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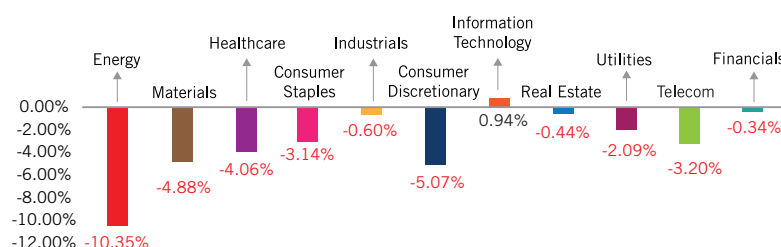
RESEARCH UPDATE

Market Watch - December '18

In November, international markets recovered from the sell-off in October with the S&P500 Index rising 1.79% to close at 2,760 points and the Nasdaq rising 0.34% to close at 7,330 points. The S&P/ASX200 Index (ASX 200) underperformed global markets, declining 2.80% to close at 5,667 points.

S&P/ASX 200 Sector Performance

Data source: Bell Potter, 3 December 2018



Sector Performance

Information Technology was the only positive returning sector rising 0.94% during November, driven by Afterpay Touch, Wisetech Global and Appen Limited which increased by 15.45%, 16.51%, and 30.64%, respectively.

Financials declined by 0.34%, impacted by the Royal Commission, with Westpac Banking Corporation (-3.28%), ANZ Banking Group (+3.36%) and National Australia Bank (-2.26%) all trading ex-dividend.

The Consumer Staples sector declined by 3.14%, as the demerger of Coles Group from Wesfarmers was implemented. Coles Group closed at \$11.71, and Wesfarmers Limited closed at \$31.59 for the month. Woolworths Limited increased 1.72% after it announced it had sold its fuel convenience sites for \$1.75 billion and would return the capital to shareholders.

The Healthcare sector declined 4.06%, driven by Cochlear Limited which fell 4.67% after it announced it had lost a patent infringement case in the US that resulted in damages of US\$268 million.

The Materials sector declined by 4.88%, as commodity prices were impacted by fears of a slowdown in global economic growth. The recently renamed BHP Group Limited declined by 4.72% despite announcing a settlement with the Australian Tax Office and the discovery of a large copper, gold, uranium and silver deposit in South Australia. Brickworks Limited fell 3.09% after it announced it would expand into the US market following the acquisition of a US brick manufacturer.

The Consumer Discretionary sector declined by 5.07% as poker machine manufacturer, Aristocrat Leisure, fell 10.72% following the release of its annual results. This offset the 27.35% rise in Trade Me Group Limited, which received a takeover proposal for NZ\$6.40 per share.

Energy was the worst performing sector, falling 10.35%, impacted by the declining oil price. Worley Parsons Limited fell 10.88% following the completion of a \$2.9 billion capital raising.

Economic Highlights

Australia: Australia's trade surplus hit \$3.0 billion for the month of September, driven by a weaker Australian dollar and higher commodity prices. However, the iron ore price has been declining over the past three weeks over concerns of a slowdown in China's economic growth, which will impact the October 2018 figure. Iron ore is one of Australia's largest exports and is a key reason for both the trade surplus and the better outlook for the Federal Budget.

Australian shipbuilder Austal was subject to a cyber-attack which resulted in staff email addresses and mobile phone numbers being compromised. Cyber-attacks are becoming increasingly frequent and a key concern for businesses, especially those with valuable intellectual property.

US: A statement by Federal Open Market Committee (FOMC) chairman, Jerome Powell, that interest rates were 'just below neutral' raised investor hopes that the pace of interest rate hikes may slow down. The FOMC has been raising interest

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rates by 25 basis points every quarter since December 2017, with the market pricing in four more hikes in 2019.

US ride-hailing company Uber Technologies Inc is investigating the potential for a US\$120 billion Initial Public Offering in the 2019 calendar year. The valuation can be compared to the industrial manufacturing and financial services conglomerate General Electric, which had a market capitalisation of \$65.12 billion as at 30 November 2018.



China: The 24-hour annual online shopping event 'Singles Day' recorded over \$33 billion in sales, eclipsing all previous records. Vitamins, milk powder, cosmetics and health foods were the most popular Australian products with Swisse, Devondale, Bio Island, Blackmores, Health Care, Thursday Plantation, G&M, Arnold's Farm, Bellamy's and Nu-Lax the most popular brands.

China was previously the largest importer and processor of recycled plastic. New regulations introduced in April aimed at addressing environmental concerns have resulted in an effective ban on all new imports. This, in turn, has resulted in a large build-up of waste in exporting countries and is causing environmental issues in South East Asian



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countries, where most of the scrap has been redirected. Despite increased recycling efforts, especially in developed countries, the economics around the disposal and reuse of plastic and e-waste remains challenging.

Venezuela: Inflation has hit 833,997% which resulted in the government announcing it would raise the minimum wage by 34 times the current rate and anchor the local currency to a virtual currency linked to its oil reserves. The United Nations estimates that over 2.3 million people have left the country since 2014.

Cryptocurrency: Major cryptocurrencies accelerated their decline in November. The major currency, Bitcoin, fell 36.7% for the month and is now 79.3% below its all-time high set in December 2017.

What to watch out for

The International Monetary Fund has warned that a number of the world's largest economies are experiencing slowing growth which could lead to a sudden reversal in investor sentiment and increased volatility in markets.

Rio Tinto announced rising labour costs had contributed to a US\$400million increase in establishment costs for an iron ore mine in the Western Australian Pilbara region. The Western Australian economy is heavily dependent on the resources sector and was the most severely impacted by the slowdown that occurred in 2015. However, the current rising labour cost shows that the recovery is well underway and should eventually feed into other sectors of the local economy.

The Organization of Petroleum Exporting Countries (OPEC) is due to meet on 6 December to discuss the potential global oversupply. The oil price has been declining since the high set in October, as US President Donald Trump's sanctions on Iran were not as severe as the market anticipated.

Conclusion

The recovery in commodity prices is beginning to flow into the broader economy with Australia's trade balance and Federal Budget both stronger than initially forecast. However, bulk commodity prices are directly linked with global growth, especially China, and could experience a sharp reversal, which would directly impact Australia.

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