

Victoria ruins it for everyone !



Market Update

- The US earnings season has been better than expected, thanks to an extremely low bar mostly due to companies fully withdrawing guidance and analysts lowering estimates. The S&P500 and NASDAQ index rallied over 5% each in July. The Australian market however wobbled around as a worsening COVID19 situation in Victoria posed a threat to investors. The All Ords Index was +4% in front mid-month but eventually giving up gains towards the end of the month, finishing 95bps higher than June-end.
- Since March, VIC has recorded the biggest payroll job losses of 7.6%, according to the ABS payroll data. NSW has lost 6.1% of its jobs while Queensland employment is 6.3% lower. Almost one in three of the jobs lost in the COVID-19 recession have been recovered but the pace of the job recovery slowed in the first half of June. The total number of payroll jobs increased 0.2% in the first week of June and did not rise in the second week of the month.
- China's exports grew at a 4.3% YoY pace in June, surpassing consensus forecasts of 3.5% and showing more signs of recovery in the world's second largest economy. Imports grew 6.2% in yuan terms, a possible sign of a continued recovery in the strength of China's consumers. China trade balance was US\$59.6b in June compared to US\$62.3b in May.
- The government will extend the JobKeeper and JobSeeker schemes for another six months, but both will be reduced after a Treasury review found they could act as disincentives to work as the economy recovers. The JobKeeper fortnightly payment has been reduced to \$1200 and, at a threshold of 20 hours per week, to \$750. The eligibility threshold will be held at 30% loss of revenue.
- The Australian government expects budget deficit of \$85.8b in FY20 and \$184.5b in FY21. Real GDP down 3.75% in 2020. Unemployment rate is expected to peak at 9.25% in December. Gross debt will reach \$851.9b in FY21, equivalent to 45% of GDP.
- Gold continued to charge ahead as fears of another market correction and a sharp rebound in inflation have supported the precious metal, with trillions of dollars of monetary stimulus unleashed in response to COVID19.
- The RBA has held the official cash rate steady at 0.25%. The result was widely expected by the market.

Market Performance

As at 31 July 2020	Index	1 month %	1 year %
Australian Leaders	ASX200 Accum. Index	0.50%	-9.87%
Australian Market	All Ords Accum Index	0.95%	-9.02%
US Shares	S&P500	5.51%	9.76%
US Tech shares	NASDAQ Composite Index	6.82%	31.43%

Australian Economy

- Building approvals plummeted 16.4% in May with losses driven by heavy falls in private sector dwellings and apartments. The decline was driven by private sector dwellings excluding houses, which fell 34.9%. The number of dwellings approved in apartment buildings fell sharply, to an 11-year low.
- The value of new loan commitments for housing fell a record 11.6% in May, driven by large drops in NSW and VIC. The value of new loan commitments for owner occupier housing fell 10.2%, while investor housing fell 15.6%. The number of owner occupier first home buyer loan commitments fell 9.3%.
- Australia unemployment rate rose to 7.4% in June despite participation rate rising to 64%. Total new jobs were 210,800 compared to a loss of 227,700 jobs in May.
- Consumer sentiment recorded a sharp fall in July following the return to lockdowns for the country's second largest city. Victoria's sentiment index plunged 10.4 per cent in July and the mood in the rest of the country dropped 4.5% on a combined basis.
- Preliminary retail sales ticked 2.4% higher in June, with increased activity in cafes, restaurants and takeaway services driving the result. The ABS noted while the result shows improvement, many industries remain below the levels of a year earlier.

ASX200 Index

- The ASX200 Index slightly edged higher in July as fears of a harsher lockdown in Victoria were manifesting.
- The Materials sector ended the IT sector's 3 month dominance in July, up 5.82%. Resource stocks received support from strong iron ore and gold prices, with 10 out of top 15 best performing stocks in the sector being either gold or iron miners. **OZ Minerals (OZL)** was also benefited from rising copper prices due to supply shortage.
- The aforementioned Technology sector was the 2nd best performing sector, up 4.64% for the month. **Afterpay (APT)** reached its all-time-high despite announcing a capital raise and

As at 31 July 2020	1 Month Perf %	Index Weight
Communication Services	3.44%	4.27%
Consumer Discretionary	2.71%	7.05%
Consumer Staples	3.35%	6.64%
Energy	-6.55%	3.76%
Financials	-1.11%	26.80%
Health Care	-3.89%	11.69%
Industrials	-3.70%	7.22%
Information Technology	4.64%	3.62%
Materials	5.82%	20.51%
Real Estate	-0.03%	6.55%
Utilities	-0.18%	1.87%

founders sell-down. Another stock that hit all-time-high was **NextDC (NXT)** as the data centre announced a significant contract win at its NSW facilities.

- Energy stocks underperformed in July as a series of write-downs from oil companies sent the sector lower. This includes **Woodside (WPL)**, **Oil Search (OSH)** and **Origin (ORG)**.

Stock Review

- Collins Food (CKF)**, the operator of KFC and Taco Bell, saw revenue from ordinary activities rose 8.9% to \$981.7 million while profit fell 20.1% to \$31.3 million. Despite the closure of food courts and dine in restaurants due to COVID-19, the group was able to record same store sales growth of 3.5% at its KFC Australia stores. The company will be pay a final dividend of 10.5 cents per share.
- Woodside Petroleum (WPL)** will take US\$4.37b of write-downs and charges in its first half results after following European major producers in slashing expectations for oil and gas prices over the next few years, while doubling expectations for carbon prices. The company has reported a record quarterly production in the June quarter of 25.9m barrels, contributing to a record first-half of output. That pushed first-half production to 50.1m barrels, up 28% on pcp.
- Kogan (KGN)** has raised \$20 million through its share purchase after lifting the size of the raising from \$15 million. The online retailer issued new shares at \$11.45. The completion of the share purchase plan comes after the company completed a \$100 million placement on June 11.
- Baby Bunting (BBN)** has reported an increase in sales through the 2020 financial year despite the impact of COVID-19. The group reported total sales of \$405 million, up around 12% against the previous year. Statutory NPAT is expected to be between \$9.5m and \$10.5m, down the from \$11.6m reported last year.


Global Markets

- China's factory activity edged higher in June as official government data points to a continued recovery in the world's second largest economy after plunging to record lows in February during the coronavirus outbreak. The PMI came in at 50.9 in June, beating expectations of 50.5.
- Japan's exports fell 26.2% YoY in June, better than the 28.3% decline in May, but it fell short of consensus expectations for a 24.7% drop. Japan's imports fell 14.4% in June, an improvement from the 26.2% decline recorded in May. Japan's trade deficit was ¥268.8b, down from ¥833.4b in the prior month.
- Several European countries that had their coronavirus outbreaks under control have begun to see a rise in cases that is feeding fears of a second wave. A spike in infections has led Belgium to ramp up restrictions on social contact, while Spain has closed gyms and nightclubs in Barcelona. Governments are urging their citizens to be more vigilant, amid the lure of summer gatherings and vacations, while health officials warn that lax public attitudes are putting the continent on a dangerous trajectory.

Key Indicators	30/6/20	31/7/20
AUD/USD	0.6906	0.7132
Brent Crude Oil (USD)	41.58	43.71
Gold (USD)	1,808.00	1,980.50
RBA Cash Rate	0.25%	0.25%
US 10y bond	0.66%	0.53%
Aust 10yr bond	0.87%	0.82%

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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