RESEARCH UPDATE

MARKET watch

JULY 2024

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WEALTH PARTNERS

Equity markets rallied in June, with the S&P 500 Index and the Nasdaq Composite Index finishing the month up 4.5% and 6.0% respectively. Most sectors in the US were higher, but Information Technology significantly outperformed. The Hang Seng Index fell -2.0% with concerns around Chinese economic data and the impact of possible trade wars. The S&P/ASX 200 ended the month 0.9% higher after earlier gains were reversed following a surprise jump in the Australian inflation rate.

S&P/ASX 200 Sector Performance

Financials was the best-performing sector in June, returning 5.1%. The best-performing share in the sector was Zip Co Limited, which rallied 18.2%. Despite no significant news from the company itself, the catalyst for its share price rise may have been the discontinuation of competitor Apple Pay Later. Investment platform companies HUB24 Limited and Netwealth Group Limited rallied 15.4% and 11.1% respectively whilst insurance companies Insurance Australia Group Limited and Steadfast Group Limited returned 11.4% and 11.2% respectively.

The next best sector was Consumer Staples, which rallied 4.6% over the month. Gains were driven by Woolworths Group Limited and Treasury Wine Estates Limited, each rising 7.1%. Treasury Wines Estates Limited reaffirmed its guidance for the 2024 financial year, including expectations for its recent acquisition of DAOU Vineyards. The company also presented an update and outlook of its Penfolds brand since returning to the Chinese market at the end of March, when Australian wine tariffs were removed. Penfolds has seen strong initial demand and is aiming to deliver low double-digit growth in earnings over the next three financial years, with profit margins expected to increase from 42% to 45%.

The Healthcare sector rose 4.3% in June, driven by Pro Medicus Limited, Telix Pharmaceuticals Limited and PolyNovo Limited. Pro Medicus Limited rallied 25.3% after announcing five new contracts in the US worth a combined minimum value of $45 million. Telix Pharmaceuticals Limited returned 20.6% after completing a submission to the US Food and Drug Administration for its kidney cancer imaging agent

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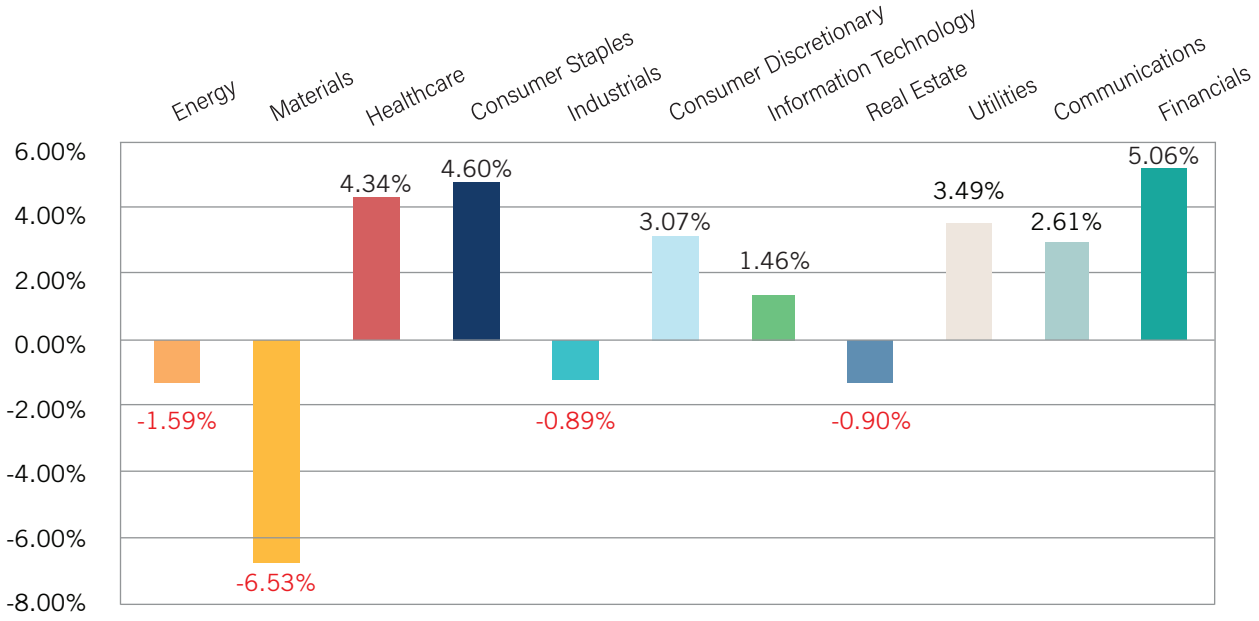
named TLX250-CDx. The company also proposed, but eventually withdrew, a proposal to list on the Nasdaq, citing that the large discount in price required for the initial public offering would not be in the best interest of existing shareholders.

The worst-performing sector in June was the Materials sector as it tracked falling commodity prices. Lithium producers led losses, with Liontown Resources Lithium, Arcadium Lithium Plc and Mineral Resources Limited falling -34.0%, -29.0% and -28.1% respectively, as the lithium price fell more than 13%. Iron ore prices also fell at the start of June, following concerns over falling demand, a stockpile of steel and weak economic data from China. Iron miners Fortescue Limited, Champion Iron Limited, Rio Tinto Limited and BHP Group Limited fell -19.2%, -11.9%, -9.6% and -5.3% respectively. The best performer in the sector was West African Resources Limited, a gold mining company with mines in Burkina Faso. West African Resources Limited reported high-grade gold mineralisation at its Sanbrado Gold Operations and remains on track to finalise construction of its Kiaka Gold Project, having now drawn down the final funds available in its loan facility.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 July 2024

Highlights

Australia: The Australian Bureau of Statistics (ABS) released the Monthly Business Turnover Indicator for April 2024. The 13-industry aggregate indicator revealed a 0.1% increase in business turnover during April, marking the sixth consecutive month of relatively flat movement. Seasonally adjusted, however, this represents a 1.5% increase driven by rises in professional, scientific and technical services, and professional trade. On a year-on-year basis,12 of the 13 industries saw an increase in business turnover, the one

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exception being the mining industry.

Coalition leader Peter Dutton announced a nuclear plan meant to deliver cheap and consistent, zero-emission energy. The plan proposes that seven nuclear reactors be built in locations of closed, or scheduled to be closed, coal power plants, with the first reactors to begin energy production in 2035 or 2037. It aims to create a more balanced energy mix and meet net zero emissions commitments by 2050. However, the Australian Energy Market Operator (AEMO) has voiced concerns that a switch to nuclear energy would not be ready in time for the retiring of coal power plants.

US: After a rally in AI-related and semiconductor stocks, NVIDIA briefly overtook both Apple and Microsoft in market capitalisation to become the most valuable company in the world. A three-day sell-off saw NVIDIA fall 12.9%, losing approximately $646 billion in market value and moving back to being the third most valuable company.

Wikileaks founder Julian Assange pled guilty to one charge of espionage and was sentenced to 62 months in jail. However, the sentence includes time already served, and having spent 5 years in prison in the UK, Assange was set free. The decision ends 14 years of legal battles.

European Union: The European parliamentary elections have seen a rise in support for far-right parties, with a particularly large increase seen in France and Germany. Far-right parties also led in Italy and Austria, with early results predicting far-right and hard-right parties will hold roughly a quarter of the seats. The result in France led President Emmanuel Macron to call a snap election.

The European Central Bank (ECB) cut interest rates for the first time since 2019, dropping the rate from 4.0% to 3.75%. However, the ECB has also upgraded its inflation forecasts for 2025 from an estimated average of 2.0% to 2.2%.

Russia: Russian President Vladimir Putin visited Pyongyang, North Korea to meet with North Korean Leader Kim Jong Un. Both leaders signed a landmark pact named the 'Treaty on the Comprehensive Strategic Partnership', which details a mutual defence agreement, cooperation on food and energy security, and development of exchanges and research in science and technology.

Argentina: Argentinian President Javier Milei is aiming to make his country the 'world's fourth AI hub' by offering a low regulation free enterprise environment as the US and the European Union continue to target AI companies under safety and antitrust issues.

South Africa: The African National Congress Party (ANC) lost its parliamentary majority for the first time in 30 years, when the party ended apartheid under Nelson Mandela. The ANC will remain the major party but will need to form a coalition to remain in government.

China: After 53 days since its launch on 3 May, China's Chang'e 6 lunar probe has returned from the South Pole-Aitken Basin, a crater on the moon that always faces away from Earth. The probe gathered rock and soil samples from the far side of the moon, which may be able to provide more information about the formation of the moon and potential resources available.

What to watch out for

Shipping prices are returning to COVID pandemic-era highs with exporters facing significant disruption. Houthi rebels in Yemen continue to strike shipping vessels passing through the Red Sea. Ships that reroute to avoid the conflict must travel around the Cape of Good Hope of Southern Africa, which adds an additional 10 days to the journey and $1 million in fuel costs. The disruptions have also increased port congestion, resulting in schedule delays and reduced capacity. Compounded by a cyclical rebound in the world economy and a rush by exporters to increase deliveries before the introduction of protectionist trade policies, the higher shipping costs may be passed on to goods prices and increase inflation.

Conclusion

Markets continued to climb in June, with another rally in technology shares, particularly those related to artificial intelligence (AI). 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.

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- 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.