RESEARCH UPDATE

MARKET watch

APRIL 2023

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WEALTH PARTNERS

Equity and bond markets experienced elevated volatility but delivered positive returns in February following the collapse of several regional US banks and Credit Suisse in Europe. The Nasdaq Composite Index rose 6.7%, outperforming the S&P 500 Index, which increased by 3.5%, driven by the minimal exposure to banks stocks and the outperformance of technology companies as bond yields fell. The Hang Seng Index increased by 3.1%, performing in line with other international markets as the Chinese government officials pledged support for the private sector following a near two-year crackdown which focused on the technology sector. The S&P/ASX 200 Index underperformed international markets falling by -1.1% with a number of companies distributing semi-annual dividends to shareholders over the course of the month.

S&P/ASX 200 Sector Performance

Real Estate was the worst performing sector, declining by 6.9% as fears spread around commercial property values following reports that office building valuations could fall 20% in Australia. Charter Hall Group and Dexus Property Group drove the declines, falling by 17.4% and 10.9% respectively due to their concentrated exposure to the office sector.

The Financials sector fell 5.1% driven by banking stocks such as National Australian Bank Limited, Macquarie Group Limited, ANZ Group Holding Limited and Westpac Banking Corporation which declined by 7.3%, 7.6%, 7.0% and 7.0% respectively due to fears of possible contagion from the collapse of banks in the US and Europe. Debt collector Credit Corp Group Limited fell 16.6% following the announcement that the Chief Executive Officer would join the board of directors.

The Energy sector fell 4.9% driven by the sharp decline in oil and coal prices and news that the Federal Government is considering a tax on gas producers in the upcoming Federal Budget. Woodside Energy Group Limited fell 7.2% after trading ex-dividend and Santos Limited declined by 1.4% despite the ongoing on-market share buyback.

The Information Technology sector fell 0.42% driven by Megaport Limited, which declined by 27.2% following the resignation of the Chief Executive Officer, who will be replaced by the previous Chief Revenue Officer, Michael Reid. Brainchip Holdings Limited fell 12.0% despite the announcement of a new version of its artificial intelligence product. Xero Limited (+15.1%) outperformed after the company announced a program to reduce costs as the

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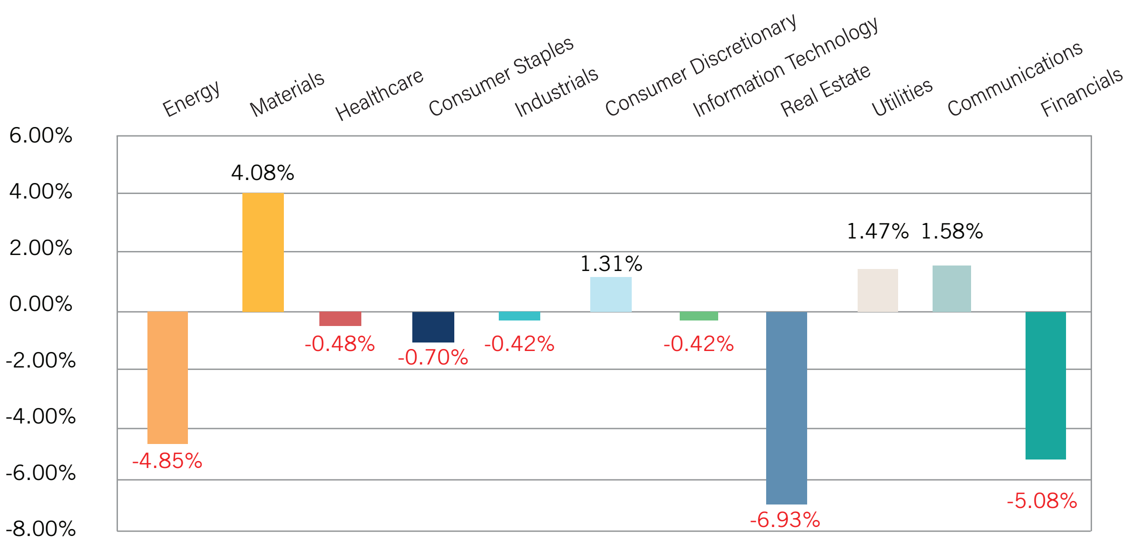
company strikes a balance between revenue growth and profitability. The company will also close down the cloud-based lending platform Waddle which was acquired in 2020 with a loss of $30 to $40 million to be recognised in the upcoming financial results.

The Consumer Staples sector ended the month 0.7% lower driven by Elders Limited, which fell 7.4% on high volume. The company confirmed that there was no significant news to announce following a price query from the ASX. Endeavor Group Limited and Coles Group Limited both declined by 0.9% after both companies traded ex-dividend.

InvoCare Limited (+24.4%) led the Consumer Discretionary sector 1.3% high after the company received a takeover offer from private equity firm TPG Global for $12.65 per share. Wesfarmers Limited increased by 4.2% following an investor briefing on WesCEF that provided further insight into the business division that sells chemicals, energy and fertiliser products to customers and also includes the lithium mine that is under development in Western Australia.

Materials was the best performing sector rising by 4.1% driven by Liontown Resources Limited which increased by 89.7% despite the weakness in other lithium miners as the company announced it had rejected an indicative takeover proposal from Albemarle Corporation at $2.50 per share. Gold miners outperformed as the gold price rallied amongst the increased market volatility with Capricorn Metals Limited, Perseus Mining Limited, Regis Resources Limited and Newcrest Mining Limited rising by 25.6%, 21.1%, 19.5% and 19.1% respectively.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 3 April 2023.

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that Australia's population grew by 1.6% or 418,500 people over the 12 months to 30 September 2022. Australia's population saw a natural increase of 114,800 people following 302,900 births and 188,000 deaths. The remaining population growth came from net migration of 303,700 people made up of 536,900 migration arrivals and 233,200 departures. Australia's population is currently around 26.1 million people. New South Wales remains the most populous state with over 8 million people, with Tasmania the least populous state at 571,000 people.

The ABS reported that Australia's Consumer Price Index (CPI) rose by 6.8% for the 12 months to the end of February 2023. The 6.8% reading is lower than the 7.4% reported in January 2023 and the second consecutive month of disinflation after the peak in December 2022 at 8.4%. The most significant drivers were Housing (+9.9%), Food and non-alcoholic beverages (+8.0%) and Recreation and Culture (+6.4%).

The ABS reported that the Australian tourism industry is almost back at pre-COVID-19 levels following a 12.1% increase in tourism jobs over the quarter ending December 2022. The number of tourism jobs fell by half, or 393,600, in the June 2020 quarter, reflecting the COVID-19 travel and border restrictions. The Education industry has been slower to recover from the pandemic with fewer international students but is now seeing a quicker recovery. The two industries are significant contributors to Australia's exports.

The number of building approvals in Australia continues to fall with total dwelling approvals falling 27.6%, seasonally adjusted, from December 2022 to January 2023. Queensland was the only state to see an increase in dwelling approvals of 25.6% due to a number of apartment developments. New South Wales (-49.0%), Victoria (-38.6%), Tasmania (-31.7%), Western Australia (-7.9%), and South Australia (-6.5%) also saw declines.

NSW has elected a Labor Government in the recent state election, with Labor now in power in all mainland states as well as federally.

US: Silicon Valley Bank (SVB) and Signature Bank (SB) both collapsed with US regulators stepping in to guarantee depositor funds and stop any contagion occurring in the financial system. Banks exist to, and generate returns from, borrowing short (customer deposits) while lending long (loans). If there are concerns about the viability of a bank, depositors rush to withdraw their funds, as happened with SVB and SB, all but ensuing their collapse as the banks are unable to liquidate all their long-term loans to satisfy the demand for customer withdrawals.

Google has launched 'Bard,' a new artificial intelligence (AI) chatbot that will compete with OpenAI's 'ChatGPT', which also powers Microsoft's internet search engine 'Bing'. Bard provides answers to text-based questions but will be run separately from Google's main search engine. The news follows Google integrating other generative AI capabilities into the Google Workplace suite of products, including Google Docs and Gmail.

China: Large technology company Alibaba Group announced it will split into 6 separate units and will explore fundraising or separate stock exchange listings for each of them. The news comes after the Chinese Government vowed to ease the sweeping regulatory crackdown on the entire technology industry and support private enterprises.

Switzerland: The Swiss National Bank brokered a deal whereby UBS Group will buy rival bank Credit Suisse Group for 3 billion Swiss Francs in an all-share deal that also includes extensive government guarantees and liquidity provisions. The price was less than half the value of Credit Suisse traded at on the prior trading day.

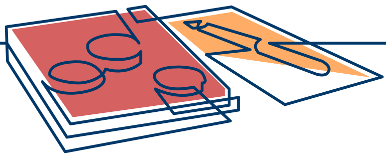
United Kingdom (UK): Inflation accelerated for the first time in four months reaching 10.4% for the twelve months to the end of February 2023, driven by food and energy prices. The reading was well above the consensus of a fall to 9.9%. The Bank of England raised rates for the 11th consecutive time by 0.25% to 4.25%.

What to watch out for

The collapse of several US regional banks and Credit Suisse has created concerns around financial contagion in the global baking system, which could lead to the collapse of more banks and further regulator intervention.

The rise in interest rates and persistent inflation is placing increased pressure on the economy as well as businesses which will most likely lead to an increase in bankruptcies.

Conclusion



Markets remain volatile as uncertainty around inflation, interest rates and a possible recession continues to impact markets. The weakening economic outlook has resulted in cyclical sectors such as materials, financials and energy, which had outperformed in 2022, beginning to underperform. The current levels of volatility are likely to continue in the months ahead. But it is important to keep in mind that volatility is what creates the best long-term opportunities.

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. Stay the course, despite how uncomfortable it may feel right now, it will prove to be the better option when looking back five years from now.
- Investors who stayed 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, which are not connected to the movements in asset prices and partner with Fund Managers that share the same investment philosophy and objectives.
- Ensure diversification: across assets 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, 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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