BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Bramwell Brown Limited – Newsletter – April 2022

Official Cash Rate

The Reserve Bank raised the Official Cash Rate again at its February 23rd meeting. Here is a summary of their decision.

The Monetary Policy Committee today increased the Official Cash Rate (OCR) to 1 percent. The Committee also agreed to commence the gradual reduction of the Reserve Bank's bond holdings under the Large-Scale Asset Purchase (LSAP) programme - through both bond maturities and managed sales. The Committee agreed it remains appropriate to continue reducing monetary stimulus so as to maintain price stability and support maximum sustainable employment. The level of global economic activity is generating rising inflation pressures, exacerbated by ongoing supply disruptions. The pace of global economic growth has slowed however, due to the general elevated uncertainty created by the persistent impacts of COVID-19, and clear signals that monetary conditions will tighten over the course of 2022.

In New Zealand, underlying economic strength remains in the economy, supported by aggregate household and business balance sheet strength, fiscal policy support, and continued strong export returns. However, some short-term economic disruption is expected given the current growing COVID-19 health challenge. The high vaccination rates across New Zealand will assist significantly to reduce this disruption. Economic capacity pressures have continued to tighten. Employment is now above its maximum sustainable level, with a broad range of economic indicators highlighting that the New Zealand economy continues to perform above its current potential.

Headline CPI inflation is well above the Reserve Bank's target range, but will return towards the 2 percent midpoint over coming years. The near-term rise in inflation is accentuated by higher oil prices, rising transport costs, and the impact of supply shortfalls. These immediate relative price movements risk generating more generalised price rises, especially given the current domestic capacity constraints. The Committee agreed that further removal of monetary policy stimulus is expected over time given the medium-term outlook for growth and employment, and the upside risks to inflation.

I think it is clear that we can expect to see further increases in the OCR throughout this year.

Markets

In 2019 I wrote this in the newsletter:

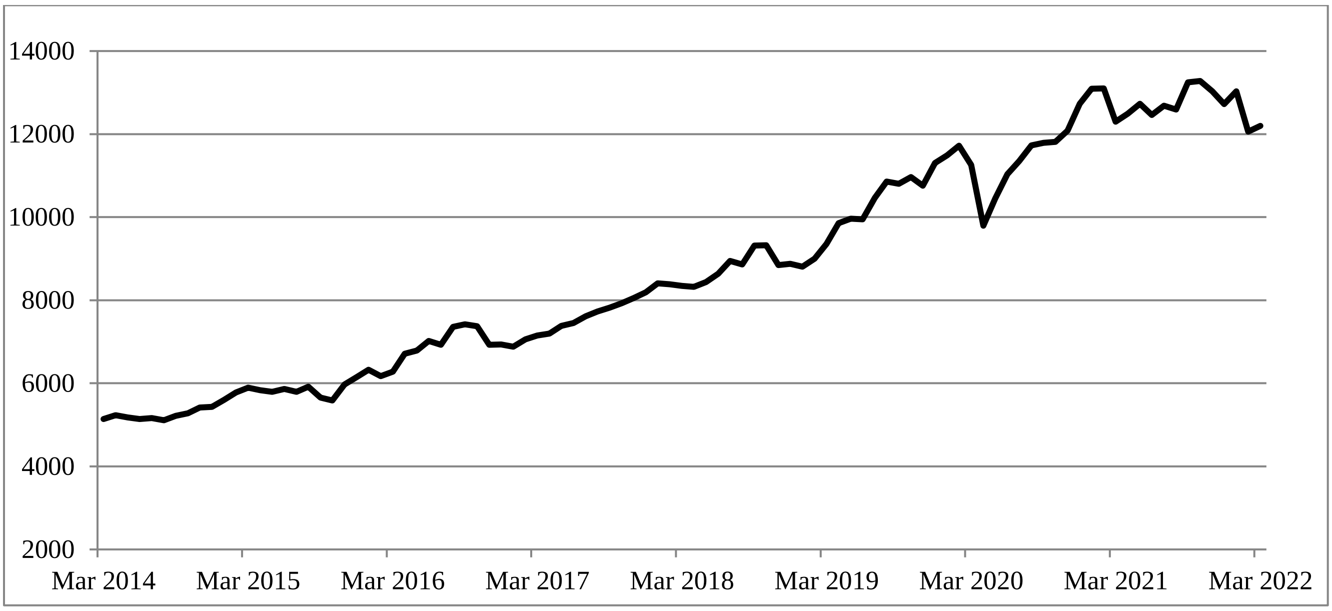
What could derail the phenomenal run share-markets have enjoyed?

- Rising interest rates – this looks unlikely at present, and if rates are to increase it should be a gradual process with plenty of warning
- Economic slowdown – if corporate earnings decline, and we have a subsequent decline in dividends, share prices will fall
- <u>A global shock – unfortunately we don't know what we don't know, and any number of circumstances (war/disease/natural disaster) could affect the markets</u>
- Contagion – any of the above could result in panic amongst investors, whereby the feeling that the markets are overvalued and due for a major correction becomes a self-fulfilling prophecy

Inflation, Covid 19, the threat of further interest rate increases, supply-chain disruption, oil price shocks, and the ongoing war in Ukraine are all causing a certain amount of volatility in financial markets at present. Governments around the world are unwinding the low interest rate support that has been in place for many years. The difficulty in moving goods around the world is putting pressure on prices, which is one factor causing higher than normal rates of inflation. Overlaying all of this at present is the ongoing Covid pandemic, and the war in Ukraine, with uncertainty of when either of these will end.

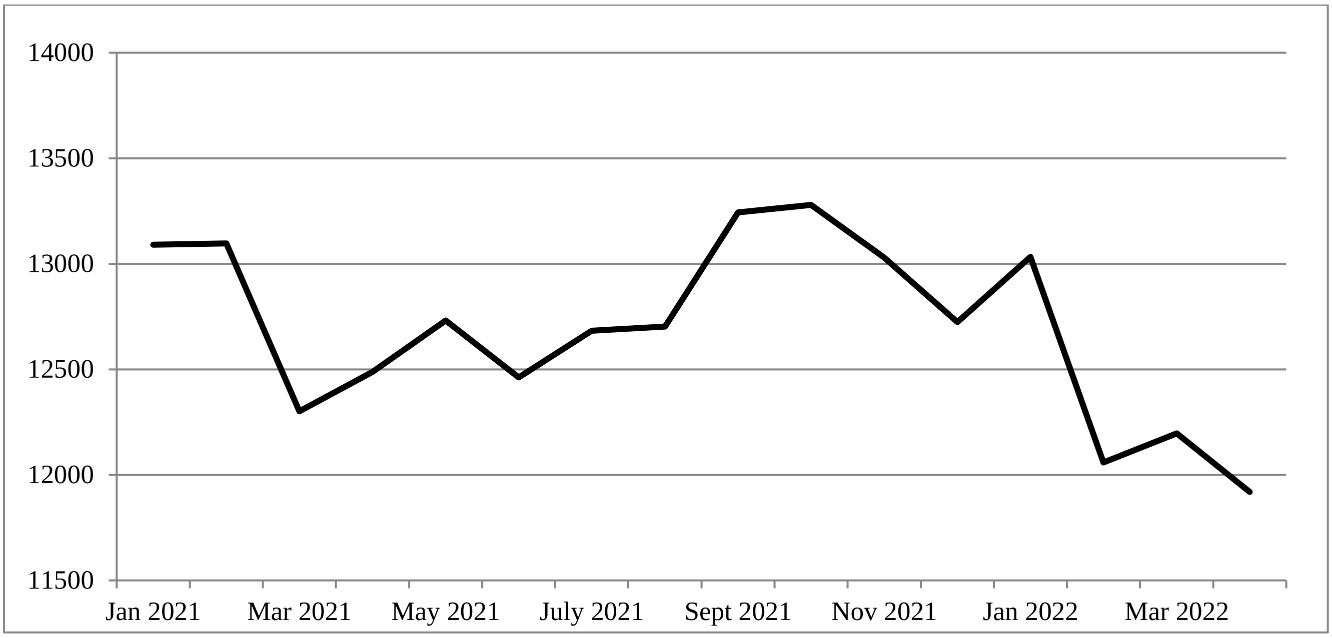
Long-term investors have seen this volatility before, and most will still be feeling positive despite the current headwinds. Those that remained invested through the Global Financial Crisis in 2008/2009 have seen significant gains since. The Covid pandemic tested investors' confidence again in 2020, however the effect on markets was relatively short-lived. Figure 1 shows the NZ50 Gross Index over the last eight years.

Figure 1 - NZ50 Gross Index



But what about newer investors? Figure 2 shows the NZ50 Gross Index over the last year, with a decline of around 8.50%.

Figure 2 – NZ50 Gross Index



Nobody likes to see their shares reduce in value, however market corrections are an inevitable part of investing. The best way we can mitigate these corrections is to invest in stages, and ensure we diversify our investments widely. Investing in stages (sometimes called dollar cost averaging) takes attempting to time the markets out of the equation. Most KiwiSaver investors are doing this, possibly without even realising it. If we consistently invest funds over a longer period (rather than all at once), we will be buying shares at different values. The alternative is to sit on the side-lines and attempt to predict the best time to re-enter the markets. Not only are we likely to get this wrong, but we are also limiting our income in the process. We are all experts in hindsight, however there are numerous occasions in the last ten to twenty years where highly respected market commentators have been proved wrong in their predictions of where markets are heading. For those about to receive their March 31st portfolio reports I would advise you to lower your expectations – this will be one of the few occasions in the last fifteen years where portfolio values have reduced.

Goodman Property Trust Bond Offer

GMT Bond Issuer Limited has announced an offer of up to $100 million (with the ability to accept oversubscriptions of $50 million) of five-year, fixed rate, senior, secured green bonds. The offer is expected to open on April 4th, and close on April 7th. Interest will be paid six-monthly in April and October. We would expect the interest rate to be between 4.00% and 4.50%.

PLEASE CONTACT THE OFFICE IF THIS OFFER IS OF INTEREST TO YOU

Z Energy Takeover

Shareholders recently approved the Scheme of Arrangement for Ampol to acquire 100% of the shares in Z Energy Limited. The scheme still requires the approval of the Takeovers Panel, and the Overseas Investment Office. Once granted, shareholders will receive $3.76 for their Z Energy shares. Payment will be made in May, at which time Z Energy will be de-listed form the NZX and ASX.

Rabobank

This week we received a letter from Rabobank informing us that they will no longer be providing support to the adviser network that allows us to manage Rabobank term deposits and savings accounts for our clients. What this means is that we will now be unable to provide instructions to Rabobank on your behalf. You will still be able to continue the relationship with Rabobank, however you will need to do that yourself. It's disappointing from our point of view – Rabobank has provided a good source of diversification for our clients, along with competitive bank deposit rates. I suspect the change is a product of the ever-increasing amount of compliance the financial services sector has been burdened with over the last ten years. We will be in touch with all of our clients who hold Rabobank deposits to explain how this transition will work.

Bank Term Deposit Rates

Here is a summary of some of the bank term deposit rates on offer at present. The top line shows the rates available in February 2021. The rates underlined and in bold are the current rates.

	1 Year	**2 Years**	**3 Years**	**4 Years**	**5 Years**
ANZ	0.80%	0.85%	0.90%	0.90%	0.90%
ANZ	**2.50%**	**3.00%**	**3.30%**	**3.40%**	**3.50%**
ASB	0.75%	0.80%	0.90%	1.00%	1.00%
ASB	**2.10%**	**2.80%**	**3.00%**	**3.05%**	**3.10%**
BNZ	0.80%	0.85%	0.85%	0.90%	0.90%
BNZ	**2.50%**	**2.80%**	**3.00%**	**3.10%**	**3.20%**
Heartland	1.00%	1.00%	1.05%	1.00%	1.00%
Heartland	**2.45%**	**2.50%**	**2.75%**	**2.90%**	**3.00%**
Kiwibank	0.90%	0.90%	0.90%	0.90%	0.90%
Kiwibank	**2.50%**	**2.70%**	**3.00%**	**3.10%**	**3.20%**
Rabobank	1.00%	1.00%	1.05%	1.05%	1.15%
Rabobank	**2.80%**	**3.10%**	**3.55%**	**3.55%**	**3.60%**
Westpac	0.80%	0.85%	0.85%	0.90%	0.90%
Westpac	**2.50%**	**2.70%**	**3.00%**	**3.10%**	**3.20%**