

Monthly View – March 2022

New Zealand Share Market Rises in March

Share markets returned to positive territory in March. The New Zealand share market gained 1.1%. The overall market gain was made despite Fisher & Paykel Healthcare, the largest New Zealand listed company, continuing to weaken. Fisher & Paykel Healthcare's Covid tail wind appears to be waning and the company revised down its revenue guidance. Air New Zealand launched its long-anticipated capital raising with the company seeking \$1.2 billion in new share capital. The capital raising is very substantial relative to the prior capitalisation of the company and the company does not expect to pay dividends prior to 2026. Beneficiaries of New Zealand's border reopening did contribute to the positive market return. Auckland International Airport lifted 10% over the month and was the largest positive contributor to the index. The best performing New Zealand companies for the month were Pushpay and Eroad. Both of these companies are broadly within the technology sector and after a period of weakness, both have experienced something of a recovery in value.

Australian Shares Reward Investors

Australian shares were very rewarding for New Zealand investors in March with returns exceeding the New Zealand index. The ASX 200 accumulation index was up 6.4% in local currency and 7.7% in NZ\$ terms. Unsurprisingly Energy (+9.8%), Materials (+8.9%) and Financials (+8.5%) made gains but were outperformed by the Australian Information Technology sector (+13.2% for the month). The best performing stock was lithium company IGO, despite its potential acquisition of Western Areas looking at risk. Fertiliser company Incitec Pivot gained 22.7% as fertiliser prices soared in response to the Ukraine war.

Global Shares Up on Reassessment

Globally the MSCI ACWI was up 2.3% in local currency terms. The monthly outperformance of value companies versus growth companies reversed in March, with growth achieving +3.72% and value +1.85% (unadjusted for currency). 40% of the global index is composed of non-US companies but Russian securities make a negligible contribution. Chinese stocks were a drag on index performance as a result of a slowing economy and a second wave of Covid lockdowns although tax cuts should provide future stimulus for the Chinese market. The United States, which dominates global stock markets, regained 2/3rds of the losses sustained in the first two months of the year. The recovery in US shares occurred in the face of rising interest rates and increasing costs. It suggests that markets have substantially priced in a higher interest rate environment. US energy stocks soared. Occidental Petroleum was up 30% in March and plus 47% since the Ukraine invasion started. Defence stocks have also received a boost, and by way of an example Lockheed Martin has increased 13% since the start of the war. In the technology related segments of the US market, Apple has increased 15.9% from its lows and is close to a US\$3 trillion market value. Similarly, Tesla is up 40.6%.

Inflation Centre Stage

Rising inflation is the primary global macroeconomic concern with existing pressures boosted by the Ukraine war's effect on commodities. Inflation resulting from easy monetary policy internationally, combined with logistical challenges, has been further fuelled by shortages in commodities, most notably oil and natural gas. This has resulted in inflation at the highest level for many years. The United States is experiencing inflation of 7.9%, the highest in 40 years, with other countries demonstrating similar trends.

The US Federal Reserve have recognised that inflation is "far too high" and has responded by lifting the Federal Funds rate by 0.25% to 0.5%, the first step in what is likely to be numerous rate increases. New Zealand has already embarked on Official Cash Rate (OCR) increases with the OCR at 1.0% and likely to go higher. The efforts to control inflation have resulted in rising longer-term rates and a fall in bond values. The New Zealand composite bond index declined 2% in March, largely matched by the global equivalent which also gave up 2% in value.

The extent to which interest rates increase further is therefore critical to the returns from fixed income portfolios. The positive offset of rising rates is improving yield as investments are rolled over and renewed at higher income levels.

Share portfolios are not immune to rising rates, being sensitive from a comparative income perspective, the present value of cash flows and the effect of rising rates on consumer demand and business investment. Rising interest rates therefore are a headwind for continuing gains in equity markets but should be placed in a cyclical context. Initially rising rates from low levels in response to inflation indicate economies are running hot. Provided businesses have sufficient pricing power, profit margins should be capable of being maintained.

Summary

The investment environment is providing mixed signals currently. There are some indications that less favourable conditions could emerge as imbalances become more accentuated. In the near-term however it appears premature to adopt an overtly defensive position. Economic growth and earnings growth are robust and interest rates remain at relatively low levels compared to history. Segments of the share market such as commodity producers are direct beneficiaries of current conditions.

Benefits are still to accrue from post Covid normalisation in areas such as international travel and a cessation of hostilities in Ukraine would improve confidence.

In the absence of high positive or negative conviction, neutral positioning relative to strategic asset allocation is considered prudent with prospectively a mild bias to the defensive should economic indicators deteriorate.

Monthly View continued – March 2022

Key Market movements over March 2022 Source: Bloomberg

Share market returns in their own currency	1 Month	3 Months	1 Year
NZX 50 (New Zealand Shares)	1.1%	-7.1%	-3.6%
MSCI ACWI (Global Shares)	2.3%	-5.1%	7.2%
S&P 500 (Top 500 US Listed Companies)	3.6%	-4.9%	14%
NASDAQ 100 (US Technology Companies)	4.2%	-9.1%	13.3%
ASX 200 (Australian Shares)	6.4%	0.7%	10.4%
New Zealand Interest Rates	Latest rate	3 months ago	1 year ago
New Zealand's Official Cash Rate	1.00%	0.75%	0.25%
3 Month Deposit Rate	1.55%	0.87%	0.28%

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