

New Zealand Equity Monthly September 2023

Key reporting season shows mixed picture amid broader market weakness

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New Zealand equities down amid wider market struggles

New Zealand equities continued to see weakness in September, with the market falling by approximately 3%. This partly reflected broader volatility given that the Australian market declined by about 4% and US equities saw a fall of approximately 5%. More notably on a domestic level, however, the market's direction was affected by the key August round of corporate results. The August reporting season is the most significant for New Zealand given that many companies release their full-year results and some firms with December fiscal year-ends release their half-year results during the month.

Positive results marred by intensifying concern over costs

Despite the market weakness, August's earnings results were broadly in line with our expectations. Earnings per share grew by approximately 20%, which was a solid result and in line with expectations. However, the market was impacted by the unexpectedly negative tone of companies' management outlook statements. Although firms had already been drawing attention to cost pressures such as labour costs, operating expenses and interest costs, the August statements suggested that these pressures had intensified. Furthermore, cost-related challenges appear to have spread beyond the economically sensitive sectors to which their impact had previously been confined, with similar pressures now being seen in the infrastructure and utilities sectors. This caused many analysts to downgrade earnings for next year as well as the following year. The downgrades to outlooks clouded the picture and weakened the market despite the positives in the August results.

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