

# WEEKLY MARKET recap

7 - 11 August 2023

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## Highlights of the week

- The US year on year inflation rate to the end of July rose by 0.2% to 3.2%.
- China is now experiencing deflation, with the consumer price index falling 0.3% year on year.

## Market Action

Sector	Returns % (excluding distributions)		
	11-Aug-23	4-Aug-23	Change (%)
<b>S&amp;P/ASX 200</b>	7339.5	7317.0	0.3%
<b>All Ordinaries</b>	7553.6	7527.1	0.4%
<b>Small Ordinaries</b>	2873.4	2846.5	0.9%
<b>S&amp;P 500</b>	4468.8	4501.9	-0.7%
<b>NASDAQ</b>	13738.0	13959.7	-1.6%
<b>FTSE 100</b>	7618.6	7529.2	1.2%
<b>Hang Seng</b>	19248.3	19420.9	-0.9%
<b>Nikkei</b>	32473.7	32159.3	1.0%

\*US, UK, European and Asian prices refer to the previous day's close

US equity markets retreated this week, with the S&P 500 and the NASDAQ falling -0.7% and -1.6% respectively following the release of the July unemployment and inflation figures. Losses were driven by the Information Technology and Utilities sectors. The FTSE100 rose 1.2% despite the National Institute of Economic and Social Research forecasting the UK to hit 5 years of lost economic growth.

### S&P/ASX 200 - Top five of the week

ASX Code	Company	Closing Price	Change*
<b>BLD</b>	Boral	\$4.96	15.8%
<b>SGR</b>	Star Entertainment	\$1.16	15.5%
<b>AMP</b>	AMP	\$1.23	13.0%
<b>JHX</b>	James Hardie	\$46.38	12.2%
<b>JLG</b>	John Lyns Group	\$5.68	9.4%

\*Prices as at 3.00PM on 11/08/2023

Boral jumped 15.8% after reporting a 17% increase in revenue and a 304% increase in underlying net profit after tax on the previous financial year, driven by increased volumes across all its products. Star Entertainment Group climbed 15.5% after coming to an agreement with the NSW Treasurer over new NSW casino duty rates. AMP gained 13.0% after reporting a 31% increase in revenue in its half-year results. James Hardie is up 12.2% after beating its net income guidance by \$10-30 million for its first quarter. John Lyns Group rose 9.4% after scaling back its' oversubscribed share purchase plan.

### S&P/ASX 200 Index - 1 Week Performance



The Hang Seng fell -0.9% as China slipped into deflation with year-on-year consumer prices falling by -0.3% whilst the Nikkei gained 1.0% following strong earnings results. The S&P/ASX 200 edged 0.3% higher this week, driven by the Consumer Staples and Communication Services sectors. Small caps outperformed both mid and large caps, rising by 0.9%.

### S&P/ASX 200 - Bottom five of the week

ASX Code	Company	Closing Price	Change*
<b>RMD</b>	Resmed Inc.	\$27.48	-18.8%
<b>SQ2</b>	Block Inc.	\$95.24	-18.1%
<b>CXO</b>	Core Lithium	\$0.58	-13.5%
<b>LKE</b>	Lake Resources NL	\$0.19	-11.6%
<b>IMU</b>	Imugene	\$0.09	-9.3%

Resmed lost -18.8% despite an 18% increase in both revenue and net income, as it saw a fall in gross margins. Block dropped -18.1% after its quarterly update revealed a net loss of US\$123 million despite an increase in payment volume. Lithium producers, Core Lithium and Lake Resources fell -13.5% and -11.6% respectively following a decline in the lithium price. Lake Resources fell after the company clarified that previously provided guidance referred to maximum plant capacity rather than production targets, further disappointing investors. Imugene lost -9.3% despite no significant news being released.

## Upcoming Dividend Dates

ASX Code	Company	Estimated Dividend Ex-date	Dividend Per Share (\$)	Franking (%)
RMD	ResMed Limited	16/08/2023	\$0.05	0%

## Topic of the week

Moody's downgraded the credit rating of ten US banks this week. The list mainly consists of small to medium sized banks including BOK Financial, M&T Bank and Old National. Along with the downgrades, Moody's published a report detailing the risks that could impact the sector.

One of Moody's concerns is a fall in profitability due to pressures such as increased funding costs. Reviewing the second quarter results of US Banks, banks either experienced no change, or a fall in customer deposits, as customers deal with the higher cost of living. In addition to lower overall levels of customer deposits, a higher proportion of deposits were also held in interest-bearing accounts. This resulted in banks needing to pay more interest to customers following the recent cash rate hikes by the US Federal Reserve, which increased their costs and ate into profit margins.

Regulatory risk is also on the horizon with a proposed increase in capital requirements for banks holding more than \$100 billion in assets. This would ensure increased bank stability in the longer

term and bring US banks closer to global counterparts in terms of regulatory capital, but would increase regulatory costs during the transition period and potentially force some banks to change their business models.

Banks may also be affected by asset risk, particularly those with exposure to commercial real estate portfolios. Commercial real estate values have fallen due to the higher interest rates and a fall in demand especially for office properties. Other fixed rate assets will also experience a fall in value as the cash rate rises. These risks will be magnified in the event of a recession with Moody's forecasting a mild recession to begin in 2024.

In addition to the ten banks that have had their rating cut, Moody's has placed a further six under review for a potential downgrade. Another eleven have had their outlook changed to negative despite their rating remaining unchanged. Combined with last week's downgrade to the US Government credit rating by Fitch, there is increased concern over the current state of the US financial system.

## Home Loan Rates

Lender	Owner Occupier (Variable)	Owner Occupier (2 Year Fixed)	Owner Occupier (5 Year Fixed)	Investor (Variable)	Investor (2 Year Fixed)	Investor (5 Year Fixed)
CBA	6.39%	6.99%	6.84%	6.45%	7.04%	6.94%
NAB	6.34%	6.54%	6.69%	6.59%	6.64%	6.79%
Macquarie	5.89%	6.29%	6.09%	6.09%	6.45%	6.29%

\*Based on a 25-year, \$450,000 loan with principal and interest repayments and a Loan-to-Value ratio of 70%.

## What to expect for the week ahead

- The Australian FY23 Reporting Season will continue with Argo, CSL, Sonic Healthcare and Telstra all expected to report.
- The US Quarterly Reporting Season will continue with Home Depot, Walmart and Estee Lauder all expected to report.



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