

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

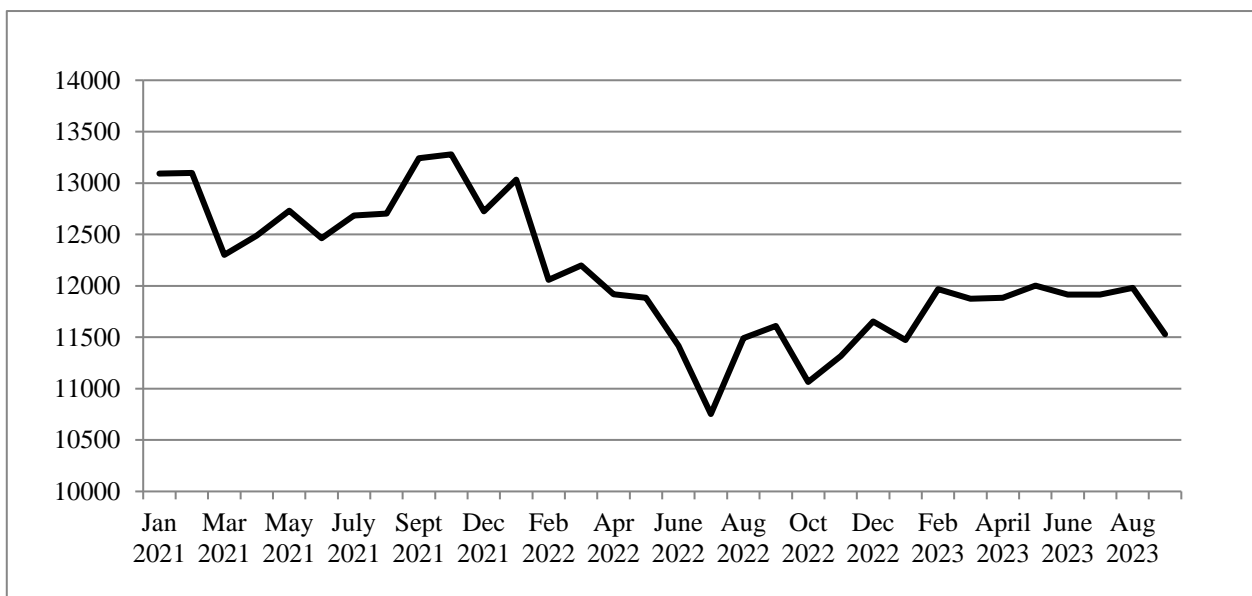
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Bramwell Brown Limited – Newsletter – September 2023

Markets

Share markets continue to disappoint throughout 2023 as interest rates continue to increase. Inflation remains stubbornly high and the Reserve Bank has little choice but to keep the Official Cash Rate at a raised level. Just as decreasing interest rates during the Global Financial Crisis and the Covid pandemic fuelled asset prices, we are seeing the opposite now, as rates rise. For most long-term experienced investors, seeing share prices decline is not a cause for undue concern. They have been through these cycles before, and gain comfort from dividends continuing to flow through despite the decline in share prices.

NZX50 Gross Index



Investors who are new to shares are understandably more concerned seeing their asset values decrease. However you too should be reassured by the ongoing income stream from dividends, together with the overwhelming historical evidence showing share prices increasing over time. Shares also have the advantage of being a hedge against inflation. And presumably you have a diverse portfolio that holds cash, bonds, and bank deposits, which in contrast to shares, upon maturity are now benefitting from rising interest rates.

Current Bond Yields

Here is a selection of the current yields on commonly traded bonds listed on the NZX.

Company	Coupon	Maturity Date	Current Yield
Infratil	4.75%	December 2024	7.54%
Wellington Airport	5.00%	June 2025	6.40%
Infratil	6.15%	June 2025	7.14%
Summerset	4.20%	September 2025	6.83%
Property for Industry	4.25%	October 2025	6.92%
Argosy Property	4.00%	March 2026	7.31%
Infratil	3.35%	March 2026	7.41%
Manawa Energy	3.35%	July 2026	6.03%
ASB	5.93%	November 2026	5.76%
Infratil	3.35%	December 2026	7.32%
Ryman Healthcare	2.55%	December 2026	7.20%
Goodman Property Trust	4.74%	April 2027	6.60%
Sky City Entertainment	3.02%	May 2027	7.29%
Precinct Properties	2.85%	May 2027	7.15%
Mercury Energy	5.73%	May 2027	6.98%
Manawa Energy	5.36%	September 2027	5.90%
Westpac	6.19%	September 2027	6.73%
Vector	3.69%	November 2027	6.10%
Infratil	3.60%	December 2027	7.00%
Arvida	2.87%	February 2028	7.60%
Contact Energy	5.82%	April 2028	5.45%
Precinct Properties	5.25%	May 2028	7.26%
BNZ	5.54%	May 2028	5.73%
Infratil	4.85%	December 2028	7.30%
Manawa Energy	3.97%	February 2029	4.84%
Heartland Bank Limited	7.51%	April 2033	7.40%
Kiwibank Limited	6.40%	May 2033	6.65%
Infratil	5.93%	June 2030	7.20%
NZX	6.80%	June 2033	6.80%
Mercury Energy	3.60%	July 2049	7.70%
Genesis Energy	5.66%	June 2052	7.10%

It is interesting to compare today's bond pricing with that from two years ago when the Official Cash rate was at 0.25%. Here is a listing of bond yields from May 2021.

Company	Coupon	Maturity Date	Yield
Kiwi Property Group	4.00%	September 2023	1.48%
Z Energy	4.32%	November 2023	1.70%
Investore	4.40%	April 2024	1.98%
Infratil	5.50%	June 2024	2.60%
Precinct Properties	4.42%	November 2024	2.00%
Kiwi Property Group	4.33%	December 2024	1.81%
Synlait Milk	3.83%	December 2024	4.00%
Infratil	4.75%	December 2024	2.69%
Wellington Airport	5.00%	June 2025	2.15%
Infratil	6.15%	June 2025	2.89%
Summerset	4.20%	September 2025	2.16%
Property for Industry	4.25%	October 2025	2.02%
Argosy Property	4.00%	March 2026	2.40%
Infratil	3.35%	March 2026	2.88%
Trustpower	3.35%	July 2026	2.25%
Westpac Capital Notes	4.69%	September 2026	1.69%
ASB Capital Notes	5.25%	December 2026	1.73%
Infratil	3.35%	December 2026	2.94%
Ryman Healthcare	2.55%	December 2026	2.45%
Arvida	2.87%	February 2028	2.50%
Infratil	4.85%	December 2028	3.00%
Trustpower	3.97%	February 2029	2.20%
NZX	5.40%	June 2033	2.70%
Genesis Energy	4.65%	July 2048	2.30%
Mercury Energy	3.60%	July 2049	2.30%

You can see the significant contrast in secondary market yields between the current list of bonds compared to that from two years ago. For example, look at the Summerset bond maturing in September 2025, with a coupon rate of 4.20%. In 2021 this bond was trading in the secondary market at a yield of 2.16%. It now trades at a yield of 6.83%. What does this mean in terms of price? What would you get for this bond today if you sold it?

Understanding the pricing of bonds in the secondary market has caused confusion to many investors. I have tried explaining how it works in previous newsletters, and will attempt to do so again here.

Face Value – this is simply the number of bonds you buy. For example if you buy 10,000 bonds the face value will be \$10,000.

Coupon – the interest rate at which the bond was issued. In most circumstances the coupon rate does not change throughout the life of the bond. Some bonds are issued with the ability to reset the interest rate at various times. The coupon on the Summerset bond (SUM020) is 4.20%.

Maturity Date – the date at which the bond matures and the initial investment is repaid in full. The maturity date of the Summerset bond is September 24th 2025.

Yield – this is the return a buyer of the bond in the secondary market (any time between issue and maturity) would achieve. If you buy a bond with a yield to maturity that is higher than its coupon rate you will pay less for this bond than was paid at issue. The seller will receive less than they paid for it. There is an inverse relationship between price and yield.

Price – this is the amount you will pay or receive if you buy or sell the bond in the secondary market. It is important to remember that the buyer of a bond in the secondary market will be repaid the bond's face value at maturity – not the price you pay for it. This difference in price is what determines the yield (or return) to maturity.

In May 2021 at a yield of 2.16% 10,000 Summerset bonds would have sold for \$10,815.

At present, at a yield of 6.83%, 10,000 Summerset bonds will sell for \$9,265

This clearly shows the relationship between interest rates and bond values. As interest rates rise, the value of a bond will drop. For most investors the changing prices of their bond portfolio is irrelevant, as most are held to maturity. It would only be if you were forced to sell bonds before maturity that it could have a negative impact.

Term Deposit Rates

	1 Year	2 Years	3 Years	4 Years	5 Years
ANZ	5.95%	5.70%	5.25%	5.20%	5.20%
ASB	5.90%	5.70%	5.60%	5.45%	5.35%
BNZ	5.95%	5.50%	5.25%	5.25%	5.25%
Heartland	6.10%	5.30%	5.30%	5.30%	5.30%
Kiwibank	5.90%	5.70%	5.20%	5.20%	5.20%
Rabobank	6.15%	5.70%	5.60%	5.55%	5.55%
Westpac	5.95%	6.00%	5.50%	5.40%	5.40%

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