

New Zealand Equity Monthly

April 2025

New Zealand stocks seen weathering current global uncertainty

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14 May 2025

Company earnings season to take place amid uncertain global climate

The upcoming New Zealand earnings reporting season will take place against a backdrop of complex global economic factors and trade wars. Given the changes that have occurred compared to the start of the year, we expect uncertainty over the global economic outlook to dominate forward-looking commentary, much as it did during the COVID-19 period. The uncertainty that prevailed in the pandemic prevented companies from providing meaningful forecasts or guidance given how challenging it was to ascertain how earnings were likely to evolve through such an unprecedented period. As uncertainty is also a key factor at present given a broad lack of clarity over trade policy objectives—particularly in view of the US approach—as well as conflicting reports about trade negotiations, we think that the current situation presents the market with challenges similar to those posed by the pandemic.

New Zealand seen to have degree of protection from global trade tumult

As New Zealand is a small trading nation, the global economy plays a significant role in shaping its economic performance. In our view, New Zealand is therefore unlikely to be immune from the effects of the current turmoil in global trade. There are several key elements to this. The first is uncertainty in global growth rates as a global slowdown is likely to impact New Zealand's export-driven economy in some way. A second factor is uncertainty around global interest rates, particularly in major economies such as the US and the euro area. Another challenge we face is the potential for supply chain disruptions, as New Zealand's companies rely heavily on global supply chains. As we saw during the pandemic, the impacts caused by supply chain disruptions include higher costs and problems with inventory levels. Another factor that should be noted is investment and capital expenditure, as uncertainty tends to cause companies to postpone or at least dial down their spending. That said, we believe that the products New Zealand exports are likely to remain in demand. This is particularly true of New Zealand's soft commodities (products that are grown rather than mined or extracted) in its agricultural sector. Given these considerations, we feel that New Zealand is protected to some extent, albeit not immune, from the impact of the current reordering of global trade.

Direct impact from tariffs seen as unlikely for most New Zealand companies

One characteristic of New Zealand's stock market we would like to highlight is that it does not necessarily reflect the country's economy. A look at the S&P/NZX 50 Index of the country's largest companies by market capitalisation shows that the market has its own earnings drivers and is comparatively defensive in nature. By way of illustration, examples of S&P/NZX 50 constituents include the "gentailers" (utilities with combined generation and retailing businesses), firms in the retirement sector and listed property companies. Given this background, our view is that the current tariffs are unlikely to be directly impacting most of New Zealand's companies.

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