



## RESEARCH UPDATE

### Market Watch - April 2019

International markets continued to rally in March, with the US S&P 500 Index increasing 1.79% to close at 2,834.40 points. The Nasdaq rose 2.61% to close at 7,729 points and the Shanghai Composite increased 5.09%, to close at 3,090.76 points. The S&P/ASX 200 Index (ASX 200) was broadly flat, rising 0.19% to close at 6,180 points.

### Sector Performance

The Real Estate Investment Trust (REIT) sector was the best performing sector, rising 6.03% in March, as the market priced in the possibility of an interest rate cut in Australia later this year. Corporate activity is picking up in the sector, with GPT Group announcing the sale of its 50% share in Sydney's MLC Centre to Dexu Property Group for \$800 million. Cromwell Property Group announced it may acquire London listed RDI REIT, and Charter Hall Retail Trust launched a \$150 million capital raising to fund an acquisition in NSW.

Consumer Staples increased 3.65%, driven by the major supermarket retail chains, Coles Group and Woolworths Limited, which increased 4.59%, and 6.03%, respectively. Woolworths Limited announced a \$1.7 billion off-market buyback and Coles Group announced it would sell its Spirit Hotels business to private equity firm Kravis Roberts & Co (KKR) but would continue to own and operate the attached liquor stores.

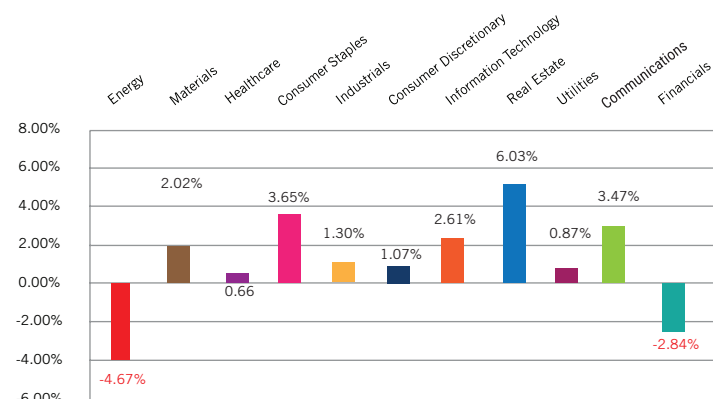
Materials increased 2.02%, driven by rare-earths miner, Lynas Corporation, which increased 18.75% after receiving a takeover proposal from Wesfarmers Limited. Nufarm Limited declined 10.11% after releasing its interim financial report showing sales were impacted by drought conditions in Australia.

The Consumer Discretionary sector increased 1.07%, driven by JB Hi-Fi, which rallied 14.98% despite no new information being released on the company. InvoCare Limited declined 5.01% after announcing an \$85 million capital raising to reduce debt and fund further acquisitions.

Financials declined 2.84%, driven by three of the four major banks, Westpac Banking Corporation, ANZ Banking Group, and Commonwealth Bank of Australia, which fell 3.86%, 7.04%, and 4.48%, respectively. ANZ Banking Group announced it had completed its \$3 billion on-market share buyback, Westpac Banking Corporation announced it would divest its retail personal financial advice business and Commonwealth Bank of Australia announced it would delay the demerger of its wealth management and mortgage broking operations to focus on implementing the recommendations from the Royal Commission.

Energy was the worst performing sector, declining 4.67%, driven by Caltex Limited which declined 8.36% after announcing a \$260 million off-market share buyback.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Bell Potter, 1 April 2019.

### Highlights

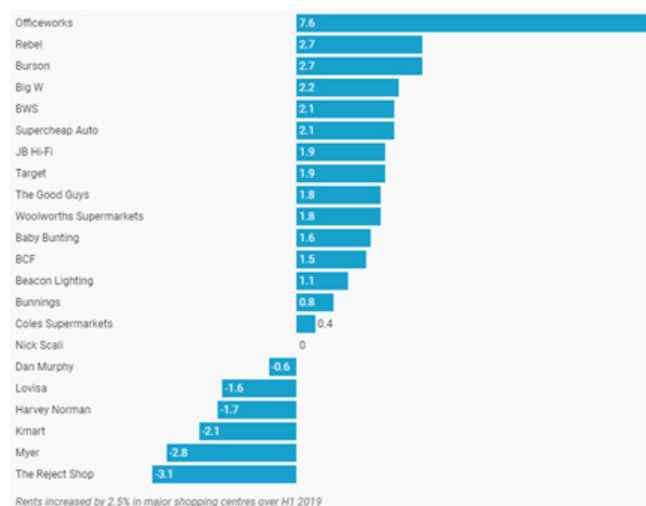
**Australia:** The Australian Bureau of Statistics (ABS) reported that the Australian economy grew by 0.2% (seasonally adjusted) on the prior quarter. The result was driven by strong public demand as a result of both State and Local Government infrastructure projects, offsetting a decline in both private sector and mining investment, which were impacted by lower construction starts and the transition of oil and gas projects from construction to production phase.



**Big W announces store closures**

Big box retailers are experiencing slower or negative sales growth as cost-conscious customers shift purchases online. Some retailers are responding by reducing staff numbers, shortening opening hours and reducing marketing spend, which is further accelerating the decline. Small box retailers have been less affected as they service 'convenience' customers, create more tailored shopping experiences and act as online 'click-and-collect' collection points. If the trend continues, large shopping centre owners may struggle to increase rents at historical rates.

**First Half Financial Year 2019 Sales Growth per square metre (%)**



**Source:** ABC Business, Are 'big box' retailers the dinosaurs of shopping, left behind by evolution and facing extinction? 15/03/2019

**US:** The Federal Open Market Committee (FOMC) announced that, although the US Labor market remained strong, slowing economic growth and recent financial market developments resulted in the decision to reduce monthly Treasury Securities redemptions from \$30 billion to \$15 billion and suspend further interest rate increases.

The Copyright Royalty Board has directed music streaming companies Spotify, Amazon Music, Apple Music and Pandora to increase the royalties paid to songwriters from 10.5% of revenues to 15.1%. Despite the popularity of music streaming services, most continue to make substantial losses with all but Apple Music appealing the decision.

German multinational company Bayer has lost a second trial in San Francisco in relation to weed-killer, Roundup, as a jury determined it contributed to a Californian farmer's cancer and awarded compensatory damages of \$US80.3 million. Roundup has been widely used in the global agricultural sector since the 1980s and is distributed in Australia by ASX-listed Nufarm Limited.

**Italy:** The Italian Government has been the first G7 country to join the Chinese Government's Belt and Road Initiative (BRI). BRI is a global trade project aimed at connecting Asia, the Middle East, Africa and Europe via a network of ports, railways, tunnels and other infrastructure. One of the world's largest e-commerce companies, JD.com, believes BRI will assist them in transporting fruit from anywhere in the world to Chinese consumers within 48 hours.

**UK:** The UK Parliament has rejected for a third time the proposed European Union Withdrawal Agreement. They will hold an informal vote as to whether they would be in favour of forming a customs union, which would result in less integration but still enable the free movement of goods between the UK and the European Union.

**Global Trends:** 'Green bonds' are issued to raise lower cost finance for climate change projects, such as recycling plants, and are issued by governments, banks and corporations. The market continues to grow with global issuance approaching US\$180 billion in 2018.

Large technology companies face increased regulation as government's become increasingly concerned with their market dominance. The European Union has fined Google €1.49 billion for anti-competitive behaviour, which is in addition to last year's record €2.42 billion fine. US Senator and Democrat Presidential Candidate, Elizabeth Warren, has announced that she will move to force a breakup of the large technology companies Amazon, Google and Facebook if elected in 2020. Facebook founder and Chief Executive Officer, Mark Zuckerberg, has actively called for more government regulation of the internet particularly on four key areas: harmful content, election integrity, privacy and data portability.

Australian mining company, BHP Group Limited, alongside American billionaire, Bill Gates, has invested in a Canadian company that is developing technology that extracts carbon dioxide from the atmosphere which can then be mixed with hydrogen and water to create fuel. In effect, creating a closed loop fuel cycle.



**BHP invests in carbon capture technology**

A study by McKinsey and Company reported millennial consumers are more likely to rely on consumer reviews of products and ‘influencers’ on social media when selecting products. Previous generations have historically relied on brand names to inform their purchasing decisions.

A growing portion of the global population are reducing their meat and dairy intake, not just for animal welfare but for sustainability and personal health reasons. The trend is benefiting food companies who own brands such as Quorn, VBites, Beyond Meat, Greggs, Impossible Foods and Magnum. The trend is increasing the investment in new products, often made from traditional sources such as peas, chickpeas and mushrooms but also more adventurous alternatives, such as algae and insects.



#### Meat substitute products attracting new investment

Esports and Cloud Gaming continue to increase in popularity, with large technology companies vying to dominate the industry. Google announced the launch of its new platform ‘Stadia’ which will compete with ‘Twitch,’ a platform that was acquired by Amazon for \$970 million in 2014, and Chinese company, Tencent, which has invested over \$1 billion into its platforms.

### What to watch out for

UK Prime Minister, Theresa May, negotiated to extend the Brexit deadline from 29 March until 12 April, however, the UK Parliament appears no closer to reaching a consensus. A further extension will need to be granted to avoid the UK leaving the European Union without an agreement.



#### Brexit stalemate continues

Bond yields have been declining over concerns that global growth is slowing down. Central Banks have indicated they will consider stimulatory measures if the trend continues.

Treasurer of Australia, Josh Frydenberg, released the Federal Budget on 2 April, which showed a return to a government budget surplus. The improved budget position and the upcoming Federal Election may result in increased government expenditure or tax cuts.

### Conclusion

Markets have rallied strongly in 2019 and have recovered most of the losses incurred at the end of 2018. Global growth appears to be slowing, which is causing Central Banks to reassess the rate of interest rate increases and consider stimulatory measures if the slow down accelerates. The Federal Budget and the Federal Election will likely dominate headlines in Australia.

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