



# Weekly Market Update (Issue 550) - 3 June 2019

And so it continues.

The trade-war, that is.

## Chinese response to U.S trade demands suggests resolution a ways off

Over the weekend the Chinese government released a 'white paper' detailing their thoughts on the subject, laying blame for the deterioration in talks firmly at the feet of the U.S trade team and suggesting that unless the U.S was willing to remove ALL existing tariffs and to deal with the Chinese on an even keel and with respect, then the Chinese people would batten down the hatches for a longer, adverse period of trade discussions.

Upping the ante, the Chinese government announced a separate investigation into U.S transport giant **FedEx (FDX)** over its unapproved re-routing of Huawei deliveries from Japan via the United States and that it had drawn up a list of 'unreliable entities' that could face sanction and punishment from the Chinese in the future.

It's getting hotter in the kitchen, and it seems increasingly likely we will see the impact of this uncertainty further impact economic data in the coming months, particularly in the United States.

In fact, tonight in the U.S we will get the May manufacturing data out and the risk is that it shows businesses slowing new orders and inventories rising.

This sort of data is inconsistent with the U.S share-market still only 6% from its all-time high and suggests significant risk of a further 5% to 10% downside in our opinion.

The next discussion between the Presidents of both countries is slated for the G-20 in Japan on June 28<sup>th</sup>, four (4) full weeks away and by no means a certainty.

## **Australian equities outperform big in May**

Australian shares outperformed their U.S peers by almost 8% over May, buoyed by relief that the continuity offered by a Coalition government would best assist the local economy and its much-watched housing market avoid tipping further into negative territory.

Australian shares were the equal best performing major equity market in May, scraping out a very small gain against weakness in most other major indices.

## **Australian interest rate cuts ahead, but don't get carried away**

On Tuesday this week we will see the RBA potentially cut domestic interest rates by 0.25% and signal the likelihood of a further cut during the 3rd quarter.

As I have said before, I'm not convinced the RBA have to cut tomorrow, nor that they will cut more than 2x, but even still, the prospect of lower rates for households is working its magic already in property markets, where auction clearance rates again improved over the weekend.

We wouldn't get carried away with the idea of an imminent return to bull-market conditions in domestic property, but absolutely agree that the Federal Election outcome and likely RBA rate cuts have removed the threat of far more significant downside had the results been different.

Just to compound this point, today's ANZ Job Advertisements for May were released and were the worst monthly figure since the GFC and point to annual declines in jobs offered of -15% which, were it not for the Federal Election likely impacting the data in some way, would be of ENORMOUS concern to the Reserve Bank and would point to not just 50,000 full time jobs lost as we currently anticipate, but likely double that!

Building Approvals last week for April further plummeted to their lowest in 6 years.

We are in a significant slowdown, perhaps to the point of negative growth near term, and the positives with the election and rate cuts simply offer much needed ballast to deteriorating levels of activity and are NOT the catalyst for imminent bull market conditions.

## **Global uncertainty and local rate cuts support exposures to Australian alternative lending**

We think one of the key beneficiaries of recent local and global events is the Australian alternative lending space and our preferred providers such as **Metrics** and **Qualitas**.

The uncertain global economic environment suits defensive assets and the potential for multiple Australian rate cuts seems likely to fuel additional 'yield reach' from investors looking to supplant falling returns from cash and hybrid security investments.

Whilst both the **Metrics Master Income Trust (MXT)** and **Qualitas Real Estate Income (QRI)** funds are exposed to falling base rates, we think there is potential that both funds see increased investor attention from investors seeking higher yield and that this leads to both listed-investment trusts grinding to a wider premium to underlying asset value.

## **Profit warnings creating opportunity**

Last week saw more hand grenades lobbed at the Australian investor in the form of profit downgrades by **Link (LNK)**, **Costa Group (CGC)** and **Downer (DOW)**.

These follow a warning from market favourite **Reliance (RWC)** a fortnight back.

We expect more to come and are hopeful this provides great long-term opportunity for investment in companies with excellent secular growth.

As we said last week, you won't make much money out of **Commonwealth Bank (CBA)** or **Woolworths (WOW)** at these levels over the next few years, but you will likely be rewarded for going against the grain in some of these companies under short term pressures.

We think companies like **Costa (CGC)**, **Reliance (RWC)**, **Oil Search (OSH)**, **Nufarm (NUF)**, **Boral (BLD)**, **Downer (DOW)** and **Mineral Resources (MIN)** could provide opportunities in the coming 3-6 months and we hope our patience proves rewarding.

Regards, Jono

#### FRIDAY SPM VALUES

	Index	Change	%
All Ordinaries	6492	-54	-0.8%
S&P / ASX 200	6397	-59	-0.9%
Property Trust Index	1565	-45	-2.8%
Utilities Index	8019	-221	-2.7%
Financials Index	6140	-39	-0.6%
Materials Index	13221	-	-
Energy Index	10725	-252	-2.3%

#### FRIDAY CLOSING VALUES

	Index	Change	%
U.S. S&P 500	2752	-74	-2.6%
London's FTSE	7162	-116	-1.6%
Japan's Nikkei	20601	-516	-2.4%
Hang Seng	26901	-453	-1.7%
China's Shanghai	2899	+46	+1.6%

#### KEY DATES: AUSTRALIAN COMPANIES

Mon 3rd June 2019	N/A
Tue 4th June 2019	RBA Meeting
Wed 5th June 2019	Div Ex-Date – CNWHB, James Hardie (JHX)
Thu 6th June 2019	Div Ex Date – CBAPD, CBAPE, CBAPF, CBAPG, CBAPH, MQGPC, NABPF, WBCPI
Fri 7th June 2019	N/A

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