



Weekly Wrap 12 May 2023 – US debt ceiling debates weigh on global investor sentiment

Thank you for joining me this Friday the 12th May, I'm Grady Wulff a Market Analyst with Bell Direct, this is the weekly market update.

Around global markets this week we've seen several factors impacting investor sentiment.

In the US over the coming weeks, investors will be keeping a close eye on debates about the US debt ceiling, with US Treasury Secretary Janet Yellen saying failure to raise the debt ceiling would result in an economic catastrophe. By Wednesday, Yellen had said to CNBC "That is something that could produce financial chaos, it would drastically reduce the amount of spending and would mean that Social Security recipients and veterans and people counting on money from the government that they're owed, contractors, we just would not have enough money to pay the bills". The comments came as a political stalemate over raising the debt limit is forcing the Treasury Department dangerously close to the worst-case-scenario of the US defaulting on debt.

President Biden met with congressional leaders this week to find a solution for the unfolding crisis. President Biden and House Speaker Kevin McCarthy ended the critical meeting with no solution over two opposing views on the way forward. Biden is demanding Congress to raise the debt ceiling unconditionally to avoid default, while McCarthy is insisting such a move should be accompanied by strict spending constraints.

With a prediction from Janet Yellen that the US could run out of cash and extraordinary measures to pay its bills as soon as early June if Congress does not take action, investors will be keeping a close eye on the unfolding debates.

Over in the UK, markets moved after the Bank of England raised the cash rate for a 12th consecutive time, this time by 25-basis points in a bid to tackle inflation in the region.

In Australia, we saw key sectors impacted by the release of Australia's budget including healthcare, energy, property and construction.

Offshore oil and gas producers will feel the brunt of the government's expectation to raise \$2.4bn over the forward estimates from oil and gas companies by making changes to the Petroleum Rent Resource Tax. This caused a sell-off in energy stocks on Wednesday.

Healthcare stocks led the charge on Wednesday locally with the sector rising by 1% following the release of the Australian Budget on Tuesday which included \$3.5bn to triple the bulk-billing incentive that GPs receive, and hundreds of millions to better coordinate healthcare through digitisation of records and increasing Medicare rebates. The government has also promised \$263.8m over 4-years for a new lung cancer screening program, \$113 million for the National Immunisation Program, and \$445.1m for the Workforce Incentive Program to help practices employ nurses and other health

professionals. In the Healthcare sector, Bell Potter has a buy rating on Neuren, Telix Pharmaceuticals and Aroa Biosurgery.

New build-to-rent housing incentive for the private sector through the increased depreciation rate from 2.5% to 4% per year for projects commenced after 9 May 2023, and the government will also be cutting the withholding tax rate for eligible fund payments from managed investment trusts attributable to residential build-to-rent projects from 30% to 15%. The government is also committing \$2bn in additional funding for social rental housing and has promised \$120bn in a 10-year pipeline, and is working with state and territories, the Australian Local Government Association, investors and the construction sector through the National Housing Accord to boost supply and build one million new homes by 2024. With all of this in mind, Bell Potter's buy rating on housing and construction developer Cedar Woods is strengthened as a result of the budget inclusions.

From Monday to Thursday, the ASX200 rose 0.44% led by the energy sector gaining almost 2% and the information technology sector adding 1.97%. Investors have regained appetite for technology stocks as inflation eases in the US and the monetary tightening policy both at home and overseas nears an end.

Allkem was the leading stock on the ASX200 this week after the lithium miner announced a US\$10.6bn merger with Livent, which sparked a rally for all lithium stocks on the ASX including Core Lithium jumping 15% and Lake Resources adding 15% from Monday to Thursday.

On the losing end of the market, Silver Lake Resources fell almost 10%, while Block Inc and Capricorn Metals each fell 9.12% and 7.86% respectively from Monday to Thursday.

Taking a look at the All Ords, Lithium Power International soared 27.42% from Monday to Thursday amid a rally for Lithium stocks on both the Allkem merger and reports the lithium turning point is near after 5-months of sell-offs and price declines.

Galan Lithium also added 23% over the four-days and Global Lithium Resources jumped 17.35%.

Appen tanked almost 30% this week after releasing a disappointing trading update saying the tough economic conditions faced in FY22 have persisted into FY23.

The most traded stocks by Bell Direct Clients from Monday to Thursday were TPG Telecom, Megaport, NAB, Deep Yellow and Regis Healthcare.

Clients also bought into BHP, Core Lithium and ANZ,

While taking profits from APA Group and Aurizon Holdings.

On the diversification front, the most traded ETFs by Bell Direct clients this week were Global X Physical Silver ETF, Betashares Crypto Innovators ETF, and BetaShares Australian Dividend Harvester Managed Fund ETF.

Taking a look at the week ahead, the RBA meeting minutes are released for May on Tuesday where investors will gain an insight into the future interest rate decisions from the RBA.

US retail sales for April is also out on Tuesday with consensus expecting a rise of 0.7% from a decline of 0.6% in March, and Japan's inflation rate for April is out on Friday.

And that's all we have time for today, I'm Grady Wulff with Bell Direct and I hope you have a fantastic weekend. As always, happy investing!

- Grady Wulff, Market Analyst