

New Zealand Equity Monthly June 2024

Market's struggles so far in 2024 reflect high interest rates and weak economy

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New Zealand market has underperformed its peers in first half of 2024

Now that we are halfway through 2024, a look back at the past six months reveals the extent to which New Zealand's equity market has missed out on the strength seen in many other global markets this year to date. The contrast is particularly marked with US and Japanese equities, which have both performed extremely well in 2024. The S&P 500 Index climbed by 14.7% in the first six months of the year and Japan's Nikkei 225 Index rose by 17.1% in the same period. Furthermore, the UK and European markets have delivered solid returns during the period, with the UK's FTSE 100 Index and the Euro Stoxx 50 Index showing respective rises of 6.7% and 9.2%. The Australian and New Zealand equity markets have both performed poorly in comparison. Australia's S&P/ASX 200 Index only increased by 3.3% in the first six months of 2024, while New Zealand's S&P/NZX 50 Index ended the period essentially flat with a 0.5% decline. In New Zealand's case, a look at returns across the entire S&P/NZX 50 Index up to the end of June reveals how broad the market's struggles have been in 2024 to date, with roughly two thirds of the market (32 stocks) showing negative returns and only 18 in positive territory.

Weakness reflects high interest rates and slowdown in economy

Given the market's composition, we believe the flat performance of New Zealand equities so far largely reflects the impact of restrictive monetary policy. New Zealand's Official Cash Rate currently stands at 5.5% and has been at that level since May 2023, while many of the country's larger companies are exposed to sectors that are sensitive to higher interest rates. For example, data released by S&P Dow Jones Indices shows that the Industrials sector constituted 27.7% of the S&P/NZX 50 Index as of 27 June, 2024. In addition, the New Zealand market is generally seen as a high-yielding market. This means that when interest rates rise, it often becomes less attractive to investors. The market has also been impacted by the weakness New Zealand's economy has shown in the past year compared to other developed economies, including the US. According to the latest official figures, New Zealand's GDP grew by only 0.2% in the March 2024 quarter compared to the previous three-month period, with growth edging back into positive territory after two straight quarters of contraction.

Results of May reporting season reinforced overall picture of weakness

Now that investors have had time to collate all the results from the May reporting season and examine it as a whole compared to previous years, it is clear that the equity market's poor performance was largely reflected in corporate earnings. Although median revenue growth was relatively solid compared to previous years at 4.7%, median earnings per share (EPS) growth was down 4.6%. This was the third-weakest result for EPS in the past 10 years. It was also a continuation of the picture we have seen in recent reporting seasons, with the decline, in our view, reflecting the impact of corporate cost pressures on bottom-line growth. Amid these struggles, however, the New Zealand market's sensitivity to interest rates also offers a note of hope. We believe that New Zealand's equities are well placed to strengthen again once rate cuts begin to look imminent.

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