

RESEARCH UPDATE

MARKET *watch*

OCTOBER 2023

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WEALTH PARTNERS

The equity market sell-off that began at the end of July, continued into September. The S&P 500 Index and the Nasdaq Composite Index fell by 4.9% and 5.8% respectively as bond yields rose and the market began to factor in interest rates remaining higher for longer. The Hang Seng Index fell 3.1% as China's post-COVID-19 economic recovery continues to falter and the fallout from the property collapse continues. The S&P/ASX 200 Index was not immune to the negative market sentiment but outperformed international equity markets, falling by 3.5%.

S&P/ASX 200 Sector Performance

Energy was the best-performing sector, and the only positive returning sector, rising by 1.3% as energy prices rose following the news that Saudi Arabia and Russia would cut oil production. Uranium miner Paladin Energy Limited was the sector's best performer, rising by 30.2% as the uranium price increased. The major coal miners Whitehaven Coal Limited and New Hope Corporation Limited rose by 16.8% and 12.8% respectively following news that China, the world's largest coal importer, had increased thermal coal imports as hydropower electricity production was lower than anticipated.

Financials fell by 1.7% as fintech company Block Inc., which acquired Afterpay in 2021, fell by a further 23.0% following the quarterly results at the end of August that disappointed the market. Suncorp Group Limited rose 2.5%

after the company announced it would appeal the Australian Competition and Consumer Commission (ACCC) decision to block the sale of the banking division to ANZ. Suncorp also announced the launch of a new subordinated note to be offered to wholesale and institutional investors. General insurer QBE Insurance Group Limited (+4.9%) was the sector's best performer, buoyed by the rise in bond yields which should increase earnings, and the announcement of a new CEO of the North America Division, Julie Wood.

The Healthcare sector continued to underperform, falling by 6.9% as investors continued to shun the sector due to concerns around the impact of new weight-loss drugs on the earnings of medical companies. ResMed Inc., which has been the most impacted due to the linkage between sleep apnoea and obesity, fell

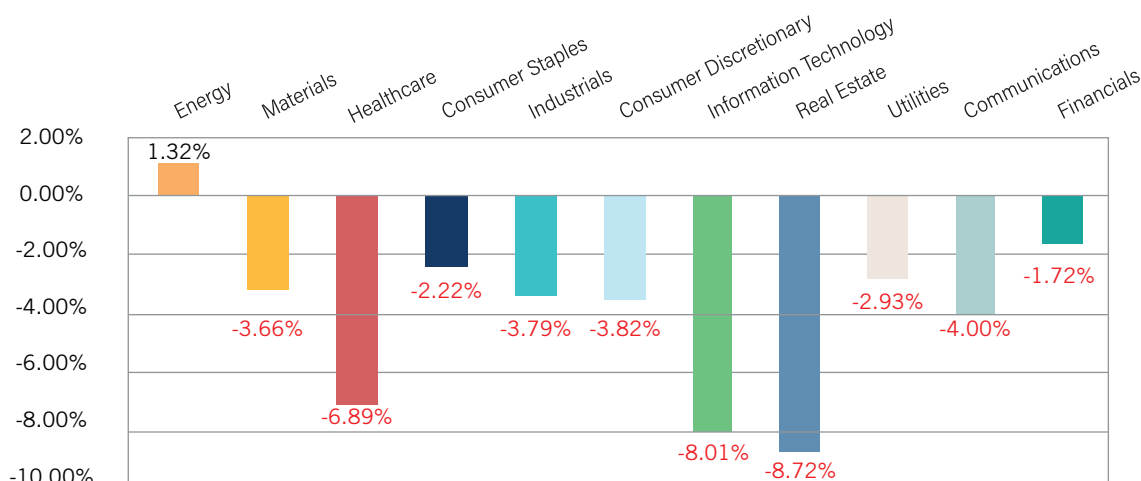
by a further 7.4%, while CSL Limited declined by 8.3% after the company traded ex-dividend and despite no significant news being announced. Healius Limited fell by 17.9% as concerns rose around the prospects of the acquisition from Australian Clinical Labs Limited succeeding. The ACCC is due to release its decision as to whether it will block the merger on October 12.

Information Technology fell 8.0%, driven by previous market darling Weebit Nano Limited, which declined by 20.1%. Weebit Nano Limited was added to the S&P/ASX 200 on September 18, which increases the amount of stock that hedge fund managers can short. Over 6% of the

outstanding shares are now sold short, from 0% at the start of 2023. Altium Limited fell by 10.7%, giving back some of the prior months' strong gains following the better-than-expected Financial Year 2023 results.

Real Estate was the worst-performing sector, impacted by the rise in bond yields. Cromwell Property Group was the worst performer, falling by 23.7% after reporting a statutory loss of \$443.8 million in Financial Year 2023, driven by a \$491.6 million decline in the value of the property portfolio.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 3 September 2023.

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that seven of thirteen industries reported a month-on-month fall in business turnover in July. Electricity, Gas, Water and Waste services reported the largest monthly fall of 14.9%, driven by the large decrease in wholesale electricity prices. Arts and Recreation recorded the second-largest fall in turnover (-6.1%), while Manufacturing businesses also

saw a drop (-5.0%), with lower turnover seen across precious metal manufacturing and alumina production. Year-on-year Electricity, Gas, Waste and Water Services saw the largest decrease at -22.1%, followed by Mining at -15.5%, driven by lower commodity prices, while Construction saw the largest year-on-year increase at 19.2%.

The ABS reported that the unemployment rate increased by 0.2% month-on-month to 3.7% in

July, with the number of unemployed increasing by 36,000 people. While unemployment increased by 36,000 people in July to 541,000, it was still around 172,000 lower than before the pandemic. The employment-to-population ratio fell 0.2% to 64.3%, while the participation rate also decreased 0.1% to 66.7%. Despite these falls, both indicators were still well above pre-pandemic levels and close to their historical highs.

The NSW State Government released the latest State Budget, which provided \$3.6 billion in pay rises for teachers, police, park rangers and prison wardens. Forty million dollars for new teacher recruitment programmes was announced and \$121.9 million in healthcare student subsidies and scholarships. First home buyers will receive expanded stamp duty exemptions and motorists will benefit from a continuation of the weekly toll cap. Electric vehicle subsidies will be cut, coal royalties will be increased by 2.6% and public transport users will see increased opal fares. A number of arts and cultural programs will also be axed. Large businesses and multinational corporations will also see increased taxes as \$1 billion in concessions on transfer duty tax are wound back. The Budget is part of an effort to reduce the outstanding debt, with gross debt standing at \$94 billion as at June 2023.

US: The United Auto Workers (UAW) union, which represents workers at General Motors, Ford Motors and Stellantis, initiated a strike demanding higher wages, shorter work weeks and increased job security as automakers shift to electric vehicle production, as well as the

restoration of defined benefit pensions. It is the first time the UAW has coordinated strikes against all three automakers simultaneously and is one of the most ambitious industrial Labor actions in decades.

UK: The Bank of England left interest rates on hold at 5.25% in September following 14 consecutive rate rises, but warned that monetary policy will need to be restrictive for a sufficiently long time to sustainably return inflation to the 2% target over the medium term. The UK has experienced one of the highest inflation rates among developed economies, peaking at above 11%. The August 2023 reading for the prior twelve-month period was 6.3%, down slightly on the prior month of 6.4%.

China: The People's Bank of China reduced the reserve requirement ratio, or the amount that banks must hold as reserve, by 0.25% to 7.4% in an effort to support the economy. China's post-COVID economic recovery continues to be weaker than originally anticipated following the bursting of the country's real estate bubble.

Poland: The Polish Government approved the country's first nuclear power plant. Construction is due to begin in 2026, with the plant expected to be completed by 2040.

Energy: The International Energy Agency (IEA) released an update to its May 2022 report *Net Zero by 2050: A Roadmap form the Global Energy Sector*, reiterating that no new oil, gas or coal projects can be built if the energy sector is to reach net-zero emissions by 2050. The IEA noted that existing fields could be developed

to keep costs low in the short term. The annual clean energy spending needed to increase from US\$1.8 trillion to US\$4.5 trillion by the 2030s to limit warming to 1.5 degrees Celsius. Power grids need to be expanded and new nuclear power, carbon capture and storage are also needed.

What to watch out for

Oil prices are increasing again, with Saudi Arabia and Russia both announcing production cuts. Falling oil prices have been a major driver of the fall in headline inflation, which may reverse in the months ahead if oil prices keep rising.

Eli Lilly and Nova Nordisk have developed weight loss drugs known as GLP-1s, which have garnered the markets' attention, with speculation on which other companies will positively benefit from, or be impacted by, a decrease in obesity.

Sam Bankman-Fried, the founder of what was once one of the largest cryptocurrency exchanges, FTX, will face trial on October 4, where he faces criminal charges for fraud. If convicted, he could spend decades in a US federal prison. The fraud sparked new regulations, with the FTX being only one of a series of frauds and scams that have plagued cryptocurrencies over the last few years.

Conclusion



Markets responded negatively to Central Bank rhetoric that interest rates would need to stay higher for longer, with the recent resurgence in energy prices likely to be a key driver of inflation in the short term. Consumer spending has so far remained resilient, supporting economic growth, but as interest rates erode household savings buffers built up during the COVID-19 pandemic, this may weaken in the months ahead. The depth and degree of the 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. 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 that share the same investment philosophy and objectives.
- Diversity across asset classes, industries, sectors and geographies.
- Regularly rebalance the portfolio back to your risk profile to ensure that it 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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