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Data Update

January 2024 to February 2024

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Contents

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About Multiply

Multiply is a Financial Advice Provider based in New Zealand and is registered on the Financial Services Provider Register (FSPR), FSP697871.

Multiply provides financial and investment advice to retail and wholesale clients in New Zealand. Multiply also provides tax and accounting services to small to medium businesses and strategic advisory services to small to large businesses.

Multiply is based in Auckland, New Zealand, at Level 8, 139 Quay Street, Auckland Central.

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Data sources

LSEG Refinitiv

Statistics New Zealand

Reserve Bank of New Zealand

Quotable Value

REINZ

Federal Reserve

CME Group

Various public financial services providers websites.

Commentary and Highlights

The first quarter of 2024 has so far largely been dominated with speculation as to the timing and magnitude of central bank interest rate cuts, particularly by the US Fed. Fixed income yields were declining heading into the end of 2023 as positive news on inflation continued to come – however progress showed signs of stalling in January, with yields reversing direction for a period and rate cut bets pushing out to late 2024 to 2025.

Aside from rate cut speculation, the focus has been on technology-driven market euphoria, as big bets on emerging tech such as AI and GLP-1 drugs have seen many global indexes reach records highs – including Japan's' Nikkei, which finally recovered to its previous record set in 1989.

Inflation keeps tracking slowly down

Inflation globally continues to decline, with the US in particular nearing its target band. Progress is volatile however with recent months CPI data being mixed and causing market bets on rate cuts to keep pushing out.

RBNZ keeps cash rate flat, softens cut forecasts

ANZ caused a minor stir in February by publishing updated forecasts for 2024 that included not one by two increases to the cash rate to a terminal rate of 6%. That didn't eventual in the first policy meeting of 2024 with the RBNZ not only keeping the cash rate at 5.5%, but also bringing forward their forecast for cuts to early 2025. The RBNZ forecast for reductions in the OCR is still significantly later than markets are pricing.

S&P500 breaks 5000, Tech stocks (Nvidia) drives returns

The S&P500 broke 5000 for the first time on the 8th of February – largely due to the performance of Nvidia and its peer technology firms – and has continued to increase since then, closing Feb at a peak of 5096.

Nvidia has continued to dominate the financial reporting cycle with a blockbuster earnings report on the 21st of Feb, delivering Q4 2023 revenue growth of 233%, totalling $22.1Bn, and forecast $24Bn of revenue for Q1 this year, nearly $2Bn higher than analyst expectations.

Nvidia's share price has skyrocketed in the last two years as its specialist GPUs have found widespread adoption by tech firms looking to develop more and more sophisticated AI technologies. Nvidia is now the 3rd most valuable company in the US with a market cap of over 2Tn, recently overtaking Google and Amazon.

Japan overtaken by Germany, but stock market tips record

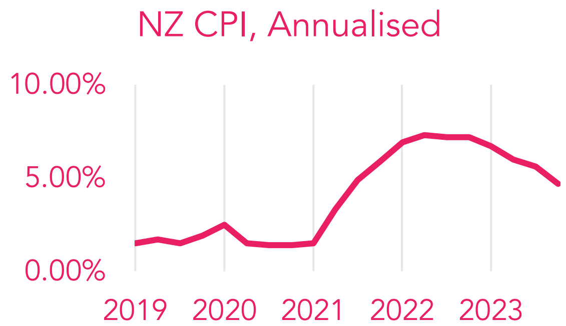
Japan officially lost its status as the world's third-largest economy, falling behind Germany. However Japan's stock market, the Nikkei 225, did post something of a milestone in February – it posted a record high on the 23rd of Feb, finally recovering to its previous record peak – set nearly 40 years ago.

Economic Updates

New Zealand

Inflation

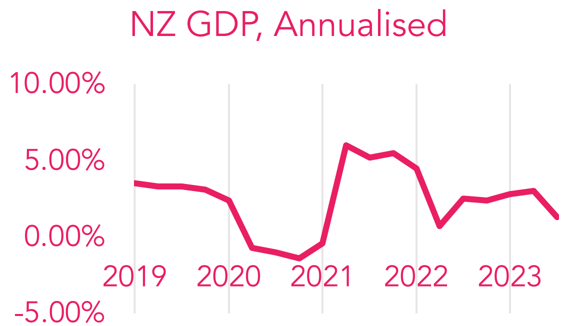
New Zealand inflation moderated further in Q4 with headline inflation reducing to 4.7% on an annualised basis, down from a peak of 7.3% in mid 2022.



The RBNZ is forecasting inflation to reduce to its target 1-3% band (just) by the end of 2024 and be back to the midpoint by late 2025.

GDP

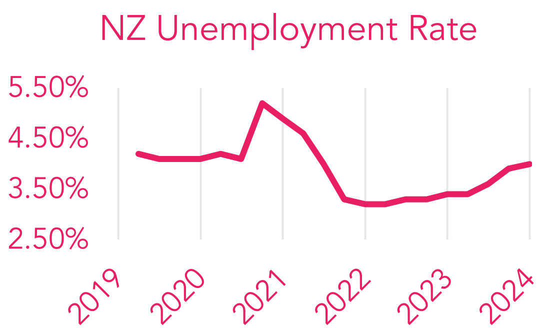
GDP surprised to the downside in Q3 2023 with an annualised increase of just 1.3%, or a quarterly decline of -0.3% (GDP data in New Zealand is currently only reported quarterly).



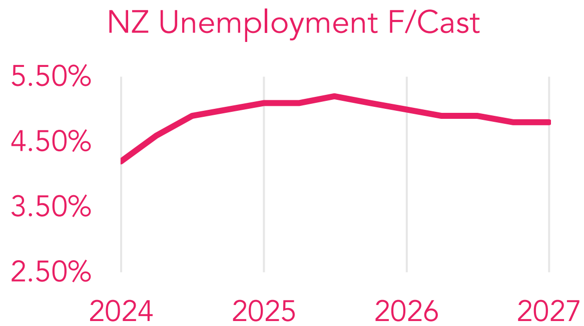
GDP

Employment

Unemployment crept slightly higher in the October-December 2023 quarter, closing at 4.0% up from record lows of 3.2% in mid-2022. Unemployment has slowly increased in the last 12-18 months, but the labour market is still tight by historical standards.

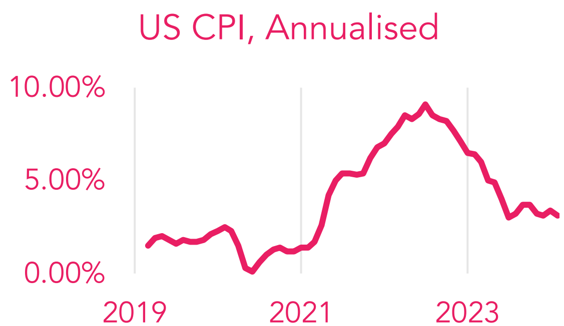


The RBNZ is forecasting unemployment to rise in 2024 to reach a peak of 5.2% in early 2025.



US inflation and GDP

The US continues to defy expectations of recession, with inflation trending steadily down over the past two years, and little sign so far of economic contraction. CPI data surprised to the upside in January however, with shelter and production costs rising more than expected.



New Zealand Tax updates

With a new National-led coalition government now well into the first year of its first term, some major tax changes are on the horizon, some rolling back policy introduced under Labour and others implementing new or higher tax rates for some taxpayers.

Changes to taxation of residential investment property

Two changes will come into effect this year affecting taxation of rental property.

First, the Brightline test for assessing capital gains on the sale of property will reduce. The previous Labour government raised the test for application of capital gains tax on the increase in value of investment property first to five then to ten years in its last term. National is reverting this back to two years.

Second, reintroduction of interest as a deductable expense will start this year, at a rate of 80% in 2024 increasing to full deductable from the 2025 tax year onwards.

Trust tax rate increasing to 39%

The previous Labour government announced in their last term that the Trust tax rate would increase from the current 33% to 39%, aligned with the tope personal tax rate, from the 1st of April 2024. National has (perhaps surprisingly) opted in December to reintroduce the proposed taxation bill, including the increased trust rate, meaning that the change is likely now to become law.

It has been widely noted by tax practitioners that taxation of trusts at 39% is likely to result in over-taxation in many instances. Inland Revenue have published technical update GA 24/01, providing an overview of their view of transactions and structuring that taxpayers may be considering in advance of the changes. The article can be found here:

https://www.taxtechnical.ird.govt.nz/general-articles/2024/ga-24-01

Notably there have been some indications in the past week that the Government may make some last minute changes to exclude some trusts from the tax rate increase.

GST on digital services

Digital services platforms such as AirBnB and Uber must, from 1st April 2024, report and remit GST income regardless of the GST status of the services provider taxpayers using their platforms.

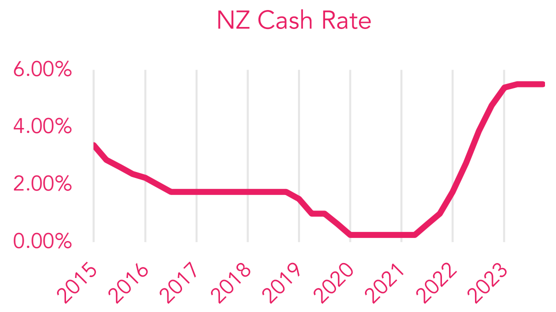
If taxpayers are already GST registered, the payments from platforms to taxpayers are zero-rated for GST. If the taxpayer is not GST registered, the platform provider will pay GST on the taxpayers behalf, with an 8.5% credit to reflect the taxpayers inability to claim GST on expenses.

Bonds and Fixed Income

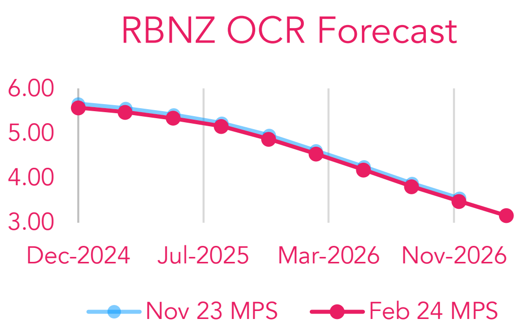
Bond markets have experience much higher than historically normal volatility in the last several years as interest rates first dropped to near zero during the pandemic years and then increased dramatically in 2022-23.

Central Bank policy rates

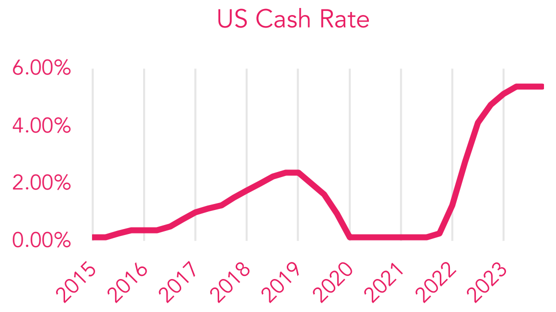
Central banks globally have significantly increased their policy rates since late 2021, however many are now signally that they are near or at their peak this cycle.



In New Zealand the RBNZ has kept the cash rate at 5.5% for six straight meetings now, including the most recent of the 28th of Feb. ANZ had been forecasting two further increases to a terminal rate of 6% by mid 2024, although they were the outlier, with most other economists expecting the cash rate to continue to hold at its current level until the end of the year or early 2025. February's Monetary Policy Statement proved the mainstream to be correct with the cash rate holding firm at 5.5%. In fact the RBNZs policy statement took a somewhat dovish tone, suggesting that they were more comfortable with policy settings and progress and making a mild adjustment to their forecasts for the cash rate trajectory, moving the first cuts forward from late to early 2025.



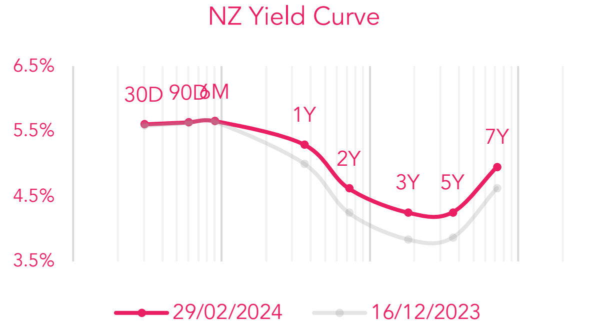
In the US, much speculation has followed the fed in the last several months. The chances of a rate cut in March have receded significantly in recent weeks as stronger CPI data and employment rates have pushed back bets until mid 2024. Currently Markets are pricing in only a 4% change of a US rate cut in March with a slightly better than 50% chance in June.



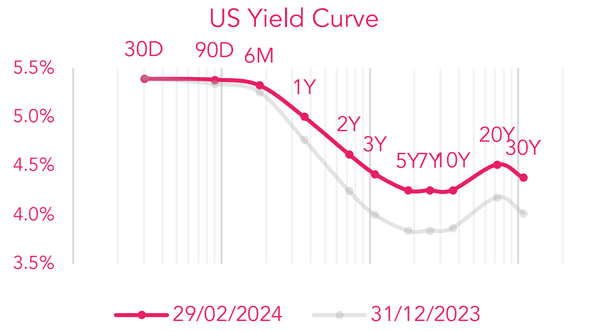
Australia has seen a mixed bag of data, some supportive of holding rates higher or even further increases – such as high construction and rent costs – and other data suggesting the potential for decreases soon. Australian inflation came in under expectations in the last week of Feb at 3.4% annualised vs expectations of 3.6%.

Yield curves

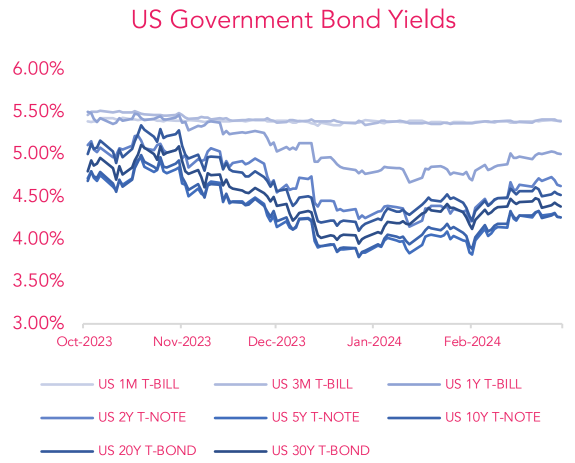
The New Zealand yield curve is currently inverted. Normally considered a recession signal, the current curve reflects clear expectations of central bank rate cuts from late 2024 onwards.



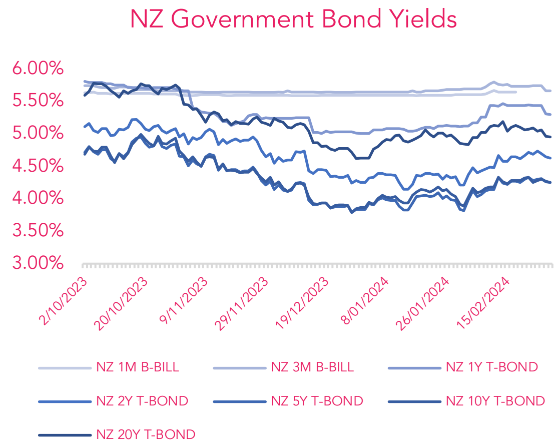
The curve has shifted up in the last month or so as rate cut bets have pushed out further. The US yield curve is similarly inverse.



US bond yields tracked consistently lower at the end of 2023, which helped drive a rally in equity prices – but yields have been trending higher again since late January, largely due to messy economic data suggesting that the US Fed will keep rates at their current level for longer.



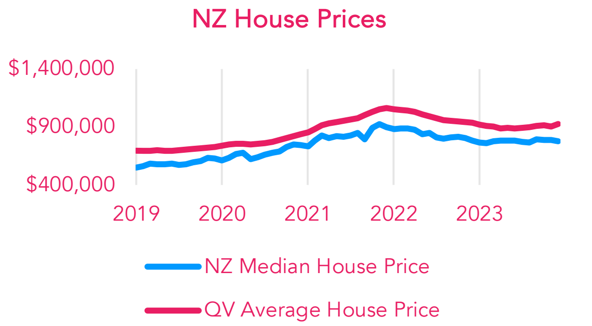
New Zealand bond yields have followed a similar trajectory – lower in the back end of 2023, reversing from mid-January 2024. Yields did curtail their increases after the Feb monetary policy statement.



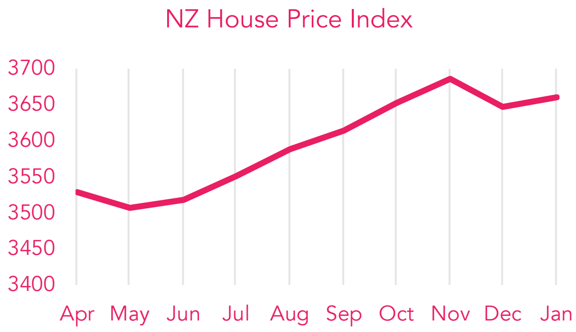
Housing and Mortgage

House prices

Median and average house prices have been relatively flat for 2023, with only a slight increase in the national house price index for the year. The REINZ house price index was up 0.36% in January nationwide and 0.23% in Auckland. Wellington prices were down 0.38%.



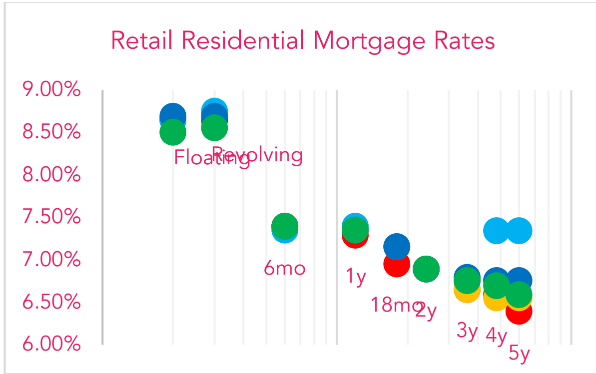
The National government has announced the rollback of both the bright line test (reducing this to 2 years from 10) and the reintroduction of interest deductibility, which may provide support for house prices in the back of 2024 – particularly if retail interest rates decline.



Note: median and average house price figures can vary significantly based on the mix of property types sold in a particular quarter. The REINZ house price index corrects for variation in sale types to give a normalised view of house prices over time.

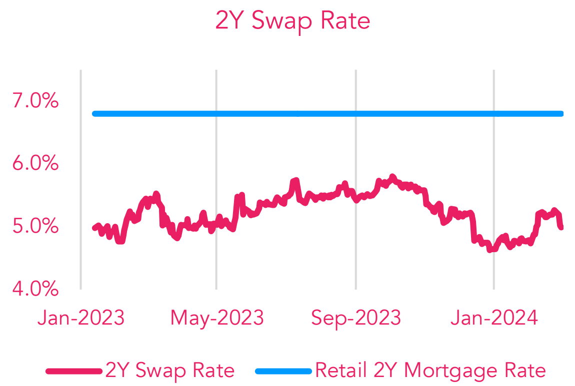
Retail mortgage rates

Retail mortgage rates have softened slightly in the last few months as wholesale interest rates have declined – although retail banks have used the decline in funding costs to shore up margins in the short term, something that probably suits the RBNZ just fine for now. Reflecting NZ and global yield curves and expectations for rate cuts in the near to mid-term, longer term mortgage rates are currently lower than short term rates, historically highly unusual for New Zealand.



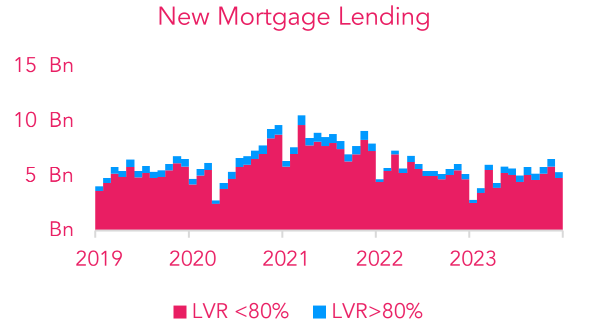
Source: Retail bank websites

Note that the above chart shows advertised retail mortgage rates only (as at 29th Feb) – offered rates may be different to these.



Wholesale swap rates (these can be thought of as a proxy for the banks "cost" for mortgage loans) rose slowly during most of 2023 before starting to reduce in the last quarter. In January they remained fairly flat, with an uptick in February off the back of renewed expectations of an RBNZ hike, or at least a longer wait for reductions.

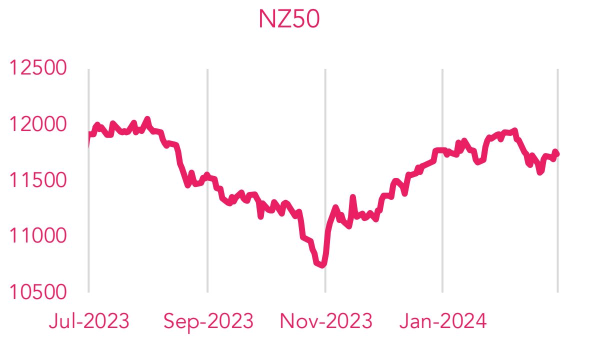
New mortgage debt issuance has been tracking at consistently lower levels since the rapid inflation in house prices in 2021 and declines in 2022. New lending at more than 80% LVR is comfortably within RBNZ speed limits – high LVR lending may grow over time as new debt to income ratio limits come into place and LVR limits are relaxed slightly.



New Zealand and Australia Markets

New Zealand

The NZX50 was largely flat in 2023 and has been pretty much the same so far in 2024.



Top performers

Gentrack has seen strong performance since the start of the year, with its share price lifting to an all-time high on strong revenue and EBITDA growth, plus an investment in Australian energy optimisation solutions business Amber.

A2 Milk posted a nearly 35% gain in share price from Jan to Feb, with a 17% increase on the 19th of Feb alone after increasing its full-year revenue targets and a 15.6% increase in first half profit, and particularly strong performance in China.

Summerset gained nearly 8% year to date with an 11% jump in (underlying) profits.

Bottom Performers

Performance in the NZX so far this year is perhaps more noted by its losers than its winners.

Fletcher Building saw a major shake-up with the reveal of significant cost surprises related to ongoing construction projects including the beleaguered NZ ICC. CEO Ross Taylor and Chair Bruce Hassall both tendered their resignation and will leave later in the year (update: Chair Bruce Hassall has bought forward his resignation to today, the 4th of March).

Kathmandu has seen a share price decline of around 30% year to date, hit hard by retail spending slowdowns and a poor Christmas trading period, with a 14.5% decline in half year sales compared to the same period last year.

Continuing the theme of slow retail performance, **The Warehouse Group** has continued to struggle thus year, and announced in February the sale of the Torpedo7 retail brand for $1 to Tahua Partners – after paying over $55M for it in 2014.

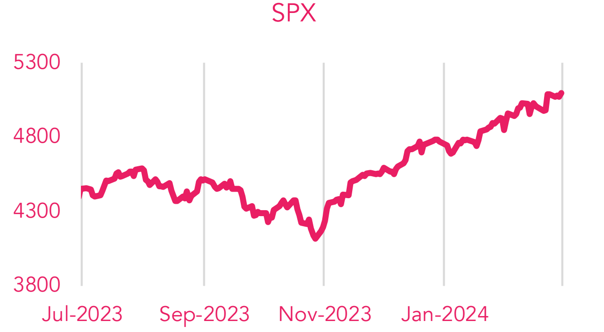
Ryman posted further earnings downgrades in Feb from lower sales and margins and is down over 23% year to date.

Australia

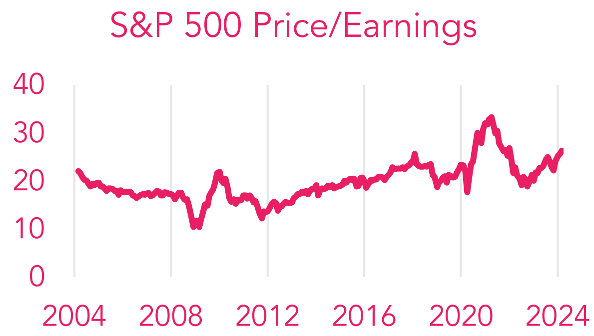
The ASX200 close Feb at a record high, with retail sales and US sentiment help it to its fourth straight month of gains.

US Markets

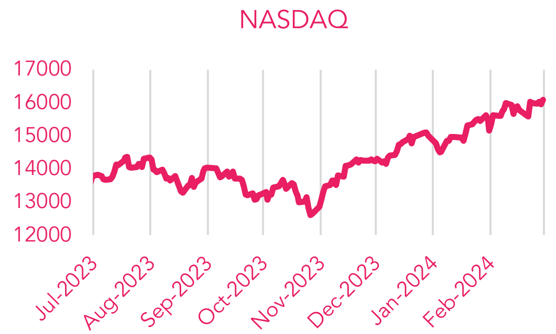
The US share market reached record highs in February, closing the month at a peak of 5137, up 7.7% year to date and 43% from its October 2022 low of 3577. Much of the performance has been due to record gains by tech stocks such as Nvidia.



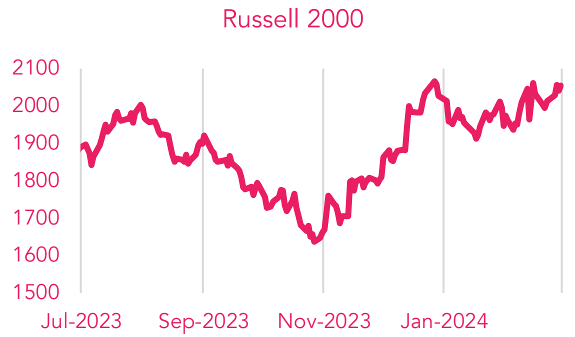
From a price-earnings perspective the SPX is starting to rise above its long-term average, although still some way away from its late 2021 peaks. Market strategists and forecasters have been steadily increasing their outlooks for the year, in particular citing high profit margins with expectations that these may improve further over time as AI investments improve business performance.



The NASDAQ has delivered similar performance gains.

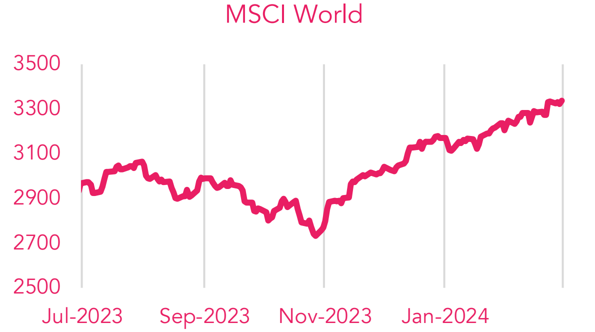


The Russell 2000 small-cap index has struggled by comparison, although still posted modest gains – reflecting the skew in performance towards large cap stocks potentially better able to take advantage of technology improvements, pass on cost increases, and weather increases in interest rate costs.

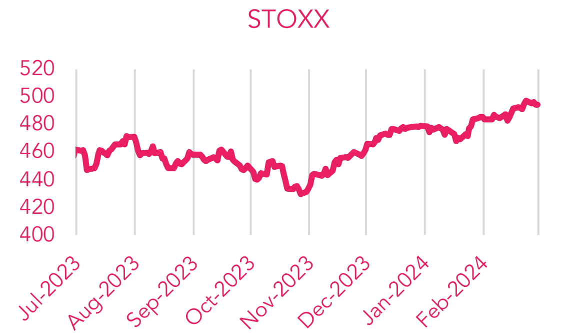


World Markets

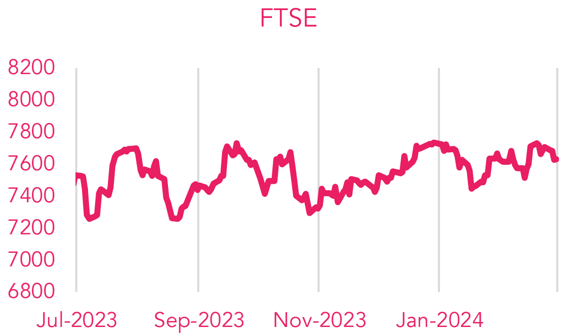
The MSCI world index trended higher, reflecting overall gaining confidence in equities markets as interest rates reach peaks (this index includes US markets).

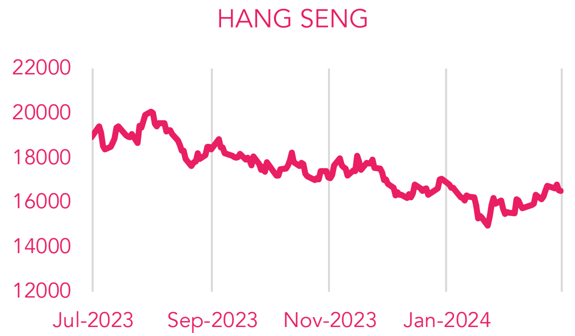


The European STOXX 600 index posted a 13% gain in 2023 and a further 4% so far in 2024. Technology stocks were a common theme in Europe in the same way as the US.



The UKs FTSE 100 was one of the better performing indices in 2022 and was up in 2023 but trailed most other European and US markets. The FTSE has a lower proportion of technology stocks than many of its peers.





Hong Kong's Hang Seng index continued to slide, and it sits well below its 2017-2018 peaks. Despite a notable bounce-back in February, China's CSI 300 index has declined 35% in the last three years as low economic performance continues to persist in the region along with ongoing concerns surrounding real estate debt.

Future Additions

We welcome comments and feedback and any suggestions for future additions to this report.

Future additions we have planned include:

- More Australian data points including bond yields and equities market commentary.
- New Zealand retail spending data.
- Index charts for the CSI 300.
- Key commodities charts.
- Key FX including NZ-USD and Bitcoin.