

General Economic and Market Update

- The Australian market had a wobbly month in October amid the AGM & trading update season and rising treasury yields, after experiencing its first monthly loss in a year in September. The market improved towards the end of the month as both NSW and VIC coming out of lockdowns and vaccination rates accelerated across states & territories.
- Crude oil prices continued to surge as OPEC+ demonstrated that it is not ready to be diverted from its trajectory of slow and steady oil production increases, starting with a 400k barrel a day supply increase for November. After a relatively quiet summer, oil is now joining natural gas, coal and other vital commodities in a potent rally that threatens to upend the world's recovery from the coronavirus pandemic by spurring inflation and disrupting industries.
- China's steel industry has hit its zero-growth production allowance for 2021, and no further capacity cuts are required from September's production levels to achieve compliance on a full-year basis.
- The Reserve Bank of New Zealand has raised the official cash rate, the second central bank among developed nations after Norway to deliver a post-crisis interest rate increase, as the economy battles high inflation and a red-hot property market.
- Chinese coal prices firmed in October as floods in China's coal mining regions add to supply pressures at the same time as cooler weather cranks demand for energy.
- China's GDP has risen 4.9% in the third quarter of the year compared with a year prior, falling short of economist expectations of a 5% growth. Chinese industrial output in September rose by 3.1% compared with a year prior, undershooting expectations for a 3.8% increase. Chinese retail sales climbed 4.4% in September, beating forecasts for a 3.5% increase.

Australian Economy

- Australian house prices climbed 1.5% in September. The gains take average housing values 20.3% higher over the past year and 17.6% higher in CY2021.
- The unemployment rate came in at 4.6% in September. The number of jobs across the Australian economy fell 138,000 last month, greater than the consensus forecast of 110,000, as the lockdowns in Sydney and Melbourne crunched employment lower. The participation rate also fell to 64.5% from 65.2% in August.
- The Reserve Bank of Australia left interest rates unchanged and retained its weekly \$4 billion bond buying program that will remain until at least February. The RBA acknowledged that while the global supply chain disruptions were affecting the prices of goods, the translation to inflation remained limited.
- The Australian Prudential Regulation Authority now requires the banks to increase the buffer by 0.5%, from 2.5% to 3% in a move to take some heat out of the housing market. This buffer is added to the interest rate of the loan, and borrowers are assessed on whether they can repay with the buffer to ensure they can withstand higher interest rates in the future.
- Australia's consumer price index has risen 3% QoQ during the third quarter. Economists had been expecting CPI to climb by 3.1% following the 3.8% increase in the second quarter.

Market performance as at 31/10/21	1 month %	1 year %
ASX100 Accumulation Index	-0.03%	28.22%
All Ordinaries Accumulation Index	0.15%	28.97%
S&P500	6.91%	40.84%
NASDAQ Composite Index	7.27%	42.04%
Key Indicators	30/9/21	31/10/21
AUD/USD	0.7260	0.7431
Brent Crude Oil (US\$)	79.28	84.51
Gold (US\$)	1,760.98	1,787.93
Iron Ore (US\$)	122.25	99.95

ASX200	1 Month Perf %	1 Year Perf %
Communication Services	-1.11%	36.78%
Consumer Discretionary	0.24%	33.12%
Consumer Staples	-2.29%	6.69%
Energy	-2.69%	33.12%
Financials	0.76%	43.64%
Health Care	0.97%	6.63%
Industrials	-3.25%	15.84%
Information technology	2.10%	21.04%
Materials	-0.48%	10.33%
Real Estate	0.18%	23.24%
Utilities	-0.63%	-10.95%

Sector Review

- The high growth Technology sector is back at the forefront in October in anticipation of the AGMs. Shares in **Nearmap (NEA)** rose 16% as its Aust. based rival **Aerometrex (AMX)** was affected by border closures while NEA noted no issue. Accounting software **Xero (XRO)** noted national SME job growth has entered negative territory in the September quarter, falling 0.9% YoY. However, XRO's SME sales still grew 6.6% YoY. The RBA concluded that it would be in the public interest for Buy Now Pay Later providers to remove their no-surcharge rule. All BNPL members traded weaker in October except **Afterpay (APT)**, whose shares were supported by the takeover bid from Square.
- The **Industrial** sector performed the worst in October, down 3.25%, as many of its members are bond proxies, which were affected by rising bond yields. **Aurizon (AZJ)** declined 11% while **Transurban (TCL)** finished the month 5% lower.
- The **Consumer Staples** sector underperformed in October. **Woolworths (WOW)** reported food sales of 2.7% during the first 8 weeks of FY22. While online sales remained elevated, Big W was majorly disrupted by the lockdowns in VIC and NSW. Shares in **Inghams Chicken (ING)** declined 10% amid rising feeding costs despite poultry volume growth. **Treasury Wine (TWE)** also didn't have a good month as the logistic disruption in Asia continued.

Stock Snapshot

- Medical imaging business **Pro Medicus (PME)** has signed a \$40 million contract over 7 years with US healthcare provider Novant Health.
- **Nick Scali (NCK)** will acquire Plush-Think Sofas for an enterprise value of \$103 million, with the deal funded via a mix of cash and debt.
- **Aussie Broadband (ABB)** has successfully raised \$20 million through a heavily oversubscribed share purchase plan (SPP). The company initially offered eligible shareholders the opportunity to participate in the SPP offer to raise \$10 million, however as a consequence of the high demand, decided to accept a total of \$20 million.
- **Collins Foods (CKF)** had secured a corporate franchise agreement to operate KFC stores in the Netherlands that includes a plan to open 130 new outlets in the next decade.
- **CSL** still expects to post an FY2022 profit between \$US2.15 billion and \$US2.25 billion. Increased costs are expected to hurt the gross margins for its core plasma collection business, offset by some modest margin expansion for its Seqiris flu vaccine business.
- **Transurban (TCL)** has completed its retail entitlement offer, raising gross proceeds of approximately \$1.06 billion from the issue of approximately 82.1 million securities at \$13 per share.
- **Aristocrat Leisure (ALL)** has made a £2.1 billion (\$3.9 billion) bid for UK gambling software development company Playtech by way of a scheme of arrangement.
- **HUB24 (HUB)** is set to acquire **Class (CL1)** after entering into a scheme implementation deed with the company.
- **HomeCo Daily Needs REIT (HDN)** and **Aventus Property Group (AVN)** have agreed to a merger which will see HomeCo acquire all of Aventus' securities via schemes of arrangement.
- **Telstra (TLS)** has partnered with the Australian Government to acquire the Digicel business in the South Pacific for \$US1.6 billion.
- The Royal Commission has found **Crown Melbourne (CWN)** not suitable to hold a casino licence, but gave CWN 2 years to clean up.

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:

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- [Armytage Strategic Opportunities Fund](#)
- [Armytage Micro Cap Activist Fund](#)
- [Armytage Individually Managed Account](#)

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