

Yovich & Co. Market Update

1st May 2022

As at 1st May	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11908.40	7768.16	3086.92	7521.68	33811.40	12839.29	0.9168	0.6638	1.50%
Week Close	11884.30	7724.76	3047.06	7544.55	32977.21	12334.64	0.9143	0.6465	1.50%
Change	-0.20%	-0.56%	-1.29%	0.30%	-2.47%	-3.93%	-0.27%	-2.61%	0.00%

The NZ market was slightly down last week, while US indices ended the week sharply down after negative trading on Friday, after the close of the NZ market. The NASDAQ took the biggest loss, down 3.93%, led by Amazon which saw a 14% drop after reporting weaker than expected earnings. That brings the NASDAQ down 13.3% for the month of March, its worst since October 2008. Fears of tightening monetary policy at the Federal Reserve, combined with Covid-19 lockdowns in China, and the war in Ukraine, has dented sentiment, especially for growth shares.

With rising risk aversion, the NZD fell to a low for the year against the USD to 0.6465, down 7% in April. NZ interest rates continued to climb, with the 3-month bank bill rate up 2bps to 1.88%, and the 5-year swap rate up 7bps to 3.94%. The price of crude oil remains elevated above US\$100 per barrel, finishing the week at US\$109.40.

Pushpay was the top performer in the NZ market, up 28.2% after news that the company has received takeover interest from third parties.

The biggest movers of the week ending 29 th April			
Up		Down	
Pushpay Holdings	28.16%	Fonterra Shareholders' Fund	-10.38%
The Warehouse	7.81%	Fisher & Paykel Healthcare	-3.54%
Serko	6.25%	Argosy Property	-2.61%

Market Highlight – US Dollar Strengthening

In recent weeks we have been discussing rising inflation, and the response by RBNZ of raising the OCR to dampen aggregate demand, with the intention of lowering inflation. From a low of 0.25% as of September 2021, the Reserve Bank has increased the rate four times, with the latest increase being a hefty 0.50% to reach the current OCR of 1.50%. A similar theme is playing out in the US, with recent news that annual US inflation reached 8.5% in March, the highest since 1981, driven by rising food and energy costs. The Federal Reserve has already raised its benchmark federal funds rate by 25bps during March, signalling further increases throughout the remainder of the year. With the latest inflation figures revealed, expectations are for the Fed to raise rates by multiple 0.50% increases. In fact, the market is now pricing in an almost 50% chance of a 75bps hike in June.

US Dollar Index (DXY or 'Dixie')

Rising interest rates affect the associated currency, because higher interest rates tend to attract foreign investment, increasing the demand for the local currency, and increasing its relative value. We can see the effect of rising US interest rates on the US dollar by looking at the US dollar index, which is a measure of the value of the USD relative to a trade-weighted basket of foreign currencies that includes the euro, pound etc. The DXY started in 1973 after the Bretton Woods Agreement dissolved, with a base of 100; the index value is relative to this base value. If the index falls to 80, that means the USD has depreciated 20% since 1973, and conversely an index value of above 120 means the USD has appreciated relative to 1973.

The March rate rise, plus the expectation of heavy rate rises to come has pushed the value of the USD higher, as shown in the chart below, showing the DXY index (blue line) rising above 100 for the first time since March 2020, and rising to 103.



Also shown in the chart is the NZD/USD exchange rate over the past five years, which has a negative correlation with the DXY, i.e. as the USD gets stronger, the NZD becomes relatively weaker. Until the last couple of weeks, the NZD was strengthening against the USD above the 0.68 mark, as the RBNZ started raising the OCR, and investor risk sentiment returned. However, with the Fed signalling more aggressive rate rises ahead, and risk aversion increasing, the NZD has dropped back to below \$0.65 USD.

What Does This Mean for Investors?

For investors who hold global equities denominated in USD, the value of their shares in NZD terms has increased, while for new investors, buying shares in USD is a little more expensive. If we delve a bit deeper however, any NZ company that earns revenue in USD is a beneficiary of a higher USD. As an example, for an exporting company such as Fisher & Paykel Healthcare earning USD from their sales in the US, their total revenue in NZD terms is now higher. Conversely however, companies that rely on imports from the US now have higher costs.

Investment News

Pushpay Holdings (PPH.NZ) Receives Expressions of Interest

Pushpay advises that it has received unsolicited, non-binding and conditional expressions of interest or approaches from third parties looking to acquire the company. The Board has appointed Goldman Sachs to assist as financial adviser. The company has reaffirmed their previous earnings guidance provided in March, and say there is no certainty that these expressions of interest or approaches will result in any transaction. The stock price climbed 24% on the day of the announcement.

Current Share Price: \$1.32, **Consensus Target Price:** \$1.62

Air New Zealand (AIR.NZ) to Reduce Office Space

Air NZ plans to reduce to one office location in Auckland from 2024, aiming to cut its property costs by a quarter. The airline said that it won't renew the lease for its downtown Auckland offices, and will centralise its Auckland staff at a refurbished site at Auckland International Airport.

Current Share Price: \$0.885, **Consensus Target Price:** \$0.85

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WEALTH MANAGEMENT

Vital Healthcare Property Trust (VHP.NZ) Announces \$200m Capital Raising

VHP have announced their intention to raise \$200m of new equity capital via a 1 for 8.54 underwritten pro rata entitlement offer, to fund c. \$225m of new acquisitions and developments, which will provide VHP a strategic entry into the South Island. VHP will acquire two South Island properties, in Queenstown and Christchurch, and will develop Ormiston Hospital in Auckland, and Auckland Endoscopy in Epsom.

Current Share Price: \$3.12, **Consensus Target Price:** \$3.05