Walter Yovich (FSP 41025)
Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Brock Fannin (FSP 1002346)

Yovich & Co. Market Update

17th July 2022

As at 15th July	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11169.24	6876.97	3356.08	7196.24	31338.15	11635.31	0.9029	0.6200	2.00%
Week Close	11122.61	6797.97	3228.06	7159.01	31288.26	11452.42	0.9072	0.6167	2.50%
Change	-0.42%	-1.15%	-3.81%	-0.52%	-0.16%	-1.57%	0.48%	-0.53%	0.50%

After a volatile week, markets recovered some ground to finish slightly down over the week. The NZ market was down just 0.42% while the Australian market was down 1.15% and the US S&P 500 index was down 0.93%.

Leading the initial declines was the US market, after the June inflation report presented a four-decade high of 9.1%, which was higher than the market had predicted. With the Federal Reserve having signalled a 75bp rate hike in their next meeting in July, the market started to price in the increasing likelihood of a full percentage point rate hike. Short-term Treasury yields rose as a result, and the stock market fell.

Conversely, the University of Michigan's consumer sentiment study, showing households' expectations of inflation in five years, dropped more than expected to 2.8%, down from the previous reading of 3.1%. This relieved some concern of a higher Fed rate rise.

In New Zealand, the RBNZ released its monetary policy statement, raising the OCR by 50bps to 2.50% as expected, saying that it remains appropriate to continue tightening policy at pace. NZ bank mortgage floating rates all increased as a result.

The price of oil ended the week down 5.67% to close at US$101 per barrel.

NZ interest rates rose during the week, with the 2-year swap rate up 22bps to 4.05%, and the 10-year swap rate up just 4bps to 3.84%, meaning the yield curve remains negative. US rates short-term rates were up over the week, with the 2-year Treasury yield up 10bps to 3.12%, however the 10-year Treasury yield dropped 5bps to 2.93%, resulting in a widening of the 2-10 yield curve spread.

The biggest movers of the week ending 15th July 2022				
Up			Down	
SkyCity Entertainment Group	3.49%		Tourism Holdings	-5.88%
Heartland Bank	3.08%		Sky TV	-4.60%
Contact Energy	2.05%		ANZ Bank	-4.39%

Investment Topic – Dividend Growth

Shares are a good investment class for those investors looking to grow their capital, but in times of market volatility we sometimes focus too much on the share price and forget about income growth. Companies with strong growth potential will grow their earnings, which then translates to higher dividends. This growth in earnings is ultimately what drives the growth in the share price over time.

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Income Versus Growth Stocks

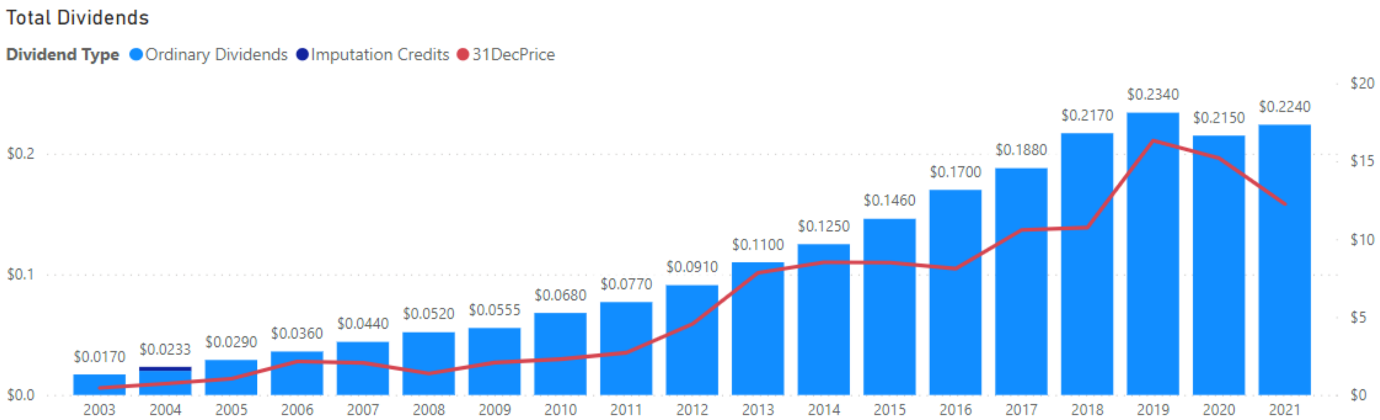
Income stocks are those that offer a high initial dividend yield, but do not offer as much potential for growth. Utility companies, such as the power companies, as well as some listed property companies fit this description. They are very attractive for their high dividend yields, especially when interest rates are low, because they pay out most of their earnings as dividends.

Growth stocks on the other hand tend to offer a low initial dividend yield, because they retain a higher percentage of their earnings to reinvest back into the company. With more potential for growth, these companies reinvest their earnings to capture more market share and increase their revenue, which leads to higher future earnings. While the initial dividend tends to be low, because of the lower payout ratio, the higher future earnings translate into higher future dividends.

Dividends Versus Share Prices

While share prices can be very volatile, especially in the short-term, dividends tend to be much less volatile. In tough economic environments, we have seen companies cut their dividends, as we saw during the Covid lockdown period, but usually this drop in income is much less severe than the associated drop in share price. Share prices in the short-term reflect market sentiment, while dividends reflect the company's actual performance. The relationship between a company's growth in dividends, and its share price, can deviate in the short-term, but over the long-term this growth in income drives the growth in the share price. This is why it is helpful for investors to focus on the growth of income from their portfolio, rather than the short-term volatility of share prices.

To see a good example of this, we can look at the last 20 years of dividends from Ryman Healthcare, and how the share price has changed.



Ryman Healthcare has been a very successful growth company, and that is reflected in the growth in the dividend as shown in the chart, with the blue columns reflecting the total dividends paid each year up to 2021. The red line shows the share price as at 31st December for each year. An investor who had invested $10,000 in Ryman back in December 2002 would have bought with a trailing dividend yield of 4.0%. Fast forward 20 years later and the dividend has grown 1,597.0%, so that the dividend yield based on the 2002 price has now grown to 67.9%. Buying today would give you a forecast gross dividend yield of 2.5%, but as the company continues to grow, so will the dividend.

By contrast, investing in Genesis Energy today will provide a forecast gross dividend yield of 8.5%. However, this company does not have the same growth prospects as a company like Ryman, as we can see by looking at the history of dividends since the company was listed in 2014:

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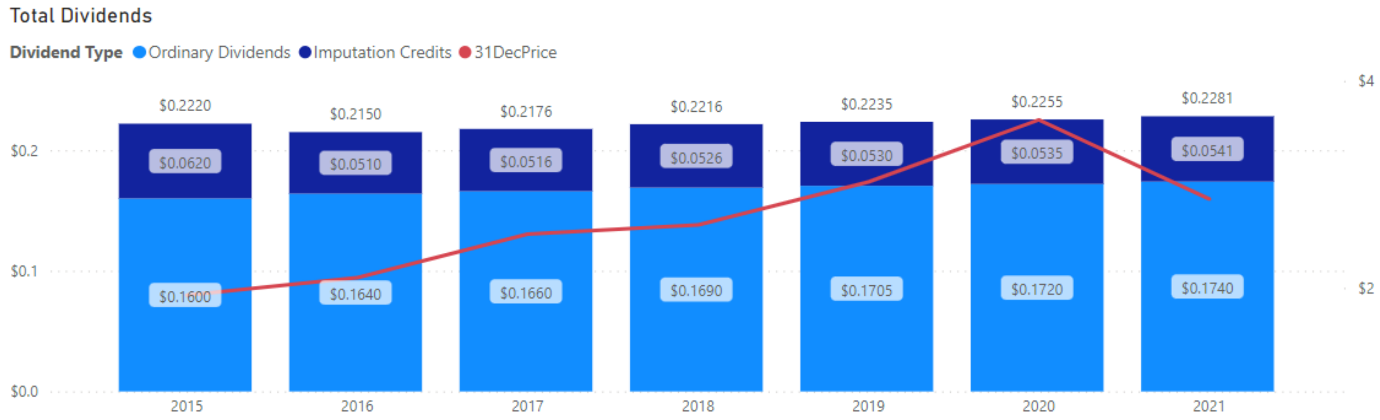

<u>Custom Diversified Portfolio</u>

A diversified portfolio will include both healthcare and utilities, and have a mix of income and growth stocks. Investing in shares provides growth in income, which translates to capital growth over the long-term, protecting your capital against inflation. Your investment adviser can help you customise your investment portfolio based on your requirements, whether that is for high immediate income, or more long-term growth, or somewhere in between.

Investment News

Spark (SPK.NZ) Sells 70% of TowerCo for $900m

In 2021, Spark considered selling a stake in its mobile towers to realise more value for shareholders. It has now announced that it has sold a 70% stake in the TowerCo business to Ontario Teachers' Pension Plan Board for $900m. TowerCo owns approximately 1,263 sites, and Spark has entered into a 15-year agreement with TowerCo to secure access to existing and new towers. The deal is subject to Overseas Investment Office approval.

For Spark, this deal realises the value of their passive mobile assets, allowing the company to invest in future growth opportunities.

Current Share Price: $5.02, **Consensus Target Price**: $4.84

Sky TV (SKT.NZ) Provides Progress Update on New Sky Box

Sky TV has advised that there will be a short delay in delivering the new Sky boxes, originally planned for the middle of the year, due to chipset shortages, and general supply chain delays. The company will return to paying dividends from the end of FY2022, with the first dividend expected to be payable in September.

Current Share Price: $2.28, **Consensus Target Price**: $3.12

ANZ Bank (ANZ.ASX, ANZ.NZ) Enters Agreement to Buy Suncorp Bank for AUD$4.9b

ANZ has signed a sale and purchase agreement with Suncorp Bank to buy its banking business. The insurance operations in Australia and NZ will not form part of the transaction. The bank will continue to operate under the Suncorp Bank brand for a period of 5 years.

The acquisition is to be funded by a fully underwritten 1 for 15 pro rata accelerated renounceable entitlement offer to raise c. $3.5b of the funds required, with the remainder funded by existing capital.

In a 3rd quarter trading update, ANZ Bank' revenue is up 5%, with net interest margin up by 3bps, and margins across the business improving.

Current Share Price: AUD$21.64, **Consensus Target Price**: AUD$27.41