

New Zealand Equity Monthly January 2022

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By Stuart Williams, Head of Equities

Retirement village space remains in focus as we look ahead into 2022

The New Zealand equity market's performance in 2021 was quite subdued compared to the rest of the world, and we have seen a low-key start to 2022 as well. Looking ahead, we expect the retirement village sector, which in New Zealand is regarded as an investment, to remain in focus in 2022. The backdrop for retirement villages will be similar to that in 2021. Factors likely to continue affecting the sector include housing market trends (prices have been rising sharply) and their impact on retirement village valuations, as well as the government's housing market policies. Potential risks facing the sector include wage inflation, staff availability and inter-sector competition. We expect the reopening of New Zealand's borders to curb staff availability and challenge the sector as professionals such as nurses could leave the country in surprising numbers. As for inter-sector competition, retirement villages may have to compete with hospitals for staff who would otherwise be working at aged care facilities.

Global and domestic challenges ahead

The challenges we face further out in the future have global and domestic dimensions. An example is societal change expected to take place globally and domestically in the wake of Omicron and other COVID-19 variants that could follow. Such challenges notwithstanding, we feel cautiously optimistic on the New Zealand economy after the Omicron wave, as the country can draw hints from how other countries emerge from the pandemic—the strong recovery in US GDP being one example. Turning to domestic sectors, we will be watching areas such as technology, exemplified by names like Inftratil, whose global expertise in green energy is being applied in the US, Europe and now Asia. We will also be keeping an eye on cyclicals, such as building product maker Fletcher Building and steel manufacturer Vulcan; in addition, we will be watching developments related to M&A, EVs and hydrogen.

Strong upward pressure on wages; market volatility to provide opportunities

As we mentioned earlier, wages have been subject to strong upward pressure amid the rise in global prices, recently reflected in strong CPI numbers from the US, New Zealand and Australia. The markets, however, appear to have factored in some of the coming rise in wages and prices during the bouts of volatility seen in equities since the start of 2022. We see the volatility in the markets as an opportunity to focus on new companies for which we have a high degree of confidence in their earnings.

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