JM Financial Group

Investment Newsletter
June 2023

Australian Equities Strategy

Performance *(Net*)*	**1 Month (%)**	**3 Months (%)**	**1 Year (%)**	**3 Years (% pa)**	**5 Years (% pa)**	**Inception** (% pa)**
JMFG Australian Equities Strategy	**+1.9%**	**-2.1%**	**+9.5%**	**+3.2%**	**+2.7%**	**+6.2%**
All Ords Accumulation Index	+1.9%	+1.0%	+14.8%	+11.4%	+7.3%	+7.9%
Outperformance	**0.0%**	**-3.1%**	**-5.3%**	**-8.2%**	**-4.6%**	**-1.7%**

*Although the JMFG Australian Equities Strategy is generally representative of client portfolios, Individual performance may differ from the results above. These differences can arise due to various reasons, some of which may relate to initial timing of investments, and cash inflows and outflows. *Performance is calculated on a TWRR basis after management fees (post 1 Jan 2017), performance fees (paid or accrued), GST, and excludes the effect of franking credits. **Strategy Inception for Performance Data is July 1st, 2014.*

Month in Review – *A review of the share market and overview of the portfolio for the month*

For the month of June, the JMFG Australian Equities strategy returned 1.9%, in line with the S&P/ASX All Ordinaries Accumulation Index. It was a strong finish to FY23, in which the market returned a very credible 14.8% for the year. The bulk of the year's returns came in the first half, while second-half returns were comparatively muted as the market took a more cautious approach while assessing the economic impact of interest rate rises. Larger companies overall outperformed for the year, which contributed to the strong performance of the index and the strategy, with the strategy returning 9.5% to investors. In economic news, a softer May CPI print in the USA and Australia allowed the Federal Reserve and the Reserve Bank of Australia to pause rate rises mid-June and early in July respectively, with both institutions taking a wait-and-see approach.

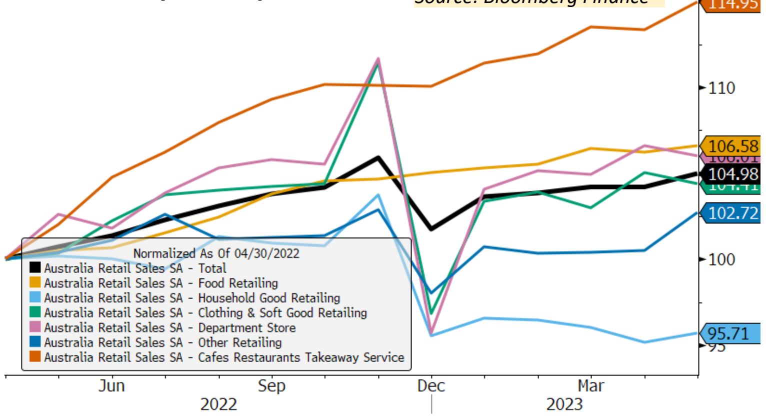
This month, large-capitalisation stocks (+1.9%) outperformed small-capitalisation stocks (0.0%), continuing the recent trend, with a FY23 large-capitalisation outperformance of 6.6%. The market rally was relatively broad with a number of strongly performing sectors including Materials +4.8%, Technology +3.5% (which has continued to rally), Financials +3.1%, and Utilities and Consumer Staples both +2.9%, while Consumer Discretionary and Energy both performed in line with the markets, +1.8%. A notable laggard this month was HealthCare -6.6% due to a downgrade from CSL Ltd, the largest component of this sector. Communications -1.0% also detracted, while Industrials and Property were both flat.

During June, portfolio activity increased with several positions rotated out in favour of new ideas while maintaining moderately elevated cash levels in keeping with a cautious outlook heading into FY23 reporting season.

Chart of Interest – *Retail Sales*

Following twelve Australian rate rises and multi-decade high inflation readings, the market is closely watching retail sales statistics and retailer trading updates to get a reading on the health of consumers and the overall economy. The chart below shows the seasonally adjusted monthly retail sales numbers normalised to April 2022, just before the first rate rise, through to May 2023. The chart shows that over this period the Cafes, Restaurants, and Takeaway industry has been the strongest performer, steadily rising over the period, rebounding from a period where it was amongst the worst-performing industries during lockdowns and under work-from-home rules. Conversely, Household Goods Retailing has been the weakest-performing industry, consistent with lower home sales and a lower willingness to spend on higher ticket discretionary items, and the weakness follows a period of elevated spending in this area.

Retail Sales by Industry



Notably, Department Stores and Clothing & Soft Good Retailing have held up reasonably well despite the impact of rising rates and mounting cost of living pressure. Overall, Total Retail Sales have remained resilient, however, the ABS noted in the May release that discretionary spending may have been supported by more promotional activity than usual which could indicate retailers are beginning to see demand falling and are needing to discount to move stock. Quarterly sales trading updates and FY23 results will be closely watched and are discussed in more detail in the Topic of Interest.

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Key Contributors and Detractors for the Month – *JMFG Australian Equities Strategy*

CONTRIBUTORS

BHP Group (BHP)

BHP rallied 7.1% in June as the price of its key commodity, iron ore, rallied through the month on expectations the Chinese government will be required to provide some form of stimulus for its faltering economy. BHP led what was a broad-based rally in Materials, which was the strongest performing sector this month. There was little other news flow.

Paladin Energy (PDN)

At the end of May, a Namibian government official made comments regarding a desire to require government equity interest in petroleum and mining projects, sparking a quick sell-off in Namibia-exposed companies including Paladin. However, at the start of June, the Namibian Ministry of Mines and Energy clarified it had no intention to take interests from existing projects and reiterated it was committed to honouring existing contracts.

DETRACTORS

CSL Ltd (CSL)

CSL was a large detractor this month due to the company providing a market update which saw the stock down 6.9% on the day. While upgrading FY23 constant currency earnings to the top end of guidance, CSL advised the impact from currency movements have had a larger headwind than expected and provided FY24 earnings guidance significantly below market expectations.

Silver Lake Resources (SLR)

June was, overall, a weak month for gold miners as the gold price drifted below A$2,900/oz, following a peak above A$3,050 during May. Silver Lake shares had also been previously sold off following a takeover offer for St Barbara's Leonora assets. Acquisition of these assets would have required a substantial issue of shares to St Barbara, but the takeover was ultimately unsuccessful as the Genesis Minerals deal was approved by shareholders during the month.

Topic of Interest – *Consumer Market Update*

The resilience of the consumer in Australia, as shown in the Chart of Interest section, has taken many by surprise over the last 12 months. There have been, and remain, reasons to be cautious, including steeply rising interest rates combined with the fixed to variable interest rate cliff (which really kicks into action in the second half of this calendar year), slowing economic outlook and inflation, reducing consumer purchasing power. However, the consumer has continued to spend due to strong employment, utilising savings built up through COVID and mortgage buffers built up through previous sustained low interest rates.

FY23 Performance by Half Year

	ASX200 Consumer Discretionary	ASX200 Index	Difference
1H FY23	3.5%	9.8%	-6.3%
2H FY23	9.5%	4.5%	5.0%
FY23	13.3%	14.8%	-1.5%

The Consumer Discretionary sector returned a commendable 13.3% in FY23, 1.5% behind the ASX200 Index. However, it was a year of two halves with the sector up 3.5% in H1, underperforming the index by 6.3%, and up 9.5% in H2, outperforming the index by 5.0%. Retail sales and company trading updates continued to defy gravity during the period. The chart below demonstrates this period of underperformance followed by outperformance through to mid-May. Indeed, H2 would have been even stronger if not for the month of May where signs of the consumer beginning to crack became evident with trading updates calling out a softer outlook (eg., ARB, City Chic, Super Retail, JB Hi-Fi, and Myer). This was followed by downgrades to company guidance or consensus expectations from late May and into June (eg., Skycity, Universal Store, Michael Hill, Baby Bunting, Best & Less, Adairs, Dusk, and KMD Brands).

With a challenging outlook, the JMFG strategies have maintained an underweight position to the consumer discretionary sector while being overweight the travel sub-sector, benefiting from the lifting of travel restrictions. Recent company announcements have validated this position and, while we retain a cautious outlook as the headwinds play through the sector, we will look to add selectively to holdings in companies less exposed to softer economic conditions that get caught up in the broader sector selling, and as value becomes apparent.

Discretionary Sector Performance Relative to Market