

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

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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.

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