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CLUB

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The University of Auckland Investment Club
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UAIC in semester one 2020

WRITTEN BY CONNOR MCDOWELL

It is surreal both another academic term and semester for UAIC, has drawn to a close. The UAIC team has done our best during this challenging time to run events, prioritise the health and wellbeing of our members, and continue to show investing is for everyone. UAIC could not offer this experience without the effort from each member of the UAIC executive team. In summary, the semester has been very eventful.

Jade Beckman and Nikita Deva transformed UAIC's marketing processes. They revamped our marketing material, redesigned the club's promotional material and branding, crafted sustainable content creation processes, and dramatically increased the number of impressions UAIC makes on members and the wider business school community. The success of the events is attributable to their marketing leadership. Their work will continue to drive the success of the club.

Christopher Wong and Tribhuvan Krishnan continue to educate the masses on all things investing and finance to enable members to make well-informed decisions. The education team brought us a series of successful virtual events over the semester. Investing 101 was held by Raymond Webb to inform how to start investing and offer great financial advice. This event is one of UAIC's legacy offerings. We are incredibly grateful to have Raymond continue to be a great speaker and mentor for the club. UAIC's success was not possible without Raymond's support over the years. UAIC held an Introduction to Personal Investing Panel with senior UAIC members sharing their investing experience. Our education team continues to contribute to the bulletin with analysis of interesting articles and publish a weekly education series. In this weekly series, Chris concluded his exploration of index funds and has started another on risk and diversification. The education team has a great lineup of events planned in semester two with a careers panel and Investing 102 a subset of the complete set.

Bulletin is operating similarly to a professional publishing house. Nikhil Luthra and his team drafted, edited, and published seven bulletin reports to date. Nikhil and his team are doing an exceptional job. The publications cover a broad range of topics including Tik Tok, Zoom, oil, STEM, gaming, and stimulus. All from the perspective of an investor. The bulletin includes weekly updates from the fund, the aforementioned education series, and a column from MYOB. We are incredibly grateful to have both Shailan Patel and MYOB onboard as the sponsor of the bulletin. We look forward to continuing to work with him to publish more bulletin reports in semester two.

The UAIC social experience has been the most affected during this time. Raewyn Leow has put forward initiatives to keep UAIC's social flame lit so we can come back stronger in Semester two. UAIC ran a successful Kahoot quiz via Zoom on UAIC and investing topics. As we descend alert levels, we expect to roll out more social events in the form of wider member gatherings when it is safe to do so.

Caterina Barton, Madhu Guthpe, Taraani Mohammed launched

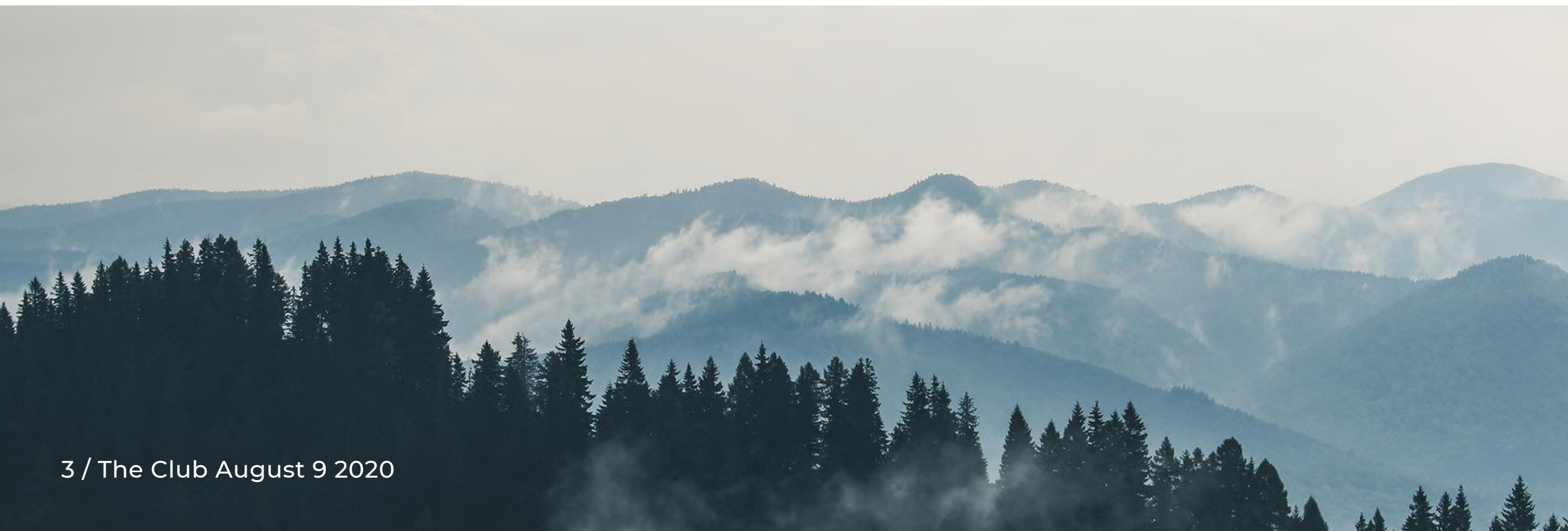
UAIC women's mentoring programme and Women's Engagement Initiative. Fifteen women working across the finance industry volunteered to mentor young women in UAIC. The team has selected fifteen young women from UAIC to be mentees for these mentors. UAIC held an online mentee meeting to introduce the mentees to each other and launch the programme. Mentors have been paired with mentees. We are planning to hold speaker events, and events to help support mentor/mentee relationships in semester two.

Our competitions team has run two successful competitions in Semester one. Firstly, Citi Global Markets Challenge. Twenty teams registered to compete. Around the time of case submissions, COVID-19 sent New Zealand into a level four lockdown. Four teams were selected to represent the University of Auckland in the Campus Heats. Citi held the Campus Heats, hosting virtual presentations for the best 32 teams across Australia and New Zealand. We congratulate Zi Yuan Tee, Dweep Kapadia, Edward Zhang, and Benny Chun. They were selected to represent the University of Auckland in the Campus Finals, coming out as the top team from the University of Auckland. Their portfolio analysed the impact COVID-19 would have across Equities, Fixed Income, and Commodities.

Secondly, UAIC partnered with Jarden to bring you the Jarden Stock Pitch Competition. New materials were prepared, including a comprehensive case brief and financial modelling template to remove barriers to entry for the competition. We saw twenty-three teams enter the competition and thirteen teams submit. UAIC had an unprecedented ten first-timer team submissions and three open team submissions. After a preliminary round of judging by senior UAIC and ex-UAIC members, five teams advanced to the finals to present to members of the Jarden Investment Banking team. After a closely contested final, we saw two great teams take out the title. The Power pitch girls consisting of Athena Churchill, Anna Marsden, Nina Kash, and Natasha Ong took out the first-timers division by pitching Ryman Healthcare. Our first all-women team to do so. Team Green consisting of Calvin Quezet and Liam Sutherland won the open division pitching Pact Group Holding. There was a mutual impression between both Jarden and UAIC on the success of the competition. We would like to thank Taylor Brown and Nick Broome for helping organise the competition and the wider Jarden team for judging. Aryana Nafissi and Sasha Khurana did a fantastic job facilitating the Jarden Stock Pitch Competition.

UAIC's Investment Committee has operated both smoothly and efficiently during semester one. Nehaal Ram and his team performed qualitative and quantitative analysis on a variety of equities listed on the NZX and ASX. The companies analysed include Kathmandu Holdings Limited (NZX: KMD), Cleanaway (ASX: CWY), Mercury NZ Limited (NZX: MCY), ALS Limited (ASX: ALQ), SIMS Metal Management (ASX: SGM), Qantas Airways Limited (ASX: QAN), and Ramsay Health Care (ASX: RHC). Sims Metal Management and Qantas Airways Limited were added to the fund after successfully passing qualitative and quantitative analysis stages.

UAIC had a full calendar in semester one. We are excited to continue this momentum into semester two. Thank you for being a part of the University of Auckland Investment Club. Good luck with exams and we look forward to seeing you again in semester two.



An update from the fund

A RUNDOWN OF THIS SEMESTER WRITTEN BY IC CHAIRMAN NEHAAL RAM

Bula Vinaka, Nehaal here. I'm the Investment Committee Chairmen, a 3rd Year BCom/BSc student. To put it lightly, this semester has been one for the books in many ways. Through the highs and learning opportunities this semester, I've been amazed at our ability to learn, adapt, and strive towards educating and improving ourselves. I'm thrilled to be running through a summary of how the Investment Committee has fared this semester, alongside how the pitches and fund have performed.

For those that don't know, the Investment Committee is responsible for managing the Investment Committee Fund. We meet twice a week to discuss any potential companies that might meet our value-investing mandate, with the underlying aim being to empower and educate our group of analysts to learn more about investing. We seek to find the intrinsic merits of any company and demonstrate this through a qualitative pitch and a quantitative valuation. Ultimately, our findings and investment ideas are presented back to a club-wide vote, with successful companies added to the Investment Committee Fund.

To tee it off, the Investment Committee (and the Bulletin) had an all-time high number of applications, making the process an all-time high number of applications, making the process extremely competitive. From this, 7 analysts joined the Investment Committee, bringing with them a plethora of unique insights and skills. However, Level 4 was soon enacted, resulting in a club-wide shift to Zoom meetings. While our analysts did miss out on the social benefits of physical interaction, we kicked off our semester with three tutorials. These tutorials covered qualitative analysis, valuation overview and accounting fundamentals, and a walk-through of how to do a Discounted Cash Flow model.

Once the tutorials were delivered, pitches began, with coverage across the NZX and ASX markets. From almond growers to national airlines to regenerative cell therapy medicine, the analysts learnt about a variety of industries. Out of the 13 pitches, eight passed to the valuation stage, with Qantas Airways Limited and Sims Metal Management passing the club-wide vote (and Cleanaway Limited and Ramsay Healthcare in the pipeline to be presented before exams). At the end of Semester One, the IC Fund reported a gross return of 11.04%. We look forward to pitching, valuing and learning more about companies that match our value-investing mandate as we go into Semester Two..

Company	Analyst	Pitch Pass
Nearmap Limited	Michael de Boyett	Yes
Select Harvests	Tribhuvan Krishnan	No
Sims Metal Management	Nehaal Ram	Yes
Qantas Airways Limited	Daniel Vaz	Yes
Ramsay Healthcare	Andrew Meng	Yes
ALS Limited	Raewyn Leow	No
Cleanaway Limited	Hamish Marsden	Yes
Mercury Energy	Athena Churchill	Yes
Kathmandu Holdings	Anirudh Das	No
Avita Medical	Anna Marsden	Yes
Kiwi Property Group	Flynn Davies	No
Blis Technologies	Kevin Li	No
Napier Port Holdings	Louis Skyes	Yes
Monash IVF	Nina Kashyap	No

Where finance can take you

WRITTEN BY TRIBHUVAN KRISHNAN

THE FINANCE INDUSTRY PROVIDES A DIVERSE RANGE OF FINANCIAL SERVICES WHICH FACILITATE THE MANAGEMENT AND ALLOCATION OF CAPITAL. SOME PROMINENT SECTORS IN FINANCE INCLUDE INVESTMENT BANKING, SALES AND TRADING, EQUITY RESEARCH, COMMERCIAL BANKING, RETAIL BANKING, CORPORATE FINANCE, ASSET MANAGEMENT, PRIVATE EQUITY, AND VENTURE CAPITAL. THROUGHOUT THIS ARTICLE, WE'LL BRIEFLY EXPLORE EACH SECTOR'S FUNCTION TO SHOW YOU WHAT A CAREER WORKING IN THE NEW ZEALAND FINANCE INDUSTRY MIGHT LOOK LIKE.

INVESTMENT BANKING

The investment banking division (IBD) of an investment bank has three primary functions: debt capital markets (DCM), equity capital markets (ECM), and mergers and acquisitions (M&A).

DCM teams advise clients on how best to raise new debt, or restructure existing debt. They work with the client to organise borrowing and access to a pool of investors by issuing fixed-income securities in the debt capital markets.

ECM roles specialise in helping companies raise equity capital, which is usually done through initial and follow-on public offerings. ECM teams are responsible for researching equity deals, creating pitch-books to entice investors, and structuring the deal through book building.

M&A roles involve advising a client on a merger, acquisition, or sale. The goal is to successfully structure and execute the deal for the client by finding a counter-party who matches the client's needs.

SALES AND TRADING

The sales and trading division of a financial services firm consists of salespeople and traders. Salespeople are those that approach institutional investors and high-net-worth investors with investment opportunities, intending to generate and fulfil orders. The traders are responsible for market making (buying and selling securities to provide liquidity in the markets) and fulfilling orders on behalf of clients (for example, fulfilling orders obtained by the sales division or for an equity capital transaction led by the IBD team).

EQUITY RESEARCH

The function of equity research is to produce reports that contain analysis and recommendations on investment opportunities that may be of interest to investment banks, institutions, or other clients. Sell-side analysts predominantly work for investment banks and produce reports for the buy-side (institutional investors) or the investment bank itself, in the interest of driving business through the bank's trading desk. Buy-side

analysts work for institutional investors and focus on analysing companies to identify investments that fit the investor's risk profile and overall strategy.

COMMERCIAL BANKING AND RETAIL BANKING

Commercial banking and retail banking consist of a set of similar financial services provided to two distinct customer groups. Services provided in these sectors are deposit accounts (checking and savings accounts), secured lending (loans with collateral such as mortgages and auto loans), unsecured lending (personal/business loans and credit cards), and cash access. Commercial banking serves businesses, governments, and other institutions. On the other hand, retail banking serves private individuals. In addition to the aforementioned activities, commercial banking also tends to incorporate payment processing services and other specialised lending services.

CORPORATE FINANCE

Corporate finance roles encompass the provision of transaction advisory services targeted towards the middle-market. Advisory services are typically provided for divestments (sale of a division or the entire business), acquisitions, capital raisings (mostly via business loans or private equity), and strategy (exploring strategic options that maximise business value). In New Zealand, this sector almost exclusively focuses on working with private businesses, largely considered to be the backbone of the local economy.

ASSET MANAGEMENT

Asset management firms are those that serve the function of generating a return on a pool of wealth, usually belonging to private investors. Asset management firms achieve this through a strategy of active management – where a portfolio manager relies on a combination of research and judgement to make investment decisions that outperform a benchmark like the S&P/NZX 50 or S&P 500.

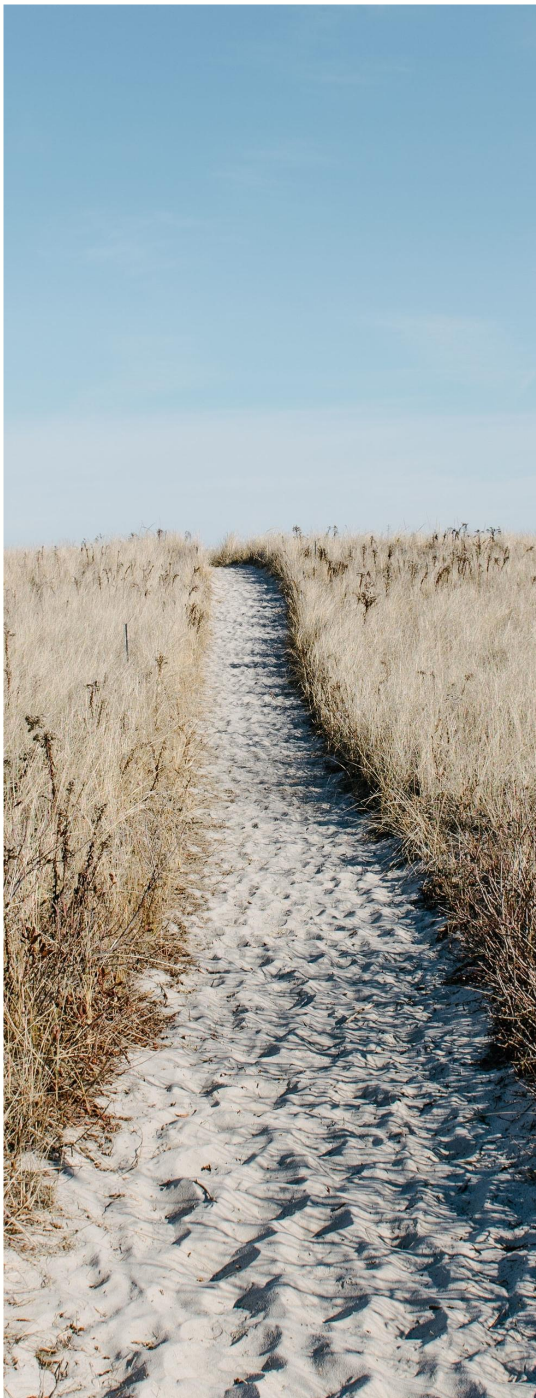
PRIVATE EQUITY

Private equity (PE) firms invest in private companies or complete buyouts of public companies (often as part of a corporate turnaround). PE firms tend to adopt a hands-on approach where they actively engage with the business at a managerial and operational level. This approach is usually part of an investment strategy to improve the underlying business metrics and generate a return when they sell their investment stake.

VENTURE CAPITAL

Similar to PE firms, venture capital (VC) firms also invest in private, unlisted companies. However, VC firms specialise in early-stage funding and provide capital to start-ups and emerging companies with high-growth potential. Given the high-risk nature of such investments, VC firms tend to wield significant influence over company decisions and often discuss strategic advice with executives. VC's usually exit their investment through an initial public offering or by partaking in an M&A deal.

By reading this article, we hope to have furthered your interest in the New Zealand finance industry. Next semester, with the University's plan to resume normal operations on campus, come along to the UAIC Careers Roundtable. The event will bring together a group of finance professionals who will share experiences in their line of work and any advice they have for aspiring students. We hope to see you there!



The global economic balance post-COVID

WRITTEN BY SEAN FLOWER

THINKING ABOUT THE FUTURE WHILST SUBMERGED IN A CRISIS – A POST-COVID WORLD – SEEMS SLIGHTLY STRANGE; UNCERTAINTY BEING THE DOMINATING FRAMEWORK BEHIND ANY PREDICTION AND ANALYSIS. NONETHELESS, WHEN NORMALITY RETURNS, IT'S ALMOST CERTAIN SOME THINGS WILL NOT BE THE SAME. IN THIS ARTICLE, I'LL EXAMINE THE IMPACTS ON THE GLOBAL ECONOMY POST-COVID, PARTICULARLY THE BALANCE OF THE MAJOR ECONOMIC POWERS, AND HOW ASIA MAY DRIVE RECOVERY, AND CONSEQUENTLY THE 21ST-CENTURY GLOBAL ECONOMY.

The key points that amount to my analysis are; the astronomic Asian growth phase, the creation of a power vacuum through waning American leadership, accelerated technology demand trends, and an Asia being relatively more resilient to economic shocks.

AN ASTRONOMICAL ASIAN ECONOMIC GROWTH PHASE

In the 1960s, Asia was the poorest continent in the world by income levels and consequently experienced severe underdevelopment. As such, pessimism was the defining theme of the region's economy. Now, Asia is forecasted to contribute to ~60% of global growth and bring an additional 2.4 billion new middle-class members into the world by 2030, with this growth expected to be primarily driven by China, India, and South-East Asia. In human terms, the scale of poverty is vastly shifting in Asia, illustrated through rising investments, savings, and education levels. The region has a long road ahead of it, but a straight road, nonetheless.

The key driving force of this growth; industrialisation. The industrialisation of the Asian economies and sustained proto-industrialisation has propelled the region into rapid growth through expanded trade links and supply chains. However, the sheer diversity of Asian countries makes it difficult to pinpoint a universal transformative catalyst. Though it is clear in this amalgamation of emerging economies the future looks bright. This drastic shift in economic gravity is set to transform global dynamics as we know it.

ASIA'S RESILIENCE TO ECONOMIC SHOCKS

The question remains, is this growth outlook greatly impacted by the COVID-19 crisis? Of course. Growth in Asia is expected to stall at zero per cent in 2020, worse than both the Global Financial Crisis and the Asian Financial Crisis. But putting it in perspective, the region remains relatively better positioned than the expected global economic contraction of three per cent in 2020. Further along, the 2021 outlook remains expectant of strong growth.

A relatively shallow dip in growth expectations is propagated by Asia's historically high growth and an expected resilience to economic shocks. Asia has a proven history of being relatively resilient. Asian companies operate in an exceptionally fast-moving market, where agility and scalability are commercial imperatives. A case in point being the Asian Financial Crisis, where the region recovered within ~1-2 years and experienced a comparatively light Global Financial Crisis impact. In terms of government, Asian government debt to GDP ratios generally remains below 50% (except for Japan). In contrast to Europe government debt averaging ~80%, and the United States' over 100%. This illustrates the fiscal flexibility of the region comparatively, and consequently, post-COVID economic constraints as the debt levels shoot up.

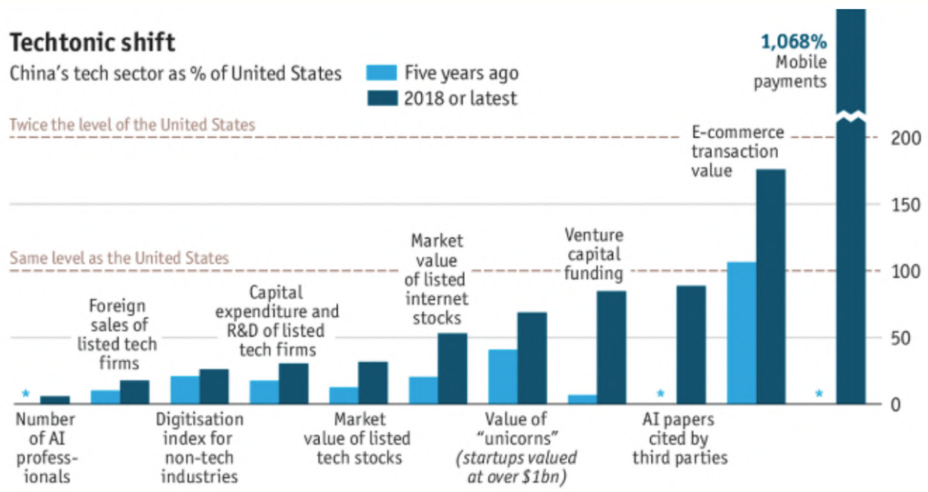


Figure 1: Chinese Tech Sector % of USA, sourced from The Economist

The doubt remains around the increasing protectionism anticipated post-COVID, but the increasing regionalisation of Asian economies as the middle-class increasing generation demand mitigates this point of contention, as intraregional Asian trade now accounts for almost as much as in Europe, and domestic markets are growing heavily.

ACCELERATED TECHNOLOGY DEMAND TRENDS

The COVID crisis has accelerated demand in a key area of growth in Asian economies; technology. China, in particular, is very well-positioned to capitalise on the increased digitisation we have all experienced over this time. 45% of global e-commerce transactions take place in China, and with China's smartphone and smart home products ownership larger than the global average, the Chinese consumer is exceptionally digital. This consumer base results in companies in the region being highly agile, digitised, and able to meet the shift in demand relatively well. The presence of 200 Chinese AI unicorns illustrates this growing shift, as only in the past ten years China's software sector has made its presence known. Additionally, services such as DingTalk, WeChat Work, and Tencent Meeting, Coupan and Meituan have taken off in adoption rates since the inception of the COVID situation. What this means is in this state of growing digitisation, both general,

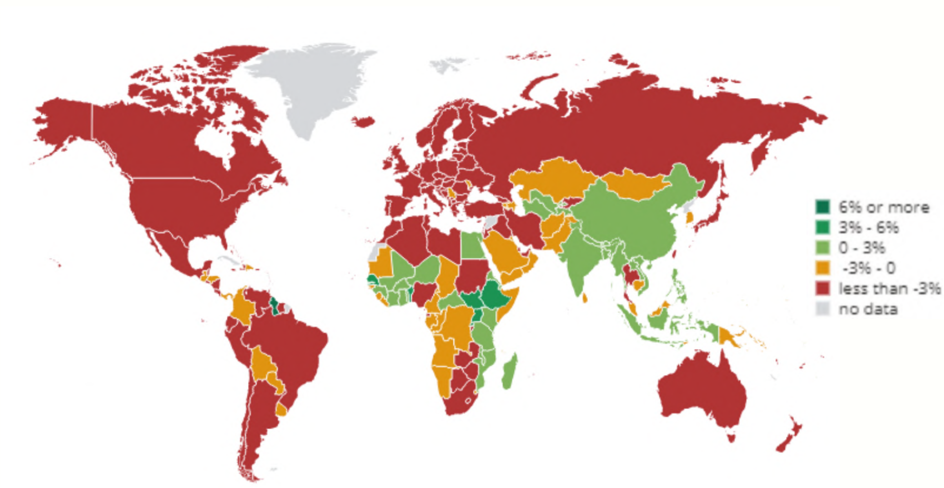


Figure 2: 2020 Real GDP Growth Annual % Change, sourced from IMF

THE CREATION OF A POWER VACUUM THROUGH WANING AMERICAN LEADERSHIP

An arguably mediocre American response and a void of American leadership pose the probability of a geopolitical power vacuum. For the half-century following World War Two, the influence of the United States on the world was unrivalled. With the nation heavily driving both the economic and political framework of the globe. Today, in the middle of a global crisis, the presence of the United States as the convening power has been noticeably absent, drawing question to its incumbent status. NATO being labelled as obsolete, funding for the WHO decimated, and an all-around lack of American support for global initiatives serves to reduce global sentiment to the nation as an admired world leader. The unprecedented COVID pandemic heavily exposed both strengths and weaknesses across the board, but America's response from the top is arguably one of the most questionable. As such, the political influence balance leaves room to be filled. Whether this means a less centralised, less consolidated political balance, or if it remains for the taking is anyone's guess. But at this rate it does not seem like a coordinated response will be driven by America. In respect to Asia, this could mean more room politically and economically – notably in China.

WHAT DOES THIS MEAN?

For the investors out there, now is the perfect time to start broadening your horizons. Looking beyond the NYSE and NASDAQ, and taking more of an extensive look at the markets in the East could prove extremely interesting in the coming years. Regardless, our world is changing whether economic gravity shifts to Asia upon the world's recovery or not.

The new normal may see New Zealand's place as an Asia-Pacific trade nation expand due to Asia's post-COVID recovery or shrivel due to growing protectionism. As such, emerging from this crisis requires national resolve, and openness to change. We as students are in a defining era, each decision made today will define the new normal, and it is up to us to embrace this change, adapt, and prepare for the future.

Do deficits even matter?

WRITTEN BY LOGAN RAINEY

THE VERY CONCEPT OF 'THE DEFICIT' IS A BIG DEAL, AT LEAST TO THE AVERAGE PUNTER ON THE STREET AND THE POLITICIANS ELECTED TO REPRESENT THEM. GOVERNMENTS AND POLITICAL CAREERS HAVE BEEN MADE AND BROKEN ON THE ISSUE OF THE DEFICIT. THINK OF ALL THE POLITICAL CAPITAL SIR JOHN KEY AND SIR BILL ENGLISH BUILT THROUGH SUCCESSFUL REDUCTION OF OUR NATIONAL DEFICIT POST-GFC. THESE DAYS, CIRCUMSTANCES ARE A LITTLE DIFFERENT. WITH THE TREASURY EXPECTING AN ADDITIONAL $140 - $200 BILLION IN CROWN (GOVERNMENT) DEBT OVER THE NEXT FOUR YEARS, DEBT AND THE DEFICIT WILL BE A FOCAL POINT OF CONVERSATION IN ECONOMIC AND INVESTING CIRCLES FOR THE FORESEEABLE FUTURE.

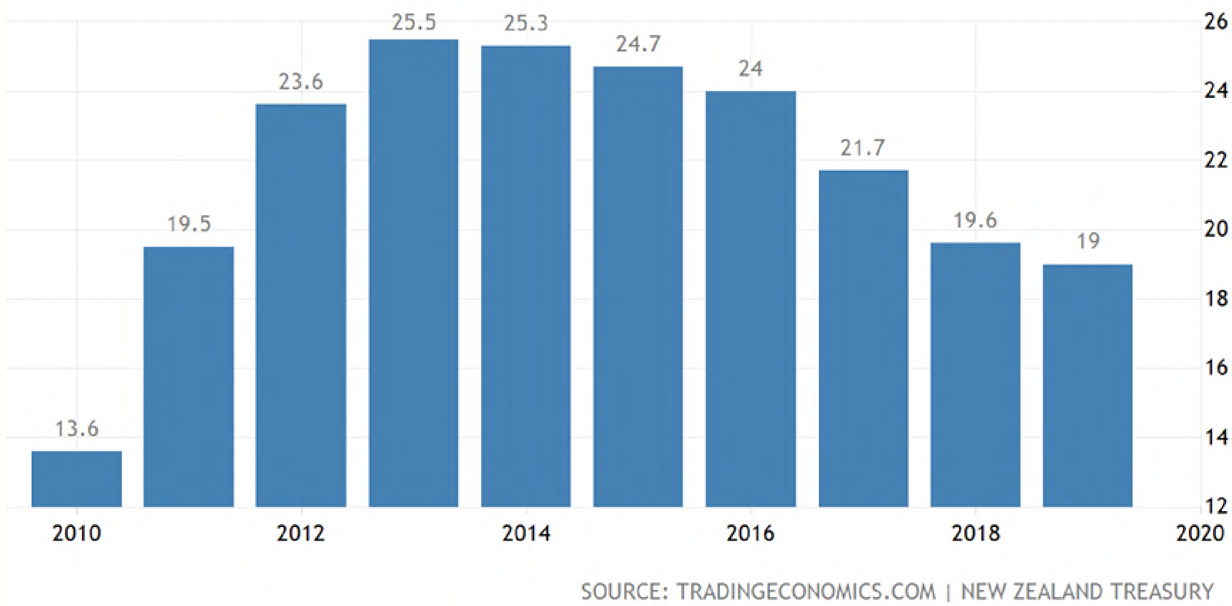
New Zealand government bonds, and the deficit that they represent, have traditionally been regarded as crucial economic indicators for investors that help gauge the long term outlook and health of the economy. The conventional narrative goes that deficits are a negative economic indicator that suggests that government spending is 'crowding out' private sector investment, with the role of deficits limited in application to investment in productive infrastructures like road or rail transport.

Pre COVID, the idea that New Zealand needed to save for a 'rainy day' had almost become a political and economic cliche. The slightest change in the deficit or surplus was regarded as significant financial news. Successive governments, led by finance ministers Sir Michael Cullen (Labour) and Sir Bill English (National), had worked hard to keep New Zealand's government debt one of the lowest in the OECD at the rate of around 20% of GDP in 2018. The graph below shows New Zealand's success at accomplishing this monetary objective.

This loose bi-partisan consensus was in many ways built on the shared experience of policymakers and politicians living through the tumultuous Muldoon era. Muldoon was Prime Minister and Finance Minister from 1975 to 1984; presiding over an era of economic stagnation and crisis. Facing extraordinary oil prices in the 1980s, Muldoon invested vast sums of borrowed funds in Think Big, a series of large scale infrastructure projects intended to ensure New Zealand's energy independence.

As a result, New Zealand accumulated significant debt in foreign currencies that we almost couldn't repay in 1984, leading to a currency crisis that soon spiralled into a constitutional crisis.

Post Muldoon, New Zealand embarked on a series of rapid liberalising economic reforms that prevented a national default at the cost of deep cuts to social spending that have proved deeply divisive to this day - reforms coined Rogernomics and Ruthanisa after the finance ministers who led the changes. In part in response to the legacy of Muldoon, policymakers in New Zealand have long worked to keep net Crown Debt low to avoid a repeat of the events of 1984.However, the ongoing impact of the COVID-19 pandemic is highlighting that the old consensus on the New Zealand deficit is grossly out of date. Central banks have innovated in past decades, establishing the policy of Quantitative easing (QE). QE is basically where the Reserve Bank purchases - directly or indirectly - government bonds through the use of newly created money. QE not only provides an additional source of borrowed funds for the government to support fiscal policy but has the dual effect of artificially lowering interest rates and boosting the sustainability of debt. As a country with a sovereign currency, the New



Zealand dollar, we've got pretty broad discretion to utilise the full spectrum of monetary policy. Indeed in recent weeks, we've seen the Reserve Bank impact on a comprehensive program of Quantitative easing amounting to over 60 Billion dollars. The consensus economic view would be that going from a debt to GDP figure of 20% to 54% of GDP in just four years, by June 2024 as is projected to occur; is a cause for concern for policymakers and investors alike.

Yet compared to our trading partners, our debt is so low that even the large increase driven by the response to COVID-19 leaves us in 2024 with a debt to GDP ratio more moderate than most developed countries have now. The Australian economy has a figure of around 40%, while the United Kingdoms had a rate of 85.9% in 2018. In comparison, New Zealand is looking relatively healthy.

Furthermore, when we compare to tough times of the 1980s, interest rates are significantly lower. The Crown can issue ten-year bonds at a rate of less than 1% - unheard off in Muldoon's era. Financial markets have a hearty appetite for New Zealand bonds and the Kiwi dollar; we, after all, are one of the top ten most traded currencies. Lower interest rates help make higher debt figures relatively more sustainable in terms of repayments; it's easier to pay off a Billion dollars if you aren't getting charged double-figure interest.

Overall, we've got a whole new set of monetary tools and a globally enviable net debt to GDP ratio. The level of Crown debt is still important, and the economy is going through a period of a deep recession. But as younger investors and students of economics and finance, I'll leave it up to you to decide on whether or not the deficit is an economic crisis or just a manageable symptom of recession and declining government revenue.

A word of warning

WRITTEN BY TIM CROSS

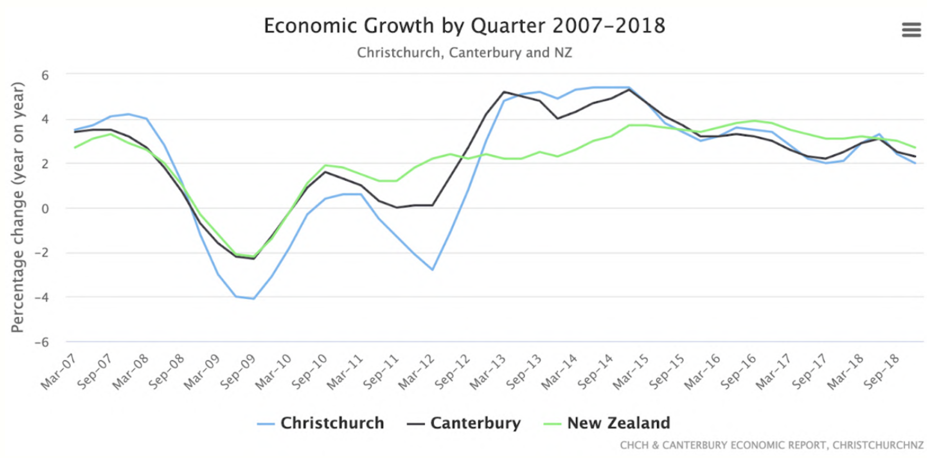
“PATIENCE IS PAINFUL BUT ITS FRUIT IS SWEET” - ARISTOTLE

OVER THE LAST TWO MONTHS, I HAVE READ MANY ARTICLES ABOUT HOW THE RECOVERY FROM COVID-19, BOTH PHYSICAL AND ECONOMIC, WILL BE QUICKER THAN EXPECTED. WHENEVER I READ THESE ARTICLES, I THINK BACK TO MY EXPERIENCE AFTER THE CHRISTCHURCH EARTHQUAKES. I WAS A YEAR 5 STUDENT AT CASHMERE PRIMARY SCHOOL WHEN I WITNESSED ONE OF THE DEADLIEST NATURAL DISASTERS IN NEW ZEALAND HISTORY. I REMEMBER THE DAY MY CITY CAME CRASHING DOWN IN FRONT OF MY EYES.

When the dust settled and the aftershocks had eased, there was a sense of optimism in Canterbury. Residents had many ideas for improving the city, and the scale of the destruction offered a clean slate from which to start anew. Although our city had been destroyed, we were confident that the rebuild would be fast and our city back to business in no time. Well, good things take time. There have been many delays and frustrations. The city’s iconic cathedral still lies in ruins, home to rats and pigeons. Even now, almost 10 years after that fateful day, Christchurch remains a shell of its former self. Roadworks litter the landscape. There is still no convention centre, no main pool, no stadium.

Yet, despite the setbacks and disappointments, Christchurch is recovering. The new city is taking shape. The street art is funky. There’s a new market, new energy, new hope. The Greek philosopher Aristotle said, “Patience is painful but its fruit is sweet.” This quote aptly describes the situation in Christchurch. Although the rebuild has taken time, it will be worth it in the end.

COVID-19 and the 22 February 2011 earthquake are obviously very different events. The earthquake lasted 18 seconds; who knows how long COVID-19 will last? The earthquake caused catastrophic damage to buildings and structures; COVID-19 puts lives at risk in a different way. One is global; one local. Yet the similarities are striking. They are the only two events to result in a



national State of Emergency. Both led to large government economic recovery packages. For the Christchurch earthquakes, the recovery package totalled $20 billion. For COVID-19, the package has totalled $12 billion so far and this will rise significantly if Labour is reelected with the proposed $50 billion COVID-19 response and recovery fund. Consumer confidence after the earthquakes dropped to 97.5 points, a 10 year low. As a result of the COVID-19 pandemic, consumer confidence has dropped from almost 110 points to below 105 points, a significant decrease. Both events disrupted the day-to-day lives of many New Zealanders.

So what will the COVID-19 recovery look like? Initially, there was a lot of hope amongst economists that the recovery from the virus would be V-shaped. Economists believed that the New Zealand economy would suffer a severe drop as the global economy churned to a standstill. Then as soon as the coronavirus had been "cured", the economy would immediately bounce back to pre-coronavirus levels, hence the name "V-shaped". Instead, many economists including Mark Zandi, the chief economist at Moody's Analytics believe the recovery will be a "swoosh" recovery. A "swoosh" recovery is named after the Nike tick and shows a large drop followed by a sluggish and prolonged recovery. This definitely appears to be the case play as unemployment levels are rising with ANZ predicting unemployment to peak at 11% in the coming months. This ties in with what Brad Olsen, the lead economist at Newshub is saying. He predicts that up to 120,000 New Zealanders could lose their job when the wage subsidy ends, a huge increase from the current figure of roughly 40,000 unemployed. On top of this, Stephen Toplis, head of research at BNZ, has predicted it will take until the fourth quarter of 2023 for GDP levels to return to pre-COVID levels. This is unsurprising considering how difficult times are right now. The global management consulting firm, Mckinsey found that 40% of Americans are unable to cover an unexpected expense of $400 without borrowing. This hints that the effects from COVID-19 may last far longer than what was initially expected. Another possible example of a coronavirus recovery is to observe the Christchurch earthquake recovery. Initially, it appeared to be "V-shaped" with a drop in GDP of -2.8% in the first quarter in 2011. This then bounced back, peaking at 5.1% GDP growth in 2013. Yet what happened after the government stimulus package ran out is concerning. As the government pumped lots of money into the region, GDP growth was strong. Whilst it was expected that growth would slow once the spending decreased, it is worrying that 7 years after the earthquake, Christchurch GDP levels were 1% lower than the national average. This clearly indicates that the recovery had not gone smoothly. It will be interesting to observe how both New Zealand and overseas economies recover from COVID and what "shape" these recoveries take.

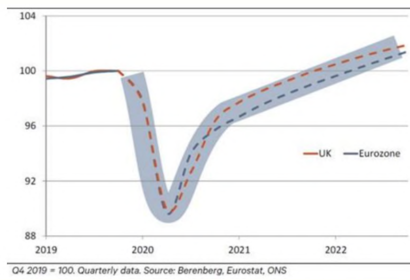


Figure 3: Swoosh shaped recovery curve

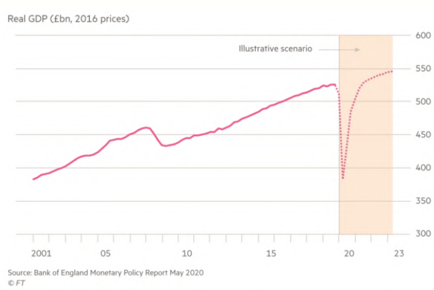


Figure 4: V-shaped recovery curve

Personally, I think the effects of COVID-19 will be felt for years and tourism will be an industry that will be especially hard. Tourism is one of New Zealand's largest industries, accounting for 13% of national GDP and is worth over $9 billion to our economy. The industry employs over 180,000 full-time jobs, equivalent to 7.5% of New Zealand's workforce. With the current plan to eliminate COVID-19 and keep it away from New Zealand, it is likely that our borders will be shut for a long time. Many countries have not had the success that we have, on the 6th of August, the U.S. had over 55,000 confirmed new cases. Jacinda Ardern has discussed many ideas on how to get our economy back up and rolling from a 4-day working week to a Trans-Tasman bubble. Yet the 4-day working week looks unlikely to go ahead and the Trans-Tasman bubble will not be going ahead soon, especially considering the state that Victoria is in at the moment. Tourism will be hard, immediately after the earthquakes, only 13 of the 27 hotels and 15 of the 31 backpackers remained operational. International demand in Christchurch shrunk by 73%. In 2014, was a 45% deficit of hotel beds in Christchurch relative to the February 2011 position. In a Stuff article, Alan Wood argued that the damage caused by the earthquakes permanently scarred the region and Christchurch never recovered. It will be interesting to observe the impacts that Coronavirus will have in regions such as Queenstown and Rotorua which are heavily reliant on tourism. From what happened in Christchurch, it is clear that the tourism industry will be severely impacted by Coronavirus and the effects may be felt well into the future.

With the Christchurch rebuild and recovery, changes were made so that Christchurch would be in a better position to cope with future earthquakes. Buildings now are built to be heavily strengthened. For example, the Miles Warren building at my old school was built in such a way that the building would "rock" with the earthquake. After undergoing many tests, it was found that the building was able to withstand earthquakes of a higher magnitude than what was felt in Christchurch and in Kaikoura. The building suffered no structural damage and only had minor cracks. It will be interesting to see how New Zealand reacts to Coronavirus. Countries such as Hong Kong, Singapore and Taiwan that were hard hit by the SARS outbreak from 2002-2004 have coped remarkably well during the Coronavirus. Taiwan started contact tracing passengers from Wuhan as soon as the Chinese government warned of a new type of pneumonia. Social distancing, increased testing and even more detailed contact tracing followed quickly. These governments acted swiftly and the results have been promising. Whilst our government did react relatively quickly, it will be interesting to see how COVID will shape future policy around global pandemics and New Zealand's response towards it.

What has been remarkable about all this economic uncertainty is how the stock market has reacted to this change. There are differences between the economy and the stock market - economic data such as GDP and employment levels are backwards-looking whereas the stock market is forward-looking. There are also numerous geopolitical factors that impact the stock market and notable examples are the recent trade wars and pending elections. However, in the long run, the market and the economy have generally moved in the same direction. With Coronavirus, this appears to have changed, and investor Chamath Palihapitiya summarises it well: “We have completely divorced the economy from the stock and bond market.” The market has displayed irrational exuberance causing stocks to be priced above their intrinsic value. There are numerous factors as to why this has occurred. These range from investors hopeful of a V-shaped recovery, to casual investors trying to “time” the market and the rise of tech stocks. With the Reserve Bank dropping the OCR to 0.25, interest rates are at their lowest ever point and the bond market is in a similar situation. As a result, a lot of casual investors have elected to invest in the stock market due to how unprofitable interest rates and bonds currently are. This is evidenced by the rise of the online retail investment platform - Sharesies. The company has grown 45% since COVID hit, an increase of 75,000 investors. Sharesies co-founder Leighton Roberts has said that over 70% of the platform’s new users consider themselves “new investors.” The same has occurred in the U.S. with the online platform, Robinhood. In the U.S., retail investors have wagered some extremely risky investments on companies like Hertz and JC Penney. Despite the fact that both companies are going through bankruptcy proceedings, Hertz’s share price had increased over 500% and Robinhood investors bought more shares in Hertz than in any other listed company for the week following Hertz’s filing for bankruptcy. The rise of retail investors is a major factor as to why the market is so unrepresentative of the economy. The majority of stocks are actually holding negative returns this year, despite the fact that the S and P 500 has seen huge growth. This has occurred because the S and P 500 is driven by its largest 86 stocks and 5 stocks make up over 20% of the S and P 500. These stocks are; Microsoft, Apple, Alphabet, Amazon and Facebook. These stocks are all tech companies and have done remarkably well over this COVID period, due to how unaffected these companies have been by the virus. It will be interesting to observe what will happen in the coming years once Coronavirus has settled down and the economy has recovered. Will the tech companies of today still reign supreme or will there be a new dominant player? These are fascinating times that we are living in and some prominent investors such as Warren Buffet and Mark Cuban believe that the stock market is overvalued and may crash soon. Let me offer a word of warning for any investors thinking of jumping into the stock market right now. These are turbulent times and the market is changing at an exponential rate. Whilst it is easy to make money, it is also easy to lose money.

While I can’t predict exactly what will happen, patience is a virtue and I am confident New Zealand, like Christchurch after the earthquake, will rise to the challenge. The recovery will take time but with the right policies, New Zealand will emerge stronger and hopefully even better than before.

Figure 5: NZX 50 Index 1-year returns

MYOB's column

WHAT NEXT? MYOB GUIDE HELPS BUSINESSES NAVIGATE COVID-19 RECOVERY

As the country begins its substantial economic recovery in response to the effects of COVID-19, MYOB has released the final guide in their Business Preparedness series – this time, aimed at helping businesses focus on the next stages of rebuilding, redevelopment and growth.

The SME-focused resource has been developed to provide businesses with practical advice around coping with the wide-ranging effects of the COVID-19 pandemic – from tips on how to do business safely and where to get support, to evaluating business purpose and finding new ways of working by continuing to use new digital tools.

MYOB NZ country manager, Ingrid Cronin-Knight, says despite the pressures on SMEs throughout the country, New Zealanders have shown why they are renowned for innovation, ingenuity and determination, especially when in unprecedented territory.

“New Zealand businesses have embraced technology and changed their working models to support both their customers and employees – whether that’s through videoconferencing, e-commerce or social media. For many businesses, they may feel they have leapt 20 years in just two months in their digital transformation,” says Ms Cronin-Knight.

“Overall, we’ve shared, streamlined and connected in ways that, as we began 2020, may have been out of reach for many organisations. The job is not finished yet however – it’s imperative we continue to work together to support both our local communities and local business owners.”

The latest guide also looks at how businesses can stay nimble and improve their response to new operating restrictions, as well as reflecting on learnings from experiences of working from home and adapting them for the workplace – such as streamlining meetings or avoiding unnecessary travel.

Ms Cronin-Knight says the recovery will continue to challenge SMEs over the coming weeks and months, pointing out that it will require all the creativity, courage and discipline the business community can muster to not just survive, but succeed.

“It is going to be tough but local SME operators can be confident of having the support of New Zealanders behind them. We’ve already seen this demonstrated through everything from the shop-local campaigns to a renewed focus on domestic travel.

“Looking ahead, many organisations will have to adjust their business strategies and for some, their target markets. Accepting those limitations and finding new ways to adapt, will be a vital part of rebuilding local businesses and the economy,” says Ms Cronin-Knight.

The third edition of the MYOB Business Preparedness Guide is available now for download here.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