

Market & Economic Update

June 2021



General Economic and Market Update

- The Australian market rallied over 2% in June, marking its 9th consecutive monthly gain. Inflation remained a key theme throughout the month, with a hawkish Federal Open Market Committee (FOMC) alongside the spread of the Delta variant of COVID19 causing shifts in the market. Strong job data along with interest rates remained at its historical low continued to underpin equity market performance.
- Oil extended gains as OPEC+ provided an upbeat assessment of the demand outlook and the prospect of a speedy return of Iranian barrels to the market. A surge in demand for crude oil as COVID-19 restrictions ease around the world combined with signs of tightness in supply helped push benchmark oil prices to two and three-year highs.
- Chinese consumer prices lifted 1.3% in May, disappointing economists expecting a 1.6% increase in the CPI, but above April's 0.9% increase.
- China stepped up its campaign to rein in raw materials prices by expanding its oversight of commodities trading by state firms to overseas markets, and pledging to release the nation's reserves of base metals. The National Food and Strategic Reserves Administration will soon release state stockpiles of metals including copper, aluminium and zinc. The metals will be sold in batches to fabricators and manufacturers.
- Gold prices fell over 7% in June, its greatest monthly decline in the last 4 years. Gold started the month rising to its highest level since January as it peaked above US\$1,900. However, it soon pulled back as the USD rose on May's strong services index print, positive initial jobless claim data and the hawkish FOMC meeting in mid-June where the FED signalled it may begin to taper sooner than expected.

Australian Economy

- The Australian economy expanded in the March quarter. GDP grew by 1.8% on quarterly basis in the first three months of the year, taking annual growth to 1.1%. Economists had been expecting March quarter GDP growth of 1.5%, and annual growth of 0.6%.
- NAB's business survey has reported another record high in business conditions for the second month in a row, pointing to strong outcomes in the business sector. Business conditions rose to 37 index points in, driven by gains in each sub-component. Business confidence edged 3 points lower to 20 index points.
- Consumer confidence in Australia has edged higher to 111 points but remains behind the 4-week average level of 111.8 points.
- The average price of residential property in NSW surpassed \$1 million for the first time on record in the March quarter, while the total value of Australian homes hit \$8 trillion.
- The minimum wage was raised to \$20.33 per hour, or \$772.60 per week. The pay increase will generally apply from July 1 but will be delayed until later this year for workers in a number of Covid-stressed industries.
- Australia's unemployment rate hit 5.1% in May, down from 5.5% a month ago. Economists had been expecting an unchanged unemployment rate of 5.5%. The number of jobs added to the economy increased by 115,200 compared to a decrease of 30,600 jobs in April. Economists had been expecting 30,000 jobs to be added to the economy in May.
- Preliminary retail sales rose 0.1% in May, slightly below Bloomberg's consensus estimate of a 0.4% rise. A 1.5% rise in food retailing was offset by a 1% fall in Household goods, and a 1.5% fall in Clothing, footwear and personal accessory retailing. Victoria saw falls in five of the six industries.

Market performance as at 30/6/21	1 month %	1 year %
ASX100 Accumulation Index	2.14%	27.92%
All Ordinaries Accumulation Index	2.56%	30.24%
S&P500	2.22%	38.62%
NASDAQ Composite Index	5.49%	44.19%

Key Indicators	31/5/21	30/6/21
AUD/USD	0.7733	0.7500
Brent Crude Oil (US\$)	69.32	75.13
Gold (US\$)	1,906.76	1,770.02
Iron Ore (US\$)	195.00	211.25

All Ords Performance	1 Month Perf %	1 Year Perf %
Communication Services	6.13%	27.30%
Consumer Discretionary	4.21%	51.16%
Consumer Staples	6.00%	9.84%
Energy	4.52%	20.14%
Financials	0.07%	41.02%
Health Care	2.10%	7.57%
Industrials	3.62%	17.15%
Information technology	11.52%	41.89%
Materials	0.42%	39.50%
Real Estate	4.83%	31.56%
Utilities	3.01%	-17.70%

Sector Review

- **Technology** was once again the best sector, rising 11.52% in June. **Board & CircuitMaker Altium (ALU)** led the sector as the company received a takeover bid. **Afterpay (APT)** is back into the spotlight after announcing its service is now available to select app customers at the most popular & largest merchants in the US, including the likes of Amazon, Nike and Dell. APT shares rose over 27% despite talks of potential tightened regulations in Europe in the BNPL sector. Shares in **IRESS (IRE)** also hiked 20% as the company explored potential corporate and M&A opportunities.
- **Telco** stocks also had a good month. **Telstra (TLS)** announced the sale of 49% of its mobile towers infrastructure (InfraCo Towers) for \$2.8b to a consortium including Future Fund, Commonwealth Super and Sun Super. Shares in **TPG** rallied over 20% in June after hitting record lows in May. Shares in **Domain (DHG)** and **REA (REA)** also firmed on the back of resilient Australian housing markets.
- **Consumer Staples** was one of the best sectors in June, rising 6%. **Endeavour (EDV)** debuted on the stock exchange, making its way into top 100 immediately after demerging from **Woolworths (WOW)**. **Metcash (MTS)** joined **WOW** and **Coles (COL)** to form a trio of supermarket stocks in the ASX100. **Inghams Group (ING)** defied shorters' negativity and provided an upgrade to earnings forecast. The company now expects EBITDA to be between \$438m and \$448m while NPAT to be between \$80m and \$87m. ING also saw an improvement in trading conditions as the impact of COVID restrictions have decreased over the last 6 months.

Stock Snapshot

- **Wesfarmers' (WES)** retail businesses are still seeing strong sales growth, even as it begins to cycle the impacts of COVID-19 from the year prior. Online growth had moderated as customer traffic to stores had increased, and online penetration had reduced but remained above pre-COVID levels.
- **Star Entertainment (SGR)** was informed by AUSTRAC that it has identified potential serious non-compliance with anti-money laundering and counter-terrorism laws.
- **Altium (ALU)** has received a formal, non-binding, indicative and unsolicited proposal from Autodesk at \$38.50 a share for the acquisition of 100% of ALU shares via a scheme of arrangement.
- **Boral's (BLD)** independent board continued to recommend shareholders to reject **Seven Group's (SVW)** takeover offer as the bid materially undervalued the business.
- **REA Group (REA)** has acquired a 34% interest in Simpology, a leading provider of mortgage application and e-lodgement solutions for the broking and lending industries for \$15 million.
- The Treasurer of the Commonwealth of Australia has approved **Bank of Queensland's (BOQ)** acquisition of ME Bank.
- **Vicinity Centres (VCX)** expects full year distribution to be towards the lower end of its policy range. The value of the company's half stake in Chadstone shopping centre was also cut by \$64.3m and other city centres by \$1.98b.

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

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