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Trade War Re-emerged

- August began with President Trump announcing a new round of tariffs on the remaining Chinese imports starting from September 1st. The month then witnessed a series of exchange in the forms of tweets and retaliatory threats from both sides. China requested its state owned enterprises to suspend agricultural product imports from the US. The US Treasury department labelled China as a currency manipulator while Trump ordered American companies (via a tweet) to immediately start to look for an alternative to China. On Sunday, 1st of Sept, a 15% tariff on about US$150b worth of new Chinese imports came into effect, which brought the average tariff on Chinese imports to 21.2%, up from 3.1% when Trump first came to office. On the same day, China started charging a 33% tariff on American soybeans and in 2 weeks, American cars and car parts will be taxed at 42.6%.
- The political unrest in Hong Kong escalated in August as protestors caused major disruptions to the city's international airport and paralysed transport to and from the facility. Hong Kong and London are eminent financial services hubs.
- The global markets experienced a broad sell-off in August due to fears of a re-emerging trade war that could affect global economic growth and stoke a recession. In Australia, the All Ords Accum. Index shed 2.36% amid FY19 reporting season. In the US, major indices finished the month in the red, with the tech heavy NASDAQ Composite being hit harder. The S&P500 and NASDAQ index declined 1.81% and 2.60% respectively for the month.
- Iron ore prices plummeted in August as Vale expected its output to start to recover in the second half and the impacts of weather disruptions in Australia started to wear off. Furthermore, escalating trade tensions and limited signs of a strong lift in Chinese infrastructure investment also put downward pressure on iron ore demand.
- Oil was also amongst the victims. Oil prices however improved towards the end of the month as data showing inventories at Cushing, Oklahoma sunk to the lowest level in 8 months. Cushing is the largest commercial oil storage depot in the US.
- Safe haven commodity gold continued to trend up in August, surpassing US$1500 level during the month. Bonds were also in high demand. The Australian 10-year bond yield dropped below 1% for the first time as trade wars continued to ripple through markets.

Market Update

As at 31 August 2019	*Index*	1 month %	1 year %
Australian Leaders	*ASX200 Accum. Index*	*-2.36%*	*9.04%*
Australian Market	*All Ords Accum Index*	*-2.22%*	*8.58%*
US Shares	*S&P500*	*-1.81%*	*0.86%*
US Tech shares	*NASDAQ Composite Index*	*-2.60%*	*-1.81%*

Australian Economy

- Auction clearance rates in Melbourne and Sydney ticked up in August, reaching 2-year highs, at 78.3% and 81.7% respectively. Listing volumes however remained low although we are in the start of a traditionally busy Spring season.
- Building approvals fell 25.6% YoY as at the end of June 2019, missing expectations of a 24.3% decline. It was mainly driven by a drop in apartment buildings.
- Spending across Australia fell 0.1% in July, following a similar decline in June. This brought the annual sales growth down to 3.2% vs 3.8% last year and well below long-term average of 5.5%.
- Australian consumer confidence slumped to the lowest level since March, driven by increased pessimism towards the outlook of the economy and fears of geopolitical turmoil.
- The unemployment rate remained at 5.2% in July, in line with expectations. 41,000 jobs were added, of which 34,500 were full-time positions. The participation rate slightly ticked up to 66.1%.

ASX200 Index

- The ASX200 Index's winning streak was cut short in August as the reporting season was upon us. 65.31% of companies reported misses on the sales line and 53.85% reported negative earnings.
- Materials was the worst sector of the month, driven by a decline in iron ore prices, which plunged 28% in August, wiping out gains from the past 6 months. Gold stocks once again claimed the top spots, although the gains are modest versus last month. Despite reporting record earnings and huge dividends, RIO and BHP's results fell short of analyst expectations and share prices were fell away as a result.
- Similarly, the Energy sector also underperformed as oil prices couldn't break through the US$65/barrel level. Woodside (WPL) reported a 22.5% slip in NPAT and share price slid 9% on the report date. Being the largest in the sector in terms of market cap, WPL was one of the big laggards of the sector.
- In a month of high volatility, defensive sectors such as Healthcare and Real Estate held up relatively well. Retail REITs were

As at 31 August 2019	*Weight*	1 Month %	1 Year %
Communication Services	3.79%	-3.07%	13.21%
Consumer Discretionary	6.26%	0.22%	3.46%
Consumer Staples	5.97%	-0.10%	14.87%
Energy	5.02%	-5.36%	-8.70%
Financials	31.51%	-2.57%	5.23%
Health Care	9.46%	3.61%	9.83%
Industrials	8.36%	-2.46%	12.65%
Information Technology	2.48%	0.26%	13.21%
Materials	17.42%	-7.46%	18.74%
Real Estate	7.88%	2.33%	16.15%
Utilities	1.85%	-2.98%	5.41%

supported by strong trading updates from retailers such as Woolworths (WOW), Wesfarmers (WES), JB Hi-Fi (JBH). Whereas, another defensive sector, Consumer Staples underperformed in August due to weak earnings update/guidance/downgrade from members, namely Costa Group (CGC) and Bellamy (BAL).

Stock Review

- Transurban (TCL) raised $500m from investors to take ownership of a section of the M5 toll road in Sydney. The M5 West will form part of the WestConnex M5 concession after 2026. The capital raising was made through a fully underwritten institutional offer at $14.70 per share.
- Nearmap (NEA) reported a 45% increase in revenue to $77.6m while EBITDA more than tripled to $15.5m, both were ahead of consensus estimates. Annualised Contract Value (ACV) had grown significantly while demand for its services in ANZ and North America remained healthy. NEA's result was underappreciated by the market as share price plunged 19% in August.
- Kogan (KGN) reported a strong full-year result with revenue increased 6.4% to $438.7m and NPAT increased 21.9% to $17.2m. The marketplace launched in April contributed $1.5m to this year gross earnings. KGN started FY20 trading on a positive note with July sales jumped 32% YoY.

Global Markets

- The Reserve Bank of New Zealand surprised markets by delivering a 50bpts rate cut vs expectations of a 25bpt cut. Similarly, The US Federal Reserve also cut the nation's official cash rate for the first time since 2008. The FED Chairman Jerome Powell's speech might be a hint that the cut could be a one-off and the central bank will unlikely be aggressive in lowering interest rates further.
- The S&P500 and NASDAQ Index finished the month in the red as the earnings season wrapped up in the US. 55.42% of companies reported positive sales surprises and 76.33% reported positive earnings surprises.
- Chinese industrial output increased 4.8% in the year to July, the slowest annual growth since February 2002, below consensus forecast of 6%. Retail sales were also a miss, 7.6% actual vs 8.6% estimate. Urban fixed asset investment grew 5.7% in 6 months to July, also a slight miss. Chinese Manufacturing PMI remained in contraction in August at 49.5, missing expectations and lower than July's 49.7. Non-manufacturing PMI slightly improved.
- UK stocks underperformed their European peers through August as trade rhetoric and PM Johnson's push towards a hard Brexit weighed on sentiment. Johnson has successfully suspended parliament in September, making it more difficult for anti-no deal MPs. In terms of results, 57.89% of FTSE 100 companies surprised to the upside on sales and 63.64% surprised to the upside on earnings.
- The Hang Seng underperformed the most in Asia as protests in Hong Kong showed no signs of de-escalation and trade tensions between the US and China heated up.

Key Indicators	31/7/19	31/8/19	Change
$AUD	US$0.6875	US$0.6725	⬇
Brent Crude Oil	US$64.98	US$59.19	⬇
Gold	US$1,437.30	US$1,529.20	⬆
RBA Cash Rate	1.00%	1.00%	⬇
US 10y bond	2.06%	1.50%	⬇
Aust 10yr bond	1.20%	0.89%	⬇

For Further Information

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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 Individually Managed Account Service