RESEARCH UPDATE

MARKET watch

FEBRUARY 2024

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WEALTH PARTNERS

Equity markets continued to move higher into the new year. The S&P 500 Index and the Nasdaq Composite Index rose by 1.6% and 1.0% respectively in January despite falling optimism of rate cuts. The Hang Seng Index underperformed, declining -9.2% despite further Chinese government stimulus, including the suspension of restricted share lending. Markets were concerned by weak Chinese manufacturing data and the court-ordered liquidation of Chinese Evergrande Group. The S&P/ASX 200 rose by 1.2%, driven by gains in Energy and Financials.

S&P/ASX 200 Sector Performance

Energy (+5.2%) was the best-performing sector, benefiting from the rise in the price of uranium. Growing demand from Western countries wanting to use nuclear energy to meet net-zero goals and supply concerns from the largest global producer, Kazatomprom, has caused the uranium price to reach its highest level since 2007. Boss Energy Limited and Paladin Energy Limited led gains, rising by 38.2% and 31.5% respectively.

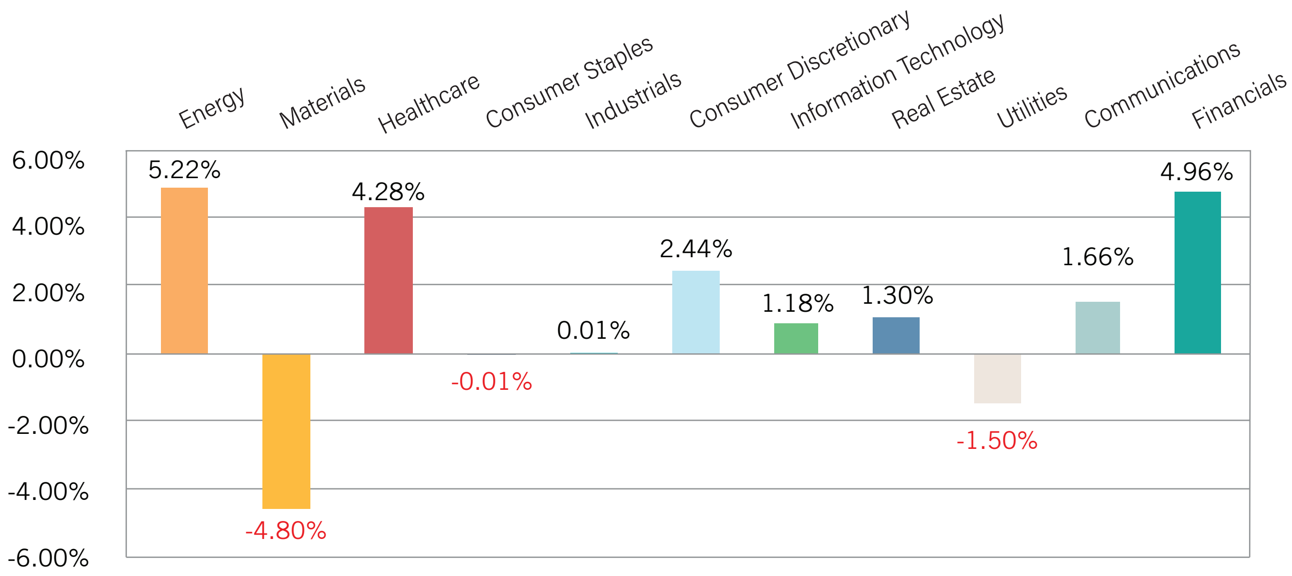
The Financials sector rose by 5.0%, driven by mortgage insurer Helia Group Limited (9.8%), insurance broker AUB Group Limited and health care insurance provider NIB Holdings Limited. Netwealth Group Limited also outperformed, up 9.4% after reporting a record increase in funds under administration of $6 billion, including net inflows of $2.6 billion for the December quarter, a 25% increase on the prior corresponding period.

Healthcare was the next best sector, up 4.3% for the month. Polynovo (15.1%) led gains after reporting a 65.6% increase in total revenue and strong growth in rest of the world sales. Polynovo also entered the market in Turkey, the Middle East, Ukraine and Israel over the first half of the financial year. ResMed gained 14.8% after reporting strong quarterly results, which included a 12% increase in revenue to US$1.2 billion and a 20% increase in operating profit. ResMed's competitor, Philips, revealed it would not re-enter the US market as it settles with the Food and Drugs Administration. Philips recalled its devices in 2021, allowing ResMed to capture market share.

Aristocrat Leisure Limited (9.0%) was the best performer in the Consumer Discretionary sector (+2.4%) as it continues its on-market buyback. Star Entertainment Group rose 8.7%, with the announcement of new CEOs for both its Sydney and Brisbane operations.

The worst-performing sector was the Materials sector, dragged down by lithium producers. Lithium prices continue to fall, with an oversupply of the metal following lower-than-expected vehicle take-up in the US and falling demand from China. The crash in prices has caused some mines to become uneconomical, with operations halted indefinitely until the price recovers. Lithium producers Sayona Mining Limited, Liontown Resources Limited and Arcadium Lithium Plc lost -43.7%, -37.6% and -30.6% for the month. Liontown Resources revealed that $760 million in debt funding was withdrawn due to the current and forecast prices as it nears first production. Its share price has fallen two-thirds from Abermarle's indicative takeover proposal price of $3.00 from September last year.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 February 2024

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that the unemployment rate remained at 3.8% in December 2023, near historic lows. The participation rate also remained flat at 67.0%. Seasonally adjusted, the unemployment rate was still flat at 3.9%, with the number of employed people falling by 65,100 in December, offset by 800 people finding work. The participation rate fell 0.5% to 66.8%, and the employment-to-population ratio declined to 64.2%. The Federal Government announced changes to stage three tax cuts to provide increased benefits to low- and middle-income earners. The original plan involved combining the current $45,001 to $120,000 and $120,001 to $180,000 tax brackets into one bracket with a 30% tax rate. The upper limit for the new bracket would also be increased to $200,000 and the 45% tax rate bracket would

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apply from $200,000. The suggested changes are still subject to parliamentary approval. The first change is to lower the bottom tax rate for the $18,201 to $45,000 bracket to 16% from 19%. The 30% tax rate from the original plan will be kept but will only apply from $45,01 to $135,000. The 37% tax rate bracket will be brought back for those earning between $135,001 and $190,000, and a 45% tax rate will apply to those making $190,000 or more.

US: The US 2024 election season has begun. State caucuses and primaries for both parties will be running until 2 April, with Donald Trump winning the opening Iowa Republican caucus. The winner of each party will be formally nominated at their respective national conventions before presidential debates begin in September. The election is scheduled for 5 November.

On 10 January, the US Securities and Exchange Commission approved the US listing and trading of eleven exchange-traded funds (ETFs) that track the price of bitcoin. Ten of them began trading the next day and saw almost US$900 million of inflows in the first three days. The price of bitcoin had rallied in the lead-up to the approval of the ETFs but has fallen since.

UK: The UK government has announced plans to ban disposable vapes to stop youth vaping. Vapes will also have limits on available flavours and they will be required to be in plain packaging. These new rules will be implemented by early 2025.

Denmark: After 52 years in charge, Queen Margrethe II abdicated the throne citing health issues, leaving the throne, to King Frederik X.

China: The National Bureau of Statistics has reported that China's population has declined for the second consecutive year. China's population fell by 0.15% or 2.08 million due to a wave of deaths as COVID restrictions were lifted and as birth rates hit a record low of 6.39 births per 1,000 people.

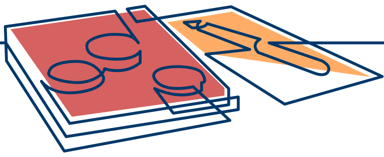
The Evergrande Group has been ordered to liquidate by a Hong Kong court after failing to provide a suitable restructuring plan. This is also despite being given seven extensions to do so at previous court sessions. Evergrande's financial issues were first revealed in 2021 when it defaulted on debt repayments.

Taiwan: The Democratic Progressive Party (DPP) has won the Taiwanese election for a record third consecutive time with 40% of the vote. However, the DPP lost control of the parliament, only taking 51 of the 113 total seats.

What to watch out for

Global geopolitical tensions have increased further following attacks in the Red Sea on commercial shipping vessels by Yemen's Houthi and retaliatory strikes by the US and UK. The attacks have supported oil prices, which had been falling due to increased stockpiles in the US and falling demand in China. The conflict has also caused commercial ships to reroute via Southern Africa, increasing the trip time by 10 days and adding around $1 million in fuel costs. The increase in shipping costs may flow through to inflation, hindering many central banks as they aim to bring the inflation rate down to the targeted 2%.

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 and 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 asset 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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