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

Yovich & Co WEALTH MANAGEMENT

Yovich & Co. Weekly Market Update

21st October 2024

Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 11th October	12845.64	8491.49	3217.74	8253.65	42863.86	18342.94	0.9050	0.6110	4.75%
Week Close 18th October	12823.89	8551.19	3261.56	8358.25	43275.91	18489.55	0.9054	0.6072	4.75%
Change	-0.17%	0.70%	1.36%	1.27%	0.96%	0.80%	0.04%	-0.62%	0.00%

This past week saw mixed performances across global indices. The NZX 50 dropped slightly by 0.17% to 12,823.89, as investor caution grew ahead of key economic reports. Upcoming New Zealand trade data, due tomorrow, is expected to provide further insights into the country's export performance, while ANZ's monthly consumer confidence report, scheduled for release on Friday, should give a clearer picture of domestic sentiment. Early indications suggest that consumer confidence might continue to edge up in the October survey, reflecting cautious optimism about the economic outlook.

Meanwhile, the All Ordinaries in Australia climbed by 0.70%, supported by strong earnings in the mining and energy sectors. China's Shanghai Composite saw a healthy gain of 1.36%, with economic recovery efforts bolstered by government stimulus measures.

On the currency front, the NZD weakened against both the AUD and USD, with the NZD/USD rate declining by 0.62%. The currency movement reflects concerns about weak export performance and tightening monetary policy.

Weekly Market Movers

The biggest movers of the Week ending 18th October 2024				
Up			**Down**	
Westpac Bank	5.72%		The a2 Milk Company	-8.93%
Meridian Energy	4.70%		SKYCITY Entertainment Group	-4.79%
Property for Industry	4.57%		Serko	-3.45%
ANZ Bank	4.10%		Vulcan Steel	-3.11%
Tourism Holdings	3.39%		Stride Property	-2.86%

Source: Iress

Investment News

EVT Limited (EVT.AU) – Positioned for a rebound

EVT Limited operates in entertainment, hotels, and property management, making it a significant player in the leisure and hospitality sectors in Australia. Its businesses include Event Cinemas, Rydges Hotels, and QT Hotels. EVT Limited is showing potential as it is trading at a significant discount to its net tangible assets (NTA). With two out of its three business segments at a cyclical low, the company is poised for recovery, especially as the box office outlook improves. EVT's valuation is supported by its AUD 2.3 billion property portfolio, offering strong upside potential. If cinema admissions recover to near pre-pandemic levels by FY27, total shareholder returns could exceed 35%. Despite lowering the target price slightly, EVT remains a buy with positive longer-term prospects.

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

Flight Centre Travel Group (FLT.AU) – Navigating Margin Pressures with Optimism

Flight Centre is one of the world's largest travel retailers, operating in over 23 countries has experienced both strong recovery and challenges post-pandemic. Flight Centre has seen marginal improvements in revenue and profit but continues to face pressure on margins. Although Q1 showed modest growth, the company is unlikely to achieve its FY25 profit margin target of 2%. However, Q2 is seeing better trends, with stronger results expected in the upcoming months. Due to revised margin expectations, the target price has been lowered, but the stock remains a buy based on future recovery potential.

Spotlight: Why Mid-Cap Stocks Could Be the Smart Play for Both Market Downturns and Bullish Recoveries

As investors, the search for the next big opportunities and emerging themes is constant. Looking ahead to 2025 and beyond, several key trends are worth watching.

Emerging Opportunities: AI, Lower Inflation, and Interest Rates

AI's Rise: 2023 marked a significant year for AI, especially with the explosion of generative AI applications like ChatGPT. Companies like Nvidia, whose stock has soared by over 161% by mid-2024, have benefitted from the growing demand for high-performance chips. According to the 2024 Comptia IT Industry Outlook Report, nearly 22% of firms are actively integrating AI into workflows, this trend is set to accelerate into 2024. In sectors from healthcare to logistics, AI will continue to transform industries, and mid-cap companies involved in AI infrastructure could see outsized growth as the sector matures.

Lower Inflation and Interest Rates: Inflation has been a hot topic globally, but signs point to a cooling trend. In New Zealand, inflation has dropped to 3.3%, down from a high of 7.3% in 2022. This has led to expectations of lower interest rates, creating a more favourable environment for businesses to grow.

When central banks implement easing policies, mid-cap companies typically gain more from increased access to capital for expansion compared to their larger counterparts. This is often due to mid-caps relying more on flexible-rate loans, which respond quickly to lower interest rates, reducing borrowing costs. In contrast, large-cap companies, with more fixed-rate debt, may not experience the same immediate benefit, but still stand to gain when issuing new debt at lower rates. This makes mid-caps more agile in capitalising on favourable financial conditions, giving them an edge in pursuing growth initiatives.

Mid-Cap Stocks: Why They Stand Out

The mid-cap sector has consistently outperformed both large-caps and small-caps during periods of global uncertainty, including the coronavirus pandemic and over the long term. For example, over 25 years preceding August 2024, the S&P Mid Cap 400 delivered a total return of 985%, sharply outpacing the S&P 500's 563% and the Russell 2000's 608% (Mid-Caps Used To Outperform Large-Caps. What Changed?, 2024) – Link. This trend, marked by strong performance through economic downturns and global challenges, is expected to continue over the long term.

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

One of the primary reasons for this outperformance is that many mid-cap companies are still in their growth phase, unlike large-caps, which tend to be more stable but slower-growing. Ross MacMillan, senior analyst at Morningstar Australasia, explains that mid-caps often offer higher revenue and earnings growth potential, leading to more significant share price movements. These companies, while more established than small caps, retain the growth potential and competitive advantages that attract investor interest.

During the pandemic, mid-cap technology companies like Afterpay (ASX: APT), Xero (ASX: XRO), and NextDC (ASX: NXT) thrived. For instance, Afterpay benefited significantly from the rise in online shopping, driven by its "buy now, pay later" business model. The company's revenue skyrocketed during the pandemic, with its share price climbing from $8 to $70. This substantial growth solidified Afterpay as one of Australia's top companies by market capitalisation before its acquisition by Square (now Block Inc.) in 2021.

The mid-cap sector also offers greater diversification benefits, as these companies are often more agile and adaptable to market shifts, making them attractive during periods of economic uncertainty, including wars, pandemics, and other global crises.

Why Mid-Cap Stocks Could Be Your Smart Play:

Less Impact from Foreign Institutional Investors: Large-cap stocks tend to be heavily influenced by foreign institutional investors, who frequently rebalance their portfolios, often leading to volatility. Mid-cap stocks, however, experience less of this external pressure, making them more stable during periods of market rebalancing.

High Risk-Reward Potential: While mid-cap stocks present higher risk and reward compared to large caps, which are generally more stable but slower growing, the key to reducing risk lies in diversification. A balanced portfolio that includes both mid-cap and large-cap stocks benefits from the lower correlation between these segments. This diversification reduces overall volatility and risk. As the saying goes, "The sum is greater than its parts," which holds true for optimal portfolios—by mixing assets with varying risk and return profiles, investors can achieve better risk-adjusted returns.

Agility and Adaptability: Mid-caps can be nimbler, allowing them to pivot quickly in changing markets. Generally, Mid-cap companies often possess the flexibility and agility to pivot quickly in response to market changes, which sets them apart from larger, more bureaucratic organisations. This adaptability allows them to innovate, restructure, or seize emerging opportunities faster than their larger counterparts.

Lower OCR Benefits: In a low Official Cash Rate (OCR) environment, mid-caps have an advantage in accessing cheaper capital. Companies like Heartland Group (HGH.NZ) are well-positioned to expand with lower borrowing costs, which could drive growth over the next few years.

Undervalued and Acquisition Opportunities: Many mid-caps are undervalued and underappreciated by large institutional investors, despite having strong fundamentals. This often makes them prime acquisition targets for larger companies, which can drive up their stock price and market sentiment. For instance, Manawa Energy (MNW.NZ), poised for growth in the renewable energy sector, has recently become the subject of an acquisition by Contact Energy in a deal valued at NZ$1.86 billion. This highlights how undervalued mid-caps can attract big players, potentially leading to significant gains for investors.

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

Mid-Cap Stocks/funds to Watch

Ophir High Conviction Fund (OPH.ASX): The Fund seeks to provide investors with a concentrated exposure to a high-quality portfolio of Australian listed companies outside the S&P/ASX 50. On occasion, the Fund may also invest in listed securities in New Zealand.

OPH has shown impressive returns by carefully selecting mid-cap companies with promising fundamentals. With a focus on quality management and scalability, OPH invests across sectors such as healthcare, technology, and financial services, capitalising on growth opportunities in these areas. Net return since inception is 13.2% p.a. The YTD return for OPH is 20.88%.

Vanguard Mid-Cap ETF (VO.US): The Vanguard Mid-Cap ETF is a popular fund in the U.S. that offers exposure to mid-cap companies across various industries. VO is designed to track the performance of the CRSP US Mid Cap Index, providing diversified access to companies with market capitalisations typically ranging from $2 billion to $10 billion. The ETF holds companies that are established but still have significant room for growth, such as those in technology, healthcare, and consumer sectors. Net return since inception is 9.91%. The YTD return for VO is 17.53%.

New Zealand Mid-Cap Stocks:

New Zealand Mid Cap Companies

As at Monday, 21 October 2024

Security Code	Name	Industry	Current Price	Target Price	Target Price Discount / (Premium)	Historical Dividend Yield	Forecast Gross Dividend Yield 1yr	Forecast Gross Dividend Yield 2yr	Forecast Gross Dividend Yield 3yr	Total Return
THL.NZ	Tourism Holdings Limited	Industrials	$1.89	$3.18	68.3%	7.0%	8.0%	12.6%	15.1%	76.3%
SKC.NZ	SKYCITY Entertainment Group Limited (NS)	Consumer Discretionary	$1.36	$1.85	36.0%	5.4%	0.0%	7.7%	9.8%	36.0%
DGL.NZ	Delegat Group Limited	Consumer Staples	$5.44	$7.35	35.1%	5.1%	5.1%	5.4%	5.9%	40.2%
HGH.NZ	Heartland Group Holdings Limited	Financials	$1.03	$1.31	27.2%	9.4%	8.5%	10.3%	11.9%	35.7%
GNE.NZ	Genesis Energy Limited (NS)	Utilities	$2.07	$2.54	23.0%	9.4%	9.3%	9.5%	9.6%	32.3%
KMD.NZ	KMD Brands Limited	Consumer Discretionary	$0.48	$0.59	22.9%	0.0%	1.4%	6.6%	8.1%	24.3%
TRA.NZ	Turners Automotive Group Limited	Consumer Discretionary	$4.50	$5.28	17.3%	7.9%	5.1%	5.5%	6.2%	22.4%
SKL.NZ	Skellerup Holdings Limited	Industrials	$4.54	$5.30	16.7%	6.3%	6.7%	7.2%	7.8%	23.4%
NZX.NZ	NZX Limited	Financials	$1.41	$1.61	14.2%	6.0%	6.0%	6.0%	6.4%	20.2%
SUM.NZ	Summerset Group Holdings Limited	Health Care	$12.18	$13.86	13.8%	2.0%	2.0%	2.1%	2.1%	15.8%
AFT.NZ	AFT Pharmaceuticals Limited	Health Care	$3.30	$3.75	13.6%	0.5%	0.6%	1.0%	1.4%	14.2%
SCL.NZ	Scales Corporation Limited	Consumer Staples	$3.85	$4.28	11.2%	3.1%	5.3%	7.1%	7.8%	16.5%
MNW.NZ	Manawa Energy Limited	Utilities	$5.44	$5.99	10.1%	4.9%	4.7%	4.9%	5.6%	14.8%
BGP.NZ	Briscoe Group Limited	Consumer Discretionary	$5.04	$5.28	4.8%	8.0%	8.0%	8.2%	8.6%	12.8%
PCT.NZ	Precinct Properties NZ & Precinct Properties Investments Ltd	Real Estate	$1.29	$1.35	4.7%	5.3%	5.3%	5.3%	5.4%	10.0%
SPG.NZ	Stride Property Ltd & Stride Investment Management Ltd (NS)	Real Estate	$1.37	$1.42	3.6%	5.4%	6.3%	6.3%	6.4%	10.0%
ARG.NZ	Argosy Property Limited	Real Estate	$1.13	$1.15	2.2%	6.7%	6.7%	6.6%	6.6%	8.9%

Wrap Up: The Strategic Case for Mid-Caps

In today's market, mid-cap stocks offer a compelling balance of risk and reward, especially as we anticipate lower interest rates and capital markets begin to favour more agile businesses. With many mid-cap companies showing strong performance across New Zealand, Australia, and the US, now may be the time to add them to your portfolio. These stocks present unique opportunities for growth and are well-positioned to navigate both downturns and recoveries.

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

Upcoming Dividends: 22nd October to 22nd November.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Bankers Investment Trust	BIT	24-Oct-24	25-Oct-24	1.43cps	08-Nov-24
Southport	SPN	24-Oct-24	25-Oct-24	27.08 cps	08-Nov-24
Henderson Far East Income Limited	HFL	24-Oct-24	25-Oct-24	13.32 cps	29-Nov-24
Scott Technology Limited	SCT	5-Nov-24	6-Nov-24	3.58 cps	20-Nov-24

Source: Iress

For more information and to stay updated subscribe to our newsletter and consult with your Financial Adviser to tailor your investment strategy.