

21 May, 2020

Comment: Stuart Williams

The \$50 billion question(s)

Nikko Am NZ's Head of Equity, Stuart Williams, reflects on last week's budget announcement and what this means from an investment perspective

Well what a week it's been. After 7 weeks of worry and uncertainty, we've emerged from our respective bubbles seemingly COVID free and with a burgeoning sense of optimism for our future.

On the back of a strong April and May to-date, our equity market continued to recover much of the losses from the Covid-19 sell-off. At 6.3% down year-to-date, we're really only behind China in terms of performance and well ahead of our trans-Tasman cousins, who are tracking at around 20% down year-to-date.

Of course, this national sense of Level 2 optimism was fuelled further by the well-timed and well-received budget announcement. The Government should be applauded for the size and breadth of what the budget covers, but it has arguably served up \$50 billion worth of questions, rather than \$50 billion worth of answers.

Heavy on promise, the budget was light on detail. And while this is understandable, given the speed with which the Government has had to formulate this economic response, viewed pragmatically this is a first-term government with limited experience in how to drive delivery, and so our optimism should not yet necessarily be underpinned by confidence.

Now that the money has been committed, I think we'll begin to see that patience will be in short supply from the business and investment communities as they, we, seek to understand when and where these vast sums of money will be spent. These details need to be shared within a matter of weeks, not months, as the economic damage of COVID-19 will worsen the longer this takes.

There will undoubtedly be winners from this budget spending – and as investors we will be keeping a keen eye on, for example, the building industry given the money allocated to infrastructure. But these will be our 'nice to have's'. For now, we will continue to focus on high-performing companies whose fortunes are not interdependent on the economic recovery: those with great leadership and competitive defensive positions against the rest of the world, working in markets less linked to the fallout and recovery from COVID-19.

Ends

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** As of 31 December 2019, including employees of Nikko Asset Management and its subsidiaries.