RESEARCH UPDATE

MARKET watch

SEPTEMBER 2023

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WEALTH PARTNERS

Equities markets fell sharply in August as markets reconsidered the prospects of Central Banks cutting interest rates any time soon. The S&P 500 Index and the Nasdaq Composite Index fell by 1.8% and 2.2% respectively, despite US economic growth remaining more resilient than expected. The Hang Seng Index gave back all of last month's gains, falling by 8.5%, as China's economic crisis continues to worsen and the property market continues to deflate. The S&P/ASX 200 Index fell by 1.4%, with mixed sector performance as reporting season entered full swing.

S&P/ASX 200 Sector Performance

Consumer Discretionary was the best-performing sector driven by Wesfarmers Limited, which rose 8.5% after reporting a 4.8% increase in net profit after tax (NPAT) on the prior corresponding period, and flagged that the Mt Holland lithium project would commence production in Financial Year 2024 (FY24). Domino's Pizza Enterprises Limited rallied 10.1%, recovering from recent lows, after providing a trading update that same-store sales had increased since the start of FY24 after reporting a 0.2% decrease in FY23.

A 13.7% rally in Goodman Group Limited drove the Real Estate sector 1.8% higher as the rest of the sector underperformed. Goodman reported better-than-expected FY23 results, with operating earnings per share increasing by 16% on the prior corresponding period, ahead of recent guidance, whilst also guiding for high single-digit growth in FY24. Charter Hall Long Wale REIT fell 13.9% after reporting a $363 million revaluation loss, whilst also flagging future asset sales to reduce debt.

The Health Care sector finished the month down 0.4%, impacted by a 24.2% fall in ResMed CDI. ResMed reported that FY23 revenue increased by 18% on the prior corresponding period, and earnings per share increased by 17% as the company continues to capture market share. The market, however, became concerned about lower future growth after biotechnology companies Nova Nordisk and Eli Lilly announced new weight loss drugs that may impact the number of patients suffering from sleep apnoea.

CSL Limited rose 1.9% after reporting financial results largely in line with recently updated guidance, with constant currency net profit after tax and amortisation (NPATA) increasing by 20% on the prior corresponding period. CSL guided for further mid-double digit NPATA growth in FY24.

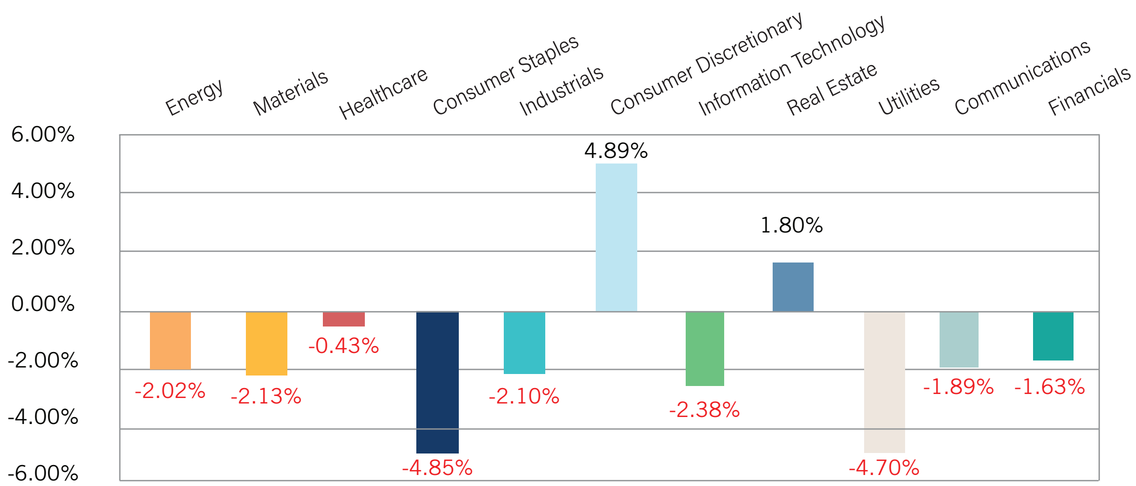
The Energy Sector fell 2.0%, despite the rally in the oil price. Coal miner Whitehaven Coal Limited was the sector's worst performer, falling by 12.0% after coal production missed market expectations and after the company traded ex-dividend.

The Materials Sector fell 2.1%, impacted by the fall in commodity prices in response to China's weak economic growth outlook. Chalice Mining Limited was the sector's worst performing, falling by 40% after management outlined a longer-than-expected timeline for the Gonneville Nickel-Copper mine, with production not expected to commence until 2029. Core Lithium Limited declined by 38.3% after announcing a $120 million capital raising to fund the development of the Finniss Lithium project, as well as for further exploration.

The announcement of a $675 million capital raise by APA Group Limited weighed on the Utilities sector (-4.7%). APA fell 10.1% following the news, with the proceeds from the capital raising to be used to fund the acquisition of Alinta Energy Pilbara, which is an energy infrastructure business located in Western Australia's Pilbara region.

Consumer Staples was the worst-performing sector, falling by 4.9%, driven by Coles Limited, which fell -10.6% after reporting FY23 results that missed market expectations, and after trading ex-dividend. Coles was impacted by a number of one-off expenses, including the delay to the completion of new automated distribution centres in New South Wales and Victoria. The delay will result in $120 million in additional capital and operating expenditure over the next two years. Endeavour Group Limited declined by 9.5% after FY23 results missed market expectations, despite reporting a 6.9% increase in NPAT and a 7.9% increase, in the full-year dividend.

Graph 1: S&P/ASX 200 Sector Performance



Data Source: Desktop Broker, 3 September 2023.

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Highlights

Australia: The Australian Bureau of Statistics (ABS) reported that the June quarter 2023 Wage Price Index increased by 3.6% on the previous 12-month period, which was below consensus expectations. The industries that were the most significant contributors to wage growth for the quarter were Construction (+1.3%) and Professional, Scientific and Technical services (+0.7%).

Australia's unemployment rate increased by 0.2% to 3.7% in July, while the employment-to-population ratio fell by 0.2% to 64.3%. The participation rate also decreased by 0.1% to 66.7%. Despite the fall, the indicators are still well above pre-pandemic levels and close to their historical highs. The low unemployment rate has been cited as the reason behind the better-than-expected economic growth, despite the recent cash rate hikes.

The Australian Tax Office (ATO) has admitted paying out more than $1.6 billion in fraudulent tax claims based on a scheme promoted on social media platform TikTok, which led to thousands of false tax refunds being made each day. The scam involved obtaining an Australian Business Number and then using a MyGov account to apply for GST refunds for fictitious expenses claimed to have been incurred while setting up a business. Despite numerous warnings from the major banks since 2020, the ATO took no action until it was warned early in 2022 by the Reserve Bank of Australia.

China: China Evergrande Group, the company at the centre of China's property market collapse, filed for US bankruptcy protection during the month. The step is seen largely as procedural as the company seeks to negotiate over US$31.7 billion in debts. Fears remain that the crisis may spread to other sectors and regions as asset manager, Zhongrong International Trust C, which manages over US$108 billion in assets, missed repayments on a number of investment products on July 28th.

Russia: The ruble fell to the lowest point in over 12 months against the US dollar, having now lost 25%, and leading Russia's Central Bank to hold an extraordinary meeting where they hiked rates by 12%. The ruble has been under pressure from the combined impact of sanctions, and as commodity prices, in particular oil, have fallen.

US: Subway, the sandwich shop chain, which had until now been owned by founding families, has been sold for US$9.6 billion to private equity. Subway is the eighth-largest US restaurant chain by sales and has around 37,000 restaurants globally.

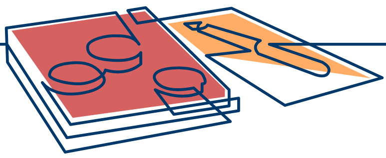
Argentina: The Argentinian Government devalued the peso by 18% against the US dollar, with the new official rate pegged at 350 pesos per US dollar, up from 287 pesos per US dollar. The country continues to experience hyperinflation following excessive money printing by the Central Bank. There are fears that the devaluation may worsen the crisis, whereby up to 43% of the population cannot afford basic food and services. The International Monetary Fund is preparing to release another tranche of the US$44 billion aid package agreed to at the beginning of the calendar year to help alleviate the crisis.

Music: Google and the largest music label group, Universal Music Group, are in discussions to license artist's melodies and voices to artificial intelligence to create new songs. The largest risk to emerge in recent years has been the advent of 'deepfakes', which, can convincingly mimic voices and lyrics from established artists, replacing piracy. The music labels are trying to protect copyright, with streaming platforms vulnerable to artificial intelligence scraping songs without permission or payment. Discussions are still in the early stages with other music label owners such as Warner Music also involved.

What to watch out for

Government bond yields continue to rise, which could impact equity prices. The equity risk premium, essentially the extra return generated from riskier equities above that of relatively risk-free government bonds continues to shrink, meaning the risk/return tradeoff for investing in equities is less attractive.

Conclusion



International markets fell in August as markets lowered expectations for interest rate cuts anytime soon, and Central Banks continue to flag their resolve to return inflation back to target ranges. Economic growth has remained stronger than expected in the US, but China's economic outlook continued to weaken, leading to further fiscal stimulus by the government as the property crisis continues to unfold. The Australian reporting season will continue with weaker-than-expected financial results from most companies.

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 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. For 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.
- 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.

Disclaimer:

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