RESEARCH UPDATE

MARKET watch

NOVEMBER 2022

Apt.
WEALTH PARTNERS

Equity markets rebounded from recent lows on hopes that the pace of interest rate increases may be slowing. The S&P 500 Index rose by 8.0%, outperforming the Nasdaq Composite, which increased by only 3.9% as negative market reactions to the quarterly results of some large technology companies weighed on performance. The FTSE 100 rose by 2.9% with the appointment of a new Prime Minister, while the Hang Seng fell by 14.7% following confirmation that Xi Jinping would serve a third term. The S&P/ASX 200 Index rose by 6.0% with mixed sector performance and despite weakness from the major iron ore miners.

S&P/ASX 200 Sector Performance

Financials was the best-performing sector, rising by 12.2% driven by the major banks. Commonwealth Bank, Westpac Banking Corporation, National Australia Bank Limited and Australia & New Zealand Banking Limited rose by 15.4%, 16.8%, 12.5% and 12.1% respectively as investors began to price in increased profits, with net interest margins expected to increase with the rising cash rate. Medibank Private Limited fell -19.0% after it was revealed that customer personal and health data had been compromised in a cyber attack.

The Energy sector rose by 9.3%, driven by an increase in the oil price. Woodside Energy Group Limited increased by 13.6% after upgrading production guidance, with capital expenditure also expected to be lower than first anticipated in the 2022 Financial Year. Santos Limited rose by 8.6% after reaffirming production and sales guidance.

The Real Estate sector rose by 9.9% in a broad sector rally, following months of underperformance. National Storage REIT was among the sector's best performers, rising by 18.0% after the company guided for minimum Financial Year 2023 earnings per share growth of 5% at the Annual General Meeting. Waypoint REIT Limited increased by 15.2% as the on-market share buyback continued.

The Industrials sector increased by 6.5%, driven by Qantas Airways Limited, which rose by 16.3% after guiding for $1.2 billion to $1.3 billion in underlying profit for the first half, with pre-COVID service levels returning in the first half of October. Qube Holdings Limited rose by 9.7%

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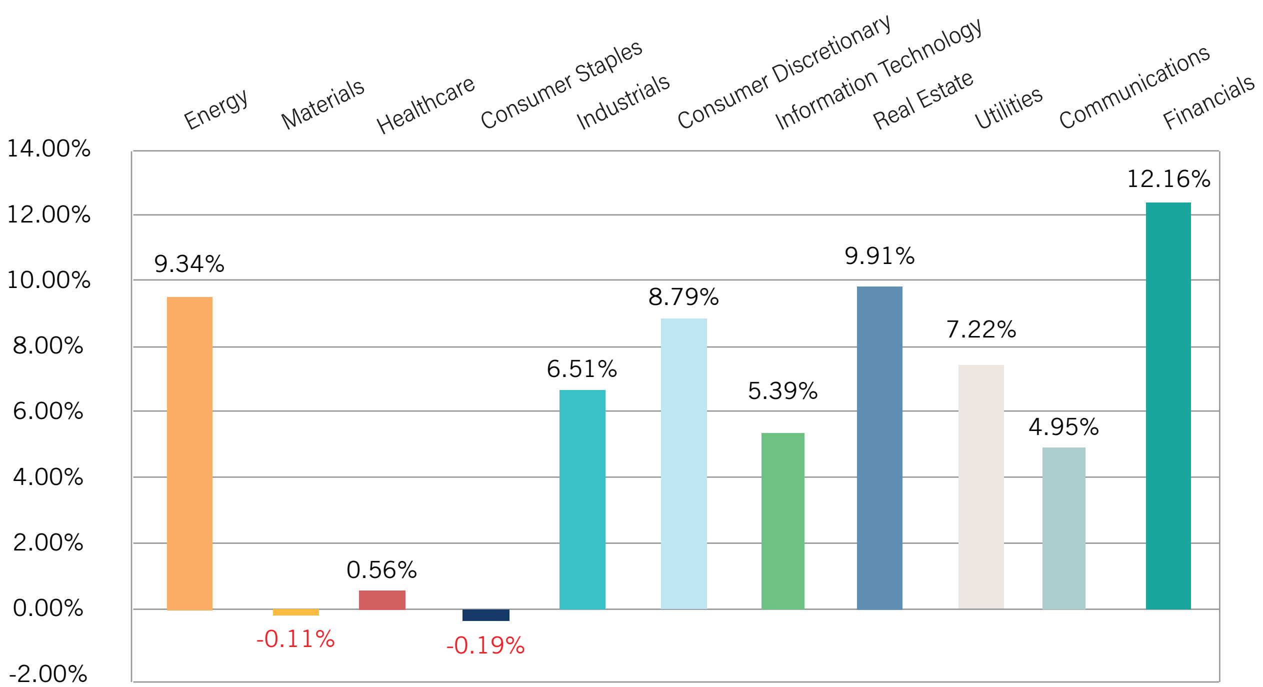
after holding an investor day highlighting strong underlying revenue and earnings growth from all operating segments. Qube also highlighted that there would be increased corporate costs and a 'significant' increase in interest expense.

The Healthcare sector closed 0.6% higher, driven by Ansell Limited, which increased by 12.1% despite no significant news being announced. CSL Limited fell by -1.6% after providing a market update on the recent Vifor acquisition. CSL is guiding for 13% to 18% net profit growth, excluding acquisition costs for the current Financial Year.

The Materials sector declined by -0.1%, driven by the major iron ore miners as the iron ore price fell. Fortescue Metals Group Limited fell by -12.6% after releasing a quarterly production update which included higher production costs and just under US$4 billion in additional capital expenditure. BHP Group Limited fell -3.0% and flagged there was global macro-economic uncertainty and faced considerable uncertainty surrounding supply chains, energy costs, labour markets, and equipment and materials availability.

Consumer Staples was the worst performing sector, closing down -0.2% as the major supermarkets Coles Group Limited and Woolworths Group Limited fell by -2.7% and -0.6% respectively. Woolworths reported that recent acquisition MyDeal had seen customer details of over 2.2 million members exposed in a cyber attack. Coles released a quarterly sales update that saw sales growth of 1.3% on the prior corresponding period, which also represented sales growth of 13.7% on pre-COVID levels, but flagged increasing inflationary cost pressures.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 November 2022.

Highlights

Australia: The Australian Bureau of Statistics (ABS) released new insights from the 2021 Census data, including that 38% of Australians worked more than 40 hours a week in 2021, down 25% from a decade ago. Of the 12 million people employed on census day, more than 20% worked from home. The shift to flexible working arrangements appears to be permanent for many employees, which will place pressure on office property valuations over the medium to longer term.

Australia's unemployment rate remained at 3.5% in September, with the participation rate also remaining steady at 66.6%. The record low unemployment is not unique to Australia but has been cited by many economists as one of the drivers of recent inflation.

The Consumer Price Index (CPI) reading for the September 2022 quarter was a 1.8% increase on the prior quarter and a 7.3% increase on the prior year. The most significant drivers were the price of new dwellings (+3.7%), the price of gas (+10.9%) and the price of furniture (+6.6%).

The NSW government has proposed offering private landowners $200,000 for every kilometre of land to which they allow transmission lines to be installed. The payments will be made over 20 years and will be indexed to inflation. The scheme is intended to accelerate the development of renewable energy projects.

China: Xi Jinping will sit a historic third term as leader following the repeal of any term limits, becoming the longest-serving leader since Mao Zedong. China faces a tough economic challenge as productivity growth slows from US export restrictions, a shrinking and aging population, as well as high indebtedness. Economists are concerned that China will lose its manufacturing cost advantage which has driven its export-led economy, with the country not having yet transitioned to a consumption-led economy.

Japan: Japanese authorities have intervened in currency markets as the Yen fell to a 32-year low against the US dollar. The decline in the Yen has largely been driven by Japan's ongoing easy monetary policy and low interest rates, while the US is raising rates, increasing the demand for the US dollar.

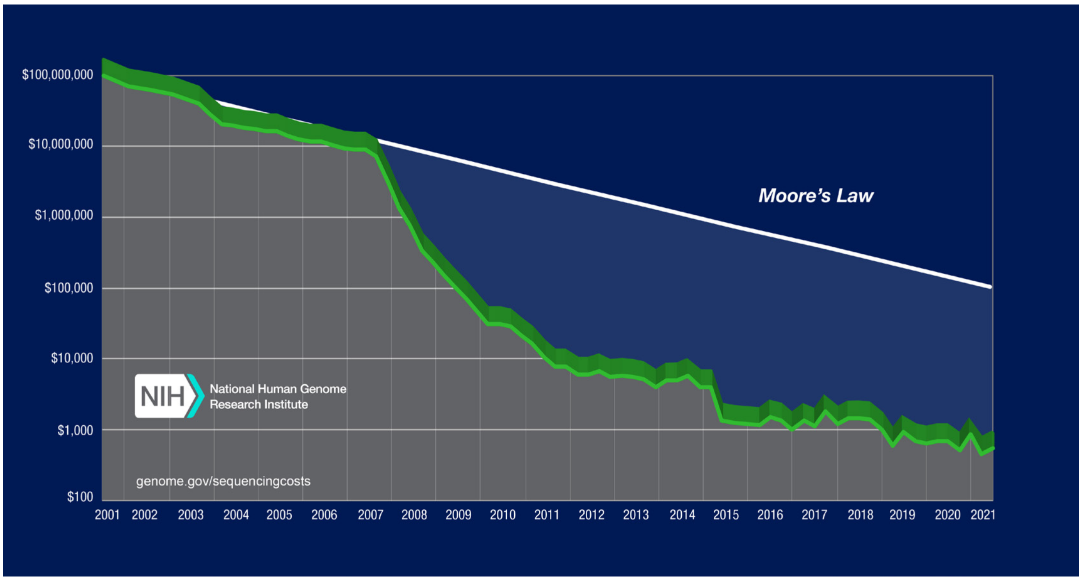
United States: Media streaming company Netflix has launched ad-supported subscriptions at a reduced cost to consumers.

Poland: The ongoing energy concerns in Europe have led Poland to build the country's first nuclear power plants, selecting Westinghouse Electric Company to construct the plant. Poland has set aside US$40 billion to build the two nuclear power plants, which will have three reactors each. The last plant will not be completed until 2043, highlighting the long construction timetable for nuclear power plants.

Europe: European natural gas prices have fallen over 70% from the peak levels seen in August. Price is now below €100 per megawatt per hour for the first time since Russia invaded Ukraine as concerns around supply eased. European gas storage is at 93.6% full and Germany, which is one of the large consumers of natural gas, is 97.5% full. There is unseasonably warm weather in Europe, which, on top of increased procurement initiatives, has resulted in the increase. At full storage, the supply for Germany is only enough for 2 months of colder weather.

Innovation: The cost of sequencing a human genome has continued to fall, beginning in the 20th century at over US$150 million to less than $1,000 now, as seen in Graph 2 below. The cost decline is sparking innovation and expected to result in breakthroughs in genetic disease cures.

Graph 2: Cost per Human Genome



Source: National Human Genome Research Institute, https://www.genome.gov/about-genomics/fact-sheets/Sequencing-Human-Genome-cost, 1 November 2022.

The large data centres that are powering 'the cloud', and are estimated to number over 23,000 worldwide, can span the floor space equivalent to dozens of Olympic-sized swimming pools. The data centres are reportedly shredding millions of data storage devices every year. The storage devices are usually replaced every few years, despite being able to last a lot longer, and the improvements in newer storage devices not as stark as in the past. Of the decommissioned data devices, more than 90% are destroyed due to fears from customers about cybersecurity. Only about 70% of the material from decommissioned requirement is able to be successfully recycled.

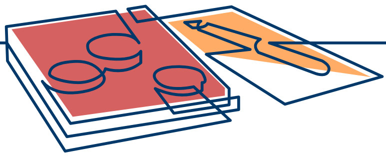
What to watch out for

Taiwan's TSMC produces over 90% of the world's supply of advanced semiconductor chips, predominantly in Taiwan. Semiconductor chips are used in everything from data centres to military weapons. The shortage of semiconductor chips was one of the primary reasons for the supply disruption during COVID. The US, Europe and other Western allies are attempting to diversify the supply chain, but semiconductor fabrication facilities cost billions to build. The ongoing geopolitical tension around Taiwan is a key global economic risk, with the US recently banning the export of advanced semiconductor chips to China.

The US mid-term elections will be held on 8 November, which may see the Democrats lose control of the US Senate.

Russia has suspended the deal that allowed Ukraine to export grain via the Black Sea, which will drive up global food prices and contribute to inflation.

Conclusion



Equity markets rallied in October, with the market expecting the pace of global interest rate increases expected to slow in the months ahead, albeit dependent on inflation moderating from here. Geopolitical risk remains elevated, with Europe heading into winter, where gas reserves will be key to avoiding any significant economic disruption. There is a significant possibility that Europe is currently in a recession, which will have repercussions for other regions. There could well be further market volatility in the months ahead, but equity markets 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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