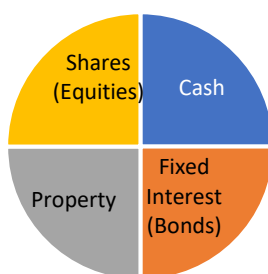
Investment Topic – Asset Allocation

In recent weekly updates, we have highlighted increasing volatility in the market. Starting with supply chain constraints and labour shortages due to COVID-related restrictions, a rise in inflation meant the markets expected interest rate hikes, causing the near correction (defined as a decline of 10% or more) in major markets at the beginning of this year. With inflation being caused by restricted supply more than increased demand, the risk of stagflation remains, meaning central banks, including our RBNZ, need to walk a tightrope by increasing rates to rein in inflation, but not so high or fast that it will hinder economic recovery. Add a European war into the mix, and we have a very uncertain pathway ahead for the global economy.

For investors, growing wealth and protecting against inflation means accepting short-term volatility. The chart below shows the four broad investment categories with their risk and return attributes.



Should investors pull back on growth assets and invest more into defensive assets? While safer, these assets alone will not provide protection against high inflation. So how do investors reduce their risk while seeking smoother long-term growth? Answer: Diversification, being the investment term for “Don’t put all your eggs into one basket”.



A balanced investment portfolio will be diversified firstly by asset class (asset allocation). The asset allocation of a portfolio determines, more than any other factor, the risk and return profile. It will also be diversified by sector and geography. While any investment involves a degree of risk, a balanced portfolio provides the most effective trade-off between risk and return. The split between defensive assets and growth assets is determined by an investor’s goals, risk profile, and investment timeframe, which is discussed and worked through with their adviser. Your investment plan will be based on this strategic asset allocation, with some smaller tactical weighting towards asset classes that are expected to perform relatively better in the short-term.

No analyst has a crystal ball to tell them which asset class is going to have their day next. A portfolio invested 100% into NZ equities, for example, would have severely under-performed during 2021, with the S&P/NZX 50 Gross Index returning -0.44% in 2021, versus the US S&P 500 Index returning 26.89% in 2021.

Investment News

Genesis Energy (GNE.NZ) – First Half Net Profit Up 63%

Genesis reported net profit of \$84.7m for the first half of FY22, up 63% on the previous corresponding period. The company declared an interim dividend of 8.7cps, up from 8.6cps in pcp, and provided increased guidance for EBITDA in FY22 from NZ\$420-\$440m to NZ\$430-\$440m.

Current Share Price: \$2.915, Consensus Target Price: \$2.93

Genesis Energy (GNE.NZ) Launches Green Bond Offer

Genesis launched the bond offer on 1st March which closed on 4th March. The company offered \$125m of 6-year fixed-rate unsecured, unsubordinated green bonds. The interest rate was finalised at 4.17%. The bonds have been given a rating of BBB+ by S&P Global Ratings. Genesis expects to apply the net proceeds of the offer to finance or refinance renewable energy assets, or other projects, assets and/or activities, that meet the eligibility criteria set out in the Sustainable Finance Framework (Eligible Assets). Consistent with this, Genesis will apply the net proceeds of this offer to repay existing debt.

Current Share Price: \$2.915, **Consensus Target Price:** \$2.93

Westpac (WBC.NZ) Completes Sale of NZ Life Insurance Business

Westpac has completed the sale of Westpac Life-NZ-Limited to Fidelity Life for NZ\$400m. The transaction was first announced on 6th July 2021. The company expects to report a gain on sale, which will be included in its first half 2022 results. The transaction is a simplification of Westpac's business.

Current Share Price: \$23.80, **Consensus Target Price:** \$26.53

EROAD (ERD.NZ) Renews its Largest NZ Enterprise Customer

Transportation technology services company EROAD has renewed its largest NZ Enterprise customer contract, Downer EDI. The contract for 5,500 units extends through to December 2025. Downer has both light and heavy vehicles and trailers installed with EROAD telematic devices.

Current Share Price: \$3.72, **Consensus Target Price:** \$6.41

Kathmandu Holdings (KMD.NZ) Changes its Name to KMD Brands Limited

Kathmandu will change its name to KMD Brands Limited, effective on 16th March. The ticker code will remain unchanged as KMD.

Current Share Price: \$1.34, **Consensus Target Price:** \$1.67

Vista Group (VGL.NZ) – Full Year Net Loss – Revenue Up 12.1%

Vista Group announced their full-year earnings, with revenue of \$98.1m up 12.1% on pcp. Costs were lower at \$91.1m, down 9% vs pcp. The net loss was (\$9.8m), up 81% vs pcp. Revenue was driven by strong box office late in the second half of 2021, with good cost management driving lower costs.

Current Share Price: \$1.93, **Consensus Target Price:** \$2.43