

RESEARCH UPDATE

# MARKET *watch*

AUGUST 2024

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Equity markets were mixed in July, with the S&P 500 Index rising 1.1% and the Nasdaq Composite Index falling -0.8%. Communication Services and Information Technology dragged on the indexes, with most of the “Magnificent Seven” stocks (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) experiencing a sell-off. Real Estate was the best-performing sector, rallying on the prospect of near-term rate cuts. The Hang Seng Index retreated -2.1%, with no major stimulus or policy changes announced by the government from its third plenum. The S&P/ASX 200 rallied 4.2%, surpassing the 8,000 mark for the first time.

## S&P/ASX 200 Sector Performance

The best-performing sector in July was Consumer Discretionary, which returned 9.1% as retail trade spending rose. The Star Entertainment Group Limited jumped 18.4%, which prompted an ASX price query, to which the company referred to a media article speculating that four potential entities were looking to acquire the company. Other strong performers included Harvey Norman Holdings Limited, Super Retail Group Limited, JB Hi-Fi Limited and Nick Scali Limited, which rose 14.9%, 14.5%, 13.8% and 13.6% respectively.

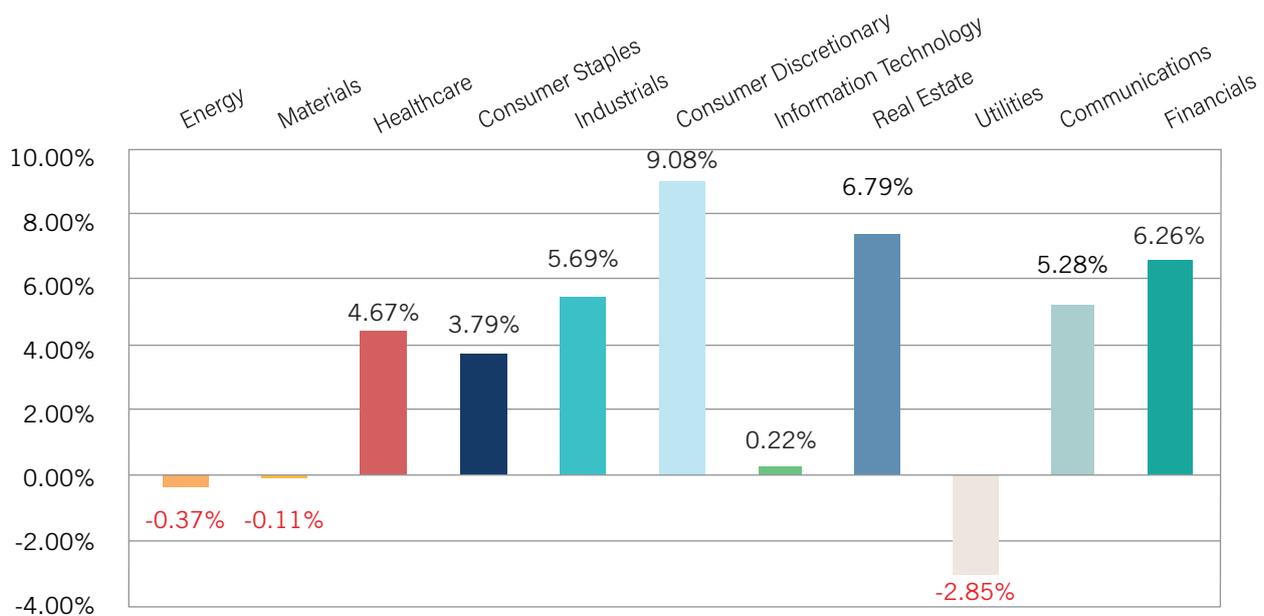
The Real Estate sector rallied 6.8%, driven by movement in Australian Government bond yields. Real Estate equities are often viewed by investors as a ‘bond proxy’ in the short term as they provide regular and stable distributions. These distributions become less attractive when bond yields rise and

more attractive when bond yields fall. The 0.2% fall in the Australian 10-year government bond yield saw increased demand for the sector. Gains were led by Waypoint REIT Limited, Lendlease Group, and GPT Group, up 16.6%, 16.1% and 15.8% respectively. Waypoint REIT Limited provided a market update reporting a 1.4% increase in total portfolio value, driven by rental increases, while Lendlease Group announced the sale of its US military housing business for \$480 million. The main exception in the sector was Lifestyle Communities Limited, which fell -27.6%. The media aired grievances by a group of homeowners who are taking legal action against Lifestyle Communities Limited for alleged misleading marketing practices and unfair exit fees. The company was also forced to withdraw its forward guidance due to uncertainty surrounding the media coverage and legal action.

The next best sector was Financials, rising by 6.3%. Zip Co Limited drove gains, rallying 30.8% after releasing its fourth-quarter update. The company reported a 22.1% increase in revenue, an 8.8% increase in transactions and a 6.1% increase in monthly transacting users on the prior corresponding period. Zip Co Limited also completed an institutional placement and is currently completing a share purchase plan to raise funds to make early repayments for its debt facility. The next best performers in the sector were Magellan Financial Group (21.4%) and Insignia Financial Limited (21.0%).

Utilities was the main laggard on the S&P/ASX 200, with the sector falling -2.9%. All constituents fell over the month, led by Infratil Limited, which was down -5.0%. Infratil Limited completed NZ\$1,150 million equity raising to further fund data centre operator CDC and provide more flexibility to its overall portfolio. APA Group retreated -1.0% after reporting the impairment of its Moomba Sydney Ethane Pipeline, where its single user, Qenos Pty Ltd, entered voluntary administration.

**Graph 1: S&P/ASX 200 Sector Performance**



**Data Source:** Desktop Broker, 1 August 2024

## Highlights

**Australia:** The Australian Bureau of Statistics (ABS) published its annual data release on job mobility. For the first time in three years, job mobility has fallen, now at 8% from 9.5% last year. This equated to around 1.1 million people changing their place of employment. Women had a higher job mobility

rate at 8.2% compared to men at 7.9%, while sales workers were the industry with the highest mobility at 9.7%. The main reason given by those who lost a job was retrenchment, while those who left a job wanted a better job or a change.

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Australian Signals Directorate's Australian Cyber Security Centre (ACSC) has led the cybersecurity agencies of the Five Eyes alliance (Australia, Canada, New Zealand, the United Kingdom and the United States) and newer allies Germany, South Korea and Japan in making a joint advisor on Chinese state-sponsored cyber group, APT40, and its threat to Australian networks. APT40 is known to regularly survey networks of interest for vulnerabilities and is linked to two previous cyber attacks in April 2022 and July – September 2022.

**US:** US President Joe Biden has announced he will no longer be seeking re-election and will instead 'pass the torch to a new generation' in 'defence of democracy'. President Biden will complete his term as President. Vice President Kamala Harris is the current favourite to become the Democratic Party presidential nomination, having already received enough delegate support.

Former US President Donald Trump survived an assassination attempt at his rally in Pennsylvania. Two days later, he appeared at the Republican National Convention, shortly after being confirmed as the Republican nomination. Ohio senator JD Vance has been announced as his running mate.

**France:** The French general election resulted in a surprise win by the left alliance New Popular Front. The group won 182 seats, followed by President Emmanuel Macron's centrist alliance at 173 seats and the far-right National Rally alliance led by Marine Le Pen at 143 seats. The National Rally had won a larger than expected 33% of the national vote in the first round of voting, which resulted in a strategic voting pact between the left and centrist alliances to withdraw third-placed candidates for the second

round of voting to prevent votes being split between the two. However, the three-way split in votes without a majority has resulted in a stalemate in government, with the parties unable to come to an agreement on a new prime minister or government.

**United Kingdom:** The UK Labour Party has won the UK general election, winning 412 of the 650 seats available and becoming the largest majority government in 25 years despite not seeing a major increase in vote share. The outgoing Conservative Party only won 121 seats, the lowest number of seats in their history.

**Kazakhstan:** Kazakhstan is planning on increasing the mineral extraction tax on uranium from 6% to 9% in 2025 and possibly up to 18% in 2026 under a new tiered system of applicable tax rates. The new system is expected to lower incentives for local uranium producers, including the world's largest uranium miner Kazatomprom, to increase their production. Subsequently, the share prices of other global uranium producers have rallied.

**Venezuela:** President Nicolas Maduro has won the presidential election, retaining his position for another six-year term. However, there are concerns around the legitimacy of the results, with other countries calling on the government to ensure the results are accurate.

**China:** The Chinese Government held its third plenum this month, a meeting between senior members of the party that occurs every five years, to decide upon China's economic policy. Communique from the third plenum focused on the country's goals of innovation, green energy and consumption.

## What to watch out for

Gold prices reached new all-time highs in July, driven by increasing geopolitical tensions, particularly surrounding concerns of a broader conflict arising in the Middle East. The gold price was further supported

by the expectation of Federal Reserve rate cuts and purchases from global Central Banks as they seek to diversify their foreign currency holdings.

## Conclusion



Markets were mixed in July as they digested varied economic data. US markets are seeing greater breadth, with smaller capitalisation companies rallying while the largest companies fall. Geopolitical tensions across the world remain elevated but have so far had little impact on markets. The depth and degree of the current economic slowdown and the timing of any interest rate cuts remain the key uncertainties for markets.

During periods of uncertainty, clients should:

- Stick to the plan and focus on your long-term goals. Our investment approach is focused on the long term and designed so that your portfolio can ride out any downturns – including this one. Staying the course, despite how uncomfortable it may feel right now, will prove to be the better option when looking back five years from now.

Investors who stayed on the course while equity markets declined in the depths of the COVID-19 pandemic in early 2020 have benefitted from one of the fastest market turnarounds with equity markets. Investors who sold equities during the downturn and waited until economies started to show recovery before buying back into the market missed a large part of the recovery.

- Maintain a buffer of safety. Holding a buffer of cash and term deposits has been a key strategy to provide a cushion against market downturns and to protect capital.
- Take advantage of the weakness. Market downturns provide buying opportunities to invest in long-term, quality investments.
- Focus on quality investments. Invest in companies that generate stable cash flows to support distributions that are not connected to the movements in asset prices, and partner with fund managers who share the same investment philosophy and objectives.
- Diversify across asset classes, industries, sectors and geographies.
- Regularly rebalance the portfolio back to your risk profile to ensure that the portfolio is not exposed to unwanted risks and to also lock in profits.
- Remain calm and speak to your Apt adviser. It is important that you speak to your Apt adviser before making any financial moves. Your adviser understands your long- and short-term goals and will have been planning for these types of scenarios already, so they are best placed to explain any impact and discuss the best options and opportunities for you personally.

#### **Disclaimer**

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