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WEEKLY INVESTMENT UPDATE

Tuesday 25th July 2023

What's on this week?

25/07/2023

Region	Macro Data
Australia	(NAB) The Q2 CPI on Wednesday, along with Retail Sales on Friday are the two data releases to watch ahead of the RBA meeting this week. The NAB economists have pencilled in trimmed mean inflation of 1.1% q/q and 6.0% y/y to be in line with the RBA's May statement of 6.0% y/y (consensus 1.1/6.0). Economists expect the details around services to be less favourable, flagging the risk of a slower return of inflation to target than in the May RBA statement. As for Retail Sales the market is looking zero change at 0%m/m.
International	<p>(NAB) In the US, US Fed is expected to hike by 25bps on Wednesday (Thursday 4.00am AEST), with markets well priced at 96% going into the meeting. Of more interest will be Chair Powell's response to questions around the outlook, particularly the encouraging trends on inflation which may mean it is less sticky than feared.</p> <p>In Europe, the ECB is expected to hike by 25bps on Thursday, though we expect the ECB President to be less definitive about the need for a follow up September hike. Also, out in Europe is French Q2 GDP and German CPI on Friday ahead of wider EZ measures the following week.</p> <p>In Japan, the BoJ is expected to keep policy unchanged on Friday if media reports are to be believed. With core inflation running at 4.2% y/y, it is likely only a matter of timing when a change to YCC occurs.</p> <p>US earnings reporting season continues with Microsoft, Alphabet and Visa reporting on Tuesday, Meta, Coca-Cola on Wednesday, McDonald's and Mastercard on Thursday and Exxon Mobil, P&G and Chevron on Friday</p>

Economic Calendar for the week of 24/07

Date Time	Location	Event	Month	Survey	Prior
24/07/2023	US	Manufact PMI	July	46.2	46.3
26/07/2023	AU	Australian CPI	2Q	1.00%	1.40%
26/07/2023	US	Mortgage Apps	Jul		1.10%
26/07/2023	US	Consumer Confidence	Jul	112	109.7
27/07/2023	US	Jobless Claims	Jul	235k	228k
27/07/2023	US	FOMC Rate Decision	Jul	5.5%	5.25%
28/07/2023	AU	Retail Sales	Jun	0.00%	0.70%



Global Weekly Market Recap 17/07-21/07 (JP Morgan)

Market data

Equities	Level	Index returns (%)		
		1 week	YTD	1 year
MSCI AC World	834	0.6	16.3	13.8
MSCI World	2,354	0.8	17.3	14.9
MSCI EM	60,911	-0.9	8.1	5.6

Countries	Level	Index returns (%)		
		1 week	YTD	1 year
ASX 200	7,314	0.2	6.1	12.7
Small Ords	2,875	-1.0	4.3	2.8
NZ50	4,671	-0.6	4.1	6.0
Topix	2,262	1.0	21.3	19.2
MSCI China	62	-2.5	-2.1	-8.8
S&P 500	4,536	0.7	19.2	15.4
Russell 2000	4,872	1.5	12.2	8.4
NASDAQ	14,033	-0.6	34.7	17.4
Stoxx 600	465	1.0	12.4	13.3
FTSE 100	7,664	3.1	5.1	9.5

ASX sectors	Level	Index returns (%)		
		1 week	YTD	1 year
Cons disc	2,981	0.0	10.9	4.7
Cons staples	13,168	-0.2	6.6	1.1
Energy	11,395	1.2	8.1	23.5
Financials	6,464	2.7	4.3	10.8
Healthcare	40,190	1.1	-2.3	-5.3
Industrials	6,836	0.1	11.4	10.6
IT	1,862	-0.5	33.2	22.3
Materials	18,109	-2.5	5.5	29.8
Telecoms	1,534	-2.3	10.7	9.6
Utilities	9,052	1.1	11.3	20.9

Volatility	Level	Level		
		1 week	31/12/22	1 year
VIX	13.6	13.3	21.67	23.1

Local bonds	Yield	Change (bps)		
		1 week	YTD	1 year
2yr Aus Treasuries	4.11	4	71	128
10yr Aus Treasuries	4.00	1	-5	43
AusBond Comp	4.34	3	25	71
AusBond IG	5.30	4	24	65

Global bonds	Yield	Change (bps)		
		1 week	YTD	1 year
10yr US Treasury	3.85	3	-3	94
10yr UK Gilt	4.26	-16	60	220
10yr German Bund	2.45	-6	-8	125
10yr JGB	0.48	1	6	25
Global Agg	3.81	0	8	96
Global IG	5.22	0	4	104
Global HY	9.03	3	-39	1
EMD (\$US)	8.22	1	-34	-46

Commodities		Change (%)		
		1 week	YTD	1 year
Copper (\$/t)	8,422	-2.6	0.4	16.5
Gold (\$/ozt)	1,961	0.4	8.1	15.0
Silver (\$/ozt)	24.73	-0.2	3.3	35.4
Crude (Brent \$/bbl)	79.65	-0.3	-3.8	-29.4
Iron ore (\$/t)	112.43	0.0	1.0	6.8

Currencies		Change (% vs \$A)		
		1 week	YTD	1 year
USD	0.6731	-1.9	-0.8	-2.4
EUR	0.6056	-0.7	-4.7	-10.5
GBP	0.5240	0.2	-7.1	-9.2
CHF	0.5828	-1.2	-7.1	-12.8
JPY	95.4082	0.5	6.6	0.4
NZD	1.0900	1.4	1.7	-1.7

Source: JP Morgan

Week in review

- Australia unemployment rate unchanged at 3.5%
- Chinese 2Q real GDP 6.3% y/y
- U.S. retail sales 0.2% m/m

Week ahead

- US Fed meeting: 25bps hike expected.
- ECB Meeting: 25 bps hike expected.
- Australia 2Q Inflation and Retail Sales figures

FOMC Meeting: 0.25% increase to 5.5% priced in

The Fed is widely expected to raise rates by 25bp on Wednesday. The dot plot from the Fed's June projections implies another 25bp hike delivered later this year. But Chair Powell will most likely give no strong guidance as to when, if at all, another rate hike is coming. The recent softer core inflation will be welcomed by Powell, but economists expect he is likely to want several more months of softer inflation data before confidently terminating the hiking cycle. With July core inflation likely soft again, the pause and watch view may predominate for at least another month. The JP Morgan economists seeing residual hawkish risk at Jackson Hole in late August and beyond and increasing upside risk to inflation in 2024.

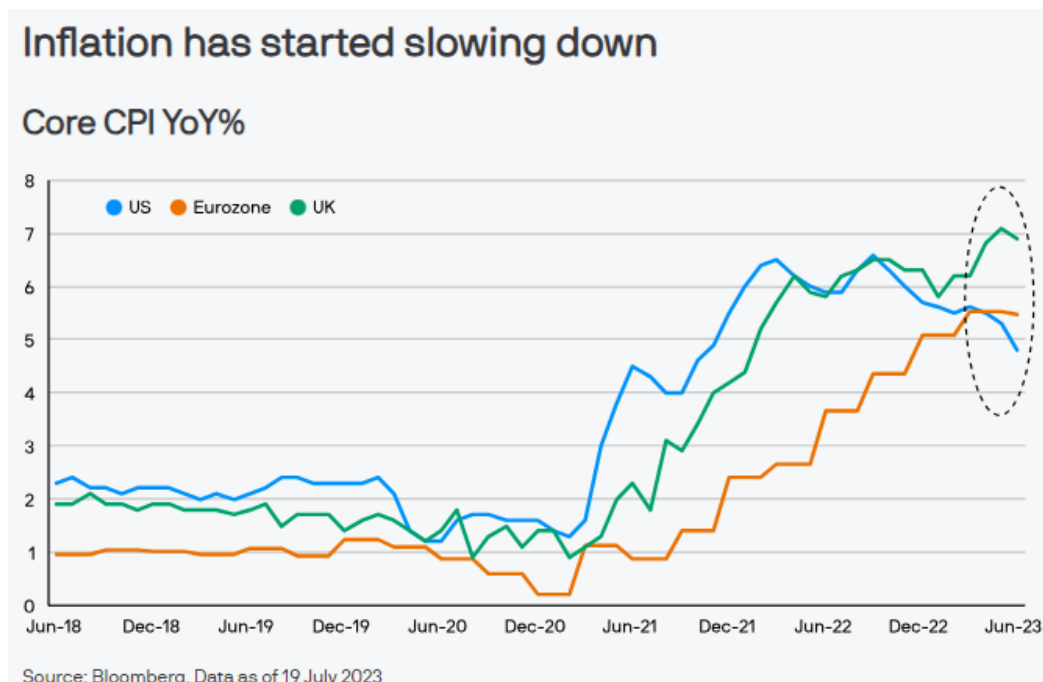
Inflationary Pressure easing in Developed Economies

Disinflationary pressures appear to be emerging worldwide, with several countries reporting softer inflation figures. The United Kingdom recently experienced a decline in inflation to 7.9% year-on-year, a rate lower than both market and Bank of England expectations. Now, attention turns to Australia, where second-quarter inflation figures are about to be released. Monthly inflation figures for Australia indicate that price pressures are gradually stabilizing. However, a crucial question arises: Can this trend of declining inflation persist, considering that aggregate demand remains strong and labour markets have yet to exhibit any signs of weakness?

Australia's recent unemployment report revealed that the economy added another 32,600 jobs, and the unemployment rate remained steady at a low 3.5%. Despite this positive performance, forward-looking labour demand indicators are pointing in the opposite direction, suggesting potential challenges in the future. The persistent tightness in the Australian labour market, coupled with inflation levels above the RBA's target, indicates a likelihood of another rate hike in August, unless the inflation figure comes in significantly lower than expected. If an August rate hike materializes, it would coincide with the RBA releasing a fresh set of economic forecasts.

Overall, global disinflationary pressures are apparent, and individual countries like the UK and Australia are experiencing varying degrees of softer inflation. The Australian economy's tight labour market and inflationary pressures may prompt the Reserve Bank of Australia to implement another rate hike in August, provided the inflation figure doesn't deviate significantly from expectations. It will be essential to monitor these economic indicators closely to gauge the future direction of monetary policy and potential impacts on the broader economy.

Sources: (KPW, Citi, JP Morgan)



Next DC (NXT)- Outlook for contract wins supported by AI investments.

With data centres in the five major capital cities, NextDC is one of the leading data centre operators in Australia, and the only pure play on the Australian data centre market. With its first-generation data centres in Brisbane, Sydney and Melbourne completely sold out, and similar progress with its generation two facilities, the company is rapidly scaling up by building larger and more dense facilities. The analysts at JP Morgan expect these facilities to generate mid-to-high teens IRR as they fill and benefit from the strong demand by both hyperscalers and enterprise customers. However, we do see strong competition from incumbents, but note that NXT's differentiated model and broader presence across Australia likely presents a point of difference.

The outlook for large contract wins for NextDC is positive, with demand underpinned by higher-density AI deployments. Capacity available for sale is also ramping up on the back of accelerated development at S3, and ongoing rollout of M2 and M3.



Becoming a regional Data Centre operator: NXT's planned 65MW KL1 (Malaysia) and 10-15MW AK1 (New Zealand) facilities are expected to reach partial completion by 1H26 and represent a key step in NXT's APAC expansion. A regional footprint would allow NXT to build a more valuable and highly interconnected ecosystem.

(Source: JP Morgan)

KPW View (BUY) - NextDC has proven its ability to capitalise on the strong tailwind of cloud computing, IT outsourcing, and data usage growth, the market displaying an 20%+ compound annual growth rate (CAGR) over the last five years. As the demand for AI and data continues to rise, this trend is expected to persist, offering even more opportunities for the company.

The success of NextDC's first-generation data centres in key locations like Sydney, Melbourne, and Brisbane has resulted in low-to-mid 20% internal rate of return (IRR). This solid performance underscores the company's sound business strategy and operational efficiency.

NextDC took a proactive step to strengthen its financial position by conducting a \$618 million capital raise in May. This move has significantly de-risked the balance sheet, reducing leverage to approximately 1.5x. Consequently, any concerns regarding the company's ability to finance its large development pipeline have been alleviated.

ResMed Inc (RMD) – Competitor Philips still awaiting FDA Approval to Re-enter Market

Philips, ResMed's largest competitor in Sleep, reported its 2Q23 result. Philips' Sleep & Respiratory Care sales declined year on year, implying Philips may be losing share in Sleep Masks. Philips remains in discussions with the US FDA on a proposed consent decree after a product recall. The range of potential outcomes is wide. The market assumes Philips resumes selling Sleep Devices 1Q CY24.

KPW View (BUY): ResMed is the global leader sleep apnea treatment. The long-term growth opportunity for respiratory homecare devices is sizable as both developed and emerging markets are still significantly underpenetrated. In recent years RMD focused and executed on integrating cloud-connected devices that has led to increased treatment adherence, supporting both reimbursement rates and the resupply of masks and accessories. RMD will report 4Q FY23 result on 4 Aug.

CSL Ltd – Potential competition Entering IG Market – Buying opportunity? We think so.

Dutch biotech company Argenx is currently trialling a FcRn drug for Chronic Inflammatory Demyelinating Polyneuropathy (CIDP) which has shown positive results. CIDP is a rare condition with only 40,000 patients being treated annually, but it does account for circa US\$3bn of the US\$12.8bn of global annual immunoglobulin sales.

Argenx is likely to file with the FDA by late 2023 which would allow it to gain approval and launch by late 2024. Given this timetable we assume competition starts to affect CSL's Ig sales by the second half of its FY25 year.

KPW View (BUY): The recent sell off in CSL on slower than expected recover in margins post COVID is creating a buying opportunity. CSL Behring's (biotherapeutics arm) gross margin have been slower than expected to its pre-pandemic level of 57%. Still circa 52% margin in fiscal 2023 & management expect back to 57% 2027. Plasma and blood collection costs and issues from the Covid period still normalising – collection costs down 15%-20% from peak in 2022 and supply expected to improve further.

BHP – June Quarter Production in line

BHP released its June quarter production figures, broadly meeting market expectations. Production of key commodities: copper up 9%, iron ore up 1%, energy coal up 3%, nickel up 4%, and metallurgical coal flat. Copper, iron ore, metallurgical coal, and energy coal achieve their production guidance for FY23, while nickel meets the lower end of the original guidance. Average realised prices for copper, iron ore and metallurgical coal products were lower in the 2023 financial year compared to the prior year. Nickel prices remained stable, while thermal coal prices were stronger, predominantly in the first half.

Operational Highlights:

Escondida achieved FY23 copper production within the lowered guidance range by managing geotechnical events in a high-grade section of the pit. FY24 production is expected to improve based on grade and throughput.

Western Australia Iron Ore achieved record production of 253 million metric tons (on 100% basis) and is on track to ramp up to 80 million metric tons per annum (on 100% basis) by the end of FY24.

Energy Coal surpassed expectations with 4.8 million tons of output in JunQ, aided by additional deployed capacity in a new mining area and favourable weather conditions.

Nickel West faced challenges with metal output in FY23 at 80,000 tons due to ore supply issues, leading to increased purchases of higher-cost concentrate from third parties.

BHP completed the acquisition of OZ Minerals Ltd (OZL) on 2 May 2023. BHP strategic move in into Potash with the Jansen potash project is on track, with Stage 2 feasibility set for completion in FY24.

KPW View (HOLD): BHP continues to be a beneficiary of global economic growth and electrification / decarbonisation with top tier, low-cost assets. We believe BHP is a core portfolio holding but are cautious in the short term and a view to accumulate on any weakness. The cautious view in the short term driven by uncertainty in Chinese economic policy & growth, and global recessionary/slow down concerns in 2H 2023. (Beit the market is pricing in a very soft landing).

Bank of America (BAC)

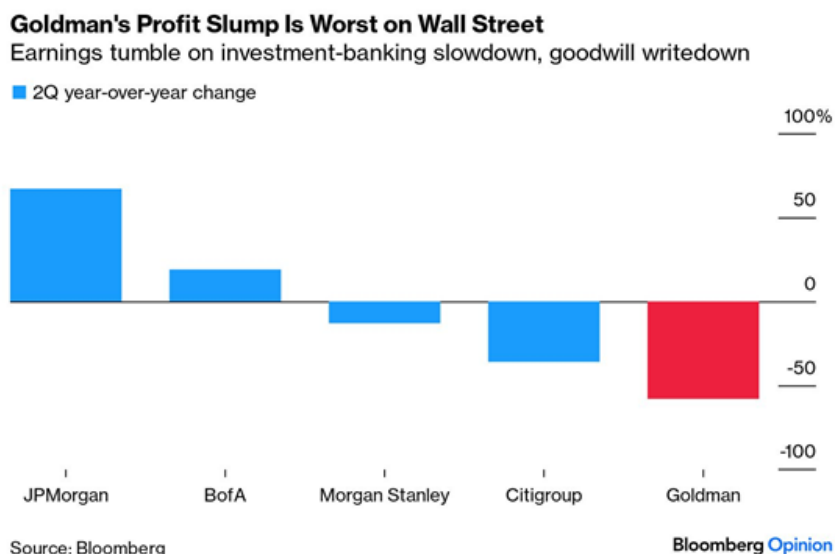
Bank of America Corporation reported strong financial results for the second quarter of 2023. The bank recorded a net income of \$7.5 billion, reflecting a significant increase compared to the same period last year. The bank's total revenue for the quarter stood at \$22.5 billion, driven by robust performance across its various business segments. Net interest income rose to \$11.2 billion, benefiting from higher interest rates and growth in loan volumes. Non-interest income also contributed to the strong revenue, with gains in trading, investment banking, and wealth management.

Expenses remained well-managed, with the bank reporting a decline in non-interest expenses, primarily due to cost-saving measures and efficiency improvements. The bank's efficiency ratio improved to 56%, indicating effective cost management. Credit quality remained favourable, with provisions for credit losses decreasing compared to the previous year. This reflects the bank's prudent risk management practices and the overall improvement in economic conditions.

Bank of America's balance sheet strengthened during the quarter, with total assets reaching \$2.7 trillion. The bank continued to focus on capital management, maintaining a strong capital position and returning capital to shareholders through dividends and share buybacks.

Overall, Bank of America's second-quarter earnings with profit 88 cents per share beating analysts' expectation of 84 cents, demonstrated solid performance across its businesses, driven by higher revenues, effective cost management, and prudent risk management. The bank remains well-positioned to navigate the evolving market conditions and deliver value to its shareholders.

KPW View (ACCUMULATE): A strong result from BAC demonstrating solid performance across its businesses. Driven by higher revenues, effective cost management, and prudent risk management. The bank remains well-positioned to navigate the evolving market conditions and deliver value to shareholders.



US Reporting Season Calendar

E EARNINGS WHISPERS		Most Anticipated Earnings Releases							
		for the week beginning July 24, 2023							
Monday		Tuesday		Wednesday		Thursday		Friday	
Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open	After Close	Before Open	After Close
 DPZ	 CLIFFS	 verizon	 Microsoft	 AT&T	 Meta	 Royal Caribbean Group	 ENPHASE	 ExxonMobil	
 APLD	 NXP	 GM	 Alphabet	 BOEING	 CHIPOTLE	 MCDONALD'S	 Ford	 P&G	
 PHILIPS	 cadence	 3M	 Snap Inc.	 Coca-Cola	 ptc	 Southwest	 intel	 Chevron	
 Bank of Hawaii	 AGNC	 GE	 VISA	 TILRAY	 servicenow	 Mastercard	 ROKU	 Charter Communications	
 Bank of Marin	 Whirlpool	 Spotify	 Teladoc Health	 ThermoFisher Scientific	 Lam Research	 CROCS	 First Solar	 CENTENE Corporation	
 DYNEX CAPITAL INC.	 logitech	 Lamb Weston	 Teladoc Health	 Hilton	 ENOVIX	 Valero	 DEXCOM	 Booz Allen Hamilton	
 HBT Financial	 FFIV	 NUCOR	 EM	 ADP	 QuantumScape	 abbvie	 T-Mobile	 AstraZeneca	
 Bank of Hope	 MEDPACE	 Raytheon Technologies	 TEXAS INSTRUMENTS	 UNION PACIFIC	 ebay	 Bristol Myers Squibb	 United States Steel	 COLGATE-PALMOLIVE	
 RYANAIR	 Brown & Brown Insurance	 NextEra Energy	 EQT	 Crescent Point	 ebay	 Honeywell	 KLA	 newell	
	 RLI	 Alaska Airlines	 Weatherford	 GENERAL DYNAMICS	 MATTEL	 New York Community Bancorp Inc.	 SKECHERS	 CHART	

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