RESEARCH UPDATE

MARKET watch

JUNE 2023

Apt. WEALTH PARTNERS

International equity markets delivered mixed performance during May. The S&P 500 Index closed relatively flat (+0.3%), underperforming the Nasdaq Composite Index, which rose by 5.8%, driven by a rally in technology stocks, in particular Nvidia Corporation (+36.3%). The Hang Seng Index fell 8.4% as China's equity market remains in a bear market. The S&P/ASX 200 Index fell 3.0%, with the cyclical Materials, Consumer Discretionary and Financial sectors the primary detractors.

S&P/ASX 200 Sector Performance

The best-performing sector in June was Information Technology, driven by Xero Limited, which rose 17.8% after Financial Year 2023 revenue growth of 28%, with the recently appointed Chief Executive Officer guiding for stronger cost discipline moving forward, which should lead to an increase in free cash flow. TechnologyOne Limited increased by 8.5% after reporting a 24% increase in First Half 2023 net profit after tax as new and existing customers continued to adopt the new enterprise resource planning software solution, which helps primarily local councils automate and manage core business processes.

The Utilities sector increased by 1.1%, driven by AGL Energy Limited, which increased by 13.1% after the Australian Energy Regulator approved over 20% price increases in electricity prices for standard retail plans in South Australia, New South Wales and Queensland. Origin Energy Limited fell 0.1%, despite upgrading 2023 Financial Year 2023 earnings guidance, driven by a larger than expected contribution from Octopus Energy in the UK, lower coal prices and an improvement in the underlying performance of the Energy Markets business.

The Health Care sector closed flat for the month, with mixed performance from the underlying constituents. CSL Limited increased by 1.9% following the release of a shareholder briefing, which gave further insight into the future strategy and research and development pipeline. Fisher & Paykel Healthcare Limited fell 13.3% after reporting that Financial Year 2023 operating revenue fell 9% and a 39% decline in net profit after tax on the prior corresponding period.

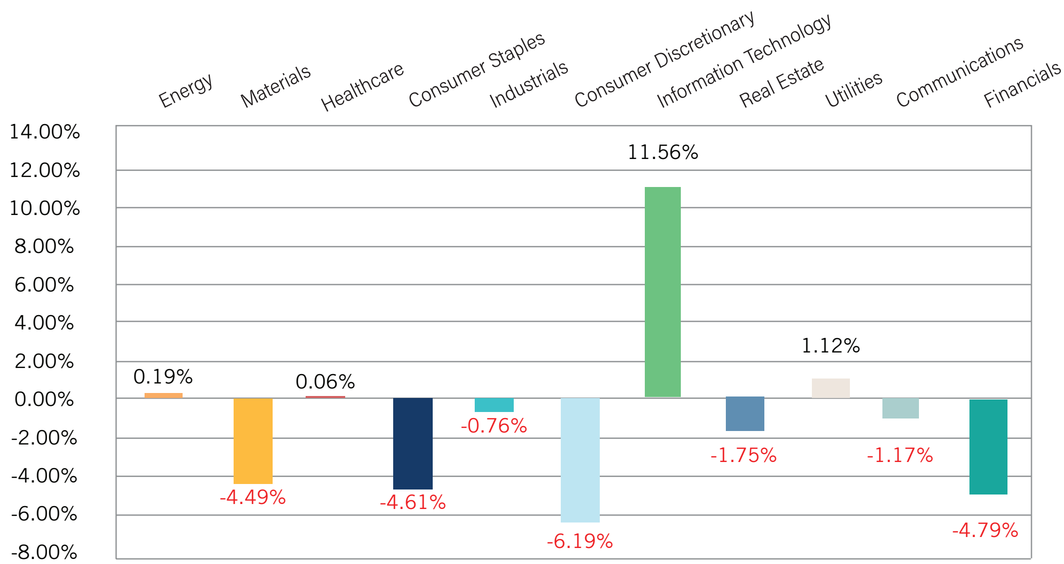
The Consumer Staples sector fell 4.6%, driven by Elders Limited, which declined by 21.1% after announcing Half Year 2023 underlying earnings before interest of tax had fallen 37.7% on the prior corresponding period, driven by lower cattle and sheep prices. Treasury Wines Estates

Limited fell 16.6% after announcing a review of the underperforming commercial wine business, with a possible sale or wind down, in order to focus only on the more profitable premium wine brands. Endeavour Group Holdings Limited fell 9.1%, despite announcing a 3.7% increase in sales compared to the prior corresponding period, but noted that cost of living pressures were beginning to impact customers as well as higher finance costs as a result of the increase in interest rates.

The Financials fell 4.8% after National Australia Bank Limited (-10.0%), Westpac Banking Corporation Limited (-8.0%), Macquarie Group Limited (-6.5%) and ANZ Group Holding Limited (-5.9%) fell after trading ex-dividend. NIB Holdings Limited rallied 9.5% after announcing the completion of NDIS plan manager All Disability.

Consumer Discretionary was the worst-performing sector, falling by 6.2%, driven by IDP Education Limited (-22.5%), which fell after Canada announced they would also recognise other providers for English language proficiency tests. Fast fashion jewellery brand Lovisa Holdings Limited fell 22.5%, despite no significant news being announced. InvoCare Limited was the sector's best performer, increasing by 11.8% after private equity firm TPG Capital Global submitted a revised conditional, non-binding takeover of $13.00 per share.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 June 2023.

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that March 2023 building approvals fell 17.3% from March 2022 levels. There remains a significant backlog of new dwellings still under construction however, the decline may result in dwelling shortages in the years ahead. The building industry is also a significant employer, so the decline will likely result in an increase in unemployment if sustained.

The ABS reported that Australia's wage price index rose 0.8% in the March quarter or 3.7% year over year. The private sector rose 0.8%

and the public sector rose 0.9%, with the most significant industry contributors to wage growth over the quarter being Education and Training (+1.5%) and Professional, Scientific and Technical Services (+0.9%). Wage growth is a significant driver of long-term inflation with an annual wage rise of 3.7%, and rising likely to make it more difficult for the Reserve Bank of Australia to return inflation to the 2% to 3% target range.

The Reserve Bank of Australia (RBA) raised the cash rate by 0.25% to 3.85% in May after pausing in April. The RBA stated that 'some further tightening of monetary policy may be required to ensure that inflation returns to target', but that it 'will depend upon how the economy and inflation evolve'.

Hardware retailer Bunnings has agreed to trial a four-day week for part of its full-time workforce in a first for the retail industry. The trial agreed with the Shop Distributive and Allied Employees Association also included a 10.5% pay increase over 3 years and five weeks of annual leave a year. To achieve the four-day work week, different models will be trialled, including either a four-day week or nine-day fortnight, with the worker benefits then surveyed.

China: The fertility rate, or the number of expected births per woman over the course of their reproductive lives, has fallen to 1.3, among the lowest levels in the world. A country requires a fertility rate of 2.1 to replace its population through births alone. Decades of depressed fertility mean the country's population will age and eventually fall, which will act as an economic headwind for an economy that has long benefited from the world's largest pool of young labourers.

India: The United Nations expects India's fertility rate to decline, having peaked at 6 children per woman in the 1960s to around 2.1 today. However, the population is still expected to grow and, under current estimates, peak at 1.7 billion in 2065, resulting in India having both a larger population than China and consequently a poll of younger workers.

US: S&P Global reversed a 2017 policy of barring new companies with dual-class shares from being included in indexes, which sparked a backlash from asset owners such as pension funds. Dual-class share structures often give company founders unequal voting rights, which can increase risk to long-term investors by entrenching management as well as limiting disclosure. S&P indexes claimed that the policy 'no longer served the index family's objective' of measuring the US market. There are currently 27 dual-class share companies in the S&P 500, 19 in the S&P 400 and 22 in the S&P 600.

The US Secretary of Energy, Jennifer Granholm, said the Federal Government would begin buying oil to replenish the Strategic Petroleum reserve over the second half of the year. The Federal Government previously signalled it would replenish the reserve if US oil prices fell to a range of US$67-$72 per barrel in an effort to stabilise future oil prices at a level high enough to spur more shale drilling. The Biden administration had released record volumes of oil from the reserve in a bid to reduce petrol prices that were driven higher in large part by Russia's full-scale invasion of Ukraine in February 2022.

Oil: The International Energy Agency reported that the production of crude oil, natural gas liquids and refinery feedstocks increased by 6.2% in February 2023 compared to February 2022. Global oil prices have been declining, following the highs reached after COVID-19, over concerns that economic growth is slowing, despite the Organisation of Petroleum Exporting Countries (OPEC) announcing significant production cuts.

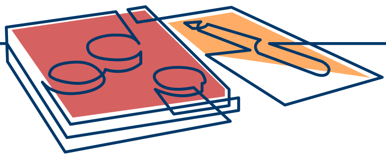
What to watch out for

The Australian buy now, pay later (BNPL) sector is set to be regulated like credit after years of pushback from the industry. The government has chosen to place the sector in the Credit Act and apply a tailored version of responsible lending obligations, which will require providers to assess whether BNPL 'is not unsuitable' for the customer. Despite Australia being one of the first adopters of BNPL, led by Afterpay, it has been one of the last countries to regulate the sector like credit.

The recently negotiated US debt ceiling agreement will suspend the borrowing limit for two years, but limit domestic government spending. One of the few exceptions to the limit is military spending, which will be allowed to rise by 3%.

Markets will be closely watching the outcome of the US Federal Reserve Meeting on June 14 as to whether there will be further rate increases.

Conclusion



Markets staged a relief rally following news that the US debt ceiling will be lifted. Inflation continues to trend down; however, Central Banks continue to warn that inflation may be more 'sticky' than markets are expecting, which could result in cash rates rising further and staying higher for longer. Markets have rallied significantly since the 2022 lows however, there are still high levels of uncertainty, especially around the prospects of a recession.

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.
- 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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