

RESEARCH UPDATE

# MARKET *watch*

DECEMBER 2023

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US markets rallied in November, the first positive month since July, driven by a lower-than-expected inflation reading and the consequent lower US Government bond yields. The S&P 500 Index and the Nasdaq Composite Index rose by 6.5% and 7.6% respectively. The Hang Seng Index is amongst the worst-performing indices year to date and fell by a further 4.3% in November, nearing a 13-month low, after numerous companies downgraded earnings due to China's weak economy. The S&P/ASX 200 closed up 0.6%, with mixed sector performance.

## S&P/ASX 200 Sector Performance

Real Estate (+12.2%) was the best-performing sector, benefiting from the fall in bond yields. Cromwell Property Group rose by 37.5% after the merger between the Cromwell Direct Property Fund and the Australian Unity Diversified Property Fund was jointly terminated. Goodman Group increased by 9.7% after providing a trading update that confirmed operating earnings per share growth of 9% in Financial Year 2024 (FY24).

CSL Limited rallied 12.9%, which drove the Healthcare sector up by 12.2% despite no significant news being announced by the company. Neuren Pharmaceuticals Limited soared 44.6% following rumours that the company had received takeover interest in

the US. The company noted the rumour was unfounded but did announce that Phase 2 clinical trial results for their Phelan-McDermin Syndrome treatment were due in mid-December.

The Industrials sector increased by 7.0%, driven by Seven Group Holdings Limited (+15.9%), which upgraded earnings guidance to 'high single to low teen' growth in FY24 as the company saw increased customer activity in the mining, infrastructure and construction sectors. Link Administration Holdings Limited rose 15.1% following the Annual General Meeting, where the company upgraded earnings guidance with operating earnings before interest and tax (EBIT) growth of between 7% and 9% in FY24.

The Consumer Staples sector finished the month

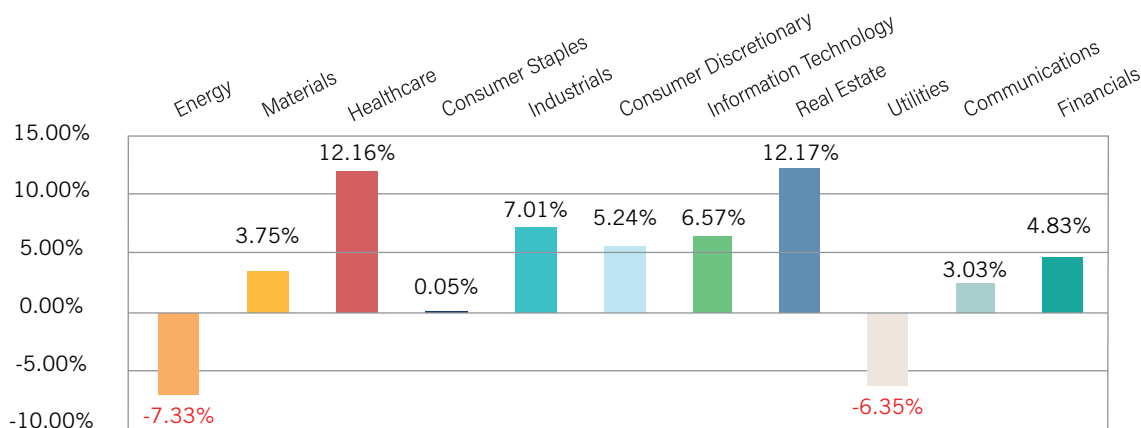
down -0.1%, with Treasury Wine Estates Limited falling by 11.6% after the company announced an \$825 million capital raising to fund the acquisitions of DAOU Vineyards, a US luxury wine brand based in Paso Robles, California. Coles Group Limited rose 0.4% and Woolworths Group Limited fell -0.91% after both companies provided trading updates at the end of October. Coles announced the Australian Competition and Consumer Commission would not oppose its acquisition of two automated milk processing facilities from Saputo Dairy Australia.

The Consumer Discretionary sector rose 52% but with mixed constituent performance. Tabcorp Holdings Limited fell a further 7.1% following a trading update at the end of October, which saw group revenue for the first quarter down by 6.1%. The company also announced the appointment

of a new Chief Financial Officer. Collins Food Limited was the sector's best performer, rising by 24.1% after providing a better-than-expected trading update to the market, with underlying net profit after tax (NPAT) up by 28.7% on the prior corresponding period for the first half of FY24. The company also flagged continued strong sales growth in the first six weeks of the second half.

Energy was the worst-performing sector, with Karoon Energy Limited, Woodside Energy Group Limited and Santos Limited falling by 20.4%, 9.9% and 9.5% respectively as the oil price fell. Karoon Energy also announced the US\$720 million acquisition of Who Dat and Dome Patrol oil and gas fields in the US Gulf of Mexico, and an accompanying \$310 million capital raising.

**Graph 1: S&P/ASX 200 Sector Performance**



Data Source: Desktop Broker, 4 December 2023.

## Highlights

**Australia:** The Australian Bureau of Statistics (ABS) reported that wages grew 1.3% over the September quarter, the largest quarterly jump in the 26 years of the Wage Price Index. The annual wage growth came in at 4%, the highest

annual rate since March 2009. Wage growth was driven by the Fair Work Commission's decision to increase the minimum wage by 5.75% to \$23.23 per hour. The Commission also increased wages for eligible aged care

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employees by 15%. Other drivers included labour market pressure and CPI movements.

The ABS released its population projections based on Australia's population in 2022 with a forecast out to 2071. From 26 million people in 2022, the ABS projects the population will reach between 34.3 and 45.9 million in 2071, which equates to an average growth rate of between 0.2% to 0.9%. The population is also projected to continue to age, with the median age increasing from 38.5 years currently to between 43.8 and 47.6 years in 2071.

The Reserve Bank of Australia (RBA) increased the cash rate target by 0.25% to 4.35% at its November meeting. The RBA had kept the cash rate at 4.1% over the previous four months. The decision was made due to stalling deflation, a strong labour market and economic activity. The RBA noted that the outlook was still uncertain and that they would 'pay close attention to developments in the global economy, trends in domestic demand, and the outlook for inflation and the labour market'.

Prime Minister Anthony Albanese has made an agreement with Tuvalu, allowing residents to move to Australia as the island comes under threat from climate change and rising sea levels. Two hundred and eighty residents per year will be given a special pathway to 'live, work and study' in Australia.

**US:** Congress passed another stopgap spending bill that would fund federal agencies and avoid a government shutdown. This was the third stopgap spending bill this year. The new bill

buys time for two months until January 19. There is still the risk of a shutdown if another bill is not passed before then.

OpenAI, the creators of ChatGPT, the most prominent artificial intelligence (AI) chatbot, had a chaotic leadership struggle. The OpenAI board fired CEO and co-founder Sam Altman on 17 November, citing communication issues and a loss of confidence. Greg Brockman, another co-founder and President of OpenAI, quit in solidarity with Altman, with both co-founders soon hired by Microsoft to lead a new AI research team. After the exits, Chief Technology Officer Mira Murati was appointed interim CEO before being replaced by ex-Twitch CEO Emmett Shear, making it three different CEOs in as many days. Most of OpenAI's roughly 750 staff then signed a letter threatening to quit OpenAI unless the board reinstated Altman and Brockman. The signed letter succeeded, with Altman and Brockman returning on 22 November, and a new board established.

**United Kingdom:** UK Prime Minister Rishi Sunak has fired Home Secretary Suella Braverman and has appointed ex-Prime Minister David Cameron as her replacement. David Cameron was the Prime Minister from 2010 to 2016, ultimately resigning after losing the Brexit referendum.

**Poland:** Under the REPowerEU scheme, Poland is set to receive 5.1 billion euros from the European Union to shift away from Russian fossil fuels and accelerate the transition to clean energy.

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**Netherlands:** The far-right Freedom Party led by Geert Wilders is projected to win 38 of 150 seats, ahead of Labour/Green at 25 seats and the conservative VVD party at 24 seats. The Freedom Party will need to form a coalition with at least two other parties to achieve a majority. Wilders will 'continue to moderate' his views to achieve cooperation, with other parties concerned over his views on immigration and religion, and his threats to leave the European Union.

**Sweden:** Swedish company Northvolt has developed a sodium-ion battery. The battery does not require any critical metals like lithium, cobalt or nickel. Sodium-ion batteries are not only cheaper than lithium-based batteries, but also able to withstand extreme temperatures. Until now, their potential use was limited by the size of the battery required to produce the same level of energy as lithium batteries.

**North Korea:** North Korea has successfully launched a spy satellite into orbit on its third attempt this year, despite the US and allies calling the move a violation of UN Security Council Resolutions. South Korea is looking at suspending parts of the inter-Korean agreement aimed at lowering military tensions in response.

**New Zealand:** Newly elected Prime Minister Chris Luxon of the National Party will lead a three-party coalition with the ACT Party and the New Zealand First Party to form a majority

in parliament. The coalition has stated its intention to cut government spending, proceed with tax cuts and return the Reserve Bank of New Zealand's focus to price stability.

**Argentina:** Argentina has elected outsider Javier Milei as president, with nearly 56% of the vote. Milei has pledged 'economic shock therapy', with ideas to close the central bank, abandon the peso and slash spending to get Argentina out of its economic crisis.

### What to watch out for

The iron ore price has been rallying as China introduced stimulus for their property market, particularly focusing on urban redevelopment. Iron ore prices tend to rally from November until Chinese New Year due to stockpiling and supply disruptions.

Lithium has been a hot commodity since 2021, with the development of lithium-ion batteries and their use in electric vehicles as the world moved towards cleaner energy. High demand for the critical metal and a low supply saw its price rise to a high of 597,500CNY/T. However, over the last two years, supplies have increased, with even more mines in the pipeline, whilst demand has slowed in the inflationary environment. The price has now fallen to below 140,000CNY/T and demand remains under threat with the newly developed sodium-ion battery.

## Conclusion



Markets rallied in November, with a more optimistic outlook on inflation and interest rates. Central Banks maintained their hawkish rhetoric of keeping rates high for longer to tame inflation, but also remain unlikely to make any further rate hikes. The depth and degree of the 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 that share the same investment philosophy and objectives.
- Diversify: across asset classes, industries, sectors, and geographies.
- Regularly rebalance the portfolio back to your risk profile to ensure that it 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.

**Disclaimer:**

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