New PM a win for retail, media and tech shares

Vanessa Desloires

Investors in technology, media and retail companies should enjoy a boost in their share prices as Malcolm Turnbull settles into his new role as Prime Minister.

Mr Turnbull's commitment to collaboration and a desire to communicate a strong economic message have been met with optimism by Australian businesses, which should boost consumer and business confidence, said BetaShares chief economist David Bassanese.

"It would not be surprising to see at least a short-term boost in business and consumer confidence with the change in leader and a new, more positive, economic narrative," he said.

However, longer term, a bounce in business confidence would depend on whether Mr Turnbull could create – and sell – his economic reform agenda, Mr Bassanese said.

IG market strategist Evan Lucas said while the ASX has rallied on the swearing in of a new PM over the past five years, any lift in sentiment this week would likely be capped by low liquidity before the US Federal Reserve meeting later this week. "People are very worried about putting positions in ahead of the bigger ticket event on Friday morning," Mr Lucas said.

Historically speaking, markets have enjoyed a three or four-month "honeymoon period" on the appointment of a new leader, and Mr Lucas said the lift in consumer sentiment would provide a boost to consumer discretionary stocks. "They are clearly the stocks to watch, they will see a euphoric bid upwards if nothing else," he said.

Prime Value Asset Management co chief investment officer ST Wong said media companies could benefit from hopes that Mr Turnbull would carry on his advocacy work as Communications Minister.

"As Communications Minister, Malcolm Turnbull has been a strong advocate for media reforms in Australia, particularly the abolition of media ownership restrictions," Mr Wong said. "The abolition of the 'reach rule' could gather further support with Malcolm Turnbull as PM."

Peak Asset Management executive director Niv Dagan agreed, adding Mr Turnbull was a "free-market believer" and was "conscious of Australia's weak business and consumer confidence".

Mr Dagan said media stocks poised to benefit from Mr Turnbull's appointment included Nine Entertainment Group, Seven West Media and News Corp, should the new government move towards the abolition of the reach rule, sparking merger activity in the media sector. On Tuesday media stocks enjoyed a bounce in an otherwise downtrodden market.

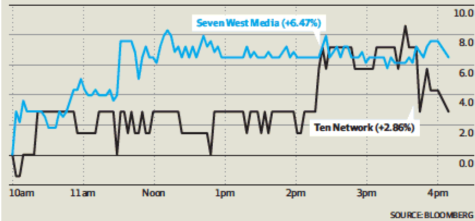
Mr Bassanese tipped retail stocks, technology and construction companies as the biggest beneficiaries of Mr Turnbull's prime ministership.

"He is likely to be of particular support for reforms that encourage innovation and a start-up culture," Mr Bassanese said.

Australian Ethical Investments chief investment officer David Macri said in the medium term, green stocks and sectors should benefit.

"While there have been reports it is a 'no-go' area, I believe this only relates to the short term," Mr Macri said. International pressure would ensure Mr Turnbull revisits his stance on clean energy despite saying Environment Minister Greg Hunt had done a "great job" with the government's direct action policy. "Turnbull will have his work cut out for him, but ultimately it is good policy, and with international pressure it is largely inevitable," Mr Macri said.

Turnbull bounce?



AllianceBernstein adds to liquidity warnings

Interest rates

Mark Mulligan

A series of interest rate increases in the US could trigger asset selling that would dry up liquidity and lead to big losses for investors, the head of global credit for US-based investment manager AllianceBernstein says.

Ashish Shah said although the long-anticipated start to monetary tightening by the US Federal Reserve was unlikely to force panic selling, it could signal the start of renewed volatility in risk assets such as corporate bonds and overpriced growth stocks.

These have proved popular among yield-seeking investors – particularly from the retail side – since the advent of quantitative easing (QE) by the Fed and other central banks in the wake of the global financial crisis.

While QE brought stability to sovereign bond markets and long-term financing, they had also given rise to crowded trades in credit, equity and other markets, Mr Shah said.

When financial markets are liquid, the easy match-up of buyers and sellers means pricing and timing suits both parties. However, a market event which triggers mass selling of an asset can quickly drive down prices if vendors far outnumber buyers.

The decline of proprietary trading by US investor banks because of regulatory changes had compounded problems of illiquidity, Mr Shah said, as had a growing tendency by fund managers, exchange-traded funds (ETFs) and other retail investors to trade bonds rather than hold them to maturity.

Even large institutional investors such as insurers and pension funds, which normally looked to cover long-term liabilities with long-dated investments, had become more skittish in times of market upheaval, he said.

The explosion in the popularity of ETFs had also widened the universe of investors looking to move in and out of assets to pocket short-term gains, he said. "The challenge with that is that they don't feel any transaction cost when they're allocating the risk; they go online, they click and they change an allocation," Mr Shah said.

A buyer-seller mismatch may result from the rate rise. PHOTO: BLOOMBERG

His comments are the latest from a range of fixed-income experts to warn of price gyrations when the Fed's first tightening cycle in almost a decade gets under way.

A sell-off in emerging market and other high-risk assets in 2013 when the Fed first signalled it would wind down what became its $US3.5 trillion QE program gave the world a taste of what could ensue when the central bank actually started lifting interest rates.

The flight to safe haven assets became known as the "taper tantrum".

Futures market pricing suggests the Fed will not lift interest rates at this week's Open Market Committee meeting, which ends early on Friday Australian time.

Mr Shah agreed with this, but expected chairwoman Janet Yellen to leave no doubt in her statement about when and how the central bank would begin the tightening cycle.

"I think [the Fed] would be better off hiking in the near-term, just to get it out of the way," he said.

Turnbull must try to pick way through looming global economic quicksand

Maley

Karen Maley

One thing is certain: Malcolm Turnbull is far from faint-hearted. As he becomes the country's fourth prime minister in 27 months, Turnbull knows he's about to take stewardship of an economy that faces the most treacherous global backdrop seen in decades.

As if to underscore the gloomy international environment, China's sharemarket again suffered its worst day in three weeks on Monday as investors worried that Beijing's attempts to revive faltering economic activity are failing, while US share prices slid on jitters over a possible US interest rate hike this week.

Last week, Citigroup chief economist Willem Buiter issued a glum warning that there was now a 55 per cent chance of a global recession in the next two years.

Buiter argues that Chinese growth has already slowed to about 4 per cent, well below Beijing's 7 per cent target, and that there is now a "high and rapidly rising risk of a cyclical hard landing," in the world's second-largest economy.

"Should China enter a recession – and with Russia and Brazil already in recession – we believe that many other emerging markets, already weakened, will follow, driven in part by the effects of China's downturn on the demand for their exports and, for the commodity exporters, on commodity prices", he wrote.

The Bank for International Settlements, the Swiss-based central bank of central banks, echoes these worries in its September quarterly review, pointing out that the combination of China's economic slowdown and the rise in the US dollar, "have confronted emerging market economies with a double challenge: growth prospects have weakened, especially for commodity exporters, and the burden of dollar-denominated debt has risen in local currency terms."

Against the backdrop of plunging commodity prices, it notes that "a number of emerging market economy and commodity-exporting advanced economy central banks eased monetary policy, including those of China, Hungary, India, Korea, Russia and Thailand as well as Australia, Canada, New Zealand and Norway".

But the BIS is clearly sceptical that even aggressive action by the world's central banks will be enough to resuscitate global growth.

Claudio Borio, head of the BIS' monetary and economic department, has warned in a debt-laden world, which suffers from weak productivity growth and looming financial risks, "it is unrealistic and dangerous to expect that monetary policy can cure all the global economy's ills."

Meanwhile, the outlook for commodity prices continues to darken. In a new blog posted overnight, two top commodities economists from the International Monetary Fund predict that prices for base metals such as iron ore, copper, aluminium and nickel – already trading at multi-year lows – are likely to fall even further.

IMF economists, Rabah Arezki and Akito Matsumoto, note that in the early 2000s, demand for metals shifted from the advanced Western economies to emerging economies in the East.

"China, by far the main driving force, now accounts for half of global base metal consumption," they say.

They argue that, "the Chinese economy is projected to slow further, gradually, but with considerable uncertainty". According to IMF calculations, fluctuations in China's industrial production account for 60 per cent of the variance in metal prices.

Although investment in the metals sector has dropped, this is unlikely to cause a price spike in the near-term. Indeed, low energy prices have helped cut costs for mining and refining. What's more, global supply is likely to increase as more mines outside advanced economies are discovered.

World Trade Organisation figures show growth in global exports and imports lags far behind expansionary pace. Since 2010, trade growth has averaged about 3 per cent a year, about half the 6 per cent a year rate seen between 1983 to 2008.

Upside in more cost cutting

Taking stock

Jessica Gardner

Macquarie Group has flagged the possibility of a record $2 billion profit this year, made possible partly due to market volatility and the weaker dollar, but analysts from UBS say cutting costs to reflect its diversification away from investment banking could provide a bigger boost. It is constructive criticism that may cause bankers to fear for their annual bonus, but may be welcomed by investors.

UBS analyst Jonathan Mott said despite Macquarie's evolution from a small Australian investment bank to a globally diversified financial institution, the group's cost-to-income ratio has been broadly unchanged for 20 years.

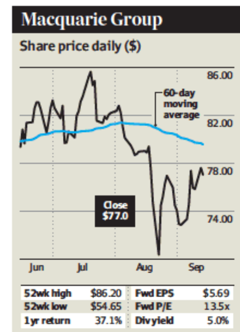
"While Macquarie now has more 'annuity-style' income streams, it still has an investment bank cost structure," Mr Mott said in a note to clients. "Structurally addressing its cost base would provide substantial upside to shareholder returns over the medium term."

Mr Mott, who retained his buy rating after Macquarie's upbeat earnings outlook on Monday, estimated that every 5 per cent reduction in Macquarie's cost-to-income ratio would add 18 per cent to earnings per share.

He has a 12-month price target of $92.00 on the stock, which is ahead of the average target of $88.78 among 15 analysts surveyed by Bloomberg. Ten of those analysts rate the stock a buy, while five call it a hold. Deutsche Bank's Andrew Triggs wrote in a note that despite the "clearly positive" momentum, risks from China and an expected lift in US interest rates over the next six months or so could drag on the operating environment.

Credit Suisse analyst James Ellis said market volatility had been positive for Macquarie's equities and fixed-incomes businesses, which offset a decrease in volumes for its equity and debt capital markets and lending arms. "To date, this appears to have been a net positive for earnings, but improved trading conditions may not persist if the volatility persists," he warned.

Macquarie Group



52wk high	$86.20	Fwd EPS	$5.69
52wk low	$54.65	Fwd P/E	13.5x
1yr return	37.1%	Div yield	5.0%