

Yovich & Co. Market Update

10th April 2022

As at 8th April	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	12089.43	7785.89	3282.72	7537.90	34818.27	14261.50	0.9231	0.6930	1.00%
Week Close	12066.27	7772.02	3251.85	7669.56	34721.12	13711.00	0.9183	0.6848	1.00%
Change	-0.19%	-0.18%	-0.94%	1.75%	-0.28%	-3.86%	-0.52%	-1.19%	0.00%

The NZ and Australian markets were slightly down last week, while UK and European markets posted gains of 1.7% and 0.6% respectively. In the US, the overall market fell 1.3%, with the Dow only slightly down, however the NASDAQ fell 3.86%, owing to more hawkish comments from the Federal Reserve, pointing to more aggressive rate hikes and an earlier start to quantitative tightening. The NASDAQ is home to tech companies which are more sensitive to interest rate changes, given their valuations are typically based on longer term cash flows.

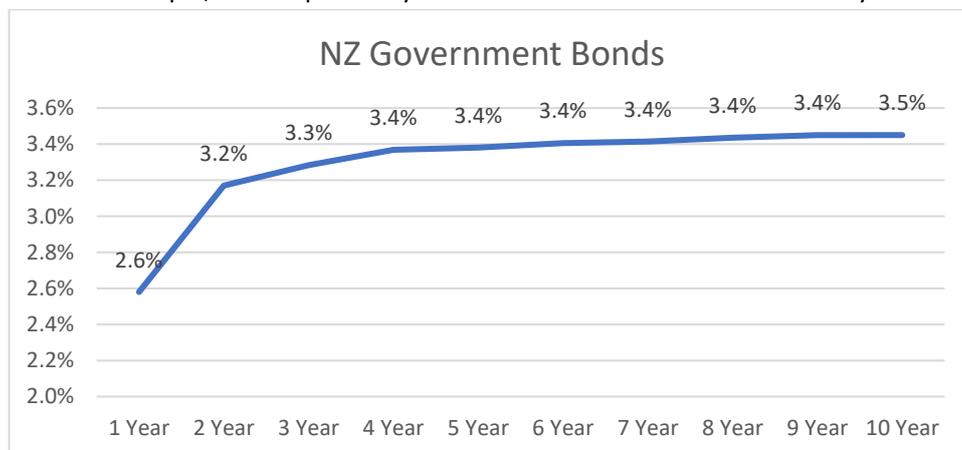
NZ interest rates continued rising across the board, with the 3-month bank bill rate increasing from 1.53% to 1.68%, the 1-year swap rate increasing from 2.76% to 2.98%, and the 5-year swap rate increasing from 3.39% to 3.67%. In the US, the 2-year to 10-year spread turned back to positive after going negative last week.

EROAD was the worst performing stock in NZ during the week, with the stock plunging 14.89% on Friday after news of the CEO stepping down.

The biggest movers of the week ending 8 th April			
Up		Down	
Serko	6.95%	EROAD	-18.74%
Spark	5.22%	Pushpay	-5.17%
Trustpower	5.13%	Skellerup	-5.12%

Investment Topic – Yield Curve

A yield curve is simply a line chart that plots interest rates of bonds with different maturity dates but the same level of risk. For example, we can plot the yields on NZ Government Bonds from 1 year to 10 years:



What Does the Shape of the Yield Curve Tell Us?

Under normal economic conditions, long-term rates are higher than short-term rates, reflecting the fact that investors require more compensation for tying their funds up for longer. Occasionally however, we see an inverted yield curve, where longer term rates are lower than short-term rates. This usually reflects bond investors' expectation of a recession

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in the future, as they expect rates to become lower, and they are willing to accept a lower long-term interest rate as they seek safe investments, bidding up the price and driving down their yield.

The current yield curve for NZ Government Bonds is relatively flat, reflecting uncertain economic conditions. This is understandable, given that we are only just coming out of a long period of covid-related restrictions, and are now discovering and dealing with the effects of global lockdowns and loose monetary policy: supply chain constraints and the return of high inflation.

Inverted Yield Curve – Early Predictor of Recessions?

While the NZ Government Bond yield curve is flat, the US Treasury yield curve briefly inverted last week between the 2-year rate and the 10-year rate:



The 2-year to 10-year spread (the difference between the 2-year rate and the 10-year rate), is the part of the curve that is most closely watched, and the spread was negative for the first time since 2019, with commentators calling it a warning signal that a recession could be on the horizon.

While an inverted yield curve has often preceded recessions in the past, it has been a very early predictor, with the time lag between yield curve inversion and recession being inconsistent. In a study of yield inversions in the US going back to the 1970s, there was an average of 18 months before the subsequent decline in the US sharemarket, while the sharemarket continued its upward climb during this lag period.

The jury is still out regarding what the US yield curve is predicting, as it has since flattened over the week. The 2-10 spread will have to stay negative for a longer period of time to be a valid signal, and there needs to be other signals before we panic about a recession, for example unemployment. For now, both in NZ and in the US, unemployment is at record lows, GDP growth remains positive, and there is a clear path for central banks to increase interest rates to curb inflation.

Investment News

Trustpower (TPW.NZ) – All Substantial Conditions Met on Retail Business Sale

Trustpower advises that all substantial conditions have now been met for the sale of its retail business to Mercury for \$441m. The sale includes Trustpower's existing retail contracts to supply electricity, gas, broadband, and mobile phone services. Upon successful completion of the sale, the generation and commercial sales business will be renamed Manawa Energy Limited (MNW).

Current Share Price: \$7.38, Consensus Target Price: \$7.24

Vector (VCT.NZ) to Undertake Strategic Review of Metering Business

Vector's smart metering business provides innovative data services from more than two million electricity and gas meters throughout NZ and Australia. Chief Executive Simon MacKenzie says smart metering has become a critical part of the transformation and digitalisation of the energy sector around the world, and they are seeing strong demand from investors for these businesses. The company has had a number of expressions of interest from organisations regarding partnering and investing in the business. Vector will undertake a strategic review, with no decision being made until the completion of this process.

Current Share Price: \$4.10, **Consensus Target Price:** \$3.95

EROAD (ERD.NZ) – CEO Steps Down; Succession Process Well Advanced

Founder and CEO Steven Newman has resigned from the EROAD Board and as CEO, following succession planning that began in 2020. The Board has appointed Mark Heine as Acting CEO, pending finalisation of the CEO appointment process.

Current Share Price: \$3.60, **Consensus Target Price:** \$6.41

Summerset (SUM.NZ) – First Quarter Sales Announced

Summerset has reported its Q1 sales of occupation rights, being 279 sales, comprising 167 new sales and 112 resales. This is the company's second highest quarter on record, and highest ever Q1. Uncontracted new stock remains low at 251 units across the country, including only 63 villas.

Current Share Price: \$11.70, **Consensus Target Price:** \$15.00

Spark (SPK.NZ) Explores Introduction of Third-Party Capital into Spark TowerCo

Spark has commenced the process of exploring third-party capital into its subsidiary, Spark TowerCo. It will be a leading NZ towers business, with approximately 1,263 sites. Spark Finance Director Stefan Knight says the infrastructure build programmes needed to support NZ's increasing data needs and new technologies will be very different from the build programmes of today, requiring many more smaller sites, closer to the end customer, and greater overall densification.

Current Share Price: \$4.84, **Consensus Target Price:** \$4.80