



RESEARCH UPDATE

Market Watch - May 2019

International markets are again reaching all-time highs, with the S&P 500 (US), Nasdaq Composite (US), Hang Seng (Hong Kong), and Nikkei 225 indices increasing by 3.93%, 4.74%, 2.23%, and 4.97%, respectively in May. The S&P/ASX200 Index rose 2.34% to close at 6,326 points.

Sector Performance

Consumer staples was the strongest performing sector, increasing by 7.35%, driven by the A2 Milk Company, which increased 17.18%, as it continued to rally after reporting strong sales growth. Woolworths Limited rose 4.77% after it raised \$400 million through its first 'green' bond issue and announced a \$1.7 billion off-market share buyback.

The Information Technology sector increased by 7.27%, as Afterpay Touch Group rallied 22.15% as it prepared to launch in the UK. WiseTech Global decreased by 3.20% after raising \$35.9 million via a share purchase plan to fund further acquisitions.

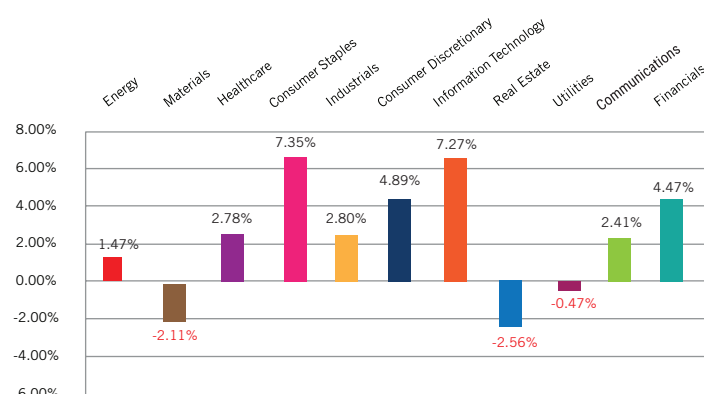
The Consumer Discretionary sector increased by 4.89%, driven by Crown Resorts which increased by 15.46% after it received a takeover proposal, despite the bid later being withdrawn. Flight Centre Travel Group decreased by 8.68% after downgrading profit guidance.

The Financials sector increased by 4.40%, as National Australia Bank (0.32%) and Westpac Banking Corporation (6.13%) announced further provisions for their customer remediation programmes. Macquarie Group increased 4.08% as it announced it would enter the telecommunications market and offer bundled sim and pre-owned smartphones to customers.

The Materials sector declined 2.11%, impacted by BHP Group and Rio Tinto which fell 2.83% and 2.59%, respectively, as both companies temporarily suspended mining operations in Western Australia as a result of Cyclone Veronica.

The Real Estate Investment Trust (REIT) sector fell 2.56%, moderating last month's gain due to falling bond yields.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Bell Potter, 1 May 2019.

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported seasonally adjusted retail turnover rose 0.8% in February, following a 0.1% rise in January and a 0.4% decline in December 2018. Online retail contributed 5.6% to total retail turnover in February, an increase from 5.1% in February 2018 as online retail continues to grow as a percentage of total retail sales.

The latest figures from the ABS show that 7.3 million or 29% of Australia's residential population were born overseas. England remains the largest group of overseas-born residents at 992,000 but is a decrease from 1,013,000 in 2014. Australia is becoming more culturally diverse which will alter the demand for goods and services in the economy as tastes change.

Australian confectionary manufacturer, Darrel Lea, has purchased the Life Savers brand from swiss multinational food company, Nestle, and will relocate manufacturing from New Zealand to Australia. Darrel Lea was purchased by private equity after entering voluntary administration in 2012, with the company currently focusing on stocking its products in major supermarkets. A number of iconic brands have returned to Australian ownership in recent years after Robern Menz purchased Violet Crumble and Bega purchased Vegemite.

**Australia's population
by country of birth - 2018(a)**

Country of birth(b)	no.	%(c)
England	992 000	4.0
China	651 000	2.6
India	592 000	2.4
New Zealand	568 000	2.3
Philippines	278 000	1.1
Vietnam	256 000	1.0
South Africa	189 000	0.8
Italy	187 000	0.7
Malaysia	174 000	0.7
Scotland	135 000	0.5
All overseas-born	7 343 000	29.4
Australian-born	17 650 000	70.6

United Kingdom (UK): The UK competition regulator has recommended separating the audit and consulting units for the big four accounting firms Deloitte, Ernst and Young, KPMG and PricewaterhouseCoopers, to improve audit quality, remove inherent conflicts of interest and restore trust in the sector following several high-profile failures. If the recommendation is implemented, similar action could be taken in Australia.

Saudi Arabia: State owned oil company, Aramco, released the prospectus for its first ever bond offering to raise US\$10 billion. In 2018, the company made a profit of US\$111 billion on sales of \$224 billion, making it the most profitable company in the world. The company initially explored an initial public offering as the government looked to reduce reliance on oil revenue but suspended the offering after initial interest showed they would not achieve price expectations.

Argentina: The yield on 100-year government bonds Argentina issued in 2017 has increased to new highs as the upcoming presidential election has raised concerns Argentina would default. The bonds made international headlines at the time of issue due to the strong demand as investors pursued high-yielding debt, despite the South American nation having a history of default, including the largest ever sovereign default in 2001.

Food Delivery: Online food delivery company, Deliveroo, has launched an \$18.99 monthly subscription service providing unlimited deliveries. Deliveroo Australia made a \$4.2 million loss after tax last year, despite a \$20.7 million support payment from its UK parent as the company continued to experience intense competition from rivals Uber Eats and Menulog. Deliveroo established their second commercial 'dark kitchen' in Melbourne, which has no shop front and only services online orders.

Drone Delivery: A company associated with Google's parent company, Alphabet, has received clearance from Canberra's Civil Aviation Safety Authority to commence commercial drone deliveries for a period of 18 months.

The drones must be piloted, will be allowed to fly 12 hours a day and will initially only service an area covering 100 homes. The company also received approval in the US following the trials in Australia, with the company arguing the initiative will reduce traffic and pollution, after opponents raised concerns about both the noise and privacy impact.

Uber Technologies: Ride-hailing company, Uber, is considering an initial public offering (IPO), after reducing its initial target valuation of \$US120 billion. It would be the largest initial public offering since Chinese e-commerce company, Alibaba Group, listed in 2014. The prospectus highlighted that despite its current size, the company lost US\$3.03 billion in 2018 and may fail to ever reach profitability.

What to watch out for

Financial markets have priced in a cut to Australian interest rates this calendar year with several banks announcing reduced fixed mortgage rates as funding costs decline. The Australian Prudential Regulatory Authority has also loosened credit restraints, which should minimise further property price declines.

Companies in the US will begin reporting quarterly earnings. A number of stocks are trading at extended valuations and could experience increased volatility if market expectations are not met.

Improved conditions in international equity markets is resulting in an increasing number of initial public offerings. High profile ride sharing companies, Uber Technologies and Lyft, social media company, Pinterest, and meat substitute company, Beyond Meat, have recently listed or lodged prospectuses with regulators.

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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