



Weekly Wrap 26 May 2023 –

Market opportunities as cost-of-living pressure bite

Thank you for joining me this Friday the 26th May, I'm Grady Wulff, a Market Analyst with Bell Direct and this is the weekly market update.

As cost-of-living pressures begin to hit home for many Australians, fears of a recession in the US rise. Debt ceiling negotiations, also in the US, have caused global market selloffs over the last week. Many investors are simply selling stocks in order to utilise the cash to cover the increasing cost of living. Back home, Aussies are dealing with high inflation and many are sitting on the side lines to avoid market volatility and a perceived fall in equity markets.

However, many are also looking to another strategic alternative to reduce the risk in their portfolios without cashing out completely... and it's called investing in income stocks.

By definition, income stocks are companies that offer regular, steady income, in the form of dividends, over a consistent period of time. These companies have existing cash flows and therefore carry less risk than companies that are yet to establish stable cashflows from a genuine demand for their products or services.

While we have witnessed some companies press pause on dividends during the recent reporting season, others are prioritising payment to investors who have stayed the course.

One way to find high dividend paying stocks is to use a stock selection tool offered to Bell Direct's clients called the Strategy Builder. When you log into your Bell Direct account you will find it under the 'Research and Tools' tab.

As a side note, when investing in income stocks investors need to consider whether company dividends are franked or unfranked. About 80% of the dividends paid by S&P/ASX200 stocks are fully-franked and this may help to reduce further tax obligations of shareholders receiving these dividends depending on their individual circumstances.

As I mentioned previously Bell Direct clients get access to a share portfolio construction tool. When building an investment portfolio, you can use the Strategy Builder to select from over 40 different micro economic ratios and screens and the tool will lift out stocks listed on the ASX that align with the screens you have selected.

When entering in 'high dividend stocks' to the Strategy Builder several companies come to the floor and so to talk through one of the selections let me mention the Accent Group.

The Accent Group is one name in the consumer discretionary sector that is thriving despite tough headwinds facing the broader sector. Retail spend on discretionary goods is falling and as a result, investors are very cautious on companies carrying high

inventory levels or companies that are facing a material slowdown in like-for-like sales. The Accent Group has high turnover, like-for-like sales are up 16%-24% in 2H23 so far, and the company's dividend increased significantly from 1H22 to 1H23.

When looking at dividends it is important to consider the company's long-term average. Be careful of an increasing dividend yield in relation to a company's falling share price as this may indicate the historical dividends are now unsustainable. Additionally, look to analyse a company's one-off payments based on the sale of an asset as this may increase yields based on a one-off event. These events are often referred to as 'dividend traps.'

That said, a diversified portfolio of dividend or income paying stocks can mitigate cost of living pressures currently hitting hip pockets in this high inflationary environment. Investing in companies that can more easily pass on input costs to customers due to inelastic demand may also reduce overall portfolio risk.

Locally, from Monday to Thursday, like we have seen around global markets for the week, we saw the ASX drop 1.94% led by a sharp sell off in materials stocks on the back of a decline in iron ore prices due to weakened demand outlook from China's steel mills.

Information technology and energy stocks were the only two sectors to finish the week in positive territory.

The winning stocks over the four-day period were led by Megaport (ASX:MP1) soaring over 17% amid a rally for tech stocks and renewed investor appetite for high value tech stocks, while Polynovo (ASX:PNV) added almost 10% for the week and Technology One (ASX:TNE) rose 6.8%.

On the other end of the market we saw Lovisa (ASX:LOV) drop over 16% amid weakness in consumer discretionary stocks on the back of weakened demand outlook on the retail spend front, which also hit Universal Store (ASX:UNI) hard this week. Lake Resources (ASX:LKE) fell over 14% and Brainchip (ASX:BRN) lost 13.8% for the week.

On the broader market, the All Ords fell 2.07% from Monday to Thursday as 29Metals tanked 38% on the release of an update for its Capricorn Copper, while Universal Store fell 29.6% and Rhythm Biosciences fell 25% over the four days.

The most traded stocks by Bell Direct clients from Monday to Thursday were BHP (ASX:BHP), Rio Tinto (ASX:RIO), ANZ (ASX:ANZ), Transurban Group (ASX:TCL), Brickworks (ASX:BKW) and Fortescue Metals Group (ASX:FMG).

Clients also bought into South32 (ASX:S32) while taking profits from Woodside Energy (ASX:WDS), Wesfarmers (ASX:WES) and Mineral Resources (ASX:MIN).

On the diversification front, the most traded ETFs by Bell Direct clients this week were BetaShares S&P/ASX200 Australian Technology ETF, Vanguard Australian Shares Index ETF, and Vanguard MSCI Index International Shares Hedged ETF.

Looking forward to next week on the economic data front, in Australia building permits preliminary data for April will be released on Tuesday with the forecast expecting a 3.2% decline in permits for the month, from a 0.1% drop in March.

Overseas, JOLTs job openings data for April in the US is out on Thursday with the market expecting another decline to 9.2m job openings, from 9.59m job openings in March, while European flash inflation rate YoY for May is also out on Thursday with the expectation of a decline to 6.5% from 7% in April.

US non-Farm Payrolls and unemployment data is out next Friday with the market expecting a rise in unemployment to 3.5%, and a sharp decline in Nonfarm payrolls to 180k.

And that's all for this week, have a wonderful weekend and happy investing!

- Grady Wulff, Market Analyst