BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Bramwell Brown Limited – Newsletter – March 2023

Interest Rates

Interest rates continue to climb as the Reserve Bank attempts to keep a lid on inflation. Here is a brief summary of their February decision to raise the Official Cash Rate (OCR) from 4.25% to 4.75%.

The Committee agreed that the OCR still needs to increase, as indicated in the November Statement, to ensure inflation returns to within its target range over the medium term. While there are early signs of price pressure easing, core consumer price inflation remains too high, employment is still beyond its maximum sustainable level, and near-term inflation expectations remain elevated. Cyclone Gabrielle and other recent severe weather events have had a devastating effect on the lives of many New Zealanders. It is too early to accurately assess the monetary policy implications of these weather events, given that the scale of destruction and economic disruption are only now becoming evident. The timing, size, and the nature of funding the Government's fiscal response are also yet to be determined.

The Committee's current assessment is that over coming weeks, prices for some goods are likely to spike and activity will be weaker than previously expected. Export revenues will be negatively impacted. Monetary policy is set with a medium-term focus, and the Committee will look through these short-term output variations and direct price effects. In time, the infrastructure and community rebuild will add to activity and inflationary pressures, especially given existing capacity constraints in the economy. Domestically, demand remained robust through 2022 underpinned by resilient household spending, construction activity, government spending, and a swift recovery in international tourism as the border reopened. Labour shortages remain a significant constraint on economic activity, contributing to heightened wage inflation. People are moving jobs at an elevated pace, consistent with labour shortages and strong demand.

While there are early signs of demand easing it continues to outpace supply, as reflected in strong domestic inflation. The Committee agreed that monetary conditions need to tighten further, as indicated in the November Statement, so as to be confident there is sufficient restraint on spending to bring inflation back within its 1% to 3% per annum target range. The Committee remains determined to achieve its Monetary Policy Remit.

Silicon Valley Bank

The reporting of the collapse of Silicon Valley Bank (SVB) in the United States will bring back memories for some of the Global Financial Crisis of 2008. SVB is a bank that mainly services the tech industry in the US. Companies hold cash balances with SVB, who in turn would invest these funds, largely in long-dated Government bonds. Like here in New Zealand, the Federal Reserve in the US began increasing interest rates in an attempt to curb inflation. This had a twofold effect on SVB. As interest rates increased, the value of the bonds they invested in fell. At the same time their tech customers were being squeezed by increasing costs and high interest rates. Many customers began drawing on their deposits. Realising that the assets they held were declining in value SVB announced a large capital-raising. This spooked customers, and caused many to withdraw their funds, which eventually led to a run on the bank, causing it to collapse. Since the collapse, US regulators have introduced emergency measures that ensures all depositors have access to their funds. However this collapse, and the closure of a second, smaller institution, Signature Bank causes a significant amount of uncertainty in markets. The fear is that this could cause contagion, where depositors in other banks get nervous and start withdrawing funds. Thankfully the New Zealand banking system is heavily regulated, with systems in place to prevent this from happening.

March 31st Reporting

We will be busy through April reporting to clients to March 31st. It is looking like another disappointing year for share investors, with most markets experiencing a decline over the last year. The one positive we can take from the investment environment is the sharp increase in interest rates since the start of 2022. This contrast in performance in asset classes highlights the need to hold a diversified portfolio.

Fees

The rising cost of living has meant that we must increase the fees we charge to administer portfolios. The cost of compliance, together with general business running costs have crept up consistently in recent years. The last twelve months has seen compliance costs increase significantly, and we simply can’t continue to absorb these costs. It has been a number of years since we increased fees, and in hindsight we should have been making moderate changes more regularly. I will be in touch with clients individually to discuss any increase in fees they may be subject to.

Wedding

My youngest son is due to be married in Ashburton in early April. I will be away from the office from Monday March 27th until Wednesday April 5th. Angeline will be in the office so please don’t hesitate to phone or email with any queries.

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