

Highlights of the week

- The Reserve Bank of Australia (RBA) has raised the cash rate by 0.5%, from 0.35% to 0.85%.
- China's consumer price index rose by 2.1% in May on a year-on-year basis.

Market Action

Equity Indices	Returns % (excluding distributions)		
	10-Jun-22	3-Jun-22	Change (%)
S&P/ASX 200	6935.9	7238.8	-4.2%
All Ordinaries	7148.2	7472.4	-4.3%
Small Ordinaries	2856.0	3024.9	-5.6%
S&P 500	4017.8	4176.8	-3.8%
NASDAQ	11754.2	12316.9	-4.6%
FTSE 100	7476.2	7533.0	-0.8%
Hang Seng	21869.1	21082.1	3.7%
Nikkei	28246.5	27413.9	3.0%

*US, UK and European prices refer to the previous day's close.

The S&P 500 and NASDAQ finished down -3.8% and -4.6% respectively this week. Concerns around the economic outlook was the main driver as the US awaited the newest update on inflation rates. The FTSE 100 closed down -0.8% with similar recession fears as the European Central Bank reduced its growth projection from 3.7% to 6.8%.

S&P/ASX 200 - Top five of the week

ASX Code	Company	Closing Price	Change
ALX	Atlas Arteria	\$8.20	15.0%
WDS	Woodside Energy Group	\$34.83	9.7%
TAH	Tabcorp Holdings Limited	\$1.03	8.4%
GNC	Graincorp Limited	\$10.28	8.2%
BPT	Beach Energy Limited	\$1.87	5.4%

Prices as at 3.30PM on 10/06/2022

Atlas Arteria's share price jumped as IFM investors purchased a 15% stake in the company but rejected the idea of a full takeover by IFM. Woodside and Beach Energy continued to rise with oil prices which reached a three-month high. Tabcorp rose 8.4% after settling a litigation with Racing Queensland whilst Graincorp's price increased by 8.2% after new earnings guidance based upon high winter crop yield forecasts.

S&P/ASX 200 Index – 1 Week Performance



The Hang Seng and Nikkei rose 3.7% and 3.0% respectively as China continued to bounce back from lockdowns. The S&P/ASX 200 declined -4.2% with Energy as the only sector to make significant gains as oil prices continue to rise. The increase in interest rates by the RBA caused the financial sector to fall, especially impacting the major banks.

S&P/ASX 200 - Bottom five of the week

ASX Code	Company	Closing Price	Change
ZIP	ZIP Co Limited	\$0.62	-22.0%
MFG	Magellan Financial Group	\$12.32	-17.5%
CHN	Chalice Mining Limited	\$4.96	-15.8%
WBC	Westpac Banking Corporation	\$20.97	-12.3%
APE	Eagers Automotive Limited	\$9.50	-12.0%

Zip slid a further -22.0% as economic conditions worsen, and Apple announcing their own Buy Now Pay Later product. Magellan Financial Group declined -17.5% as it revealed its funds under management had fallen by \$3.8 billion. Chalice Mining fell -17.5% after their presentation at the Resources Rising Stars Conference whilst Westpac was the bank most heavily affected by the RBA raised interest rates, falling -12.3%.

Upcoming S&P/ASX 200 Dividend Dates

ASX Code	Company	Estimated Dividend Ex-date	Dividend Per Share	Franking (%)
No upcoming dividends this week.				

Topic of the week

Buy Now Pay Later (BNPL) companies have recently been facing increased pressure as interest rates rise, more competitors emerge and the impending threat of industry regulation. Zip Co. (ZIP.ASX) has been heavily affected with its share price continuing to fall to multi-year lows and is currently trading at 62c despite an all-time high price of \$14.53 in February 2021. Sezzle (SZL.ASX), another buy now pay later company, and due to merge with Zip later this year, has had a similar fate currently trading at a price of 40c compared to \$9.20 only a year ago. Afterpay's acquirer Block Inc (SQ2.ASX) has fared better due to being no longer purely buy now pay later.

BNPL companies are also facing even more competition than before. As BNPL became more popular, larger existing businesses diversified their offerings, creating similar products or platforms but with the competitive advantage of their existing customer base and name recognition. On Monday, Apple confirmed that in its next operating system update, Apple Pay Later would be added which allows purchases to be split into four payments over six weeks and will be available with all Apple Pay merchants. BNPL company shares fell on this news with investors fearing a loss in customers and revenue. Visa, Mastercard, Amazon, Paypal and Commonwealth Bank of Australia have all launched their own BNPL platforms or services over the last two years and National Australia Bank have also announced that their version named NAB Now Pay Later would be available soon, already open for pre-registration.

Defaults in BNPL loans have been rising. In the most recent half year results for Zip, the cost of bad debts and expected credit losses had

quintupled to \$148.3 million. This was almost equivalent to half of Zip's revenue which came in at \$302 million. Compared to other forms of consumer loans, BNPL has minimal credit checking and borrowers with multiple loans are still able to obtain BNPL loans. Not only does this naturally appeal to a riskier customer base with a lower chance of making repayments but it has also puts the sector under review for regulation. The Financial Services Minister Stephen Jones has confirmed that national credit laws would be amended to ensure BNPL companies would fall under this law.

Another concern is the increase in the cost of living. With inflation reaching decade long highs in many countries as energy and household product prices continue to rise, customers will have tighter budgets and less disposable income for non-essential purchases.

The increases in cash rates by governments as they try to curb inflation has also caused technology shares, including BNPL, to fall recently. Operating costs increase with higher rates in addition to the uncertainty from BNPLs not having experienced a full economic cycle yet. As economic conditions tighten, we are likely to see a reduced demand in payment services as customers reduce their spending habits.

These factors have contributed to the large falls in share price across the BNPL sector. With economic conditions worsening, and the threat of regulation, it is still unknown which offerings will survive the sectors biggest crisis to date.

Home Loan Rates

Lender	Owner Occupier (Variable)	Owner Occupier (2 Year Fixed)	Owner Occupier (5 Year Fixed)	Investor (Variable)	Investor (2 Year Fixed)	Investor (5 Year Fixed)
CBA	2.44%	4.54%	5.44%	2.74%	4.64%	5.64%
NAB	2.44%	4.69%	5.59%	3.04%	4.94%	5.69%
Macquarie	2.44%	4.45%	5.05%	2.64%	4.65%	5.25%

*Based on a 25-year, \$450,000 loan with principal and interest repayments and a Loan-to-Value ratio of 70%.

What to expect for the week ahead

- The Reserve Bank of Australia (RBA) will release their quarterly Bulletin with insights into the economy and financial system.
- The Australian Bureau of Statistics (ABS) will release the latest labour force statistics. Unemployment was at its lowest level since 1974 in the last release.




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