Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Yovich & Co. Weekly Market Update

4th June 2024

Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous week close: 24th May	11783.39	7999.16	3088.87	8317.59	39069.59	16920.79	0.9235	0.6121	5.50%
Month Close: 31st May	11867.29	7970.78	3086.81	8275.38	38686.32	16735.02	0.9234	0.6144	5.50%
% Change	0.71%	-0.35%	-0.07%	-0.51%	-0.98%	-1.10%	-0.01%	0.37%	0.00%

The final week of May brought a blend of minor shifts and notable declines across global markets. The New Zealand share market closed the week up at 0.71% if compared to the previous week close. Factors contributing to this rise is likely due to earnings season which had some positive news in key sectors such as logistics and healthcare which may have bolstered investor sentiment. Additionally, a significant long-term energy deal with Tiwai Point may have contributed to the market's positive sentiment, and the tax cuts announced in the budget.

On the other hand, the Australian Ordinaries experienced a slight decline of 0.35%, closing the week at 7970.78. This minor downturn suggests a degree of caution among investors, driven by concerns over inflation and the potential for interest rate hikes by the Reserve Bank of Australia. The negative performance of the mining and energy sectors, which hold considerable weight in the Australian economy, also influenced market sentiment.

Meanwhile, the Shanghai market remained relatively stable with a marginal decrease of 0.07%. However, the FTSE 100 in the UK experienced a decline of 0.51%, potentially influenced by persistent domestic inflation apprehensions compounded by a notable 9.5% decrease in the share price of pharmaceutical titan GSK.

In the United States, both the Dow and NASDAQ experienced declines of 0.98% and 1.10% respectively. This indicates some apprehension in the market regarding the US economic outlook. Factors such as a potential economic slowdown, mixed earnings reports, and the current political climate may have contributed to this downturn.

The NZD/AUD currency pair saw a marginal decline of 0.01%, whereas NZD/USD appreciated by 0.37%. This slight weakening of the USD may be due to market speculation on the federal reserve's monetary policy to move interest rates lower.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Weekly Market Movers: Ending 31st May 2024

The biggest movers of the Week ending 31st May 2024				
Up			**Down**	
Vista Group International	19.02%		The Warehouse Group	-10.26%
Fonterra Shareholders' Fund	8.70%		Skellerup Holdings	-10.18%
Meridian Energy	8.25%		Ebos Group	-6.90%
Stride Property	5.79%		Ryman Healthcare	-6.67%
Fisher & Paykel Healthcare	4.13%		Summerset Group	-5.94%

Top Gainers:

1. **Vista Group International** (19.02%): Vista Group share price increase can be attributed to the acquisition of an 18.45% stake by the Australian private equity firm Potential Capital Management through its investment entity Admetus. Potential Capital Management secured this stake for $92.2 million, equivalent to $2.10 per share.

2. **Fonterra Shareholders' Fund** (8.70%): The Fonterra Shareholders Fund witnessed a surge, propelled by the recent uptrend in Global Dairy Trade (GDT) prices over the past few months. Furthermore, Fonterra's Q3 Business update revealed a notable increase in their profit after tax, underpinned by robust earnings across all three product channels of the cooperative. With a promising outlook, Fonterra anticipates a further enhancement in earnings.

3. **Meridian Energy** (8.25%): Meridian Energy and Aluminium smelters (NZAS) have signed a significant deal to keep the plant at Tiwai Point operating for the 20 years. This agreement which took over 18 months to negotiate, included a significant demand response deal to make more electricity available for the country. This includes a long-term fixed price contract for wholesale electricity price cover.

4. **Stride Property** (5.79%): Stride Property's stock surged by 5.79%, reflecting investor confidence in its strategic moves. With promising projects like Shortland Street nearing completion, the focus on leasing underscores its commitment to revenue generation. Despite steady earnings akin to prior years, SPG's assurance to maintain dividends reinforces stability amidst growth endeavours.

5. **Fisher & Paykel Healthcare** (4.13%): The recent earnings report from Fisher & Paykel indicates a commendable 10% increase in revenue from FY23, reaching NZ$1.74 billion. However, there is a notable 47% decline in net income, down to NZ$132.6 million. This decrease in net profit is attributed to three abnormal items, namely, the devaluation at Karaka, the impact of a higher interest rate environment, and the prevailing conditions in the general development land market conditions. Despite the challenges faced, Fisher & Paykel anticipates a robust average annual revenue growth of 11% over the next three years. This forecast suggests a return to a trajectory of sustained growth for the company.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Top Losers:

1. **The Warehouse Group** (-10.26%): Consensus earnings are down more than -70% driven by weak sales forecasts and continuing consumer weakness remaining prevalent. Per-capita retail sales are down -11% from the peak. Warehouse group CEO Nick Grayson having also resigned and the group not having found a replacement yet. Also due to increasingly competitive market and higher earnings risk, they have also moved on from Torpedo 7 and The Market.

2. **Skellerup Holdings** (-10.18%): Skellerup Holdings' notable 10.18% decrease may reflect investor apprehension about its future growth prospects despite its past success. While the company has shown impressive earnings growth, forecasted growth rates are comparatively modest, raising concerns about whether current stock prices are justified. This discrepancy in growth expectations could be prompting investors to reassess their positions and adjust their expectations accordingly, leading to the observed decline in share value.

3. **Ebos Group** (-6.90%): Ebos Group experienced a notable 6.90% decline this week. Despite reinvesting for growth, sales haven't surged, dampening investor sentiment. With a commendable 89% five-year gain, optimism prevails, but sustained trends suggest limited potential for further exponential growth. Investors remain watchful for signs of renewed momentum in the company's performance.

4. **Ryman Healthcare** (-6.67%): Ryman Healthcare faced a turbulent week with a significant 6.67% decline, reflecting investor concerns over its staggering 98% drop in net profit. Despite an 18% revenue increase, one-time costs and property devaluation weighed heavily. With a search for a new CEO underway, the company aims to fortify financial performance amidst economic uncertainty.

5. **Summerset Group** (-5.94%): Summerset Group experienced a 5.94% decline, reflecting broader market trends rather than company-specific issues. Despite its recent strong financial performance, including robust profit increases and record construction achievements, external factors such as market volatility or sector-wide concerns may have influenced investor sentiment. However, Summerset's solid fundamentals and optimistic growth outlook suggest potential resilience in the face of short-term market fluctuations.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

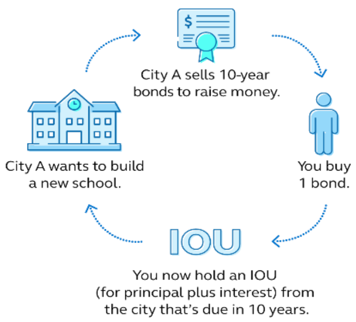
Educational Spotlight: Bonds- Your Guide to Stability, Income, and Wealth

Bonds play a crucial role in a diversified investment portfolio, offering a way to manage overall risk, generate income, and provide stability. As a fixed-income instrument, bonds are categorised under 'income assets' alongside cash and deposits. They help balance the higher volatility and potential for greater returns associated with stocks, contributing to a more resilient investment strategy.

A bond is essentially a contract between two parties—typically a company or government and an investor. By purchasing a bond, the investor is lending money to the issuer. In return, the issuer makes regular interest payments, known as "coupon", payments, over a specified period. When the bond 'matures' the bondholder (investor) receives their initial investment back.

Bonds can be sold on the 'secondary market', unlike other fixed term investments such as term deposits, which you must remain in for the duration of the term. Once a bond is issued, their value fluctuates like a stock would. If you hold the bond until maturity these fluctuations do not matter, however in the event you needed to sell the bond, changes in interest rates and new bonds that are issued will have an impact on the sale price.

Did you know? The term "coupon" originates from the days when physical bonds, known as bearer bonds, had detachable coupons at the bottom. When an interest payment was due, bondholders would cut off the coupon and mail it in to receive their payment.



Comparison of Bonds vs Shares

Bonds typically exhibit lower volatility compared to stocks, with high-quality bonds generally showing standard deviations ranging from 3% to 9% over a ten-year period, whereas diversified equity portfolios typically range between 15% to 20%. Bonds are influenced by interest rates and credit risks, while stocks are more susceptible to market risk, often experiencing significant short-term price fluctuations driven by market sentiment, economic conditions, and company performance.

In the event of default, bonds and shares follow different repayment hierarchies. Shareholders represent ownership in a corporation, while bondholders are creditors. In case of default, bondholders have a higher priority claim on assets, being ahead of shareholders in receiving repayment. Shareholders are the last in line to receive assets, as all debts must be settled first. Consequently, bondholders are more likely to recoup some or all of their investment in the event of bankruptcy or default.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Considerations when investing in bonds

When investing in bonds, credit ratings serve as vital tools for informed decision-making, alongside other pertinent factors. These ratings evaluate the creditworthiness of bond issuers, gauging their likelihood to repay the debt. While some bonds remain unrated, lacking assessment by agencies like Standard & Poor's and Moody's, this absence doesn't inherently imply the bond's risk level or quality. However, it does mean investors lack an independent evaluation.

Standard & Poor's and Moody's are the primary rating agencies, categorising bonds from highest (investment grade) to lowest (riskier). Standard & Poor's ratings range from AAA to BBB-, while Moody's span from Aaa to Baa3. Generally, lower credit ratings correlate with higher interest rates, reflecting the increased risk. These ratings may apply specifically to the bond or the issuing company.

Changes in interest rates significantly impact the future value of bonds. When new bonds are issued at higher interest rates, they become more appealing to investors, potentially causing the value of existing bonds to decline. Conversely, if interest rates decrease, existing bonds may become more attractive and could potentially be sold in the secondary market at a premium before maturity.

Additionally, bond liquidity is a crucial factor. In a rising interest rate environment, existing bonds may become less attractive to new issuances, resulting in decreased demand. This could make it challenging to sell the bond in the secondary market. Conversely, in a declining interest rate environment, existing bonds may garner more interest in the secondary market, as investors seize the opportunity. However, if there isn't an active market for the bond, selling it at fair market value may prove difficult.

High inflation can also influence bonds, as it reduces the purchasing power of future cash flows (coupon payments) from bonds, especially for fixed-rate bonds. The fixed interest (coupon) payments become less valuable in real terms as prices rise. High inflation may also lead to expectations of higher interest rates by central banks to combat inflation, which will typically mean that bond values fall.

Important terms:

Corporate bonds
Issued by companies to pay their expenses and or raise capital.
The interest rate of the bond is usually set by the current interest rate environment and credit rating of the bond issuer.

Sovereign Bonds
Issued by National Governments (such as New Zealand government) usually for funding of projects and expenses.
Typically, sovereign bonds have lower interest rates than corporate bonds as they are considered low risk.

Municipal Bonds
Issued by local governments (such as Whangarei District Council).

Face value
Also known as par value or principal, this is the value of the bond that is repaid to the bondholder at maturity. Typically, $1000 per bond.

Jarrod Goodall (FSP 198885)
Nathanael McDonald (FSP 629229)
Rajat Vats (FSP1007270)
Daniel Butzbach (FSP1007407)

Coupon rate
The fixed annual interest rate paid on a bond, expressed as a percentage of the bonds face value. The coupon rate dictates the periodic interest payment made to the bondholder, usually Paid quarterly, semi-annually or annually.

Maturity date
The date when the principal amount of a bond is due and is repaid to the bondholder.
This marks the end of the bonds term.

Secured/Unsecured
Secured means that the bond is backed by an asset. Secured bonds are generally lower risk than unsecured bonds.

Yield
The return on investment generated by a bond, calculated as the annual interest payments divided by the bonds current market price.

Yield to maturity
The total return anticipated on a bond if held until it matures, taking into account its current market price, coupon rate, and the time remaining until maturity.

Yield curve
A graphical representation of the relationship between bond yields (or interest rates) and their respective maturities. It shows the term structure of interest rates for a specific point in time.

Callable bond
A bond that can be redeemed (called back) by the issuer before its maturity date, typically at a predetermined price (call price) and after a specified call date.

Puttable bond
A bond that grants the bondholder the right to sell the bond back to the issuer at a predetermined price before maturity.