2021 Reporting Season Commentary

Overall, ASX200 remained resilient during macro uncertainties up 1.82% for the month of August, capping off the benchmark's 11th consecutive gains despite some turbulence mid-month.

*Source Bloomberg

Result reactions have been evenly split between positive (48%) and negative (52%) reactions, with the velocity of the reactions so far been most surprising, underscoring the need for investors to be selective in market exposure. Moving forward, we believe this will continue to be the case with global markets currently at all-time highs. Over the past twelve months, the market has embraced numerous themes (growth in technology stocks, reflation trade, COVID beneficiaries, ESG), and we believe rewarding individual companies with consistent outperformance will be key.

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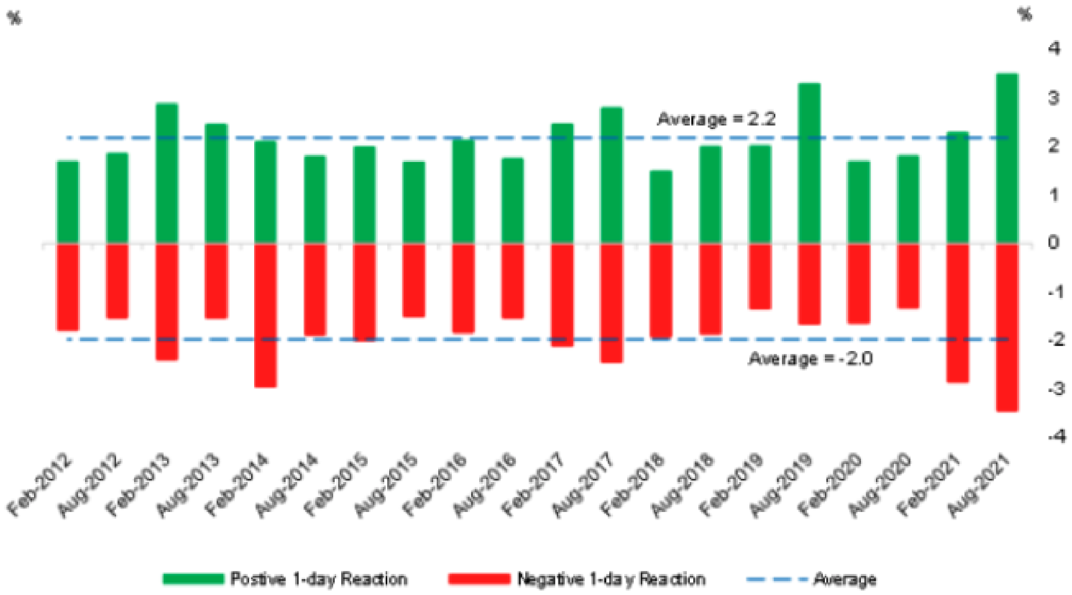

*Source Morgans

*Source Bloomberg

The chart above highlights the recovery in earnings, which is currently 10% above 2020 levels. The is particularly impressive given the dilution in earnings from the flurry of capital raisings last year. As a result, companies have been handing money back in the way of buybacks, both on-market and off-market totalling in excess of $15 billion. However, it is worth noting that most earnings recoveries were from mining and financials. Miners benefited from elevated iron ore prices, whilst banks received funding support from the government as well as a strong rebound in the home lending market. Sectors such as industrials, telecommunication and utilities lagged in comparison, still materially down from pre-COVID levels. Forecast earnings per share growth were revised lower by brokers on the back of recent lockdowns, with industrials been the main drag.

All in all, a total of $38bn in dividends were declared, led by BHP ($8.07bn), Fortescue ($7.4bn), CBA ($3.5bn), RIO ($2.82bn) and Wesfarmers ($1.02bn). In addition to dividends, there were also $15bn in buybacks, following CBA announcing a $6bn off-market buyback which was soon followed by NAB ($2.5bn) and ANZ ($1.5bn). Following a flurry of capital markets activity which included more than $34bn in cash takeovers, investors should expect a total of $86.6bn returned to their wallets worth nearly 5 per cent of gross domestic products.

*Source Bloomberg

Diving into sector attributions, notable winners and losers

- Materials (-8.68%) saw profit taking after experiencing tailwinds from high commodity prices, de-geared balance sheets and disciplined capex.
- Banks (+4.84%) were led by higher loan growth, stabilising margins, cost controls and lower provisions delivered surplus capital and dividends to shareholders.
- Healthcare (+5.92%) were mixed with parts of healthcare still lagging due to lower activity levels (COH, CSL and RHC), pathology (Sonic and HLS) was stronger due to higher COVID-testings. RMD remains a stellar outperformer due to positive tailwinds despite higher margin pressures.
- Consumer Discretionary (+1.87%), remains a mixed bag with COVID beneficiaries led by online retail underperforming relative to COVID reopening stocks. However, international retailers benefited from a strengthening growth story and were notable outperformers.
- Consumer staples (+4.89%), having lagged returns in 2020 have responded well to lockdowns. Analysts have upgraded earnings following their defensive nature and their pricing power. Woolworth's demerger with Endeavour group also proved to be a positive catalyst.
- Communication (+4.85%), was mostly attributed to Telstra's positive earnings which were supported by regulatory tailwinds and increasing margins.
- Utilities (+0.35%), remain underperformers relatively to the broader market due to lower utilisation and regulatory headwinds.

Overall, some notable themes were echoed by managements during investor earning calls:

- Companies reluctant to issue guidance given lockdowns, with only a small cohort of companies (39%) doing so. Morgans noted that companies providing guidance are down on average 2% since their result. Hence, despite earnings visibility and market uncertainty continue to wane on investors in the near-term window which led to analysts revising overall FY22 earnings forecast lower.
    - Management commented on all macro aspects from fiscal stimulus, accommodative monetary policy, vaccine rollout accelerating, US leadership and variants.

- Management also signalled rising cost pressures with supply chain bottle necks eating into company gross margins which is compounded by raw material shortages. It is yet to be seen whether companies will start passing down those incremental margins to end consumers during a sustained period of elevated prices.

- The rise of ESG (environmental, sustainability and governance) has been an ongoing theme in the past 12 months and there are no signs of slowing, with management across all sectors reiterating their pledge to reduce carbon footprints. In particular, green materials such as copper, cobalt, nickel and lithium benefited from a boost in demand as the countries around the world transition to carbon neutral economies. Renewables such as solar and hydrogen are still infant in the listed markets with investors' app.

- Merger and acquisitions in the capital markets are well and truly underway following a return in confidence for the long-term outlook with stronger equity valuations in a low interest rate environment. Management teams are continuing to discuss deploy excess cash to foster both organic and inorganic growth verticals with sectors especially in the energy and industrials space already undergoing some consolidation.