

Yovich & Co. Weekly Market Update

15th July 2024

Investment News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 5th July	11,794.81	8,070.10	2,949.93	8,203.93	39,375.87	18,352.76	0.91	0.61	5.50%
Week Close 12th July	12,134.97	8,206.15	2,971.30	8,252.91	40,000.90	18,398.45	0.90	0.61	5.50%
Change	2.88%	1.69%	0.72%	0.60%	1.59%	0.25%	-0.96%	-0.42%	0.00%

The NZX 50 gained approximately 2.88% this week, closing at 12,134.97. This positive movement was supported by gains in industrials and healthcare stocks. Top contributors from the industrial sector, which were also top movers, included Mainfreight Ltd, Fletcher Building Ltd, Freightways Ltd, and Skellerup Holdings Ltd, with a combined weightage of approximately 8.93% in the NZX 50.

The All-Ordinaries index in Australia increased by 1.69% to 8,206.15, driven by optimism in the healthcare and materials sectors. Investor confidence was bolstered by positive economic data and strong corporate earnings reports.

The Shanghai Composite rose by 0.72%, closing at 2,971.30. This increase was supported by positive economic data and government stimulus measures aimed at boosting economic growth.

The FTSE 100 gained 0.60%, closing at 8,252.91. The increase was driven by resilience in the energy and consumer goods sectors despite global economic uncertainties.

In the US, the Dow Jones Industrial Average rose by 1.59% to 40,000.90, while the NASDAQ increased by 0.25% to 18,398.45. The positive performance was driven by strong tech sector earnings and a positive outlook for the US economy.

The NZD weakened against both the AUD and USD, falling by 0.96% to 0.90 and 0.42% to 0.61, respectively. This depreciation is partly due to the anticipation of OCR cuts, which typically reduce the yield on NZD-denominated assets.

The overall market movements reflect a mix of optimism and caution as investors react to economic data and central bank policies. With the potential for OCR cuts, certain sectors such as real estate, consumer discretionary, and financials may present investment opportunities.

Weekly Market Movers: Ending 12th July 2024

The biggest movers of the Week ending 12 th July 2024			
Up		Down	
Ryman Healthcare	20.47%	Contact Energy	-6.56%
Mainfreight	11.52%	Fonterra Shareholders' Fund	-2.73%
Freightways	11.11%	Genesis Energy	-1.79%
Fletcher Building	10.18%	Channel Infrastructure NZ	-1.36%
Skellerup Holdings	10.03%	Infratil	-1.17%

Top Gainers:

1. **Ryman Healthcare (20.47%):** Ryman Healthcare experienced significant gains due to strong quarterly earnings that exceeded market expectations. The company's strategic expansion in aged care facilities and increased occupancy rates contributed to investor confidence.
2. **Mainfreight (11.52%):** Mainfreight's shares rose on the back of robust logistic demand and an upbeat market outlook. The company's consistent growth in international freight volumes and efficient supply chain management were key factors driving the stock higher.
3. **Freightways (11.11%):** Freightways saw a notable increase driven by positive earnings reports and expansion in its courier and logistics operations. The company's investment in technology and network improvements has positioned it well for continued growth.
4. **Fletcher Building (10.18%):** Fletcher Building benefited from a rebound in construction activity and positive investor sentiment following recent government infrastructure announcements. The company's diversified portfolio and strategic initiatives have also contributed to its strong performance.
5. **Skellerup Holdings (10.03%):** Skellerup Holdings' shares increased due to strong demand for its industrial products and positive earnings guidance. The company's focus on innovation and expansion into new markets has been well-received by investors.

Top Losers:

Contact Energy (-6.56%): Contact Energy faced a decline as investors reacted to lower-than-expected hydropower generation and increased operational costs. The company's profit warning due to adverse weather conditions also impacted investor sentiment.

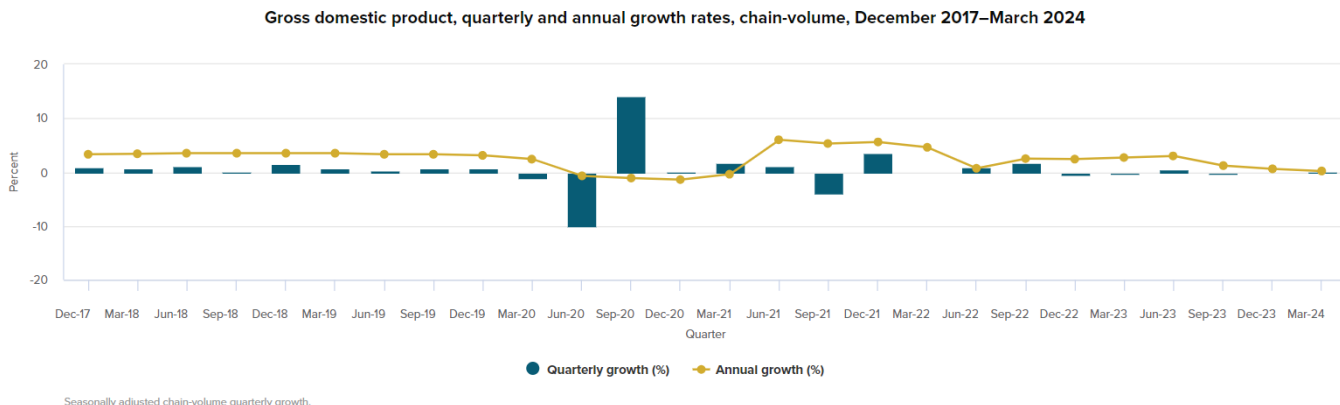
Fonterra Shareholders' Fund (-2.73%): Fonterra's shares dropped following weaker dairy prices and concerns over global trade tensions affecting export markets. The company's cautious outlook on milk production also weighed on the stock.

Genesis Energy (-1.79%): Genesis Energy saw a decline due to lower electricity demand and increased competition in the energy sector. The company's recent operational challenges and regulatory pressures contributed to the stock's downward movement.

Channel Infrastructure NZ (-1.36%): Channel Infrastructure faced a decrease as market participants reacted to delays in project timelines and higher-than-anticipated costs. Investor concerns over the company's financial health added to the negative sentiment.

Infratil (-1.17%): Infratil's shares fell slightly due to profit-taking after a strong performance in previous weeks. The company's investment in renewable energy projects remains positive, but short-term market volatility affected the stock.

Spotlight on New Zealand's Economic Cycle and Market Outlook with OCR Cut Priced In



Source: Stats NZ

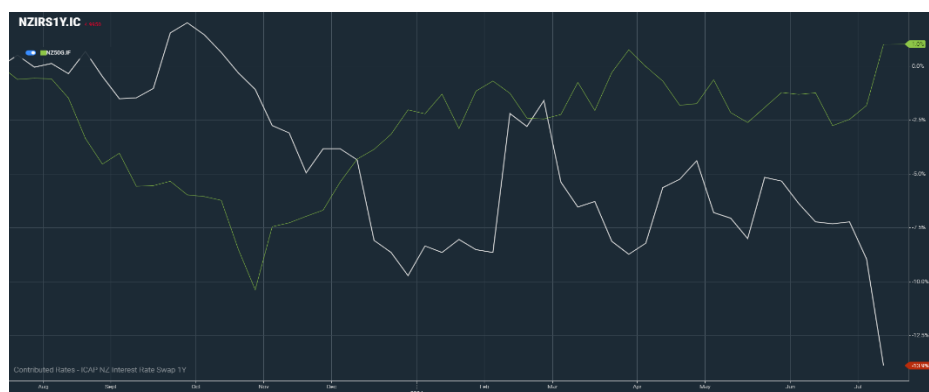
As of July 2024, New Zealand's economy is in a contraction phase. This phase is marked by reduced economic activity, weakened household spending, and lower business and residential investments. The key indicators influencing this assessment are:

GDP Contraction: New Zealand has experienced two consecutive quarters of GDP contraction, signalling a recession (ANZ Bank New Zealand) (Reserve Bank of New Zealand). However, increase of 0.2% in March 2024 quarter.

Inflation and Monetary Policy: While headline inflation has declined to 4.0% in Q1 2024, it remains above the target range of 1-3%. The Reserve Bank of New Zealand (RBNZ) has maintained the Official Cash Rate (OCR) at 5.50% to control inflation, which has further restricted spending and investment (Reserve Bank of New Zealand).

Labour Market: Easing labour market pressures with increased labour supply and declining wage growth, contributing to the overall economic slowdown (Reserve Bank of New Zealand). As of March 2024, unemployment rate is at 4.3%.

Market Pricing in OCR Cut



NZ 1 year Swap rate vs NZX50 Gross

Source: IRESS

Swap rates are a proxy for the risk-free rate. They represent the market's expectations for interest rates over specific periods of time. Today, the 1-year swap is trading at 4.995%, implying the market sees interest rates at an average of 4.995% over the next one year.

Therefore, the market is anticipating potential OCR cuts by the RBNZ in response to the ongoing economic contraction. Lowering the OCR could stimulate economic activity by reducing borrowing costs, encouraging both consumer spending and business investments.

Key Sectors Expected to Benefit from an OCR Cut:

Real Estate and Construction: Lower interest rates would reduce mortgage costs, likely boosting demand for housing and residential construction projects.

Consumer Discretionary: Sectors such as retail, travel, and leisure may see increased spending as lower borrowing costs leave more disposable income for consumers.

Financials: Banks and financial institutions might benefit from increased lending activity and improved credit conditions.

Utilities and Infrastructure: Reduced funding costs could encourage investments in infrastructure projects, benefiting utility companies.

Investment Implications and Strategies

Investors should consider sectors poised to benefit from potential OCR cuts. Real estate, consumer discretionary, and financial sectors may offer attractive opportunities. Diversifying investments across these sectors could mitigate risks and capture potential gains as the economy recovers.

Conclusion

New Zealand's economy is currently in a contraction phase, with the market anticipating OCR cuts to stimulate growth. By understanding the economic cycle and its impact on various sectors, investors can strategically position their portfolios to benefit from the expected monetary policy changes.

Upcoming Dividends: 16th of July to 16th of August

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	PayDate
TURNERS	TRA	17-Jul-24	18-Jul-24	10.4167 cps	26-Jul-24
BANKINV	BIT	25-Jul-24	26-Jul-24	1.4224 cps	30-Aug-24
HFAREAST	HFL	25-Jul-24	26-Jul-24	13.1235 cps	30-Aug-24

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