2021 New Zealand Equities Outlook: Post-COVID renaissance expected to continue

27 January 2021

By Stuart Williams, Head of Equities, New Zealand

Worldwide, 2020 was unequivocally dreadful; a year of loss, pain, anxiety and separation that found no worthy adversary in technology or social privilege. Ever since the pandemic began, governments, companies and individuals have been forced to make important social and economic decisions based on imperfect and evolving information, and then navigate the path down which these decisions have cast them.

Only the passing of time informs how good or bad these decisions were—and even then, qualification is challenged by an avalanche of data, opinions, conjecture and interpretations that are at once compelling and contradictory. The coexistence of facts and alternative facts is the ultimate irony of The Information Age.

As we enter 2021, and the COVID-19 fire continues to burn dangerously around the globe, it is important to remind ourselves that, even as our asset markets make hay under a shining sun, the cinders of 2020 still smoulder here too. Economically New Zealand has done better than anyone could have hoped for—materially better than the most fear-filled expectations to this point. But if I could choose a font in which to predict what 2021 has in store for us economically, it would still be "New Times Uncertain".

Indeed, depending on your disposition to seeing the glass as half full or half empty, the outlook for 2021 could be viewed positively or negatively. But amidst all the global uncertainty, the domestic share market continues to provide us with plenty of scope for optimism. And with the caveat that I write this at a point in ever-changing times, and with a weather eye on a gradual move in global interest rates, my own outlook for 2021 is a positive one.

New Zealand's position of economic strength is built on firm foundations: a fair system of taxation and welfare that has been maintained by successive centrist governments; companies that care about their stakeholders; a society that is cohesive on the big issues; and our ability to provide products needed by the rest of the world from a position of geographic isolation.

As we look ahead, there are a number of factors beyond the low interest rates that continue to make dividend-paying companies look attractive to investors, that point to sustainable share market growth through 2021 and beyond.

We have some genuine growth stories in New Zealand with large global markets to satisfy. Not just perennial market doyen Fisher & Paykel Healthcare, but companies such as a2 Milk, as well as a host of smaller names thriving in niche markets. For this, think Eroad and Pushpay. Meanwhile, the likes of Infratil and Mainfreight continue to exhibit dogged tenacity and operational intensity with a sustainable vision for themselves and the planet.

There are two other pillars of further growth worthy of mention here. Firstly, our renewable energy generation is in line with the strong global appreciation for clean energy and remains subject to intense investor interest. And then we have the dynamics associated with our aging population, and the imbalance between current supply and future demand which will support the sustained health of the retirement living sector.

My glass-half-full appraisal is not made completely free of worry. As I mentioned before, a new calendar year by no means represents a clean slate and there may yet be a sting to our successful COVID-19 response.

Herein I think there may be a disconnect between vaccine delivery expectations and the reality of where New Zealand sits in a needs-based assessment of allocating scarce resources. I hope I am wrong, but this could lead to our border remaining tightly controlled until the second half of 2021. While necessary to protect our collective limited immunity, this will be incredibly tough for some obvious sectors of our economy.

Beyond the realms of COVID-19, another threat looms through which we could essentially fall victim to our own success: the potential loss of NZ companies from the NZX (New Zealand's Exchange) due to takeover offers. And there is more to possibly lose sleep over.

To my mind, agri security remains our greatest economic risk, but as we have seen through attacks on our digital financial infrastructure already, cyber security is also a real and present danger. And of course, there's the ongoing issue of housing availability. In this regard, I would not expect much to change unless this government does something radically different to what has been done by the last, say, 10 governments.

Acknowledging these risks does not, however, discourage me from retaining a glass half full disposition. Despite incredible global uncertainty, the NZX is up 14.6% on this time last year. Our NZX listed companies are led by people who balance stakeholder interests. Their ESG compass, if you like, continues to point true north—and during uncertain times when we draw strength from the resolve of the human spirit, this can only bode well for 2021 and 2022.

Singapore: This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

Australia: This document is issued in Australia by Nikko AM Limited (ABN 99 003 376 252, AFSL 237563). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.