



RESEARCH UPDATE

Market Watch - March 2019

In February, markets continued to recover from the sell-off at the end of 2018. The S&P500 Index rose 2.97% to close at 2,784 points and the Nasdaq increased 3.44% to close at 7,533 points. The Chinese Shanghai Composite Index rallied particularly strongly increasing by 13.79% to 2,941 points. The S&P/ASX200 Index (ASX 200) outperformed most global markets, rising 5.19% to close at 6,169 points.

Sector Performance

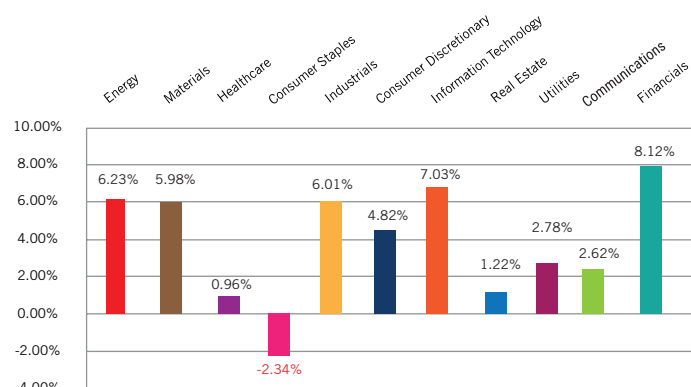
Financials was the strongest performing sector rising 8.12%, driven by the four major banks, Westpac Banking Corporation (+9.82%), ANZ Banking Group (+11.87%), Commonwealth Bank of Australia (+5.78%) and National Australia Bank (+5.32%), which rallied after the release of the Royal Commission's final report into the Financial Services Sector.

The Information Technology sector increased by 7.03%, driven by Afterpay Touch, Altium Limited, and Appen Limited, which increased by 15.90%, 32.26%, and 15.90%, respectively. Wisetech Global declined by 5.31% after releasing its financial results, which did not meet market expectations.

Energy was the third best performing sector, increasing by 6.23%. Origin Energy Limited rose 2.79% after agreeing to sell its Queensland's Surat Basin LNG operations for \$231 million and agreeing to purchase OC Energy for \$58 million to grow its retail energy service business.

The Industrial sector rose 6.01%, driven by Brambles Limited, which increased 10.53% after it agreed to sell its IFCO reusable plastic containers business for US\$2.51 billion. Sydney Airport increased 9.76% after the Australian Government Productivity Commission released its draft report into the 'Economic Regulation of Airports', which recommended against compulsory arbitration to settle disputes between airlines operators and airport owners.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Bell Potter, 1 March 2019.

Communications increased by 2.62%, driven by News Corp, which increased by 5.40% after announcing its new sports streaming service, 'Kayo Sports', had garnered 100,000 paying subscribers.

The Utilities sector increased by 2.78%, despite Spark Infrastructure declining 3.32% after a Federal Court decision increased its tax liability. As a result of the decision, future distributions will be partially franked.

Consumer Staples was the only sector that declined for the month, falling by 2.34%. Coles Group (Coles) fell by 9.43% after it signed a new agreement with Viva Energy (Viva) for its Coles Express convenience stores that will result in Viva setting fuel prices and receiving higher royalties from sales. In return, Coles will receive commission for every litre of fuel sold and will receive a one-off \$137 million compensation payment from Viva.

Highlights

Australia: The Reserve Bank of Australia reported housing credit growth slowed to 4.4% for the year ended January 2019. The slowing growth was likely a result of borrowers switching to principal and interest loan repayments, property price declines and the tightening of lending following the Royal Commission.

The Australian Bureau of Statistics (ABS) also reported new dwelling approvals fell in December posting a month on month decline of 8.4%, the lowest level since June 2013. The East Coast experienced the largest declines with Australian Capital Territory, Queensland and New South Wales declining 21.3%, 6.5%, and 5.0%, respectively. Property developers have increased rebates for apartment buyers as they face higher settlement risk. Large property developer Mirvac offered rebates of up to \$18,888 in recent promotions. The residential housing and construction industry is one of Australia's largest employers and the slowdown will impact other parts of the Australian economy both directly and indirectly.

CSIRO and agribusiness company Ruralco have launched a new digital start-up that automates rural property valuation, which claims 90% accuracy. It analyses large amounts of data including water access, yield, land use, crop type, rainfall and drought impacts. Valuations have become increasingly important following changes to global weather patterns and water usage and will have implications for the property, financial and insurance sectors servicing the agribusiness industry.

The NSW Coalition Government and opposition Labor party have both proposed new rooftop solar incentives for households. Despite uncertainties surrounding the Federal Government's renewable energy policy, the State Governments are continuing to progress their own schemes.

US: The Federal Open Market Committee (FOMC) left interest rates on hold at a target range of 2.25%-2.50% despite the US labour market and economic activity continuing to strengthen. The FOMC is concerned about recent global economic and financial developments and may slow the pace of future interest rate rises.

Germany: The German Government has proposed partially nationalising strategically important industrial and technology companies to prevent foreign takeover and enable them to compete with heavily state-subsidised Chinese rivals. The proposal forms part of the 'National Industrial Strategy 2030', which is aimed at creating international competitive companies' in fields such as artificial intelligence and electric cars.

UK: Car maker Nissan has announced it will not manufacture the new X-Trail SUV in Britain, partly due to the uncertainty around Brexit. The automotive industry is the fourth-largest in Europe after Germany, Spain and France, employing 856,000 people and valued at over £80 billion to the economy. It manufactures a number of components for Jaguar, Nissan, Land Rover, BMW, Honda and Toyota as part of the regional supply chain. Brexit could disrupt other industries that have integrated supply chains throughout Europe and has the potential to have a large impact on the world's fifth largest economy.

Spain: The Spanish Government is increasing the minimum wage by 22% from €736 to €900 a month and this is expected to affect 8% of the workforce. The policy is an effort to increase inflation and provide a boost to a stagnating economy where unemployment is the second-highest in the eurozone, just below 15%. Spain's Central Bank estimates it could eliminate 150,000 jobs in the first year and would have the opposite effect than intended.

What to watch out

The Federal Budget will be handed down on 2nd April, with the Federal Election likely to be held in mid-May. The NSW State Government election is set to be held on 23rd March.

The Chinese Government has been stimulating its economy, leading to increased infrastructure spend, which has supported commodity prices and, in turn, the Australian economy. Chinese authorities have reportedly capped Australian coal imports in some regions for a yet-to-be-determined reason. Coal is Australia's second largest export and will impact the economy and the trade balance.

Britain will cease to be a member of the European Union (EU) on 29th March 2019. An agreement is yet to be reached on how Britain will interact with the EU past this date, with a no-deal exit having the potential to disrupt supply chains and create shortages for goods and services.

Conclusion


The same issues continue to dominate headlines with little progress made to resolve US-China tensions or the coordination of an orderly exit for Britain from the European Union. Locally, the upcoming Federal Election and individual party policies alongside the release of the Royal Commission's final report into the Financial Services Sector will be key areas of focus for Australian investors. These issues are well known in financial markets but will contribute to ongoing asset price volatility.

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