

Australian market sectors: A 10-year review

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Jacinta (00:00):

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Jacinta (00:47):

Welcome to the Ideas Exchange. I'm your host, Jacinta King from ASX. And today's episode is the first of series three and we are going to start with a sector review. And today we welcome back a special guest whom we've had on the Ideas exchange previously. Grady Wolf joins us from Bell Direct where she is senior market analyst. Welcome, Grady.

Grady (01:07):

Thanks for having me, Jacinta.

Jacinta (01:09):

It is so good. It's been more than a year since we had you on the program, which is far too long, so sorry about that.

Grady (01:15):

That's okay. I'm always happy to wait.

Jacinta (01:17):

I know. And you've done some great preparation for today, so I want to dive right in, because we're going to unpack the Australian market sectors. Now, I'll mentioned that we're actually recording this on the 9th

of July and we've just entered a new financial year and we thought it'd be good for Grady to share Bell Direct's insights on how key sectors have been performing to date. And also we want to look at where they might be going as we enter this new financial year. Grady, we've got 11 sectors in the Australian market and we don't have time for detailed look at all of them, so let's hone in on three or four that have been performing well. And then we'll touch on some sectors that haven't been performing well of late before we'll let people know where they can get more information, especially on those sectors that we can't touch on today.

(02:03):

Now firstly, sometimes it's good to look back before we look forward, and I see that you and your colleagues have been focused on this lately and you've been doing some research into how sectors have performed over the past 10 years or so. From looking at all that information, can you please start with an overview of the Australian market sectors more broadly and perhaps some of the key takeaways that you've drawn from this research, Grady?

Grady (02:25):

Of course, Jacinta. Now obviously blood, sweat, and tears went into this research. I think I spent about two weeks analysing charts, looking at different key market events, and how the markets have performed over the last 10 years. And to be honest, I was very surprised. Different sectors have been outperforming. And in the eye of the investor you kind of look at the materials and energy sectors and you just assume that they've done really well, because of obviously the industrial and commodities boom back in the day that within this 10 year period, China's strength at the early part of this period and high demand for housing and building in Australia, steel demand going through the roof, input prices going up. But, we were actually wrong. Energy has underperformed the whole entire market over this period. And so, it's really interesting. Sometimes you need to, as you said, look back before you can go forward and think, "Am I taking on too high risk by jumping into this sector for not much return?"

(03:18):

So, that's really what the kind of focus of this was, to see where the gaps in the market are, how you can play the market, and what are the best sectors to get opportunity to match your investment profile. So, the key trends that I took away from analysing charts in detail from 2015 to 2025, so the benchmark, the ASX 200 rose 45.92% over the 10 years, the key events that hit the market were COVID, obviously, where every single sector literally plummeted except healthcare.

(03:50):

And, I think, this was kind of a sign of the times. A lot of healthcare companies in that time stopped what they were doing and they focused

on creating this vaccine and creating these supplementary products to really get us through this pandemic that no one had any idea what was happening. And then we saw sectors rebound like your tech sector, because obviously sports stopped, where were people going to gamble, people jumping in the market, all these new investors, retail investors jumped into the market because their friends said, "Jump into AMC or jump into these meme stocks." And all of a sudden people were investors who had never even dropped a dollar on the stock market before. And so, that sent the tech sector flying.

Jacinta (04:33):

That was extraordinary. I remember that-

Grady (04:33):

Insane.

Jacinta (04:35):

... because we started seeing reports with this extreme jump-

Grady (04:35):

Exactly.

Jacinta (04:39):

... which is always a bit of a question mark or a flag in our industry. So-

Grady (04:43):

And then the amount of those who went dormant is simply phenomenal because once life resumed as normal, well you don't need a trade anymore because you can go back to betting on your sporting teams. So investors, it's really been a wild ride of 10 years. And so, I think, the key takeaways and the key themes for me was obviously the pandemic as I mentioned, and the subsequent recovery that we've seen. That's been prolonged for some sectors. As I mentioned, materials and energy underperforming still simply driven by obviously geopolitical tensions right now. China's subdued demand and subdued, well, really sluggish recovery post pandemic that we are still waiting for.

(05:22):

And the economic data speaks for itself there. We've got deflation territory, we've got industrial output, we've got the PMI index, their trade balance, all of these are still a negative territory since the pandemic. And that's what, speaking two years now we've been waiting for this material recovery that just has not happened. So, looking at that, you've got recovery that was expected but hasn't come yet. You've got sectors that have surprised like discretionary, which posted a big gain over the last few years and it's been approaching on the tech and the healthcare gains up

there with the outperformers of the whole market over 10 years, very surprisingly.

Jacinta (06:00):

It continues to surprise. We talked about this out last catch-up.

Grady (06:05):

Yeah.

Jacinta (06:05):

So, we'll talk about it again today.

Grady (06:06):

We'll get to that get soon.

Jacinta (06:07):

Yeah, we'll get to that. Yeah.

Grady (06:08):

I think tech and AI have been a big one. So, that's a bit a key theme that we've seen over the years. But, the thing about the tech revolution and AI sector and the AI revolution itself is it's not just in the tech sector. So, diversified exposure is the way that you can gain the best opportunity right now. If you think you've missed the boat on the NVIDIAs, or the chip makers, or the software and the hardware makers, you can get a very diversified exposure through uranium right now, through your data centres. There's serious opportunity that have been underperforming recently, because people aren't aware of this diversified sideline exposure to AI. So, that's another trend we've seen. Obviously interest rates and inflation is a big one. Low interest rates post-pandemic really fuelled the consumer discretionary sector as we said, obviously with free government money, low interest rates, where are you going to spend your money other than your favourite athletic wear that you had, because in lockdown we all wanted to be very comfortable.

(07:08):

So yeah, low interest rates have really boosted sectors like the REIT stocks as well, because during a high interest rate environment, the REIT stocks find it hard to pass these costs on, and then the power is kind of with the tenant as opposed to the REIT stock or the REIT manager themselves. So, that's what we've seen there. Sustainability has been an increased focus over the last 10 years and that has impacted... I think has really impacted the focus and the performance of energy and materials stocks. So, that was an area that really weighed on the market and weighed on the performance of materials and energy. So your ESG concerns, you've got this green energy transition underpinning the market that we've seen. The big miners now, blue chip, big miners like BHP or Rio

jumping into this green energy transition, because they've needed to diversify earnings because of China's rebound.

(07:57):

Consolidation has been a lot of M&A activity that have really seen... We've seen that impact the market over the 10 years. So, healthcare has been a big one for them. Look at all the big names that are just taking out the little players. So CSL continues its aggressive acquisition journey. You've got other companies in different sectors like WiseTech Global who's taking out every single competitor, 55 acquisitions over the last decade. So, you just look at those kind of companies.

Jacinta (08:23):

That's a lot.

Grady (08:24):

It is phenomenal, absolutely phenomenal.

Jacinta (08:28):

Maybe we'll touch on that later. Are they doing it in the right way? Because sometimes-

Grady (08:31):

Absolutely. Yeah.

Jacinta (08:33):

Yeah. Sometimes takeovers aren't always a great sign.

Grady (08:35):

No.

Jacinta (08:36):

In the case of WiseTech.

Grady (08:38):

I think WiseTech's a bit of a unicorn in that sense.

Jacinta (08:41):

Yeah. Interesting.

Grady (08:41):

And their strategy has been take out any competition possible. And they've even started going into adjacent markets now. So E2open was their most recent acquisition and that just moves them into adjacent markets, supplementary service provision in the logistics space. So yeah, it's... I think, that's a case of its own, but M&A has been really strong.

Jacinta (09:01):

[inaudible 00:09:01]. We'll come back to that one as well and we'll touch on-

Grady (09:02):

Yeah. For sure. Aging population has been a big one as well. That's really grown demand for healthcare stocks in a time where healthcare has underperformed in the last year. And it's been a bit flat since COVID. So, we'll get to the healthcare sector. But, that's been a key driver of the need for growing need and demand for these healthcare products. And geopolitical and supply chain volatility has been a key driver of different sector performance as well. So, those are kind of the themes that I found throughout the charts that I was analysing. Yeah, it was really interesting to see how each sector has performed in the overall market, posting a 45% gain over the 10 years.

Jacinta (09:42):

Fantastic information there and research. And for our listeners, this is some of the phenomenal research that your broker can provide. So, what I want to do now is look specifically at market sectors. We know that interest rates started coming down finally in February this year, and the S&P/ASX 200 index closed out financial year 25 with strong gains shares rose by 9.97% and provided total gross returns including dividends of 13.81% in the financial year '25. So Grady, let's drill down now, where did we see sector gains in the last financial year? And we'll kick off with financials, but can you also share some of Bell's buy ratings on specific stocks within these sectors, which might prove as good example of-

Grady (10:28):

Of course I can.

Jacinta (10:29):

... the themes that you're going to talk about. So, financials, and perhaps no surprise, it's still a winner as far as Aussie stocks go, isn't it?

Grady (10:35):

Yeah, financials really smashed it out of the park in FY25. I think much to a lot of investors surprise, but just as to how much it grew. But it wasn't any surprise as to why investors wanted safety in this sector. So, traditionally gold is the safe haven sector and safe haven material because of the tale as old time, it's a store of value. But in 2024, FY25, investors sought out safety in our financial sector, because our banks are never going to go under, our biggest banks. And as we saw in America the regional bank crisis, it didn't hit Australia hard, because APRA and our financial regulators are so strict in Australia. The guidelines, the regulations around banking in Australia is simply second to none in my

opinion. So, that was a way investors played the market, because they had to contrast and weigh up.

(11:27):

The markets are sitting at all time highs throughout the last year, and even resetting the record high twice already this financial year, we're only nine days in. And they had to weigh up record highs, valuation, stretching against safety and still wanting to be in the market. So, a lot of them sought the safe haven of the banks. And so CBA becoming the most expensive bank in the world just speaks for itself and it is a phenomenal company, Matt Coleman at the helm there and just doing a fantastic job. So, there's no arguing that. Interest rate outlook does dampen the growth though for this sector heading into FY26. Generally we've seen net interest margin has peaked across the board and that's where banks make a lot of their profits. So, that's what we want to see growth in. And with that easing that shows that the opportunity for growth in this sector is stretched.

(12:18):

And there are opportunities elsewhere, which we've seen to start the new financial year. Elsewhere in this area, we've seen global factors like the geopolitical tensions weighing on investor sentiment has been another driver of the financial sector rallying last financial year. Investors, again, uncertainty, volatility, they flock to the banks and flock to safe havens. So, gold, hence why gold's been on a run. Gold miners have been on a run. Gold ETFs on a run. And then banking as well. So those have been the safe havens and they've really outperformed the market over the last year.

(12:49):

The housing market has remained strong as well. We have obviously had that rate cut that as you mentioned, or two rate cuts now. But the surprise hold yesterday bodes well for our banks, because whilst I did mention that a lower interest rate environment is not good for the banks, maybe holding for longer is better for the banks. So, it definitely is better for the banks. So, understanding that and understanding the rate stance and the outlook is so uncertain. Investors are still happy to hold and even buy into the banks. So, I think, the competition between the big four is really shifting as well. So, as we know, CBA been on a sell for all brokers recently. I think some have shifted to a hold though recently. And I know a lot of brokers are buying in for their clients, and advisors are buying in for clients.

Jacinta (13:33):

CBA is an interesting example of how it keeps evolving to stay relevant and return to profits.

Grady (13:41):

Exactly. And also it's not just an income play for investors, it's a safe haven play. It's a stability play, it's a staple play. It's also got the opportunity for expansion of growth. So, as we know, NAB has always been known as the business bank, but interestingly, Westpac and CBA, both in their recent results, they're going more aggressively at market share and the business banking elements. So, what that says is they're wanting to remain relevant, they're continuing to grow their strategy, they're expanding their diversification. So yeah, I can't fault CBA at all, and I don't think... If anyone can, then good luck to them, because I can't. So yeah, financials really were the standout for us, but in that area we don't really rate the bank. So Bell Potter's analysts cover different financial stocks, but their picks of the bunch actually are Cuscal, which is a payments and regulated data services provider.

(14:33):

So it's a diversification play in the financial space. We have a buy rating on that with the 12-month price target currently as of the day of recording at \$3 and 50 cents. And Hub24 as well. It's a financial services company that provides investment in superannuation platform, technology solutions, and other financial services to advisers. So, we've seen growth in the platform market. And Hub24 is the buy of Bell Potter right now with a price target of \$78 per share. So, two different ways you can play the financial sector heading into FY26, but the banks are staples and I know a lot of people are holding onto them for dear life at the moment.

Jacinta (15:10):

Thank you. I appreciate that you've also talked about things outside of the banks because there are some pretty strong performers-

Grady (15:17):

Absolutely. It's not just the banks-

Jacinta (15:18):

... to consider as well.

Grady (15:19):

... and a lot of people would get that wrong.

Jacinta (15:21):

Technology remains a driver of growth in portfolios. Arguably though there are some big players that sort of concentrate those growth, but nonetheless, huge returns there. So, let's talk about that one next.

Grady (15:34):

Yeah. So, tech over the last 10 years, it's actually now overtaken healthcare as the outperformer over the last 10 years. So, I think, the

sector and what in the research I did 119% up over the last 10 years. I think that's what it was, or 126. One of the two. But, I'll confirm that or you can access the e-book I'll talk about at the end. And the reason for this is that obviously low interest rates over the last few years have really fueled tailwinds for this sector. The growth in the... The tech sector is known for its growth, but also a lot of these companies have to take on a high level of debt to get their pathway to profitability underway. So, as we know in tech, you have a lot of capital expenditure in the start, and then once you start getting your money going, getting customers on board, getting consumers on board, then that naturally your growth potential starts paying for itself.

(16:26):

But, you have to prove it to market first. And so, what we've seen is cloud connectivity and the rise of SaaS, or software as a service, companies and platforms have really fuelled growth in this sector. And so, investors are looking for... What investors should be looking for in this sector is a company's annual recurring revenue subscription models and increased pricing. So, that's kind of the metrics I use when I'm looking at this sector. I go take Axero for example. They're the leading software cloud software computing for accounting. And everyone needs accountants, and I know it's the number one in Australia, it's got growth around the world. And they've really nailed the expansion model as well as the fact of increasing prices recently. And it's such a sticky service that you're not going to go out and look for a competitor just to save \$10 a month.

(17:13):

You know what I mean? So yeah, looking at a company's annual recurring revenue growth, margin expansion through price increases, and subscription models is really important to understand where the opportunities are heading into FY26. But we did see, take your Life360, for example, a company that's verging on profitability. That's a company I love to talk about, because... And we have a buy rating on them. So, you look at them and you go... For example, as a consumer right now, I will look at my phone app, the app store, and go, "What's the free version of the app that I want to look for?" Life 360 is a geolocation tracking app. So not only have they nailed the fact of getting consumers to download the app, they've got them into a subscription model to pay for a premium version that's tiered. So, some people are paying the top tier and that price increased recently.

(18:02):

It didn't impact any users at all. In fact, it's still increasing. They're growing their user database, they're growing their subscription paying users. And so, I love the fact that they've nailed this model, because often you'll go, "I just want the free version, then I'll delete it once..." Or, "I want the free trial, then I'll delete it." And so, the fact that people are seeking out this,

when you have free Apple Maps and free Apple tracking on your phone, it says how good... It speaks to the quality of the company and it speaks to the quality of what they're able to do. So, that's a kind of really good market there and a really good example of what you can look for in a company.

Jacinta (18:34):

So, sticky customers that potentially are actually going to stay-

Grady (18:37):

Exactly.

Jacinta (18:38):

... and go into one of those tiered levels, because it's-

Grady (18:39):

Yeah. And un-impacted by price increases in the sector. And the AI revolution, obviously we can't go past to talking about that. That's really fuelled growth and interest in this space. So, while we had low interest rates in COVID, now we've got this AI revolution that is just transforming everything. And operational efficiency is the key to what you're looking for in AI. So, be very careful though. So, a lot of companies will say they're investing in AI, but until... Because a lot of investors are just retail investors, they don't know where to look to see if they're actually doing it. But, I did last reporting season, I looked and I saw some were saying we're heavily investing in AI, but there was not a dollar allocated on their expenses to AI investment or R&D. And generally if you're saying that you'd want to say, "This is exactly where the money's going, our CapEx is higher because of this, our expenditure, R&D is high because of that, because of AI." So, that is an area that you can get caught out in.

Jacinta (19:38):

So, look at company reporting [inaudible 00:19:40]-

Grady (19:39):

Look at company reporting and go "Command F" or "Control F" and type "AI expenditure," and then you'll be able to find out exactly how much they're doing. So, we've got these shifting preferences of consumers as well into the tech space. So yeah, it's really driving tailwinds and I don't see it slowing down anytime soon. So, tech is still poised for growth next year. There are valuations running hot as you mentioned, but we do have a few buy ratings in this space.

Jacinta (20:04):

Okay. Fantastic. Now it is important to diversify with other sectors. And I think that one that provides long-term growth potential is healthcare. It's had some headwinds subdued performance this year, but compared to

other standout sectors, healthcare has the potential to be a long-term diversified in your portfolio. Yeah, let's run through that one before we dive into consumer discretion.

Grady (20:26):

Yeah, for sure. So, healthcare, as I mentioned, was traditionally the outperformer of all sectors in the market over a 10-year period until this year. Now tech has finally overtaken it. But, there's diversification within the sector itself. If you want to get into sleep apnea products, there's niche providers like your ResMeds, or if you want a diversified global leader, you jump into CSL, because they cover immunoglobulin, they cover blood testing, they cover the V for pharma segment, they cover vaccinations. They have a serious global footprint of what they can offer, and they're different drivers of revenue. Also in the healthcare sector, what I love about it is that from day of devising a drug, or a treatment, or anything for the sector to the day it hits commercialization is 10 years on average. And it is a lot of money. It requires a lot of money, but there is serious upside potential.

(21:23):

I know people who bought into certain companies in the early IPO days and they're... Like Mesoblast for example, they've just got FDA approval. And what that says is they're ready for commercialization, they're ready to hit the ground running, they're ready to start making money. And they are making money now. And so, there's serious upside potential. While you are taking on a lot of risk by buying into a healthcare company pre-revenue and pre-clinical trial phases, if you believe in it enough and believe in what you're seeing and the outlook for what the company's treating, then there's serious upside potential. But, there is a lot of risk associated. So, as you mentioned, diversification is more achievable in this sector, I think, because it really tailors to what you're looking at. So, you can go with a, say Polinovo, which is on the trauma, the burn side, the skin grafting treatment there, or you can go into Aveda Medical. You can go into Telix Pharmaceuticals, which Telix is obviously the cancer imaging and treatment or therapy drug space.

(22:23):

You can go into Neuren Pharmaceuticals, which is for really rare neurodevelopmental disorders. So, there's so much at play and there's so many different ways you can play the healthcare sector and ensure yourself that it matches your risk profile. So, if you have a high risk tolerance and are up for those returns, you can buy really early stage healthcare companies that are pre-clinical trials or in clinical trial phase one, which is the very start of the journey, and ride the wave, and understand that your risk is high and you're going to maybe need to contribute to some capital raises of the company and see dilution and all this stuff.

(23:01):

Or you can jump into a CSL, which is actually trading a bit lower at the moment than its historical average. So, it's an opportunity to buy in there. The way you play the healthcare sector is really interesting, and it's more of a consumer preference and the areas you want to see these drugs operating. So your Clarity, Pharmaceuticals and Telix, as I mentioned in the cancer space, if that hits home to you, which it hits home to a lot of people, that might be your play. Whereas if a family member or someone has Rett syndrome, Neuren Pharmaceuticals could be your play. So yeah, there's a lot that plays into going into the healthcare sector, but it definitely offers great upside potential both from a heartfelt reason and also from an investment point of view.

Jacinta (23:43):

Yeah, I like that you can diversify within your diversification sleeve.

Grady (23:47):

Yeah, literally.

Jacinta (23:48):

And yes, I have made those kind of investment decisions where I like the medical research and what-

Grady (23:48):

Same.

Jacinta (23:54):

... it's focused on there. And it is oftentimes a personal connection to those reasons or passion-

Grady (24:00):

Absolutely.

Jacinta (24:00):

... that you might have for supporting those businesses in those early stages. Here we go, consumer discretionary, the S&P/ASX 200 consumer discretionary index rose 19.14% over the past 12 months. And that contrasts with what we said earlier with overall broadly the ASX... Sorry, the S&P/ASX 200 index is up around 9.1% in contrast over that same period. So, people are spending greatly despite the cost of living pressures. So yeah, what's still happening there?

Grady (24:31):

Yeah, it is. I think it's a sector that's blown us all away, because we had high interest rate environment, we had the end of free government money, we had a housing crisis, we had high cost of living pressures,

inflation through the roof, yet consumers still spent their money in discretionary space. I don't know if people were so accustomed to spending during COVID that they forgot that they had cost of living pressures.

Jacinta (24:56):

This sort of thinking... What is it? It takes 60 or so days to create new behaviours. Have we all collectively created new behaviours?

Grady (25:03):

Yeah.

Jacinta (25:03):

Is it like the roaring '20s where there's so much going on geopolitically that we're like, "You know what-"

Grady (25:08):

Treat yourself.

Jacinta (25:09):

... "I'm just going to enjoy my life, because I can't keep living these emotional highs of lows of what the world's doing at the moment."

Grady (25:16):

I think so. I think it's a bit of comfort spending. I think it's a lot of we're at the end of the cycle where We're five years now, which is so weird to say.

Jacinta (25:25):

It was a while ago. Yeah.

Grady (25:27):

Yeah. And I feel like it was just yesterday, I'm like, "Oh, that pandemic we lived through yesterday." Everyone's like, "Grady, it's five years ago." So-

Jacinta (25:32):

I told myself I had to stop talking about it, because it was-

Grady (25:34):

Same. I'm like-

Jacinta (25:34):

... so long ago-

Grady (25:34):

Yeah. lived-

Jacinta (25:34):

... in economic terms. Yeah.

Grady (25:39):

But again, what we expected from the sector last year, I think, has really hit the sector this year. So, the discretionary sector, consumers were still spending. We are seeing a slowdown in consumer retail spend. In the last monthly data, I think, it was a 0.2% growth, which was still growth, but it fell short of what we were expecting. So, finally we're seeing a slowdown, which is good for a rate cut environment and for the RBAs inflation journey. But, what we expected last year was this exact slowdown, but it has taken 12 months to come in. So, it's a delayed onset of what we expected. I think consumer, as you mentioned, consumer preferences were to keep spending and assume we have all this money. And a lot of people did save up a lot of money during COVID, so maybe we were just working through to the end of those savings and finally getting back to reality as opposed to where we kind of keep spending but have curbed spending in the space.

(26:33):

So, we are seeing that moderation now in spending and it's coming through with all results as well. So, recently we had I think Accent Group, Adares, a lot of companies that space are coming up with... They're all updating the market with downgrades on their guidance outlook. And they've all been punished really heavily, because they did run so hot for so long. And so, investors are taking some profits and seeing that there is opportunity elsewhere in the underperforming sectors like healthcare over the last 12 months. And the outlook for this sector is for some headwinds to come with slowing consumer spend in the space. So, what we've seen is these downgrades in guidance to low single-digit earnings growth just speaks for what we're expecting last year coming in finally this year. So, there are still plays though that you can, again, diversify within the sector and get exposure to growth opportunities. So-

Jacinta (27:27):

Yeah. Who were some of the winners then?

Grady (27:28):

Yeah. Lovisa is one that we have a really-

Jacinta (27:30):

Yeah. I've heard you talk [inaudible 00:27:32].

Grady (27:32):

... really strong outlook on. The company has nailed their copy-paste kind of development and expansion of physical stores. They have... As we know, Lovisa, cheap fashion jewellery. You know what you're getting.

You're not going in there to get an eighteen-carat gold ring that's going to last you forever. You're going in there to get a statement item that lasts you maybe one or two wears, and then you replace it. So, it's a really high replacement cycle. A lot of consumers in their target consumers are young, so no cost of living pressures. They're on maybe their first retail job part-time while at school, and they spend all their money in the fashion space to make the latest TikToks and have-

Jacinta (28:07):

Disposable cash at-

Grady (28:08):

... the latest trends.

Jacinta (28:09):

... that age.

Grady (28:10):

Exactly. I'm lik-,

Jacinta (28:10):

I remember those days.

Grady (28:12):

Those days, they were the good old days just... But yeah, so Lovisa really bullish on with the outlook for. 12-month price target of \$30 per share. Bell Potter. We just like the look of their global expansion. They haven't had to go into markets and diversify their offering. So, a lot of companies, say like Domino's have been punished recently, because they had to shut stores in Japan and Germany because they just weren't accepted into that market because they didn't diversify their menu offerings, because it's a saturated market.

(28:43):

Whereas you look at Lovisa and they're targeting a real niche fashion jewellery, and they haven't had to go into different markets, and change what they are and change who they are, and adapt to the markets, the markets adapt to them. So, that's what we really like about the outlook for Lovisa. While, the outlook for spend is lower, Lovisa won't be caught up as much because A, their products are cheaper to manufacture and buy, and therefore their margins are huge on these products. I think some of the rings cost 20 cents to make or 20 cents to buy, and they're selling them for \$15. That margin is insane.

Jacinta (29:16):

That is.

Grady (29:18):

Yeah. So, you just kind of take it as it comes with that company. And then obviously to get into the AI movement, you don't have to play... As I said, there's diversification. JB Hi-Fi-

Jacinta (29:28):

Directly. Yeah, so you can do it indirectly. Yeah.

Grady (29:29):

It's one of our favourite stocks in the retail space. We've got a buy rating at a 12-month price target of \$114. Not only have they nailed the... I love going into JB. You walk in there and the people aren't all dressed in Gucci or the latest fashion, but you know that they're going to be the expert in their space. And I just love it. I'm like, "There's your tech nerds. There's..." They just love what they do.

Jacinta (29:54):

I always find what I want. And you're right, they do know, they can answer your questions in-

Grady (29:58):

Exactly.

Jacinta (29:58):

... quite a lot of detail.

Grady (29:59):

And I just love the fact that they're so passionate about what they're selling, and you know that they know. They're there to sell, but they know exactly what they're talking about. They know the latest and greatest gadgets. They know exactly every feature and function of what they're doing of what they're selling. So, I love that. And we love that you can get diversified exposure to AI through JB Hi-Fi, because they're selling the computers that run AI. They're selling the latest and greatest AI devices. So-

Jacinta (30:26):

And interestingly, if I may comment.

Grady (30:28):

Yeah.

Jacinta (30:29):

Obviously you can buy stuff online, they're all tech enabled.

Grady (30:33):

Yeah.

Jacinta (30:33):

But, they have a store footprint. And I travel her work a lot. And my mouse died and I'm like, "Easy." It was a-

Grady (30:41):

JB.

Jacinta (30:42):

... half a block walk-

Grady (30:43):

Exactly.

Jacinta (30:44):

... to find what I wanted. I'm back at my desk within 40 minutes-

Grady (30:46):

Exactly.

Jacinta (30:47):

... in the hotel. So yeah, so really convenient.

Grady (30:47):

Yeah.

Jacinta (30:50):

Yeah. And [inaudible 00:30:51]-

Grady (30:50):

And also there's a lot of sales on there all the time. And they price match, which is another great thing to take out your competition. So, you walk in there and say, "Hey, Harvey Norman has this cheaper, will you match it?" "Absolutely." So, they do move on price a bit, which is another thing that we like about shopping at JB Hi-Fi.

Jacinta (31:08):

Also like the Bunnings of the tech world-

Grady (31:09):

It is.

Jacinta (31:12):

If you go in there for one thing, you come out with a few more.

Grady (31:13):

It's horrible, because you walk in there and you're like, "I just need an SD card." You walk out with a bloody new camera.

Jacinta (31:18):

Yeah.

Grady (31:20):

Exactly. So, it is hard. But, there's a lot to consider in this space. And so, market saturation, competition. When you're looking at an investment in this space, you want to assess a company's inventory level, but you also want to assess promotional activity. So, if promotional activity is high, you know it's because they need to reduce their inventory level and that's going to hurt margins, hurt profits, and hurt what their earnings are. So some companies, as we've seen Adares recently, they've said they had to elevate their promotional activity to get through FY25, the second half. And that's going to really impact earnings for the full financial year. So, when you're looking at this space, earnings, potential, growth, spend in the space as a macro. And then diving into a company's promotional activity, pricing, margins, and inventory is the big kind of metrics we look at.

Jacinta (32:11):

Okay, that's great tools for investors to be equipped with. Now where we want to go next is what... I wrote in my notes, the bottom of the leaderboard, but it's misleading using the word "Bottom."

Grady (32:24):

It is.

Jacinta (32:24):

Firstly, I'll state that. So, we always have to understand these in context. But, kicking off with materials, we've got time just to talk about two here. Materials possibly still a firm favourite for many Australians. So, what's happening here? I know you spend a lot of time keeping across this sector.

Grady (32:39):

I do.

Jacinta (32:40):

So I feel like we're in really good hands here. [inaudible 00:32:44]-

Grady (32:44):

Yeah, I wouldn't be a WAO if I wasn't into mining. I love the mining companies. I love the outlook, I love the geo-diversification of a lot of their operations. So, you're not just operating in tier one WA, you have

operations across Canada, across Quebec, across South America, across Africa. There's operations everywhere now. So, I think, the underperformance of a lot of our materials has come from the rush into the EV movement, which has really weighed on their lithium outlook. So, lithium prices are subdued still, because during that time of the lithium boom a couple of years ago where you saw your Pilbara Minerals soar, which they're still probably the best operation in this space, and they're able to weather the storm of the depreciated prices. But, back then, so much supply came online in such a short period of time. And in a lithium-ion battery, it's only about 6% lithium.

(33:38):

So, their supply side was so oversaturated and demand just wasn't there. And then you see now cars... Now almost every brand is bringing out an EV car. So, that is really bringing the demand side back up to the supply side. So, we're still working through that backlog of lithium there. So, that's kind of what's happened in the green energy, lithium part of the movement. Then you go into the gold outlook. So, gold has done a lot of the heavy lifting for the material sector over the last 12 months. There's no denying that at all. And that's kind of offset some of the losses. So, while your iron ore price has been subdued, it's actually... Sorry, iron ore has remained resilient, but the outlook is still for demand to be subdued. And we have some stockpiles and all this stuff because of China. So, the key dictator of our performance in the materials sector over the last 12 months and moving forward is China.

(34:30):

So, as I mentioned earlier in the episode, their economic data remains subdued, the outlook remains subdued. We don't really know what we're getting out of China, because one day your retail sales are up and then the next day your manufacturing output's down. So the data is so mixed at the moment that it's really hard to assess when they actually will come back online. And what that has taught Australia and a lot of different jurisdictions around the world is that reliance on such a big country has really hurt a lot of our companies. So, I expect FY25 results out of material stocks, especially the iron ore miners, to be again, affected by China's outlook and by China's subdued demand over FY25. But again, that has really led our BHPs, our Rio's, as I mentioned, to diversify their earnings and not be so reliant on China and just iron ore.

(35:19):

So, you've got BHP going into copper, which is really driving their earnings there. And you've got Rio going into lithium. So again, the underexposure and their diversification of earnings and revenue has really kind of got them through this really tough time of iron ore subdued demand, and steel production even being shut off in some parts of China. So, that's what's happened in the material space. There are some areas in the

space that we're liking at the moment. So your copper demand, the outlook for copper in the green energy transition. So, it's used to store energy and transfer energy. So, wind turbines, even in your EV cars, in the motors, in the batteries, we like that. And then we like that the demand's going to continue to grow. And with copper, you need to understand that lithium mines, for example, take four years to come online to production. So, that's not long at all. But, then you've got a copper mine is about 17 years. So, with so much under supply, we're expecting the price to continue running. So, there's diversification opportunities in the materials space.

Jacinta (36:20):

Great. That's a really helpful summary there. Let's close our breakdown of sectors with energy. There's been some fundamental and structural shifts which is affecting this space.

Grady (36:30):

Absolutely. So, when you're playing in energy, you want to look at the outlook for oil, OPEC+, what they're doing, geopolitical tensions. And those three key things have been weighing on the market for the last 12 months. So, rising geopolitical tensions, Russia-Ukraine war still ongoing. Russia's a major producer of oil and major user of oil. Then you look at the Middle East outbreak over the last year. The war has started there between Iran and Israel. And then you have Trump jumping in. You have the Middle East as the oil producing nation of the world. And so, every second day we're seeing the price of oil jump 15%, then down 5%, and up 2%, back down 7%. And so, there's a lot of volatility there. And I think a lot of investors thought, "That's a too hard basket right now. I can get safer returns elsewhere," as I mentioned, "financial stocks and gold.

(37:21):

And so, that's where we've seen the impact over the last 12 months in energy. But again, in energy, you can look for the AI exposure through uranium and through your other areas of the market, so nuclear power. And we've got, I think 70 reactors coming online in the next year. So, that's driving uranium prices up per pound and it's driving the outlook for green energy to come online. So, there is ways to still play energy, but you just want to be careful of the exposure to the market cycles.

Jacinta (37:49):

Perhaps. In short, this information tells us that diversification is key. So, we need to wrap up shortly. But before we do, what are some of your thoughts around how sector information helps investor decision-making?

Grady (38:01):

I think questions per sector are really important. So, you need to ask yourself some questions per sector before diving in. And it's very unique

questions per sector. So for healthcare, you have PE ratio analysis. What's it trading at? How is it trading compared to its historical average? And that's price to earnings for people who don't understand the PE ratio. How much are you paying for \$1 of earnings that company makes? And how does it compare to their historical average of trading on a PE. Growth outlook, runway to profitability, one asset versus multi-asset producer in the healthcare space. So, do they have one drug and are they reliant on the outcome of that in regulatory space? If it fails to get through, are they done? So, these are the questions you need to ask. For tech: PE ratio again, growth potential, AI, annual recurring revenue, subscription model, financial health, patents, IP, risks and red flags, and market saturation. Those are the questions you ask in tech.

(38:57):

Discretionary: You want to see inventory levels as I said, promotional activity, margin and pricing. Financials: net interest margin, interest rate outlook, brand strength, business segments, regulatory changes, saturations, and earnings resilience, and tech adoptions. Utilities: Regulatory environment, energy transition, market saturation, valuation and returns, pricing power, how much of the market share they have. Telecommunications: Market competition, tech adoption, financial health, value and returns. Understanding this sector has very slow growth. So, that's something you'll need a factor in. They're not a high growth sector like your tech. But, you pay a little bit less for stability of earnings. And the portfolio fit, how does this fit in your diversification for telecom? Staples: Evaluations have been big. So, we have a hold on Coles and Woolies right now, because they've been running over the last 12 months. Brand strength and loyalty, regulations, health impacts, shareholder returns, supply chain efficiencies, market share, and competition.

(39:57):

REIT: So, you want to look at your occupancy and growth outlook, macro conditions, portfolio quality, land bank, and pipeline to produce further assets in their portfolios. Materials: Diversified production, multi-stream revenue, electrification exposure, commodity cycles, financial stability, and life of mine. So, those are the questions you want to ask for materials. Energy sector: We want the green energy transition, how exposed to that are they? Are they even considerate of that or are they still in coal or thermal coal, or are they expanding into metallurgical coal as well? Geopolitical tensions impacting supply and demand, cost structure and hedging strategy. Those are what you want to look at for your energy stocks. And finally, industrials, tech and innovation impact, balance sheet strength, debt levels are big for industrials, contracts and earning outlook, macro uncertainty, contracts and... Sorry, contract and earning. I said it again. So, just the outlook for that sector and for debt as well. And then overall, you just need to see where the opportunities are in the

market and looking at exactly how that matches your risk profile and what you want to get out of the market.

Jacinta (41:04):

Thank you so much, Grady. That's been a really comprehensive overview. And thorough checklist there. You're always very generous of your time and information that you share. So, as people mostly know Bell Direct, a broker and share trading platform. So, where can they go if they won't get more information or catch you and your insights?

Grady (41:24):

You can see me every day on our Bell Direct Morning Bell and all of our content we produce every day, that's for free for people who sign up. And it's on YouTube as well under our YouTube channel. So, you can subscribe there and get daily market commentary and podcasts. You can also become a Bell Direct member for free. So, just sign up for free and you can get access to every piece of content I create. You can also exclusively get our e-book soon. So, a lot of this has come from-

Jacinta (41:51):

You mentioned that, and I've been waiting to ask you.

Grady (41:51):

Yes. I know.

Jacinta (41:54):

You did give me a sneak peek.

Grady (41:56):

I did.

Jacinta (41:56):

But, I didn't want to spoil it for our listeners.

Grady (41:57):

Yeah. So, I spent I think two weeks, 24/7, creating this e-book on sector analysis, and the old verse new ways of understanding how the markets work and old ways of thinking. So the whole theme, I can tell you now, it's called Think Like and Trader, Act Like an Investor. So, that's kind of the mentality we're saying the market has right now. So, it's an exciting, exciting e-book. I've loved creating it, and I'm really excited to release to the market very soon. And you can obviously grab a copy of that once it's out.

Jacinta (42:28):

Fantastic. So, you've heard it here early listeners.

Grady (42:30):

You've heard it here first actually.

Jacinta (42:32):

Oh, great.

Grady (42:33):

[inaudible 00:42:33]-

Jacinta (42:32):

I heard it here first. I love it. That's nice that you heard it here first. Of course. Straight to Market ASX. Hey, many thanks for your time today, Grady. Really appreciate it.

Grady (42:40):

Thanks for having me. I love coming on.

Jacinta (42:42):

And thank you always. As always, to our listeners if you like this episode, please share and tune in again for next month to the Ideas Exchange.

Check out our blog (42:50):

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