

Yovich & Co. Market Update

6th November 2022

As at 4th November	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week	11129.53	6973.52	2915.93	7047.67	32861.80	11102.45	0.9067	0.5725	3.50%
Week Close	11230.75	7089.32	3070.80	7334.84	32403.22	10475.25	0.9162	0.5931	3.50%
Change	0.91%	1.66%	5.31%	4.07%	-1.40%	-5.65%	1.05%	3.60%	0.00%

The US market reversed the gains made in the previous week, as speculation around Federal Reserve rate hikes continues to drive swings in sentiment from one day to the next. The S&P500 index was down 3.35%, while the NASDAQ fell heavily by 5.65%. Other markets held up better, with the NZ market up 0.91%, and the Australian market up 1.66%.

The Federal Reserve in the US increased its Fed Funds Rate by a further 75bps as expected, taking the upper limit to 4.0%, the highest level since 2008. The Fed indicated that it would likely step down to a 50bp hike in December, but the end point for the tightening cycle is likely to be higher than what was predicted in September. The Reserve Bank of Australia raised its cash rate by 25bps to 2.85%, while the Bank of England raised its cash rate by 75bps to 3.00%.

Interest rates in the US increased again after falling back last week, with the 2-year Treasury rate up 38bps to 4.73%, and the 10-year Treasury rate up 18bps to 4.15%. NZ interest rates were also on the increase, with the 2-year swap rate up 18bps to 5.16%, and the 5-year swap rate up 13bps to 4.83%.

The NZD made a rebound against the USD during the week, as risk sentiment improved after Fed comments suggesting lower rate increases going forward. The NZD was up by 3.60% against the USD, and also up 1.05% against the AUD. The US dollar remained relatively stable, with the DXY index slightly up during the week. Commodity prices jumped during the week, with the Dow Jones Commodity Index up 4.52%. The price of Brent Crude oil increased 2.54% to US\$98 per barrel.

Stats NZ data showed the unemployment rate remained unchanged at 3.3% in the September quarter, while the employment rate increased to 69.3% with increasing wage pressures.

The biggest movers of the week ending 4 th November 2022			
Up		Down	
Manawa Energy	7.88%	EROAD	-3.91%
Skellerup	7.69%	Mainfreight	-3.05%
Pushpay	6.72%	Serko	-2.82%

Market Theme – How to Invest Overseas with a Low NZD?

Two weeks ago, we discussed the main drivers of exchange rates, and why we have seen the NZD fall against other currencies this year, especially against the USD. A weaker currency means imported goods become more expensive, and that is also true when purchasing shares overseas using your NZD. As an example, the current price of one share in Apple is currently US\$138.88. If the NZD/USD rate was 0.70, as it was earlier this year, the Apple share price in NZD would be NZ\$198.40. With the exchange rate having fallen to 0.58, the same share costs NZ\$239.45 for a NZ investor to purchase.

Diversified Investment Portfolio

Just as diversifying your investments by sector and asset class reduces overall risk, so too does diversifying geographically by investing outside of NZ. This reduces your exposure to the small NZ economy and currency. One way to do this is by investing in the Smartshares Total World ETF (TWF.NZ), a fund that provides global exposure via one investment.

For NZ investors, the NZD acts as a buffer against the swings of the global share movements. In the current context, as investors have become more risk averse, and share market values have fallen, so too has the NZD fallen, limiting the impact to NZ investors. As an example, the US S&P500 index has fallen 22% this year, but the NZD/USD rate has fallen by 16%, with the overall effect being that the S&P500 index has fallen in NZD terms by only 7.5%. This is great for investors who bought international shares before the NZD fell, but what do new investors do now that the NZD is lower, making international shares more expensive?

Currency Hedged Funds

A NZ investor wanting global exposure, but no currency exposure, might consider the **Total World (NZD Hedged) ETF (TWH.NZ)**. This fund provides the same global exposure as TWF, but it is hedged to NZ dollars, meaning there is no exposure to currency risk. Just as the falling NZD has saved NZ investors from the great falls of global share markets, a rising NZD does the opposite, by limiting the upside: when risk sentiment improves, share market values improve, but so does the NZD.

The TWH fund carries with it a management fee of 0.46%, which is a little high compared to other funds. A different option for NZ investors looking for a lower management fee is the **iShares S&P500 (AUD Hedged) ETF (IHVV.ASX)**. This fund provides exposure to the top 500 US stocks, but is hedged to the AUD, with a management fee of only 0.10%. This still will not provide NZ investors with no currency risk, as it is hedged to the AUD, but should provide lower risk, as the NZD is more correlated to the AUD than with the USD.

Investment News

Pushpay Holdings (PPH.NZ) Enters Acquisition Agreement at \$1.34 Per Share

Pushpay Holdings has entered into a Scheme Implementation Agreement, under which all of the company's shares will be acquired at a price of \$1.34 per share in cash. The acquirer is the Sixth Street (global investment firm) and BGH Capital Consortium (private equity firm) via Pegasus Bidco Limited. The Scheme is subject to Pushpay shareholder and Court approval. Pushpay shareholder approval will be sought at a special meeting expected in Q1 2023. The Board unanimously recommends that shareholders vote in favour of the Scheme.

Current Share Price: \$1.27, Consensus Target Price: \$1.34

Sky TV (SKT.NZ) Increases FY23 Dividend Guidance to \$18m-\$24m

In the recent Annual Meeting of Shareholders, Sky TV announced a refreshed dividend policy, aiming to distribute between 60%-90% of Free Cash Flow, up from the previous 50%-80% of FCF. FY23 guidance is for NPAT to be \$50m-\$60m (FY22 was \$62.2m), with a dividend range of \$18m-\$24m (up from \$17m-\$23m).

Current Share Price: \$2.27, Consensus Target Price: \$2.90

A2 Milk Company (ATM.NZ) Receives FDA Approval to Supply Infant Milk Formula to USA

A2 Milk advises that the US Food and Drug Administration (FDA) has allowed the company to import infant milk formula into the US. Synlait Milk will manufacture the products for A2 Milk. A2 Milk believes this represents a significant opportunity, however, at this early stage it is difficult to predict the sales potential in the US which is a highly competitive market to enter. The company expects the impact on FY23 earnings to be beneficial, although gross margins will be lower than average, and distribution costs will be higher due to air freight.

Current Share Price: \$5.90, Consensus Target Price: \$6.65

Kiwi Property Group (KPG.NZ) Secures Drury Private Plan Change

Kiwi Property have advised that its Drury private plan change application has been approved. The 53ha site will now be rezoned as a metropolitan town centre, with the ability to be intensified up to a height of 72 metres. Drury is expected to become home to around 60,000 people in the next 30 years.

Current Share Price: \$0.88, Consensus Target Price: \$1.08

Property For Industry (PFI.NZ) – Update on Mt Wellington Redevelopment

PFI is planning to redevelop the Bowden Rd site in Mt Wellington. Around 40% of the redevelopment of the 3.9ha property has been pre-leased to Tokyo Food for a lease term of 12 years, with an estimated practical completion date of June 2024. With Auckland industrial vacancy at record lows, PFI has now committed to develop the remainder of the site without tenant commitment. An 11,200sqm warehouse with 790sqm of offices will be constructed on the remainder of the site from Q2 2023. The combined project has an estimated total cost of around \$66m, with a targeted yield on cost including land of more than 5%.

Current Share Price: \$2.455, Consensus Target Price: \$2.47