

Equity markets flipped to optimism in January with a sharp rally marking the start to the new calendar year. The S&P 500 Index rallied 6.2% but underperformed the technology-heavy Nasdaq Composite Index, which increased by 10.7%, driven in part by a lower-than-expected US inflation print. The Hang Seng rallied a further 10.4% and is now up over 50% from the lows reached in late October 2021. The S&P/ASX 200 Index also delivered a positive performance, albeit underperformed international markets, ending the month 6.2% higher.

S&P/ASX 200 Sector Performance

Consumer Discretionary was the best-performing sector rising by 9.8%, driven by Corporate Travel Management, ARB Corporation Limited and Breville Group Limited, which increased by 24.6%, 24.0% and 23.2% respectively, despite no significant news being announced. Super Retail Group Limited rose 18.3% after providing a trading update that was well received by the market, with double-digit sales growth over the prior corresponding period driven by their Supercheap Auto, Rebel and Macpac franchises in the lead-up to Christmas. JB Hi-Fi increased by 15.3% after releasing a better-than-expected trading update with sales growth of 8.6% in the second half of the calendar year.

Optimism around the China reopening and the expected demand for commodities drove the Materials sector 8.9% higher. Lithium miner, Pilbara Minerals Limited, was among the sector's best performers rising by 26.7% after

the company released a quarterly update that showed lithium spodumene production had increased by 10% on the prior quarter, with lower production costs and higher realised prices on shipments resulting in an \$851.1 million increase in cash held by the company. Rare earths miner, Lynas Rare Earths Limited, increased by 19.6% after reporting that production had recovered over the December quarter from the water supply disruption experienced in the prior quarter while also highlighting that rare earth prices had begun to rise due to optimism around consumption from China.

The Real Estate sector, which was amongst the worst performers over the 2022 calendar year, rebounded in January, increasing by 8.1%. Charter Hall Group Limited and Goodman Group Limited were the sector's two best performers rising by 15.0% and 14.9% respectively, despite no significant news being announced by either company.

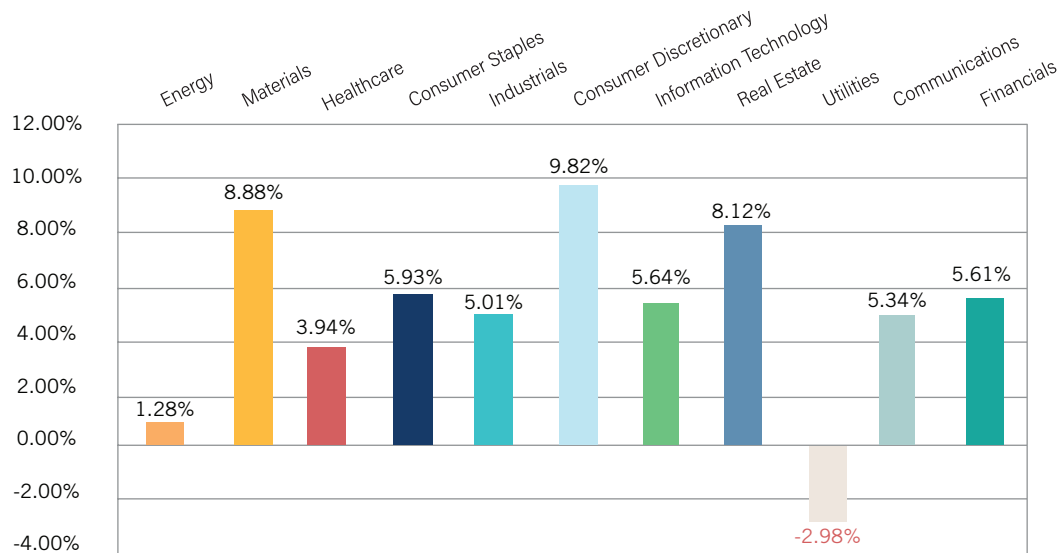
The Healthcare Sector rose by 3.9%, driven by Pro Medicus Limited, which increased by 21.0% after announcing two new deals worth a combined \$37 million with the University of Washington and Samaritan Health Services in the United States. Fisher & Paykel Healthcare Limited rose 10.4% after the company provided 2023 Financial Year revenue guidance of between \$1.55 and \$1.6 billion. The higher-than-expected revenue guidance was driven by an early start to the flu season in North America and the prevalence of Respiratory syncytial virus.

The Energy Sector underperformed the broader market rising by 1.3% as oil, gas and coal prices underperformed. Whitehaven Coal Limited and New Hope Coal Limited fell by 10.8% and 7.9% respectively, driven by a 20%

decline in the coal price and news that the NSW Government would require domestic thermal coal producers to reserve 10% of output for the domestic market. Uranium miners Paladin Energy Limited was the best performer rallying 21.4% after the company announced it was on target to restart production at its Langer Heinrich Mine in Namibia by early 2024.

The relatively small Utilities sector was the worst performer declining by 3.0%, driven by AGL Energy Limited, which fell 5.2% despite announcing the permanent appointment of Damien Nicks to Chief Executive Officer. Damien joined AGL in 2013, served as Chief Financial Officer of AGL from 2018 until his interim appointment as Chief Executive Officer on 1 October 2022.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 February 2023.

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that November new dwelling approvals fell 15.1% on the prior year, the third consecutive month-on-month decline. The

slowdown is likely to impact the earnings of building materials stocks, albeit there will likely be a 12-to-18-month lag as existing work in progress is completed.

The Consumer Price Index rose to 7.3% for the year to November 2022, an acceleration from the 6.9% reading in the prior month, indicating ongoing inflationary pressures. The most significant contributors to the annual rise were housing (+9.6%), food and non-alcoholic beverages (+9.4%), transport (+9.0%) and furniture, household equipment and services (+8.4%).

The unemployment rate remained steady at 3.5% in December and the participation rate remained at 66.7%. Seasonally adjusted employment decreased by 15,000 people in December 2022, following the increase of 58,000 people in November and average monthly growth of around 40,000 people between August and November 2022.

Data from the Department of Home Affairs shows student visa applications are above pre-COVID levels with a backlog of demand to study in Australia. The largest increases were from Nepal, Columbia and the Philippines, with applicants from India also outnumbering China for the first time. There is some concern that applicants may be using student visas to come and work in Australia instead of study, as students can work uncapped hours with significant switching seen from public universities to lower-cost private colleges. The increase in workers is likely to put downward pressure on wages, especially in the retail and hospitality sectors.

The NSW Government will introduce a thermal coal reservation policy of 7% to 10% of production for the domestic market to ensure the state has enough coal to fire its power stations. Under current arrangements, some miners are forced

to set aside coal for the state's energy needs while other groups don't contribute anything.

China: The National Bureau of Statistics reported a decline of approximately 850,000 people, marking the first decline since 1961, the last year of China's Great Famine. China's population in 2022 stood at 1.41 billion. The decline was likely caused by a combination of COVID-19 lockdowns and the legacy of the one-child policy. China is now facing similar demographic issues to much of the western world of a declining and ageing population.

China's government is launching a state-owned ride-hailing platform that will initially target Communist Party members and employees of government-owned enterprise in an effort to challenge the market leader Didi. Didi was also fined US\$1.2 billion in 2022 for alleged violation of cybersecurity and data-related laws and delisted from the NYSE following the regulatory crackdown from the Chinese government that included banning new user registration and new app downloads for 18 months.

Japan: The Bank of Japan defied market expectations and left its yield curve control measures unchanged, which resulted in the Yen depreciating against other major currencies. In maintaining the yield control, which involved buying government bonds to lower the yield, the bank deployed the equivalent of about 6% of Japan's gross domestic product. Japan is facing scrutiny over its two-decade-old unconventional monetary policy as Japan sees the first signs of significant inflation since the 1980s.

US: Microsoft has announced that it has offered US\$10 billion to acquire a stake in OpenAI,

which is progressing a funding round that would value the company at US\$29 billion. Microsoft's investment would be part of a deal in which the company would see Microsoft entitled to 75% of OpenAI's profits until it recoups its investment. After that threshold is reached, it would revert to a structure that reflects the ownership of OpenAI, with Microsoft having a 49% stake, other investors taking another 49%, and OpenAI's non-profit parent getting 2%. OpenAI is the maker of ChatGPT, the popular artificial intelligence app that was released to the public late last year and which is expected to be integrated into Microsoft's search engine, Bing.

Space: Private companies are being established to concentrate on building the infrastructure and resources to enable space mining in the future. One such asteroid that could be mined in the future named '16 Psyche' is 3x further from Earth than the Earth is from the sun. If it was ever captured and mined, it is estimated to

be worth around US\$10 quintillion and up to US\$700 quintillion, with the asteroid consisting mainly of heavy metals. NASA has a spacecraft launch date scheduled for August 2022, where it will visit the asteroid by 2026 where the spacecraft will then spend 21 months mapping and studying the asteroid.

What to watch out for

The US unemployment rate is likely to continue to rise from near record lows of 3.5%, with Microsoft announcing it would lay off a further 10,000 workers, Amazon would lay off 18,000 workers across the US, Costa Rica and Canada.

Japan and the Netherlands have reached an agreement with the US to restrict the export of semiconductor chip manufacturing tools to China. The US is attempting to make it harder for the Chinese military to develop advanced weapons by restricting both the supply and or ability to develop local manufacturing capability of advanced semiconductor chips.

Conclusion



Equity markets rallied in January with 'growth' stocks outperforming 'value' stocks by a wide margin. Growth stocks have borne the brunt of the selloff over the last twelve months as Central Banks tightened monetary policy. Investors were also willing to overlook weaker than expected earnings from many large US companies.

Inflation in most other countries appears to have peaked, with Australia's headline inflation figure an outlier as various State and Federal Government subsidies rolled off, which impacted the latest reading. The lower inflation expected ahead has increased market optimism that Central Banks may begin to slow down rate increases, however, in either case households and businesses will have to contend with higher repayments on any debt than they have experienced in a number of years.

A recession or at least a significant slowdown in economic growth is expected in the months ahead which may see recent market optimism fade. It is important to keep in mind that equity markets are forward-looking and will likely bottom before the worst of the economic news is released.

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, that 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.

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