RESEARCH UPDATE

MARKET watch

SEPTEMBER 2024

Apt.
WEALTH PARTNERS

Equity markets were mostly higher in August, with the S&P 500 Index up 2.3% and the Nasdaq Composite Index up 0.7%. Nine of the 11 US sectors were higher as most companies reported their second-quarter earnings results. Consumer Staples and Real Estate led sectoral gains while Energy lagged as global crude oil prices fell. The Hang Seng Index gained 3.7%, with Chinese industrial profits growing by 4.1% over the year to July end, the highest rate in five months. However, the S&P/ASX 200 was flat, with companies reporting mixed results for the 2024 financial year (FY24).

S&P/ASX 200 Sector Performance

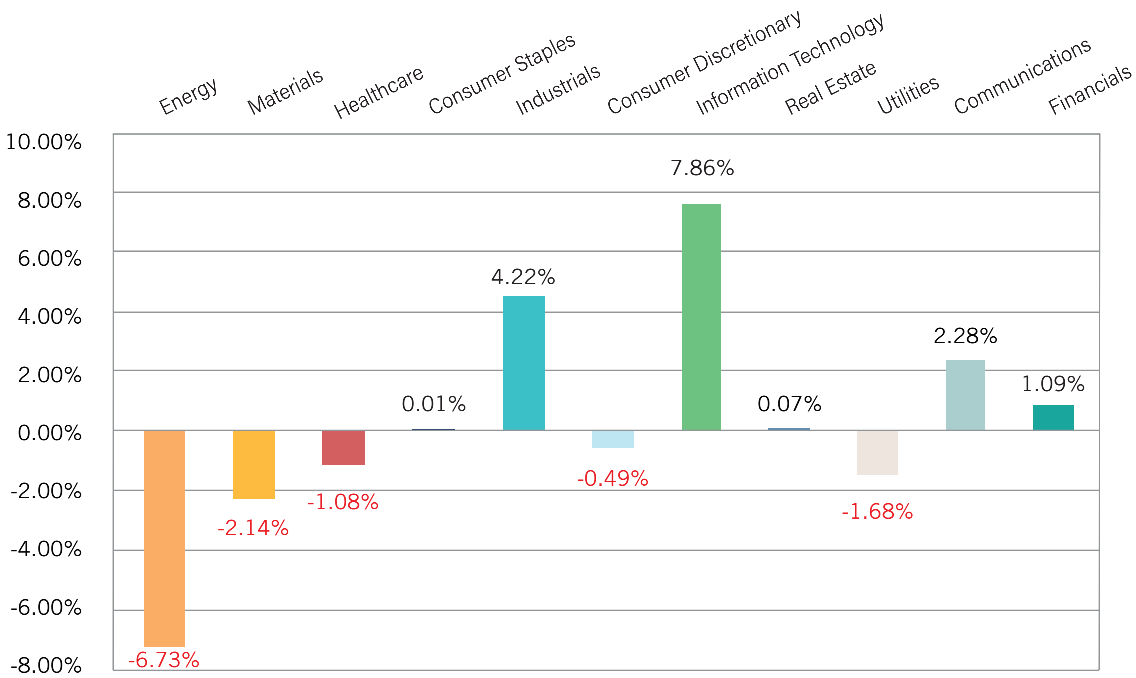
Information Technology was the best-performing sector over August, returning 7.9%. WiseTech Global Limited was the major contributor, jumping 27.2% after its FY24 results where it reported a 28% increase in both total revenue and earnings before interest, taxes, depreciation and amortisation (EBITDA). The company announced three new products to be released in the next financial year and forecast between 25% and 30% revenue growth to $1.3–$1.5 billion. Life360 Inc. rallied 18.4% on its second-quarter update, recording a 20% increase in year-on-year revenue to US$84.9 million. Life360 Inc. also upgraded its FY24 guidance, increasing EBITDA from US$30–$35 million to US$36–$41 million. TechnologyOne Limited rose 17.1%, with management announcing an updated financial year 2030 annual recurring revenue target of $1 billion.

After Information Technology, Industrials was the next-best performing sector, gaining 4.2%. Brambles Limited led the sector with a 19.2% return over August. The company saw a 17% increase in both profit after tax, driven by asset efficiency and productivity improvements. Brambles also announced it would be increasing its dividend payout ratio to 50–70% and announced an on-market share buyback to improve its capital structure. Downer EDI Limited climbed 14.8% on its results to return to a two-year high. It reported a 24.5% increase in net profit after tax, with strong growth in its Transport and Utilities divisions and the success of its cost-reduction program.

The Communications sector rose 2.3% in August, with Chorus Limited and CAR Group Limited leading the sector, with gains of 12.8% and 11.3% respectively. Chorus Limited highlighted 53,000 more fibre connections built over the year and a 2% increase in fibre uptake to 71.4% addresses, resulting in revenue growth of 3.8% on the prior corresponding year. CAR Group Limited recorded a 41% increase in revenue and a 42% increase in EBITDA, with growth across all its segments, including Australia, North America, Latin America and Asia.

Energy was the main laggard, with the sector retreating -6.7% due to falling commodity prices. Uranium prices gradually fell over the course of the month, with producers Boss Energy Limited, Paladin Energy Limited and Deep Yellow Limited down -18.6%, -11.6%, and -11.1% respectively, despite no significant news released by the companies. Crude oil prices also fell, affected by weaker demand from China, low consumption in the US and the Organisation of the Petroleum Exporting Countries increasing its crude oil production next quarter. Beach Energy Limited lost -13.8% after its FY24 results, with the company reporting a 3% fall in underlying EBITDA, despite seeing a 9% increase in sales revenue. Ampol Limited declined -12.4% after reporting a 7.7% decrease on the prior corresponding period in Group EBITDA for the first half of 2024.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 September 2024

Highlights

Australia: : The Australian Bureau of Statistics published its quarterly Selected Living Cost Indexes data, measuring the price change of goods and services and their impact on living expenses. All five of the Living Cost Indexes (pensioner and beneficiary, employee, age pensioner, government transfer recipient, self-funded retiree) saw increases of 1.2%–1.4% over the June quarter and 3.7%-6.2% over the 12 months to the June quarter. Quarterly increases were driven by insurance and financial services, and food and non-alcoholic beverages, while annual increases were driven by mortgage interest charges.

The Australian Securities and Investments Commission has begun legal proceedings against ASX Limited (ASX) for misleading statements the company made on the progress of the CHESS replacement project before the project was delayed and eventually cancelled. When the CHESS replacement project was first announced, the solution was planned to go live in April 2021. In 2020, ASX announced replanning for the project and pushed the release date back to April 2023. In 2022, further delays were deemed highly likely before Accenture was engaged to review the project. Accenture's report revealed problems before the CHESS project was cancelled.

US: At the Federal Reserve's annual economic conference, the Jackson Hole Economic Symposium, Federal Reserve Chairman Jerome Powell conveyed optimism that inflation is on a path back to its target of 2% and a soft economic landing for the US economy was in sight. In his speech, Powell noted that it was now time to start cutting interest rates and protect the labour market from further weakening. Markets are expecting a 0.25% rate cut at the Federal Reserve's September meeting.

Independent presidential candidate Robert F Kennedy Jr has withdrawn his presidential bid and has endorsed Republican representative Donald Trump. Trump has appointed Kennedy as co-chair in his transition team that will advise on policies and personnel appointments if he wins the presidential election.

Canada: The Canadian government has confirmed it will be introducing a 100% tariff on Chinese electric vehicles and a 25% tariff on imported steel and aluminium from China. This move follows similar policies introduced by the US and the EU.

United Kingdom: The UK Consumer Price Index readings for both May and June were 2%, at the rate targeted by the Bank of England. This has allowed the Bank of England to start easing monetary policy, cutting its interest rate from 5.25% to 5.0%.

Japan: Japanese Prime Minister Fumio Kishida has announced he will be stepping down from his post at the end of his term in September, with approval ratings having fallen to the lowest levels since the Liberal Democratic Party came into power in 2012.

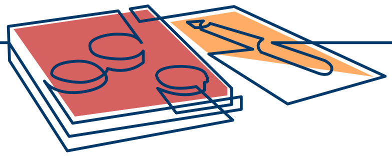
The Bank of Japan increased the interest rate from 0.1% to 0.25%, with corresponding dovish commentary driving the Japanese yen higher in the days following the decision. The stronger yen resulted in investors unwinding a popular yen carry trade, which sent Japanese equity markets crashing, falling into bear market territory.

China: The Chinese Government will boost its National Social Security Fund, its reserve fund for social security. The Fund supports its ageing population, with approximately 300 million people expected to retire over the next decade. Increased investment is needed, with the pension system expected to run out of money in 2035.

What to watch out for

Geopolitical tensions have been escalating over recent weeks. In the Middle East, Israel and Hamas have been unable to agree on a ceasefire deal. Israel and Lebanese militant group Hezbollah have exchanged strikes, but with the latter's ties to Iran, the conflict is at risk of escalating. The Ukraine-Russia conflict remains ongoing, with Ukraine going on the offensive and holding ground in Russia's Kursk region. Russia has retaliated with large-scale missile and drone attacks aimed at bringing down Ukrainian energy infrastructure.

Conclusion



Markets were mostly positive in August as investors became more confident of disinflation, which increases the likelihood of near-term rate cuts. 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.

Sydney • Melbourne • Geelong • Northern Beaches 1800 801 277 info@aptwealth.com.au aptwealth.com.au