

Transcript

The Ideas Exchange

Episode 36: 2024 Sector Outlook

January 2024

Jacinta King (00:00):

Welcome to The Ideas Exchange by ASX, connecting you with investment experts, market updates, and ideas. I am Jacinta King, Business Development Manager Investment Products at ASX and this is our regular podcast covering everything from investment trends through to different ways to invest using a variety of products.

Disclaimer (00:20):

A quick note about this podcast. Information is provided for educational purposes only and is not intended to include or constitute financial product advice. You should obtain independent advice from an Australian financial services licensee before making any investment decisions. Please refer to ASX's full disclaimer with respect to this podcast on the section of the ASX website titled The Ideas Exchange by ASX.

Jacinta King (00:47):

Hello and welcome to The Ideas Exchange and to the first episode of 2024. I'm your host, Jacinta King, from ASX. Today, we are joined by Grady Wulff, Market Analyst from Bell Direct. Grady, welcome back to the podcast.

Grady Wulff (01:02):

Jacinta, thanks for having me. I can't believe it's been a whole year.

Jacinta King (01:04):

I know. We need to get you back more often, I think. But this time last year, it really didn't feel very long ago. But look, first before we dive into our conversation, I hope all our listeners had a wonderful break over the holiday period. I know I did. I spent a week at the coast and I think you had a bit of a fun holiday too. Did you want to share that with us?

Grady Wulff (01:24):

I did. I literally just got off the plane from New York. Only, what? 24 hours ago so-

Jacinta King (01:29):

Oh, you're amazing.

Grady Wulff (01:30):

I visited the NASDAQ, one of my favourite indices. So yeah, got to see lots going on there-

Jacinta King (01:37):

Oh, is that right? Yeah.

Grady Wulff (01:37):

And visited CBS News and saw all the operations there. And so, it was just phenomenal and the whole trip was just incredible.

Jacinta King (01:45):

Oh. That's great. Well, I can't wait until we have a coffee after and we can hear more about all your stories. It sounds really good. I was just telling Grady how I've never been to America which is really odd. So I must get myself there one day soon.

Grady Wulff (01:56):

I think you need to. It's phenomenal.

Jacinta King (02:00):

Now, in our first episode back for the year, we thought we'd take a look at 2024 and see what excites Bell Direct about the year ahead and also, where you are being cautious as in where Bell is being cautious. But to recap, I think it's good to just recap 2023 before we have a look at what might happen for the coming year. So reflecting on where we ended up in 2023, can't talk about 2023 without starting with interest rates and inflation. So in Australia, we started last year, 2023, with consumer price inflation sitting at 7.8% and that was the highest since 1987. Do you remember back then?

Grady Wulff (02:45):

I actually wasn't born then but-

Jacinta King (02:47):

I knew you're going to say that.

(02:49):

I was but I was still somewhat young.

Grady Wulff (02:52):

I would love to live back then. Things would've been much cheaper.

Jacinta King (02:55):

It was fun. The fashion, the crimped hair, the fluorescent... You could just wear fluorescent all the time. But anyway, I digress. So in order to battle inflation, the Australian Reserve Bank had been increasing interest rates since May '22. So it was at a low of 0.10%. But that trend of increasing interest

rates, it persisted, didn't it? Throughout the year and we ended the year with the cash rate of 4.35%.

(03:22):

The data and commentary suggests that the interest rate rises in Australia and around the world have had the desired effect with inflation in Australia as at the end of November 2023 at 4.3% and talk of perhaps the reserve bank dropping those rates potentially so watch this space. Now, just before we dip into the content we want to talk with you, Grady, I also want to just recap equity markets. So Australian and global markets traded in sideways market for most of the year, and after indications from the US Federal Reserve that they may be near the top of the interest rate hiking cycle and may even start cutting rates this year, as I just mentioned, the Australian global markets went on a run in November and December.

(04:11):

So the S&P ASX 200 index in particular reached a low on 30 October at 6,772. And then through November, December ended the year at 7,590. So that means that S&P ASX 200 index was up 7.8% in 2023 and S&P 500 index was up 24.23% in 2023. So with that framework and backdrop, Grady, sectors, where should we start? My favourite sector is tech. So shall we kick off there because it seemed like it really came back last year? What are your thoughts around that?

Grady Wulff (04:50):

It's really interesting. Now, tech was the sector to be in in 2020 because interest rates, again, as you mentioned, were at a record low, 0.1%. Funding growth outlook for these companies, as we know, it's the high growth sector and funding growth and profitability and the runway to profitability was really affordable. Back in 2020, everyone was plunged into lockdowns and if you weren't spending your money on active wear, you were putting money into the stock market because sports stopped and there was nothing else to bet on. So everyone started joining the stock market and getting into tech stocks and the exciting times of after pay says it all. It was really the hype of buy now, pay later companies.

(05:26):

Then, we fast-forward to the interest rate hikes and that made the growth runway and their runway to achieving profitability a lot more expensive for these companies that weren't making any money yet. So understanding that we look forward and we go... Everyone's suddenly piled out of tech stocks. But then last year, valuations was so low, everyone jumped straight back in so it really is the roller coaster of tech. And I think last year, there's a lot of hype around the AI movement, so artificial intelligence. And this one was really easy for investors to get caught up in and to misunderstand and just jump on the hype rally. But understanding AI is very important. It's not just in the tech sector, it's in all of the different sectors: mining, healthcare, retail, fashion,

everything. It's in everything now and it's a company... You need to be really smart and really understand whether a company is actually investing in AI or whether they say they're investing in AI or looking to invest in AI just to jump on the hype rally in 2023. So-

Jacinta King (06:30):

That's-

Grady Wulff (06:30):

It's a... Yeah.

Jacinta King (06:31):

Yeah. I think you make a really good point there, good distinction. I hadn't really thought about it in that depth and that clarity.

Grady Wulff (06:37):

Yeah. Exactly.

Jacinta King (06:38):

So yeah.

Grady Wulff (06:38):

And so, in the reporting season I had to really look because a lot of companies said that they're investing in AI but when I looked into the annual reports and a lot of investors don't do that, it's a 56 page long report. Who has time for that other than myself? Because I'm a market analyst and I love that stuff. But you look into it and the material amount they're actually spending on AI isn't actually on the balance sheet or in their expenses. So you think they're saying that they're going to do it and they're saying they're doing it, but they're not.

Jacinta King (07:07):

So it might take some time for that to come through-

Grady Wulff (07:09):

I think so.

Jacinta King (07:09):

Or maybe regulation changes might-

Grady Wulff (07:11):

Exactly. And it's like ESG in a way. I like to compare it to ESG because ESG isn't regulated. There's no requirements to perform ESG but it definitely puts companies on the front foot for a lot of fund managers who only invest in certain ESG companies. AI is the same. So it really puts a company on a forefront of an investor's mind in this hype rally era. But unless you're actually improving your operations and excelling operations through AI, then

you're falling behind. So it's really important to understand whether a company is investing in a material change or whether they're saying they're investing just to jump on the hype rally. So yeah, tech was definitely the sector to be in again last year but I think the AI rally was a little bit overdone and a lot of companies definitely... The valuations went really high for some that we definitely see are looking to slow on the earnings front this year.

Jacinta King (08:08):

And is there any stocks you might want to mention there?

Grady Wulff (08:10):

Yeah. Absolutely. So Life360 is one that I've talked about for a very long time and it's got me in hot water a little bit on the call with Koshy and Howard Coleman and this is a story I'll tell. Because for many months, Howard would shut me down saying, "Grady, it's not profitable-"

Jacinta King (08:28):

I saw that in one of those episodes. Yeah.

Grady Wulff (08:28):

"It's not profitable. It's not profitable," and all of a sudden one quarter of profitability turned to two quarters, three quarters, and now we're waiting for their results in March and it's looking like it'll be their first profitable year of the company. And so in tech, the fact that they have exceeded through this, they've got 50 million global active users, they've got a subscription model, they've got a annual recurring revenue model, they're ticking all the boxes on the tech front for a lot of investors and profitability is so close. So that's definitely one that I've been really excited about for a few years now and it's like Christmas for me in March when that comes with their full results so I'll be really excited to see whether profitability definitely is on the horizon for them.

(09:12):

The other one is actually WiseTech Global and this was a company that absolutely soared during COVID. So it's a logistics software company, it's a global leader, and they really stood out during COVID because we had those logistical and supply chain issues around the world because of all of disruptions around the world. Everyone's parcels were going missing because of COVID and it was just a logistical nightmare to be honest. But WiseTech Global has CargoWise and they've really excelled and put this company on the forefront of a lot of investors' minds.

(09:44):

But Bell Potter actually has a hold rating on this company now because their valuation is really high. And at the moment, it got caught up in the tech rally of 2023 which a lot of companies did but their earnings growth is slowing. So with earnings growth slowing and the company trading at a premium, it says

that you are paying more for slowing or for lower earnings. So holding the company like this in your portfolio is a staple. It's a very good company. There's nothing wrong with the company, it's just the valuation has crept up there and the company has even said themselves, "Earnings growth is slowing." So that's something to keep in mind in the tech sector heading into the new year is whether the valuation is worth it at this level.

Jacinta King (10:26):

Now, moving to consumer discretionary, despite multiple interest rate rise throughout the year, people were still spending.

Grady Wulff (10:34):

Everyone still spends-

Jacinta King (10:36):

Me too, myself included.

Grady Wulff (10:38):

And so was I. I went on a holiday.

Jacinta King (10:38):

Yeah. A great holiday.

Grady Wulff (10:40):

It's crazy because last year, I think it was the end of our COVID savings. So if you didn't go to Europe, you had all these savings that you had just kept from free government money during COVID. We weren't spending money on fashion. We weren't going away. We weren't buying new cars. We were just locked down in our houses so all we had to think about was electricity, food, water, the staples. Whereas now, take us out of lockdown and we have so much money to use. And I think a lot of people were really using that to their advantage over the last year. And despite interest rates rising, everyone still had this free money cashed and stored away, for lack of a better word, dark times. But it was actually really good times last year.

(11:27):

So with interest rates rising, obviously cost of living pressures are going through the roof. I'm shopping for myself at the moment weekly for food shopping and I've noticed my bill's gone through the roof. And not only that, my phone bill, my healthcare, everything's gone up which is crazy because wages at the same time aren't rising to match the same amount. So it's a really interesting mix on our lifestyle front but people did still spend and we've only just seen a slight decline in fashion retail spend. And that's what sets the outlook for this year for 2024 because I think... Because interest rates have risen so quickly to 4.35% now, 13 rises since May 2022 and it's not been as aggressive as the US but we still have had... And we notice it every day, that life's getting expensive. And so, I think this year will be a really tough one

for retailers and for retailers who aren't targeting a niche market who aren't impacted by interest rate hikes.

(12:28):

So if they're not targeting the young demographic who don't have cost of living pressures, it might be a tough year. And so, there are a lot of different ways to weather that storm. And a company like Temple & Webster for example, really, is doing great things. So they have understood that COVID was their peak and COVID was a really, really good time for them because they're selling household retail. Household retail is booming during COVID because, again, we couldn't spend money on anything else so a lot of people had saved to go to Europe. So they took that money instead and put it into transforming their house, upgrading on their furniture-

Jacinta King (13:05):

Upgrading. Yeah.

Grady Wulff (13:05):

Exactly. And then now, Temple & Webster are using this downtime to really invest in marketing and research and-

Jacinta King (13:13):

And online is a good business model, isn't it?

Grady Wulff (13:15):

Online's still booming.

Jacinta King (13:15):

Yeah.

Grady Wulff (13:16):

Exactly. And they have drop shipping models so they don't hold much inventory. They also have invested in AI so they have a material investment in AI. And that's through Renovi which is a company that enables them to put their products into your house. So you can see... Because it's an online company, you don't see the couch that you're sitting on and you don't get to feel it before you put it in your house. So they've done a really good thing. And through AI, you can put the couch that you're going to buy from Temple & Webster in your house. So they've taken a really strategic step to understand the downturn in the market and really use this time to really excel themselves and their customer offering. So that's one way to weather this storm. But then, you have companies like Lovisa. And Lovisa, I will back this company until-

Jacinta King (14:02):

You've talked really favourably about that all of last year so I was going to ask you-

Grady Wulff (14:07):

I love it and I actually don't own it. It's not in my portfolio and I wish it was but I feel like I would definitely invest in this company but it's not... Like everyone has their own strategies. So without it being in my portfolio, I still love the company. I just think the valuation, I should have jumped in a little bit earlier. So it's definitely the retail pick for Bell Potter, it's a key retail pick because this company has so many facets to it. It's not just a direct fashion jewellery store. It's a global phenomenon really.

(14:40):

And a lot of people at work, I love coming into work and hearing some of the brokers talk about Lovisa because it's like a 50-year-old man going, "How good's Lovisa?" And I'm like, "How good is that?" Because it's a fashion jewellery store, you walk into any shopping centre and the gold logo just grabs you. The lights, the gold, it's literally just plain marketing and it's so good. And then, as I said in our investor days, Lovisa has this strategy that they offer free piercings. And so, if... They're capturing a secondary audience. So if you don't have a piercing, you get it done in store, you go and buy your piece, and they're capturing a new audience that they otherwise wouldn't have captured. Super smart marketing strategy. They've also got a massive global rollout strategy of stores so they literally have nailed the costing of this-

Jacinta King (15:32):

Yeah. I found that interesting.

Grady Wulff (15:33):

Yeah. The-

Jacinta King (15:34):

Yeah. So explain that more when you say nailed the costing.

Grady Wulff (15:37):

So they pretty much... It's a rinse and repeat. So copy paste, copy paste model so they know exactly how much it's going to cost, where they're expanding to. There's not many competitors in the US on this front and also in Europe. Notably though, it is important to mention, they have noticed a slight slowdown in their net store openings in the US but that's not of significant concern and it's in line with what brokers were expecting. So it's not a concern that there's a slight slowdown in store openings but they're still executing their global rollout strategy.

Jacinta King (16:10):

Yeah. I read 30 countries and-

Grady Wulff (16:12):

Massive.

Jacinta King (16:13):

And how many stores was it?

Grady Wulff (16:15):

Over 800?

Jacinta King (16:16):

Yeah.

Grady Wulff (16:16):

Which is just-

Jacinta King (16:17):

That's huge. I didn't realize it was that big because it's an Australian company, right?

Grady Wulff (16:20):

I didn't either. And then, if you think about retail, you think about going overseas and you think that there's competitors of their own kind over there. But no, Lovisa is just rinse and repeat, rolling out, taking over the world. And I love it and I'm literally wearing Lovisa earrings right now.

Jacinta King (16:34):

Walk the walk, talk the talk.

Grady Wulff (16:35):

I know. I love it.

Jacinta King (16:35):

Good one.

Grady Wulff (16:35):

But we love Lovisa.

Jacinta King (16:39):

Yeah. Look, I admit. It's a fun... I've shopped there as well for gifts because it's really fun.

Grady Wulff (16:43):

Yeah. So do I. And it captures all audience. I can get my niece something for \$5 and-

Jacinta King (16:47):

Yeah. And I've got myself as well. Yeah.

Grady Wulff (16:50):

The same. I've got different outfits for the different festivals and put the earrings on. But you know what you're getting, you're going to get a couple wears out of it. It tarnishes, you put them in the bin. So it's one of those... It's a high replenishment, low ticket item that you don't mind spending 5, \$10 on, and you get what you want. But I also... Like I do a lot with the horse racing and the fashion and I got two fascinators from there. So-

Jacinta King (17:12):

Yeah. It's current, right?

Grady Wulff (17:14):

It's current. It's fashion.

Jacinta King (17:15):

You might not wear it in two or three years time but yeah.

Grady Wulff (17:16):

It's cool. I love it.

Jacinta King (17:18):

Yeah.

Grady Wulff (17:18):

Absolutely Love it. Big fan.

Jacinta King (17:21):

Any others worth mentioning there?

Grady Wulff (17:24):

Absolutely. So there's a hold rating from Bell Potter on Eagers Automotive. Now, they're a leader in the automotive space. We have seen a slowdown in car sales. And again, like during COVID with their retail, the home retail, a lot of people upgraded their cars during COVID. So we know cars, you don't buy every single year unless you're... I don't know. Unless you love your cars, then off you go, buy a new car every year. But you normally hold onto them for about 5, 10, 15 years. And so, Eagers Automotive, they're a very, very strong company. They're a market leader. They have presence all over Australia.

(17:58):

And then since their merger with AP... APE, I think it is? APE... It was Eagers and APE and they've merged and they're one of Australia's leaders. They also have property in their portfolio which is a really strong thing because when having property in a property market right now with a crisis that we have on, they can leverage that if they need to, to sell some property and bolster up

their balance sheet. So we really like the fact that they own the property that they operate on as well. So that's another facet to the company.

(18:29):

But at the moment, we are expecting, as I said, a slowdown in consumer spend on discretionary items in 2024. But for a company like Eagers, it's a hold rating because they're a market leader, they have a really strong balance sheet, and it makes the company equipped to weather any downturn in consumer spend and especially with recent acquisitions that they've completed. So they've completed more acquisitions recently in Melbourne to acquire different car yards and more property as well. So again, they're really, really strategic company. That's why there's not a sell rating on it. But just with the downturn, we need to understand which companies are going to thrive and which are just going to survive.

Jacinta King (19:08):

That's helpful. Yeah. So then, people can understand Bell's take on it so they know where to place it in their portfolio.

Grady Wulff (19:14):

Absolutely.

Jacinta King (19:15):

Look, I also was thinking this is Australia and we love our mines and commodities-

Grady Wulff (19:20):

I love mining.

Jacinta King (19:20):

So I know our listeners are sitting here patiently waiting to hear about that. And I know you spend a lot of time and do a lot of... You've been doing some site visits as well-

Grady Wulff (19:28):

I have. I have.

Jacinta King (19:29):

I see. So talk us through some. There's a lot happening there, I think.

Grady Wulff (19:32):

Yeah. And WA, obviously, I'm a WA girl so it's born and bred and I love WA and I'd never actually been to a mine site until last year. We started a new content strategy from The Minds Behind The Mines. So Minds Behind The Mines and I just thought we've never taken investors up to mine sites before. It's never been done-

Jacinta King (19:53):

True. Yeah. I'm in... Yeah.

Grady Wulff (19:54):

And viewing from the helm at the mine site exactly how gold is drawn from the ground or how copper, what happens with copper, what the process is, or even nickel. We're in the nickel downturn right now but what happens with the mines when the price comes back? Because commodities are cyclical. And so, hearing from the helm themselves at the edge of the mine is just phenomenal. And seeing... And showing our investors exactly what happens at a mine site is just... You just have to trust written announcements from ASX listed companies, don't you? Until you actually see yourself where your money is going into a mine. So it's a really exciting time and I'm really excited for this year. We have some big plans. But with miners last year, obviously where it is, as I said, cyclical. So it's important to remember that macro factors and financial factors and where they're at in their production cycle, it all impacts the way that their stock price performs.

(20:49):

So for explorers and producers, we saw different companies last year really excel. So in the gold space, especially gold sitting at 50 year highs, 2027 US dollars an ounce today. And so, that's definitely seen a resurgence. And if we go back to this podcast recording last year, gold wasn't even on our radar at all because there was no need for safe haven at that point and there was no drive or there was interest rate uncertainty. And so, everyone just went... The gold wasn't even on the radar. And then out of nowhere, all these gold miners, explorers, they just-

Jacinta King (21:28):

Yeah. You're right. It was really quiet. Yeah. Yeah.

Grady Wulff (21:32):

It was. And then, all of a sudden everyone wants gold. And so yeah, gold was one of the ones that we've seen a lot of excitement in. So some of the explorers and producers turned into developers and Bellevue Gold was one of those and it's a really exciting time. But once you turn from a producer, an explorer to a full-blown gold developer and miner, that's not where it stops. The challenges ramp up from there because you have to get your CapEx and OpEx down. For gold, all-in sustaining costs is really important. So producing as much as you can at the highest rate and selling it at the highest rate possible per ounce at the same time as keeping your costs under control is so important.

(22:14):

So for Bellevue Gold, they have really exceeded and really excelled what we expected. And the margins, so now it's up to maximizing margins. So it's really exciting and they're ramping up to full capacity now of 200,000 ounces per

annum at their Bellevue gold production plant. And so yeah, just seeing that firsthand was just phenomenal and seeing the team behind the company. It's also, when you're looking at a miner, it's about the experience of those at the helm. Darren Stralo and the team, they have really extensive experience. And so, just looking at how they operate every day and what they bring to the team just goes to show that they're seriously on to something special.

(22:56):

For Bell Potter, their gold pick at... Bell Potter is actually Gold Road Resources and I will just claim that I do have this in my portfolio. I got into this simply on the back of Bell Potter's research. So I hadn't really understood much about the company beforehand but I really liked the fact that the company has the Tier 1 Gruyere goldmine in WA. So again, WA girl. They also have a significant shareholding in De Grey Mining which is another gold miner that's up and coming. And we have a spec buy on De Grey and the company is just... They're producing already. They've got really good all-in sustaining costs. They've got, obviously, the exposure through De Grey to the Mallina Gold project which is looking to be a really good asset under their control. The company of Gold Road also is profitable, has no debt, and pays a dividend. So for a lot of investors, that is a lot of ticks in one sentence so-

Jacinta King (23:52):

It's quite attractive when you put it like that.

Grady Wulff (23:53):

Really attractive as well. And so, understanding that you just need to look at... And their all-in sustaining costs came in below Bell Potter expectations. So those are the metrics we look at with gold miners. Naturally, gold has been on a run recently. So if you're looking for exposure in gold, you don't just have to go for the miners, you can look at physical gold or ETFs even or explorers if you want to jump on the "speccky" side. So there's a lot of different ways to expose yourself to gold. And I was speaking to some of our commodity analysts earlier this year and they were all saying that gold is definitely set to continue the rally in 2024. So with a lot more certainty on the interest rate front, a lot of people just want that exposure to gold just for a safe haven element to their portfolios. And so yeah, it's a really exciting time and also with the expectation that the US dollar's going to weaken. So again, that bolsters a case for gold.

Jacinta King (24:50):

Okay. Well, there's the case for gold, pretty comprehensive so thank you.

Grady Wulff (24:54):

No worries.

Jacinta King (24:55):

What about some other commodities like lithium? I think we probably need to touch on that hay-

Grady Wulff (24:58):

We do.

Jacinta King (24:59):

Because of what happened.

Grady Wulff (25:01):

I think the lithium cell has been overdone. And it's probably a controversial opinion, but lithium itself and speaking to different resources, analysts, it's a commodity that came out of nowhere and it's bounced between really high and really low and it hasn't found that happy medium in the middle. So we've seen obviously the gold price go peak and trough but it sits around a happy medium over time and it goes up over time.

(25:29):

But then, you have lithium and that's because it came out of nowhere so quickly. And this lithium ion battery has been in the works for maybe a decade or two decades maybe? About 20 something years. It's really new to the market and we're still understanding the potential and capabilities of lithium. And so, any noise in the space really impacts the price of the commodity and demand outlook. And so, with China being or coming back really slowly from their post pandemic lockdowns, even just this week some fresh data, shows China is still struggling to regain any operational like full operational capacity and economic growth.

(26:08):

It just goes to show that any news to do with China which is obviously now the biggest producer of EVs in the world, and BYD has overtaken Tesla now as the biggest EV company in the world, it just goes to show that any negative news really impacts lithium. And speaking to those at the helm so Ken Brinsden from Patriot Battery Metals and different players in the space, they all come together like even Dale Henderson from Pilbara Minerals. They all have the same outlook, is that there's lithium everywhere in the world, like getting it from out of the ground into a battery is a really tough process and-

Jacinta King (26:47):

It seems that we're still at the very beginning stages of that production-

Grady Wulff (26:51):

We are.

Jacinta King (26:51):

That's what I've been reading, the impression I'm getting-

Grady Wulff (26:55):

100%. And of course, we can work in our-

Jacinta King (26:56):

Yes. Yeah. And we're probably a couple of years away, I would argue.

Grady Wulff (26:58):

We really are and-

Jacinta King (26:59):

Because we've got to build the plants, for example.

Grady Wulff (27:01):

Building plants. Or obviously, going through the whole transformation process from the hard rock lithium into a battery, it's not an easy process.

Jacinta King (27:09):

Do you think the government policies, the talk, and especially in the ESG space, and... That's what's driving it and people think, "Oh, okay. Well, this is going to happen," but it's not actually going to happen tomorrow so that's-

Grady Wulff (27:21):

It will not happen tomorrow. And so, I think any... Again, any noise that says, "Oh, lithium supply will outweigh demand one day," it might but getting that supply into a battery form is a really tough process. So I think lithium will probably bounce around a bit this year. But fundamentally, the fundamentals are there, that we will always need lithium. And then, the question arises. A lot of people are obviously sceptical about the future of lithium but what we need to remember is that until there's a replacement for a lithium ion battery and a better replacement, you need lithium.

(27:59):

And so, with a lithium ion battery, it actually isn't just lithium so a lot of it is graphite. So graphite's another one that's rising up the ranks this year as well. Rare earths is another element of these batteries. You have copper, you have zinc. So many things go into lithium ion batteries, it's not just lithium. So it definitely puts a number of commodities on the up this year. But yeah, I think there'll be a bit more volatility in the lithium front and that's natural because it had such a run over 2022. But yeah, there's a few different commodities. Even copper had its full start last year.

Jacinta King (28:35):

Yeah, yeah. We're going to talk a bit about that as well, aren't we now?

Grady Wulff (28:38):

Yeah. Yeah.

Jacinta King (28:40):

Because copper... I mean, these are on my radar given all this move to clean energy.

Grady Wulff (28:45):

It is and it has a fundamental role in clean energy. So it's the energy storages, energy transmissions, it's everything. And a number of different markets and analysts around the world definitely still think copper has a role and copper is needed in your portfolio in 2024 and they do think this is the year that it will come through. But I think it's just... I don't know whether it was market speculation or oversupply, under-demand, or the price of copper but the fundamental like lithium is there. Copper is just... It's needed for energy storage, EV batteries, solar panels, wind turbines, everything. So the fundamentals are there, it's just whether the market realizes it or not and how quickly we want to get into the green energy transition. So yeah, copper is a really interesting one. Even nickel. Nickel is-

Jacinta King (29:34):

Yeah. I was going to say nickel as well. Yeah.

Grady Wulff (29:36):

Yeah. Nickel, it's a sad story because-

Jacinta King (29:39):

We've got time.

Grady Wulff (29:40):

I feel bad for a commodity but... It's like it's a child. But yeah, nickel, we've reached the top of the cycle. But again, nickel is, again, like copper, needed in this green energy transition. So it's a shame the price has come back for quite a way. But again, "How low can it go?", is the question.

Jacinta King (30:04):

Look, that's been great. Thank you so much. I really appreciate the insight. Financials is next on my mind because that's another favourite. So yeah, a bit of changes there, I think.

Grady Wulff (30:14):

I think so as well. So-

Jacinta King (30:15):

Yeah. People's sentiments has shifted. Yeah.

Grady Wulff (30:15):

The big banks... Yeah. There's.. Naturally, CBA accounts for what? 10% of the ASX 200 or the key market. And so, a lot of people will always love the big banks and that's fine because that is part of everyone's or some people's

investment strategy and the dividends they pay is good. All the big banks, it's a security that you're... Banks are not going anywhere, especially in Australia. We didn't have the issues that the US did in the regional banks because our banks are so heavily scrutinized and so heavily regulated so we're in a really fortunate position in Australia. So having exposure to the banks is smart. But understanding that net interest margins have peaked across the board and that's where the banks make their profits and their margins and investors are looking for diversification in the financial space. Because as we know, poor fund managers did it very tough in 2023.

Jacinta King (31:10):

They certainly did.

Grady Wulff (31:12):

Yeah. So there are opportunities in the fund manager space heading forward. And so, back on the banks-

Jacinta King (31:19):

All right. Tell us more. What's-

Grady Wulff (31:19):

Yeah, yeah, yeah, yeah, yeah. So-

Jacinta King (31:19):

What's your thoughts there?

Grady Wulff (31:22):

So the reason is because with the banks, as I said, net interest margin has peaked. You've got switching at an all time high rate right now so everyone's looking to refinance, looking to get the best mortgage they can. And so, there's opportunities with those that have been sold off in 2023. We actually have a buy rating on Perpetual. And I sat with the analyst and it was really interesting to hear his opinion on this because as we know, as I said, fund managers did it really tough and there's a lot of fund managers out there. So diversifying and making your fund management process and your portfolio stand out is a tough thing to do in a saturated market.

(32:00):

But for Perpetual, their results were weaker in FY '23, there's no denying that. But a strong management team, an entrepreneurial management team, and a really personalized focus moving forward so they're really tailoring their product to what their clients and customers want as opposed to a one size fits all. So they're really diversifying where they're investing. They also have the corporate trust business which is a really sticky revenue stream for them and it's a really, really high value market. And that's a really high value division.

(32:34):

And a Japanese, I think it was a Japanese or Chinese company, two years ago, wanted to buy this off them. But again, they rejected it on the grounds of value. And then, Washington H. Soul Pattinson is interested in separating this part of the business from Perpetual. So the corporate trust business is where I'm keeping my eye on this year because it's an emerging business in the US as well. So we're seeing a lot of corporate trust businesses pop up in the US. Because the process to get your corporate trust funds into companies like Perpetual, it's a really tedious process. And so once they're in, you tend not to move. And so, that's the space in the financials that I'm looking at this year.

Jacinta King (33:16):

So watch this space. Yeah.

Grady Wulff (33:17):

Watch this space-

Jacinta King (33:17):

This certainly been a lot happening-

Grady Wulff (33:18):

Especially in the corporate trust.

Jacinta King (33:19):

Yeah. Okay. Yeah. That's a good one to note.

Grady Wulff (33:22):

Yeah.

Jacinta King (33:22):

Now, defensive stocks, staples.

Grady Wulff (33:25):

Yeah. What happened?

Jacinta King (33:26):

They surprised us... I know. Because I've worked for years in funds management and worked with a manager who ran conservative portfolios and the staples really did well until recently. So-

Grady Wulff (33:37):

Staples, generally, are the ones you think are going to do well.

Jacinta King (33:42):

We think that people will stop discretionary spending.

Grady Wulff (33:44):

Exactly.

Jacinta King (33:44):

But they seem not to. But then, they've pulled back on staples-

Grady Wulff (33:47):

100%.

Jacinta King (33:47):

What's that about? Got any insights for us? Can you read your crystal ball on that one?

Grady Wulff (33:52):

This confused me big time. Because these are the companies that you think can raise costs or raise the price of goods without impacting demand. That's generally what a staple and defensive stock is. But you look at the likes of Coles and Woolies and they... Well, Woolies did really well. They actually did well for a number of reasons and one of them was their expansion. This makes me laugh. I'm not sure why. But their expansion into pet retail space. So it's a \$3.7 billion market right now in Australia.

Jacinta King (34:23):

Yes. Have you said this before? I've heard this before.

Grady Wulff (34:27):

Yes.

Jacinta King (34:27):

It must have been from one of your reviews-

Grady Wulff (34:28):

Probably my buy, hold, sell.

Jacinta King (34:30):

Yeah, yeah.

Grady Wulff (34:31):

So Woolies is interesting because they started acquiring different pet companies and pet retailers.

Jacinta King (34:36):

So outside of Woolies, they're buying these-

Grady Wulff (34:38):

So the Woolies head group is acquiring different pet companies. And when they started doing this about two years ago, I was thinking, "Why is this?" But

you look forward and you see the number of COVID puppies and COVID babies. If you didn't have a baby during COVID, you bought a puppy because you're home alone, you're bored, you're lonely, and everyone bought puppies. And so, not only that, everyone has these customized like Harry or whatever someone's dog's name is-

Jacinta King (35:09):

Really posh names.

Grady Wulff (35:12):

The harnesses. Yeah. No, Harry-

Jacinta King (35:13):

Posh names. Posh lives. Yeah.

Grady Wulff (35:13):

Exactly. But Harry can't just have one lead, he has to have another one for summer, one for winter, blue one or pink one-

Jacinta King (35:21):

Yeah. Customized named feed bowls and-

Grady Wulff (35:22):

Exactly. And it's like, this pet retail industry-

Jacinta King (35:25):

Grooming.

Grady Wulff (35:26):

It's cheap to make the products and the margins are so high. So Woolies expanding into this was a super smart move. Also, the other smart move they made was the demerger of Endeavour which was their alcohol and tobacco assets. And so, that really put Woolies on the portfolio radar for a lot of fund managers because ESG, as I mentioned earlier, it's not regulated but companies and fund managers in particular have been taking serious notice of companies and avoiding investing in companies altogether who have exposure to alcohol and tobacco assets.

(36:02):

And so, the fact that Woolies demerged their Endeavour and listed Endeavour as its own group and then now have been selling their holding in Endeavour, it just really... It was a really strong move by Woolies. And I'm just wondering, Coles still has their liquor assets through Liquorland and their different liquor assets and tobacco. And I'm just wondering because we always see with these supermarkets, one copies the other and then vice versa and I'm just wondering what Coles is going to do with their liquor assets. So-

Jacinta King (36:36):

It might drive some change in behavior-

Grady Wulff (36:38):

Yeah. Maybe or maybe a demerger. I'm not sure. This is pure speculation, don't quote me. But it's just interesting to see if they were watching to see how Woolies and Endeavour went separately before they decided to do the same thing. But yeah, that's something on my radar obviously heading into this year as well. But again, so back on the staples stocks, I think it was margin pressure was a big one for staples this year. So controlling costs was a big one. Because obviously, cost rising, you need to be in charge of that. And I think a lot of them, like Woolies and Coles implementing the price freeze on different of their trolley items was good for Australians but bad for investors. So it helped you and I obviously with our grocery shopping but investors weren't very impressed with that. So I think controlling costs and increasing prices to obviously absorb these material cost increases was really important and a lot of companies let down on that front in 2023.

Jacinta King (37:41):

Okay. Now, I've got just a short amount of time left. Are there some other sectors you want to just cover off? One or two maybe.

Grady Wulff (37:48):

Yeah. REIT is a quick one. So REIT is one that a lot of investors got wrong in 2023. Sector didn't do very well but a lot of investors assume that REIT is simply office and retail space. It offers some retail real estate. It's not and there's serious few opportunities in that space moving forward. Now, there's a lot of companies putting a back to work policy in so our company is one of them. Working from home is not a thing anymore-

Jacinta King (38:16):

CBA did it. Yeah.

Grady Wulff (38:19):

Exactly. So back to offices. So we had office vacancies high, obviously this really hurt office REITs. That is looking to turn around in 2024. Retail REITs, obviously, retail spaces. We know online shopping is getting bigger so it'll be tough for a little while. But data warehousing and industrial rates and distribution centres is massive and there's a serious opportunity there like Abacus Storage King. I think... Is it Abacus Storage King? I think... The company is only listed recently and it's a really interesting company because it combines the housing crisis where people have to downsize because they can't afford their repayments on loans so they need to either get rid of their furniture in their house to downsize their house by selling it or store it. And so, storage rates-

Jacinta King (39:09):

So move and downsize but then they're keeping-

Grady Wulff (39:10):

Downsize but where do you put the furniture?

Jacinta King (39:10):

Yeah. Okay.

Grady Wulff (39:12):

So there's actually waitlists for some of these storage units which is really interesting. And Abacus Storage King listing at this time is really smart because demand is so high for these storage units. So that's a rate that a lot of people don't expect would do well or don't actually even consider on their radar but it's one that really interested myself. Goodman Group's another one. So they actually introduced price increases in 2023 so that led to margin expansion and obviously, overall a higher net profit. So again, higher price is high net profit, that's exactly what you want to see. And then, the healthcare sector. It's my favourite sector.

Jacinta King (39:50):

Oh, okay. All right. Yeah.

Grady Wulff (39:51):

It is my favourite sector because obviously it's working at helping the better good and the greater good of human beings. So a lot of different companies, it's the sector that has outperformed over the last ten years and for a good reason. Because in this process, and I just love healthcare companies that come through with the goods because it's a 10-year process from the day I sit there and I say, "I've found a drug that's going to treat blah or XYZ disease," it takes ten years and a lot of money, a lot of trust, a lot of faith, a lot of trials, a lot of failures to get this product to market and to actually help the greater good of people.

(40:30):

And so, Neuren Pharmaceuticals, I've been talking... It is in my portfolio. I bought in at \$13.26 cents. It just topped \$23 the other day. I think it topped \$25 just before the end of 2023. And this company, in my opinion, is the next big Australian name because they have the world's first approved treatment for Rett Syndrome which is a neurodevelopmental disorder that affects motor skills, language, and it's a growing market globally. And so, the fact they have the only approved drug in the world for the treatment of this-

Jacinta King (41:03):

That's significant. Yeah.

Grady Wulff (41:04):

Is huge. And then, not only that, they also have global distribution through Arcadia Pharmaceuticals which is their global distribution partner. So that means they're already making money, they have revenue coming in, they're doing really well. But they also have a second drug in the works right now to treat four neurodevelopmental disorders including Pitt-Hopkins Syndrome, Prader-Willi, Phelan-McDermid Syndrome, and another one I forget the name. But again, the addressable market for that is just huge and there's never been a drug to treat one of these, let alone all four. So it just goes to show the sky really is the limit for this company.

(41:42):

And despite it being on a rally, again, as I said, it's on a rally right now but the sky is the limit so you can't really put a price on a growing addressable market. So when I say valuations are high right now, it's how much are you willing to pay to be part of this growing market? If there's a slowing earnings growth, then obviously you need to consider how much you're willing to pay. But the sky's the limit, so it could just keep going and going and going. But then, you have a like of a ResMed which came under pressure in 2023 and it's a really interesting reason why it came under pressure. So it has sleep apnoea products.

Jacinta King (42:23):

Yeah. I found that interesting-

Grady Wulff (42:25):

It was really interesting.

Jacinta King (42:26):

I was just taking the notes. Yeah, yeah.

Grady Wulff (42:27):

Because a lot of people... So obviously, Ozempic was the big thing in the world in 2023 and it's really a shame because it's a drug for diabetes and a lot of people misused it and want to use it for weight loss. And obviously, it does help with that. Don't get me wrong. But it was definitely misused, abused, and a lot of people took the mickey out of it and just really went at it because they wanted to lose weight and some people for the wrong reasons as well. And so, we had a shortage of this weight loss drug. And so, a lot of people assumed that losing weight and with such a high demand for this weight loss drug would mean sleep apnoea products would be less needed because-

Jacinta King (43:12):

See, I've heard this. Maybe it's an urban myth then, is it? Apnoea's-

Grady Wulff (43:14):

I'm thinking... Well, doing a bit of research, I think so because people who are fit and young as well-

Jacinta King (43:20):

Have it. Yeah.

Grady Wulff (43:21):

Still snore and still have sleep apnoea.

Jacinta King (43:24):

My daughter... Oh. She'll hate me for saying this. She's really young and she snores.

Grady Wulff (43:28):

My partner snores and he's fit as-

Jacinta King (43:30):

Yeah.

Grady Wulff (43:30):

He'll probably hate me saying that but-

Jacinta King (43:31):

She's tiny. Yeah.

Grady Wulff (43:32):

And he's so fit, young, healthy, and he snores. So I think it's an urban myth and a lot of investors obviously listening to news and noise again and assuming that the weight loss drug and weight loss epidemic out there is going to lead to less need for these products. So naturally, the market's oversold and a lot of brokers see a buying opportunity for ResMed because their products are always going to be needed. So it is an exciting time but they are... Healthcare names are definitely my favourite in the market.

Jacinta King (44:04):

Awesome. From what you've been saying, what I've noted here, your sector stock picks with tech, we've got Life360 edging towards profitability and you noted that full year results are due March. Retail, still happy with Lovisa?

Grady Wulff (44:19):

Yep.

Jacinta King (44:19):

And was there any others in the retail space? Oh, you mentioned-

Grady Wulff (44:23):

APE, so that's a hold. Yeah.

Jacinta King (44:26):

Yeah. APE. Yeah. It's a hold. And then, miners, yeah, we got a great recap on the gold there but not to forget some of those other commodities. Healthcare, we've just covered that. So Neuren and ResMed are still on your radar. So Grady, I really appreciate it. It's been a really great introduction to the year, a lot to think about and digest. So I hope for our listeners, they've enjoyed that and maybe you need to listen twice to get some good takeaways. So thank you for joining us today and we look forward to our listeners tuning in next month on the Ideas Exchange.

Grady Wulff (44:59):

Thank you so much for having me.

Jacinta King (45:01):

You're welcome.

More information: (45:02):

Research is key to help you achieve your investment goals. Visit asx.com.au to access our company directory and find details about all ASX listed companies, sorting alphabetically by industry sector, listing date, or market capitalization.