

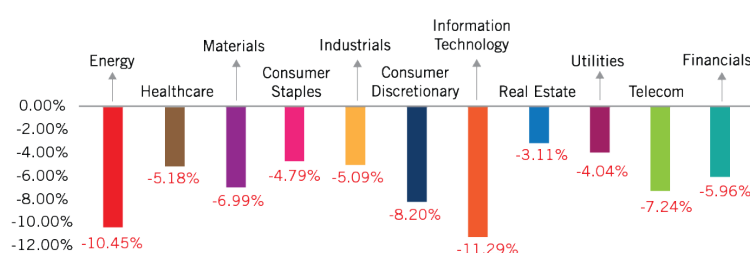


## RESEARCH UPDATE Market Watch - November '18

Global markets sold off in October, with most major market indices now negative for the calendar year. The large US listed technology stocks drove the decline, with the Nasdaq closing 9.20% lower at 7,305 points and the S&P/500 Index decreasing 6.94% to close at 2,711 points. The S&P/ASX200 (ASX 200) followed international markets, declining 6.08% to close below 6,000 points at 5,830.

### S&P/ASX 200 Sector Performance

Data source: Bell Potter, 1 November 2018



### Sector Performance

All sectors of the ASX 200 posted negative returns, with the Information Technology sector the worst performer, declining 11.29%. Technology stocks drove the declines, with Afterpay Touch, Wisetech Global, Altium Limited, and Appen Limited declining 30.42%, 27.34%, 20.01%, and 23.84%, respectively. Afterpay Touch was also impacted by the announcement of a Senate inquiry into debt management firms.

Energy was the second worst performing sector declining 10.45%, driven by Worley Parsons Limited, which declined 28.59%, after announcing a \$2.9 billion capital raising to fund an acquisition.

The Healthcare sector declined 6.99%, despite private hospital operator Healthscope Limited receiving a renewed takeover offer from a consortium for \$2.36 cash per share.

Financials declined 5.96%, as AMP Limited announced the sale of its life insurance business at a price below market expectations, resulting in the share price declining 22.57%. Westpac Banking Corporation, ANZ Banking Group. and National Australia Bank declined 3.87%, 7.98%, and 9.35%, respectively, as each announced provisions for customer remediation programmes following the fallout from the Royal Commission.

The Materials sector declined 5.18%, with Nufarm Limited declining 14.93% after it announced a capital raising to reduce debt as its core business is impacted by challenging weather conditions in Australia and Europe.

Consumer Staples declined 4.79%, as Coca-Cola Amatil announced it would conduct a strategic review of SPC, its fruit and vegetable canning business, following the completion of a four-year \$100 million co-investment initiative with the Victorian Government.

The Real Estate sector declined 3.11%, as the Investa Office Fund bidding war concluded with a final bid of \$5.60 per unit from Canadian based Oxford Properties Group.

### Economic Highlights

**Australia:** The Australian Government has established an Office of Future Transport Technologies to help prepare for the arrival of automated vehicles and other transport innovations. The Australian future transport and mobility industry is expected to create new business opportunities and generate more than \$16 billion in revenue by 2025. The technology is also expected to reduce the current \$27 billion cost of road crashes in Australia each year.

Prime Minister Scott Morrison has abolished plans to gradually increase the age pension to age 70. The age pension commenced in 1909 when eligibility was set at 65 for males and 60 for females. At the time, life expectancy at birth was 55.2 years for males and 58.8 for females. Today, life expectancy for males has increased to 80.4 years and 84.6 for females. This will provide assistance to the most vulnerable but will also place increased pressure on the Federal Budget over the longer term.

The number of transformative infrastructure projects undertaken by the Federal and State governments continues

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to increase with the current value now expected to peak in 2023 at over \$22 billion. This will provide tailwinds for a number of companies whilst also providing job opportunities for workers that are impacted by the slowdown in the residential construction sector.

A consortium of leading international renewable companies is developing a largescale wind and solar hybrid power station in the Pilbara region of Western Australia. The \$22 billion project, called the 'Asian Renewable Energy Hub', is expected to produce 11 gigawatts (GW) of electricity. The power will be distributed to large energy users in the region, with the remaining 6GW flagged for export to South East Asia through undersea transmission cables. Renewable energy is becoming increasingly cost competitive with traditional fossil fuel electricity generation, even without government subsidies.

The director-general of the Australian Signals Directorate publicly discussed the decision to block Chinese companies Huawei and ZTE in building Australia's new 5G telecommunication network. The 5G network has been classified as a critical infrastructure due to the way it will interact and transform electricity grids, water networks, transport, and medical devices.

**Italy:** The European Union (EU) has rejected the Italian government's budget proposal which included a minimum income for the unemployed, tax cuts, and a scrapping of the extension to the retirement age. The budget was proposed by the newly elected Italian government, winding back the austerity measures put in place by the prior government to reduce Italy's debt, which is one of the highest in the EU. The budget is forecast to result in a deficit equivalent to 2.4% of gross domestic product (GDP). Markets responded to the announcement by increasing the yield that investors demand for Italian 10-year bonds, over comparably safer German 10-year bonds, to the highest level since 2013.

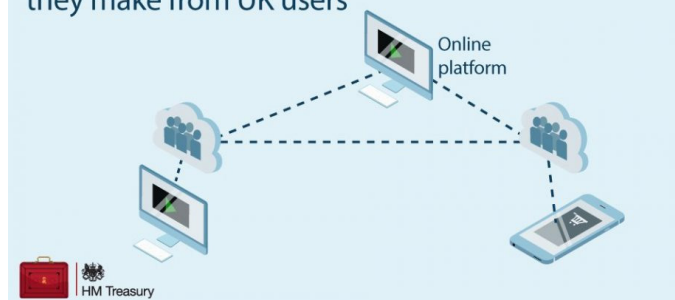
**Japan:** Prime Minister Shinzo Abe has been re-elected for a third term as the leader of the Liberal Democratic Party, becoming the longest-serving prime minister in Japan's history. He was responsible for 'Abenomics', a policy built on monetary easing, fiscal stimulus, and structural reform to reinvigorate the economy after over two decades of stagnation. The policies appear to be working, with the first nationwide increase in land prices in 27 years. The economy is also likely to be buoyed by the construction and tourism inflows as Japan hosts the 2019 Rugby World Cup and the 2020 Olympic Games.

## TOKYO 2020



**UK:** A new digital services tax on social media platforms, internet marketplaces, and search engines targeted at Google, Amazon, and Facebook has been proposed and is scheduled to be introduced in April 2020. The proposed tax is 2% of sales and will only apply to profitable companies that generate at least £500 million a year in global revenue. The European Union proposed a similar 3% digital levy earlier in the year that would be based on where the users are located.

Digital tech giants will be taxed 2% on the money they make from UK users



## What to watch out for

Amazon is being investigated by European regulators for anti-competitive behaviour over its 'marketplace' platform. It is alleged that Amazon monitors marketplace data to determine what products and at what price items are popular with consumers. It then develops its own copycat products and sells them under the 'Amazon Basics' brand, undercutting the original seller. In October, Amazon's Australian e-commerce site began selling food, beverages and other grocery items in direct competition with local supermarkets.

The Chinese Yuan is trading at a 10-year low against the United States Dollar, offsetting some of the impact the tariffs have had on the competitiveness of Chinese exports to the US. There are fears that this could result in a currency war, despite the US Treasury Department recently declining to label China as a 'currency manipulator'.

The US midterm elections will be held in November, which will determine whether the Republican party will retain control of the Senate and the House of Representatives. It will also provide an insight into the sentiment towards the first half of Donald Trump's presidency.

## Conclusion

Volatility reappeared in October with the local market experiencing the largest monthly decline in over three years. We have been in one of the longest bull markets in history, and certain sectors of the market were beginning to look overvalued. Market downturns are inevitable, and it is important to be prepared and act rationally when they do occur.

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