# Market & Economic Update

## July 2021

### General Economic and Market Update

- COVID19 was back at the forefront in July with the prolonged NSW lockdown and the vaccine rollout program took the centre stage.
- The latest OPEC+ discussions hit a roadblock on Monday, with the United Arab Emirates refusing to accept a proposed increase in supply, sparking fears of non-compliance among members and a potential disbanding of the alliance. The lack of unity in OPEC presents a real risk over the medium term. In the absence of a deal, the current production cuts remain in place, meaning the oil market will tighten further as demand surges amid easing travel restrictions.
- China's exports unexpectedly surged in June, helping to underpin the economy amid signs the recovery is starting to slow. Exports climbed 32.2% in dollar terms in June from a year earlier, while import growth slowed to 36.7%, the customs administration said on Tuesday. That left a trade surplus of $US51.53 billion ($68.7 billion) for the month. Economists had forecast that exports would grow by 23% while imports would climb by 29.5%.
- The AUD fell as activity is sapped by lockdowns in Sydney and Victoria, and amid increasing fears global growth could be stalled by the delta variant of the coronavirus.
- Domestic passenger numbers at **Sydney Airport** fell 56.8% in June, versus the corresponding month in 2019. International passengers fell 93.8%. It warned stay-at-home orders issued by the NSW government on June 25 will limit interstate and trans-Tasman passenger numbers further.
- Iron ore fell into a technical correction in July and finished the month below $200/t for the first time in months.

### Australian Economy

- Investor lending for housing in May hit its strongest levels in dollar terms in six years as investors flood into the booming property market. The monthly value of lending in was the highest since June 2015.
- Australian retail sales tumbled 1.8% in June with lockdown restrictions weighing heavily. Victoria led the state falls, with the impact of the state's fourth lockdown more pronounced in June than May. New South Wales and Queensland also fell due to stay-at-home restrictions and reduced interstate mobility.
- Business conditions fell in June driven by falls across trading, profitability and employment sub-indexes. Conditions fell by 12 points to +24 index points after reaching a new high last month. Despite this pullback, business conditions and its components all remain elevated following the gains seen earlier in 2021.
- Consumer confidence has rebounded despite Sydney's lockdown extended, as Brisbane, Perth and Darwin emerged from their snap lockdowns.
- Australia's unemployment rate has fallen to 4.9% in June, its lowest level since June 2011. Employment grew by 29,100, driven by a 51,600 increase in full time jobs while part time jobs fell by 22,500. The participation rate was steady at 66.2%. Markets had been expecting the unemployment rate to remain steady at 5.1% and jobs would grow by 20,000.
- Australia's trade surplus hit $13.3 billion in June with the value of exports ($41.3 billion) and imports ($28 billion) both up 8%. Iron ore hit $17.5 billion up 6% on the prior corresponding month thanks largely to price increases. Coal benefited from prices near decade-long highs to $555 million. Copper ore climbed $302 million or 55% to $847 million.

| Market performance as at 31/7/21 | 1 month % | 1 year % |
|---|---|---|
| ASX100 Accumulation Index | 1.16% | 28.76% |
| All Ordinaries Accumulation Index | 1.06% | 30.38% |
| S&P500 | 2.27% | 34.67% |
| NASDAQ Composite Index | 1.16% | 36.55% |

| Key Indicators | 30/6/21 | 31/7/21 |
|---|---|---|
| AUD/USD | 0.7500 | 0.7337 |
| Brent Crude Oil (US$) | 75.13 | 75.41 |
| Gold (US$) | 1,770.02 | 1,814.19 |
| Iron Ore (US$) | 211.25 | 179.00 |

| ASX200 | 1 Month Perf % | 1 Year Perf % |
|---|---|---|
| Communication Services | -1.39% | 21.31% |
| Consumer Discretionary | -0.51% | 38.22% |
| Consumer Staples | 1.39% | 3.43% |
| Energy | -2.53% | 11.55% |
| Financials | -1.43% | 35.25% |
| Health Care | 1.16% | 10.51% |
| Industrials | 4.25% | 17.31% |
| Information technology | -6.88% | 23.59% |
| Materials | 7.13% | 30.65% |
| Real Estate | 0.62% | 26.53% |
| Utilities | 1.24% | -21.85% |

## Sector Review

- **Materials** was the best performing sector in July, up 7.13% for the month. Rare earths companies such as **Lynas (LYC)** and battery minerals companies such as **Nickel Mines (NIC), Pilbara (PLS)** and **IGO** outperformed the rest. **RIO** advanced 5% after the company reported earnings above consensus, as well as a DPS of $5.61 (ordinary plus special), representing 75% payout ratio. Gold miners firmed as gold price rebounded from previous month's low.
- **Technology** stocks performed the worst in July after a few months of leading the market. **Afterpay (APT), Appen (APX)** and **Megaport (MP1)** led the decline, while **Altium (ALU)** dropped 7.6% as the takeover suitor walked away. On a positive note, shares in **Nearmap (NEA)** rebounded 10% as the company upgraded earnings guidance, and **IRESS (IRE)** in talk with EQT for potential M&A activity.
- The **Industrial** sector advanced 4.25% in July fuelled by corporate activity. **Sydney Airport (SYD)** led the sector, up 35% despite rejecting the takeover offer from a consortium of PE firms and super funds. **Reliance Worldwide (RWC)** has entered an agreement with LCL to acquire the business assets of LCL for $37m. Shares in **Seven Group (SVW)** rallied 14% as the company took control of **Boral (BLD).**
- The **Financial** sector underperformed in July. Shares in **HUB24 (HUB)** and **Netwealth (NWL)** declined 15.61% and 8.8% respectively despite reporting strong quarterly FUM updates. **ANZ** announced its plan to do a share buyback of up to $1.5b. **NAB** followed suit announcing a $2.5b on market buyback.

## Stock Snapshot

- **REA** has acquired 100% the shares in **Mortgage Choice (MOC)** for $1.95 a share, valuing the company at $244 million.
- The New Zealand government has approved **A2 Milk's (A2M)** acquisition of a 75 per cent interest in dairy Mataura Valley Milk.
- Logistics group **Qube (QUB)** will sell its Moorebank Logistics Park (MLP) properties to LOGOS Property Group for $1.67 billion.
- **Tabcorp (TAH)** has confirmed it plans to demerge its Lotteries and Keno businesses to create two standalone, market leading ASX-listed companies operating lotteries and sports betting apart.
- IFM Investors has launched a takeover bid for **Sydney Airport (SYD)** pricing its shares at $8.25 which was subsequently rejected.
- IT hardware and software distributor **Dicker Data (DDR)** expects an unaudited profit before tax up 7.1% to $45 million on revenue up 6.4% to $1070 million for the first half of calendar 2021.
- **Westpac (WBC)** has sold its New Zealand life insurance business to Fidelity Life for $373m.
- **Seven Group (SVW)** has taken control of **Boral (BLD)** after securing over 50% stake and appointing Ryan Stoke as the Chair.
- **Australian Pharmaceutical Industries (API)** received an unsolicited bid from **Wesfarmers (WES)**, which it subsequently rejected.
- **Nearmap (NEA)** upgraded its annual contract value to $133.8m, exceeding previous guidance of $128m to $132m.
- **Spark Infrastructure (SKI)** has received a takeover bid from a consortium led by the Ontario Teachers' Pension Plan Board and KKR.
- Servo retailer **Ampol (ALD)** will invest in 100 fast electric vehicle charging bays at its retail networks in a deal co-funded by the Australian Renewable Energy Agency.

## About Armytage

Armytage Private is a boutique investment specialist majority owned by members of its investment team and key executives. Founded in 1995, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed IMAs and managed funds.

Armytage is a Value manager with a fundamental investment approach designed to identify quality businesses trading at a considerable discount to valuation. The process is guided by three fundamental beliefs:

- Markets are not perfectly efficient and the true value of a business is not always reflected in its share price;
- Undervalued companies can be identified through detailed and intensive research; and
- Capital preservation is critical to wealth creation.

## Products & Services

Investment strategies offered by Armytage include:

- Armytage Australian Equity Income Fund
- Armytage Strategic Opportunities Fund
- Armytage Micro Cap Activist Fund
- Armytage Individually Managed Account

## For Further Information

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