

# Yovich & Co. Market Update

18<sup>th</sup> September 2022

As at 16th September	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11757.77	7138.99	3262.05	7351.07	32151.71	12112.31	0.8920	0.6105	3.00%
Week Close	11580.46	6975.19	3126.40	7236.68	30822.42	11448.40	0.8917	0.5986	3.00%
Change	-1.51%	-2.29%	-4.16%	-1.56%	-4.13%	-5.48%	-0.04%	-1.95%	0.00%

An inflation report in the US showed inflation higher than expected, prompting shares to move downwards on the expectation of higher interest rates. The S&P500 index was down 4.77% over the week, dragged down by a heavy fall in the NASDAQ, which was down 5.48%. Being weighted towards tech stocks, the NASDAQ is particularly sensitive to interest rate movements, given the higher reliance on future cash flows.

Other share markets around the world followed suit, with the NZ market down 1.51% and the Australian market down 2.29%. The NZD fell further against the USD, to 0.5986, driven down by the continued strength of the US dollar, as opposed to any local data. Commodity prices fell, including iron ore. The Brent Crude oil price fell further, down 0.64% to USD\$91.61.

NZ interest rates increased materially, after a fall the previous week. The 2-year swap rate increased by 31bps to 4.49%, and the 10-year swap rate increased by 11bps to 4.22%. US interest rates also rose heavily, with the 2-year Treasury rate up 42bps to 3.90%, and the 10-year Treasury rate up 18bps to 3.47%.

NZ's GDP result for the June quarter has been released, with GDP rising 1.7%, ahead of forecasts by economists, but very close to RBNZ's forecast of 1.8%. With the previous quarter showing a decline in GDP of 0.2%, this positive result means NZ avoids recession, being two consecutive quarters of contraction. While goods producing industries declined, the services industries, making up two-thirds of the economy, led the increase for NZ's GDP.

In housing, Auckland Council data showed a 10.5% drop in the number of Code Compliance Certificates issued in the 12 months to July, compared to the previous 12 months. REINZ data shows that residential sales throughout the country were down 18.3% during August, compared to August last year.

According to Statistics NZ, food prices have risen at their fastest pace in 13 years, with an 8.3% annual increase recorded in August.

The biggest movers of the week ending 16 <sup>th</sup> September 2022			
Up		Down	
EROAD	13.64%	Pushpay Holdings	-13.39%
Fonterra Shareholders' Fund	9.27%	Ebos Group	-4.85%
The Warehouse	7.46%	Sky TV	-4.58%

## Market Spotlight – 70 Years of Service

Queen Elizabeth II died, aged 96, after reigning for 70 years, making her the UK's longest-serving monarch. With such a long time on the throne, she has witnessed enormous social change, and her reign spanned 15 prime ministers, starting with Winston Churchill, born in 1874, and including Ms Truss, born 101 years later in 1975. The 70-year period has also

seen many peaks and troughs of share markets, many businesses come and go, old industries decline and new industries take their place. But the long-term theme has remained: growth.

Data is difficult to come by to calculate return; for example, the main index used for the London Stock Exchange (LSE), being the FTSE 100, only started in 1984. Prior to that, investors used a price-weighted FT30 index. The FTSE 100 index is market capitalisation weighted, tracking the performance of the 100 highest valued companies on the LSE, which represents about 80% of the total value on the exchange. £100 invested in 1984 in the FTSE 100 index of companies would today be worth £624.

The NZ Stock Exchange was only created in 1983. NZ's first local stock exchange was established in Dunedin in 1866, with initial shares trading in the gold mines during the gold rush of the 1870s. The NZSE formally changed its name to NZX in 2002, and in 2003 the NZX50 index was created, replacing the previous NZSE 40 index. \$100 invested in 2003 in the NZ50 gross index would be worth \$495 today.

In the US, the S&P500 Index dates back to 1957, when the index was expanded to its current 500 companies. USD\$100 invested in 1957 in the S&P500 Index would be worth USD\$7,885 today.

### **Bank Notes and Coins**

The Reserve Bank of NZ has advised that it will be several years before they need to introduce coins featuring King Charles III, and longer until stocks of \$20 notes are exhausted. Existing stocks will be issued before new stock is created, and for coins this is a few years away. RBNZ will prepare to change out the image on coins for one approved by the King. The Queen is likely to remain on \$20 notes for many years because the RBNZ holds sufficient stock, and only manufactures the notes infrequently.

## **Investment News**

### **Mercury NZ (MCY.NZ) Confirms New Wind Farm**

Mercury is constructing a new wind farm at Kaiwera Downs, south of Gore. The 43MW wind farm will cost \$115m, and lifts Mercury's total commitment to new renewable wind generation to almost \$600m since 2019. The full construction is expected to take around a year, and the wind farm will produce enough electricity to power over 20,000 homes or 66,000 electric vehicles.

**Current Share Price:** \$6.03, **Consensus Target Price:** \$6.32

### **NZX (NZX.NZ) to Close on 26<sup>th</sup> September to Honour Queen Elizabeth II**

NZX, NZ's stock exchange, will close on 26<sup>th</sup> September, the day of the national public holiday, to honour the passing of the Queen.

**Current Share Price:** \$1.24, **Consensus Target Price:** \$1.54

### **Precinct Properties (PCT.NZ) – Investment Partnership Now Unconditional**

Precinct Properties has announced that the sale of the initial portfolio of properties to Precinct Pacific Investment Limited Partnership (PPILP) is now unconditional, having been approved by the Overseas Investment Office. Precinct will continue to manage the properties that form the initial portfolio, and has a 24.9% ownership interest in the limited partnership.

**Current Share Price:** \$1.39, **Consensus Target Price:** \$1.48