

Equity markets continued to rally in February, with the S&P 500 Index and the Nasdaq Composite Index gaining 5.2% and 6.1% respectively. All sectors in the US finished the month higher, led by the Industrials, Consumer Discretionary and Materials. The Hang Seng Index rebounded from the large fall in January, rising 6.6%, driven both by property market stimulus and stock market intervention by the government. The S&P/ASX 200 rose by 0.3% as companies reported their first half-year earnings results. The Reserve Bank of Australia (RBA) maintained the cash rate at 4.35% at its first board meeting since implementing the recommendations from the RBA review conducted last year.

S&P/ASX 200 Sector Performance

Information Technology was the best-performing sector, rising 20.7% in February as markets saw renewed optimism around artificial intelligence (AI). Performance was driven by Audinate Group Limited, which rose 40.4% after releasing its half-year results. Audinate Group Limited recorded revenue growth of 47.7%, and earnings before interest, tax, depreciation and amortisation (EBITDA) growth of 137% to make a net profit after tax (NPAT) of \$4.7 million. The company is expecting margin growth from cost reduction plans and a shift in product mix over the second half of the financial year. Altium Limited climbed 30.4% after entering into a scheme implementation agreement with Renesas Electronics, a Japanese semiconductor company that is set to acquire Altium Limited at a price of \$68.50 per share.

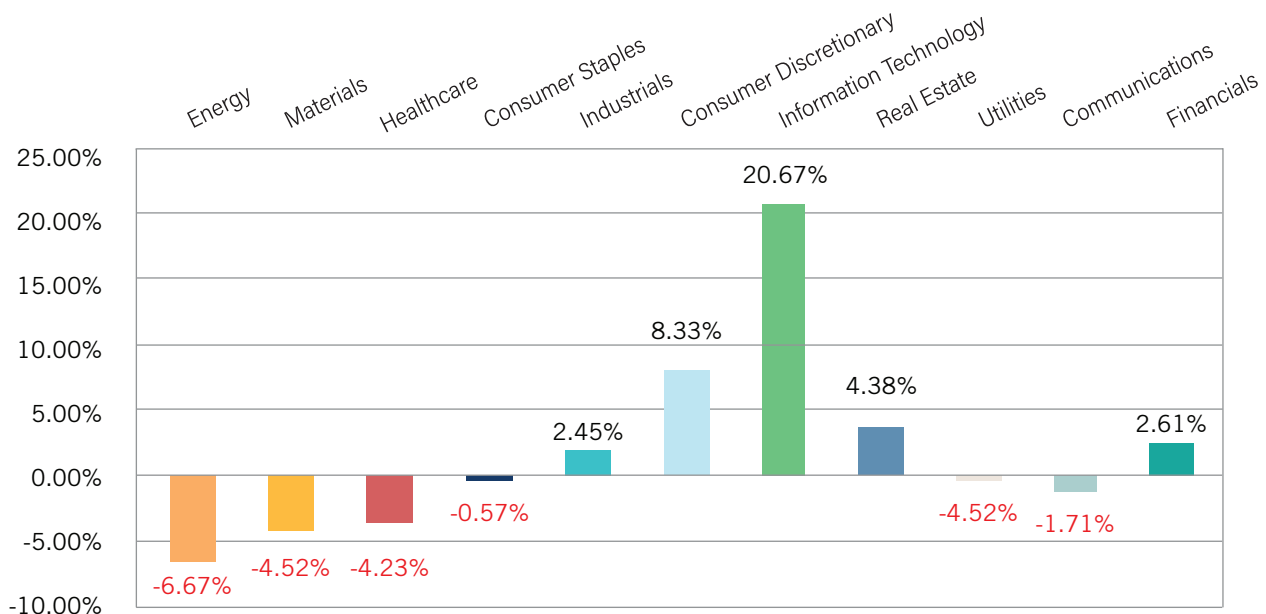
After Information Technology, Consumer Discretionary was the next best sector, returning 8.3%. Cettire Limited, an online luxury fashion retail platform, jumped 52.1% after reporting an 89% rise in sales revenue and a 56% increase in EBITDA to \$26.1 million for the half-year to 31 December 2023. Lovisa Holdings Limited, a jewellery chain company, rose 40.9% on the back of an 18.2% increase in revenue to \$373 million and a 12% increase NPAT to \$53.5 million. The major growth driver was the opening of 74 new outlet stores, including its first stores in China and Vietnam.

Energy was the worst-performing sector, falling -6.7% over the month. Losses were driven by a 50% fall in Strike Energy Limited, which revealed unsuccessful flow testing at two of its three potential mines at

West Erregulla. Both mines found the presence of water, which may render them unproductive, but Strike Energy Limited is conducting analysis on test samples to confirm if the mining is still feasible. Coal producers Whitehaven Coal Limited and New Hope Corporation Limited lost -17.9% and -13.0% respectively after their half-year reports revealed large declines in revenue compared to the previous corresponding period due to the decline in coal prices. Uranium producers also declined in February after one of the world's largest uranium producers, Cameco Corp, announced plans to increase uranium production.

The Materials sector retreated -4.5% in February as commodity prices fell. Australia's largest export, iron ore, fell US\$16/T over the month, resulting in iron ore giants BHP Group Limited, Rio Tinto Limited and Fortescue Limited dropping -7.1%, -6.9% and -13.2% respectively. Losses were somewhat offset by the 27.2% jump in share price of CSR Limited, which received a non-binding, indicative takeover offer at \$9 per share from French building materials company Saint Gobain. Liontown Resources Limited also gained 19.9% as lithium prices rebounded from multi-year lows.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 March 2024

Highlights

Australia: The Australian Bureau of Statistics (ABS) has updated the weighting for the Consumer Price Index and Selected Living Cost Indexes. The weights are updated regularly to ensure they represent contemporary household spending patterns. Previously, the weights were updated during each December quarter, but from 2024 onwards, the

weights will be updated in the March quarter for quarterly indexes and in January for monthly indexes. This year's reweighting sees recreation and culture expenditure increased by 1.71% and transport increased by 0.43%. The largest decreases in weighting occurred in the alcohol and tobacco, household equipment and services, and housing, which were dropped by -0.89%,

-0.51% and -0.5% respectively. The weighting between goods and services is now 54.5% to 45.5%, closer to pre-COVID proportions. Lockdowns and border closures saw increased demand for household goods and falls in services such as restaurants and holiday travel, resulting in a 58% goods to 42% services split.

The Australian Competition Tribunal (ACT) has authorised ANZ's deal with Suncorp Group to acquire Suncorp Bank for \$4.9 billion. Originally agreed to in July 2022, the acquisition had been blocked by the Australian Competition and Consumer Commission (ACCC) on concerns it would reduce home loan, agribusiness and business banking competition in Queensland. The ACT have overruled the decision by the ACCC, finding that the merger would provide a 'net public benefit.' The acquisition still requires 'legislative amendments by the Queensland Parliament and approval by the Federal Treasurer' but is expected to be completed in mid-2024.

US: The US Department of Homeland Security has announced it would hire 50 AI experts with cybersecurity, data science and software engineering expertise. The experts will use AI to help prevent illegal drug production, child abuse and assess damage from natural disasters.

Former US President Donald Trump has been found guilty of fraud by a New York court for lying about the valuation of his real estate portfolio. Trump has been fined US\$355 million and is barred from running a business in New York for three years, including the Trump Organisation. His two sons, who were also defendants in the case, were ordered to pay US\$4m each and are both banned for two years. Donald Trump has already confirmed that he would appeal the court's decision.

UK: The Labour Party has easily won two byelections to replace outgoing conservative MPs, including in one district that had been considered a conservative stronghold. The results are a worrying concern for the Conservative Party ahead of the general election that is expected later this year.

A two-day hearing has been conducted to determine whether Julian Assange should be extradited to the United States. If extradited, Assange faces up to 175 years in jail under the Espionage Act for his WikiLeaks release of US military documents. The final ruling by the UK Court will not be released until early March.

Sweden: Sweden will join NATO as its 32nd member. Hungary, the last country in opposition, has approved Sweden's bid to join NATO in a parliamentary vote of 188-6. The successful vote comes after an arms deal between the two countries, with Hungary set to buy four fighter jets from Sweden.

Japan: Japan has been overtaken by Germany as the third largest economy in the world. GDP data revealed Japan slipped into a technical recession in the second half of last year. GDP contracted by an annualised rate of 3.3% in the September quarter and 0.4% in the December quarter. The fall in GDP is attributed to lower spending by both households and businesses and a weakening yen as the Bank of Japan continues to hold off on increasing its cash rate.

China: China has experienced deflation for the fourth consecutive month, with the consumer price index falling 0.8% over the year to January. The fall in prices was driven by food, which declined by 5.9% over the year. China's producer price index also fell in January, now having fallen for 15 straight months. There is concern that China could enter a deflationary spiral if this trend continues and consumers begin to see

less incentive to spend today and instead save for the future when their money would have greater purchasing power.

What to watch out for

Global geopolitical tensions remain high in the Red Sea, with increased attacks on commercial shipping vessels by Yemen's Houthi and a corresponding escalation of retaliatory strikes by the US, the UK and its allies. The attacks continue to support oil prices, and the conflict has also caused commercial ships

to reroute via southern Africa. The Federal Reserve Bank of St. Louis notes that the new route extends the trip distance by approximately 6,482km and the timeframe by 14 days. The disruption has caused shipping costs in the Suez region to increase by around 180% since October 2023. Other shipping routes have also increased in price to account for new demand. Higher shipping costs may flow, or have already passed through, to recent inflation data as Central Banks continue to get inflation back down to target.

Conclusion



Markets continued to rise in January, although market expectations of rate cuts in the US and Europe are being pushed back following comments from Central Bank governors. Geopolitical tensions across the world remain elevated but have so far had little impact on markets. The depth and degree of the current economic slowdown and the timing of any interest rate cuts remain the key uncertainties for markets.

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 who share the same investment philosophy and objectives.
- Diversify 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 and 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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