

Markets continued to sell off in October, the third consecutive month of market losses. The S&P 500 Index and the Nasdaq Composite Index fell by 4.5% and 4.7% respectively as conflict returned to the Middle East and as markets continued to price in higher rates. The Hang Seng Index fell 2.1%, despite further economic stimulus by the Chinese Government, including the planned issue of 1 trillion yuan worth of sovereign bonds. The S&P/ASX 200 Index fell 2.8%, with increasing concerns of an economic slowdown.

S&P/ASX 200 Sector Performance

The best performing sector over October was Utilities which rose 2.0%. The gains were driven by Origin Energy Limited which rose 4.0%, after Brookfield received authorisation from the Australian Competition and Consumer Commission (ACCC) to proceed with the acquisition of Origin Energy Limited.

The only other positive sector was Materials. Gold producers Silver Lake Resources Limited, Gold Road Resources Limited, Regis Resources Limited and Ramelius Resources Limited rose 24.3%, 17.0%, 16.1%, and 15.3% and respectively, as the gold price climbed. Investors sought the precious metal as a safe-haven asset after the start of the Israel Hamas conflict. Iron producers also rose, following the iron ore price, with economic support from the Chinese Government expected to increase

demand for the commodity. On the other hand, lithium miners sold off on concerns of falling short-term demand and an oversupply of the metal. Liontown Resources Limited was the largest detractor, down 45.2% after its takeover offer at \$3.00 per share by Albemarle was withdrawn and the company launched both an institutional placement and a share purchase plan at \$1.80 per share to raise funds for their Kathleen Valley Project.

Healthcare was the worst performing sector, down 7.6% for the month. Telix Pharmaceuticals Limited and the Healius Limited were the main contributors, falling 22.5% and 21.3% respectively. Despite Telix Pharmaceuticals Limited reporting a 10.7% quarter on quarter revenue increase and a continuing rise in average daily dose demand, markets were underwhelmed by the growth. The takeover of

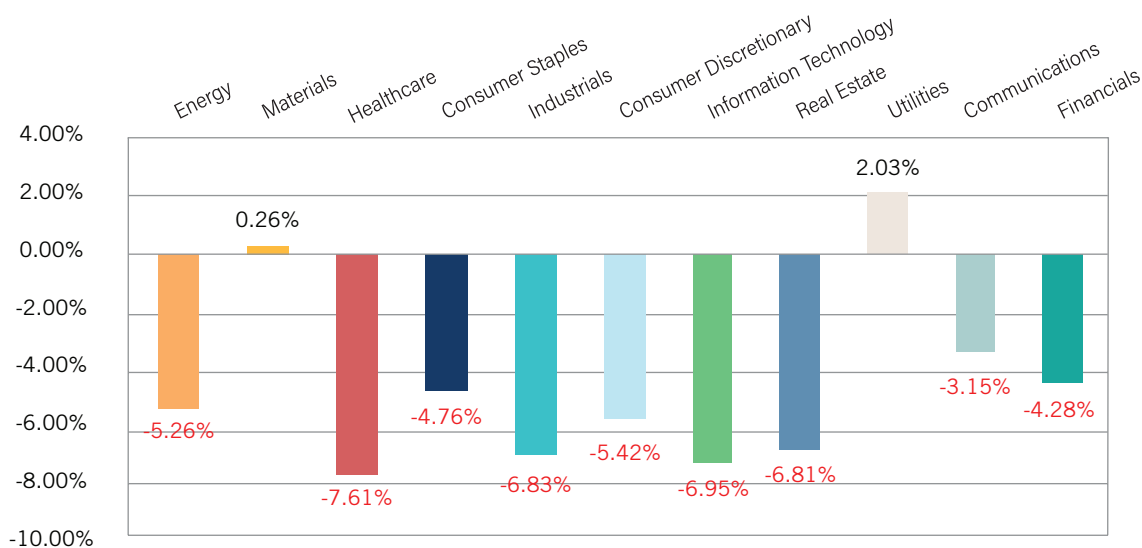
Healius Limited by Australian Clinical Labs is still ongoing, with the ACCC yet to make a decision to approve the move.

The Information Technology sector retreated -7.0% as markets priced in the expectation that rates would remain higher for longer. Megaport Limited led losses in the sector, down 19.2% after releasing their first quarter results for FY24. Despite growing revenue by 6% and earnings before interest, tax, depreciation, and amortisation by 27% on the previous quarter, markets were shaken by the CEO stating that the “rebuild and recovery of momentum will take time.” IRESS Limited declined 14.3% after

the sale of its managed fund administration business and the ongoing sale of its platforms business, with proceeds used to pay off debt.

Industrials were also sold off, affected by increasing concerns of an oncoming recession. Link Administration Holdings Limited was the largest mover, falling 13.8%. The company sold its UK and Ireland business at the start of the month and announced a board renewal soon after, with three non-executive directors to retire at the end of November but only one new non-executive director to join.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 1 November 2023.

Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that building approvals rose 7.0% month-on-month in August 2023 to 13,647. Private-sector housing rose 5.8%, while private-sector dwellings excluding houses increased 9.4% with all States but Tasmania seeing an increase. Despite the increase, new

dwelling unit approvals are still near cyclical lows and were last at this level in February 2013 when Australia’s population was smaller. Dwelling approvals are a leading indicator for the construction industry which is a large employer and significant component for economic growth.

The ABS reported that the trend of women

having fewer children and, when they do have children, it is later in life, is continuing. In 1975, less than 20% of births were to mothers who were between 30 and 39 years old, but now nearly 60% of births are to mothers in this age group. The total fertility rate has remained lower than the replacement rate (considered to be 2.1 babies per woman to replace her and her partner, in the absence of overseas migration) since 1976. In 2022, this was 1.63 births per woman, which was lower than the 2021 rate of 1.70 births per woman, but higher than the 1.59 births per woman recorded in 2020.

New South Wales will be the first State to receive a \$100 million loan for grid infrastructure under the \$20 billion 'Rewiring the Nation' program administered by the Clean Energy Finance Corporation. The infrastructure is needed to connect remote renewable projects to the grid but has faced opposition from landowners who oppose the electricity transmission lines traversing their land.

Cuscal, a payments platform part owned by Mastercard, Bendigo and Adelaide Bank and several large credit unions will list on the ASX with a market capitalisation of around \$700 to \$800 million. The company provides transactional banking, credit and debit card solutions, liquidity and capital management services and other services to credit unions, superannuation funds and other institutional clients.

US: Congress passed a stopgap spending bill that would fund federal agencies and avoid a government shutdown for a further 45 days on

October 1st. There is still the risk of a shutdown if another bill is not passed.

The Federal Trade Commission sued Amazon.com alleging the company has illegally maintained a monopoly using anticompetitive and unfair practices to stop rivals and sellers from lowering prices while degrading quality for shoppers, overcharging sellers, stifling innovation, and preventing rivals from fairly competing. The lawsuit has been expected for a number of years and the outcome of the case will likely take some years more. A similar lawsuit filed last year by the state of California is set to go to trial in 2026.

A US\$41.2 billion NASA spacecraft was launched to travel to 'Psyche', an asteroid which is thought to be the largest metallic object in the solar system at 220 kilometres wide and consisting of between 30% and 60% metal. The spacecraft is not expected to reach Psyche until July 2029. The mission is purely scientific however there is increased interest from the private sector in mining these asteroids in the future.

New Zealand: Christopher Luxon, the leader of the centre-right National Party, was elected prime minister replacing the centre-right Labour government which was led for most of the term by Jacinda Ardern.

Japan: Russia and China have banned the import of seafood as radioactive wastewater from the wrecked Fukushima nuclear power plant is gradually released. The wastewater is expected to be released over the next decade and began two months ago. A team from the International Atomic Energy Agency will

conduct ongoing sampling of seawater and marine life but expect minimal impact.

Italy: The Italian government announced €24 billion in tax cuts and increased spending with next year's budget deficit set to increase to 4.3% of gross domestic product from 3.6% under current trends. Investors have been demanding a higher premium to hold Italian government bonds since the government raised its budget deficit targets for the 2023-2025 period, setting it up for a possible clash with the European Commission.

What to watch out for

Gold and oil prices are rallying following the increased geopolitical tensions in the Middle East.

China restricted the export of graphite citing 'national security'. China is the world's largest graphite producer, exporter and refiner with the material used in virtually all electric vehicle batteries. The announcement is likely in response to the US decision to restrict the export of certain advanced semiconductor chips to China.

Conclusion



Weakening economic conditions resulted in markets retreating for the third consecutive month. Losses were exacerbated by the conflict in the Middle East, with concerns that the conflict could spread to neighbouring countries. Central Banks maintained their hawkish rhetoric of keeping rates high for longer to tame inflation but were 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, which are not connected to the movements in asset prices and partner with Fund Managers that share the same investment philosophy and objectives.
- Diversification: 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, 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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