



# Sell in May?

- The “Sell in May” proved poignant in the US as the S&P500 Index plummeted 6.58%, driven by the geopolitical & trade conflicts. The loss erased March and April gains, yet despite this, Australian equity market managed to stay in positive, which stemmed from a more optimistic domestic outlook following the election result. APRA eased lending requirements & expected RBA rate cuts started to follow through. The All Ords Accum. Index advanced 1.67% for the month, outperforming a vast number of global equity indices.
- President Trump has ended the truce between the US and China by increasing tariffs on more than US\$200b worth of Chinese goods, as well as restricting Chinese telecom giant Huawei from purchasing US made components. Furthermore, Trump also announced a 5% tariff on all Mexican imported goods, which has the potential to increase to 25%, if Mexico does not take actions to remedy the illegal immigration problem.
- The implementation of US tariffs on European auto imports has been postponed for six months. The US was also reportedly close to resolving its trade differences with Mexico and Canada on steel.
- The US Reserve Bank left its benchmark interest rate on hold at 2.5%. The FED reiterated they would remain patient about their next move, while noting weak inflation. Similarly, the RBA also kept cash rate on hold at 1.5%. The RBA will be paying close attention to developments in the labour market as the bank considers lower interest rates.
- Iron ore prices surpassed US\$100 per tonne, its highest level since 2014 amid reduced global supply. Chinese inventory depleted 8.2% in May, the biggest monthly move in percentage terms since May 2015. Vale still has court imposed restrictions based on poor outcomes following their dam incidents.
- Brent Crude Oil posted a 13.24% loss in May after the US Energy Information Administration said the US inventories shrank by 282,000 barrels last week, lower than consensus forecast. US Crude Oil stockpile is currently 5% higher than the 5-year average.
- Government bonds prospered in May as equity market volatility increased. The Australian 10 year bond yield dropped to its record low of 1.46%. The US 10 year bond yield also took a dip, reaching 2.12% as at the end of May. Gold was a beneficiary, gaining 2.26% over the month, finishing above the US\$1,300 per ounce level.

## Market Update

Returns to 31 May 2019	Index	1M	1YR Rolling
Australian Leaders	S&P/ASX 200	1.71%	11.08%
Australian Market	All Ords Index	1.67%	10.52%
US Shares	US S&P 500	-6.58%	1.73%

## Australian Economy

- The Coalition, led by Scott Morrison, won the 2019 Australian Federal Election, with the party claiming 77 seats in parliament. Anthony Albanese was named the new Labor Leader as former Opposition Leader Bill Shorten stepped down after conceding defeat.
- March retail sales beat expectations with a rise of 0.3%, versus consensus of 0.2% growth. Supermarket and grocery stores sales Q3 growth of 5.3% outpaced Coles’ and Woolworths’. The trade balance came in at surplus of \$5.1b, largely due to higher iron ore receipts.
- Unemployment ticked up to 5.2% in April and other labor force data remained mixed. The participation rate increased to 65.8%. Total employment increased by 28,400, driven primarily by part-time positions.
- Construction activity in Australia fell 1.9% YoY for the March quarter YoY. Public construction contracted for the 3rd consecutive quarter, despite the large pipeline of infrastructure spending. Building approvals fell 4.7% in April, below expectations. Private capital expenditure was also a miss, down 1.7%.

## Sector Returns ASX 200

- The ASX200 Accum. Index advanced for a 5th consecutive month, despite losing approx. 1.5% towards the end of the month as President Trump stirred up global. Many stocks have benefited from the Coalition's win in terms of share prices, particularly the major banks, private health insurers, retailers and property related stocks.
- The Communication Services sector led the ASX200 Accum. Index with a 6.39% gain. Domain (DHG) and REA Group climbed as Labor’s plan to wind back negative gearing is no longer a threat. Vocus received a takeover bid at \$5.25. The ACCC has officially opposed the proposed \$15b merger of TPG Telecom (TPM) and Vodafone, although the parties do not compete in the same markets and neither party is the market leader.

% Returns to 31 May 2019	Weight	1 Month	1 Year
Communication Services	3.92%	6.39%	25.89%
Consumer Discretionary	6.43%	2.26%	11.50%
Consumer Staples	5.48%	-4.24%	6.10%
Energy	5.34%	-4.68%	0.15%
Financials	32.04%	1.10%	9.89%
Health Care	8.40%	2.65%	10.31%
Industrials	8.21%	-0.95%	14.62%
Information Technology	2.28%	-6.33%	29.72%
Materials	18.47%	2.89%	14.13%
Real Estate	7.53%	2.57%	13.79%
Utilities	1.91%	-0.72%	9.39%

- The Materials sector also outperformed the Index, up 2.89% for the month. Fortescue's (FMG) 60 cent special dividend was highly desired by the market. Gold miners such as Evolution Mining (EVN), Northern Star (NST) and Newcrest (NCM) enjoyed a good month on the back of higher gold prices and a lower AUD. Building materials supplier Boral (BLD) advanced 11.96%, supported by the Coalition's win.
- Energy stocks were heavily impacted by oil price drop. The majority of the sector's members finished May with losses, except Woodside (WPL). Technology stocks also underperformed. Link Administration (LNK) fell 21.45% following a profit downgrade. On a positive note, Xero's (XRO) share price jumped 9.84% after the accounting software provider reported a good full year result. Xero's operating revenue increased 36% to \$552.8m, driven by a 31% increase in total subscribers.

### Stock Review

- Caltex's (CTX) first quarter operating earnings plummeted 42% as profit margins of its refineries dropped and its service stations underperformed. Caltex's NPAT fell from \$164m to \$94m, impacted by a \$38m drop in retail fuel margin.
- REA Group reported a 7% growth in its 3Qtr revenue of \$198.6m, despite a 9% drop in listings over the December quarter. The company warned that market conditions are not expected to improve in the short-term, with 4Qtr revenue growth slowing as listing volumes lag the Federal Election, as well as Easter and the ANZAC day long weekend creating a lower advertising environment.
- Qantas Airways (QAN) said it was on track to hit a record earning level in FY19. Total revenue for the first quarter rose 2.3% to \$4.4b. Despite this, the company's seeing increased softness in parts of the domestic corporate market for the remaining of this financial year, while the international market outlook continues to improve market share gains despite higher fuel prices.


### Global Markets

- China's retail sales, Industrial Production (IP) and fixed asset investment growth rate all missed consensus. IP growth of the manufacturing sector dropped to 5.3% YoY due to weaker automobile and electric machinery production. The data suggests China may need to add some stimulus, especially amid the trade war.
- US equities lost momentum in May due to the escalation of the trade war between the US and China. The S&P500 Index declined 6.58% in May, making it the worst month since December 2018. The implementation of tariffs in conjunction with Huawei being blacklisted by the US Government spurred fears that the trade conflict would not be resolved in the near future.
- UK Prime Minister Theresa May announced her resignation, effective June 7th. UK's GDP was in line with consensus at 1.8%, while CPI came in at 2.1%, slightly below expectations (YoY). It is unlikely that this will create any short-term gains to global markets.

Key Indicators	30/4/19	31/5/19	Change
\$AUD	US\$0.7055	US\$0.6934	↓
Brent Crude Oil	US\$72.06	US\$61.76	↓
Gold	US\$1287.70	US\$1,310.20	↑
RBA Cash Rate	1.50%	1.50%	↔
US 10y bond	2.53%	2.12%	↓
Aust 10yr bond	1.79%	1.46%	↓

### For Further Information

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### About Armytage

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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.

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