FINANCIAL REVIEW

Afterpay, WiseTech defy reality in 'momentum' market

A sharp rally in Afterpay and WiseTech may not last. One fund manager says the market's "enamoured with momentum", unwilling to accept COVID-19's consequences.

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Reporter
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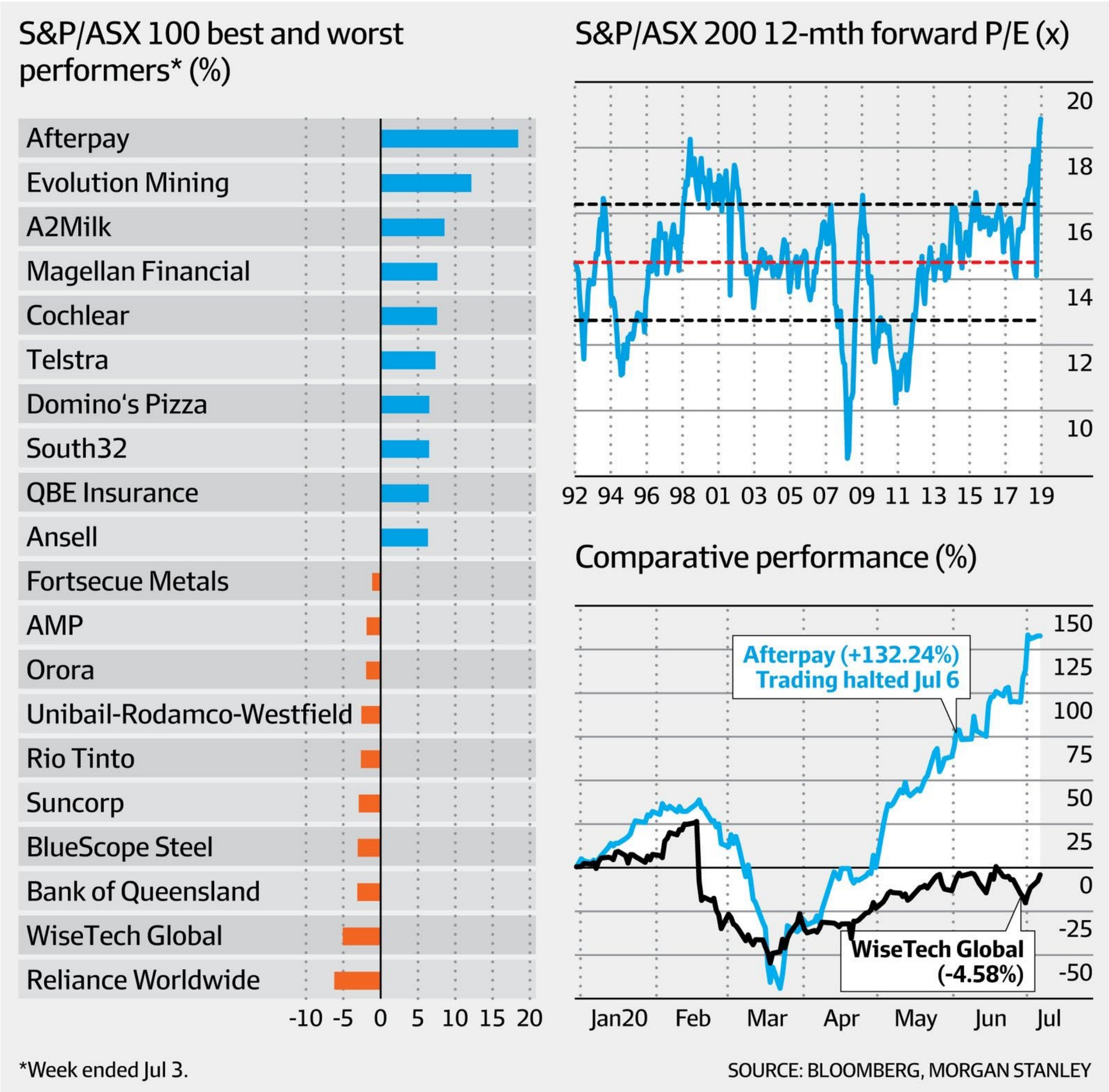
The incredible rally in Afterpay and WiseTech shares from the lows of March may not last, with one leading fund manager suggesting these stocks are defying reality in a market "enamoured with momentum" but unprepared for the consequences of COVID-19.

"There is a huge amount of liquidity in the system and that's obviously driving the speculative end of the market," said Anton Tagliaferro, head of investment strategy at Investors Mutual.

"The market is still enamoured with the momentum theme and we have seen Afterpay and WiseTech go to what we believe are unsustainable levels."

After returning to trading on Wednesday following its $1.05 billion capital raising to fund an international expansion, buy now, pay later provider Afterpay has rallied 644 per cent since its March bottom, while WiseTech has climbed 107 per cent.



The veteran fund manager said investors are piling into more speculative parts of the market, both here and in the US, but questioned the wisdom of such buying, saying it was hard to make sense of "when you think about the uncertainty".

Markets are eyeing huge increases in COVID-19 cases in the US as soaring infection rates continue to break daily records and states backtrack on measures to reopen their economies.

In Australia, a second wave of infections in Melbourne has closed the border between New South Wales and Victoria for the first time in more than 100 years, after infections hit a record in Victoria on Tuesday of 191 new cases.

Yet, the S&P/ASX 200 Index is trading at more than 18 times forecast earnings according to Morgan Stanley, the most expensive since at least 1992.

"I think that the market is trying to look through the short-term impact. We are better prepared [than at the start of the pandemic]," said Prime Value Asset Management chief investment officer ST Wong.

"The market is discounting COVID-19 and trying to look through it as much as possible," agreed Mr Tagliaferro. "The market has decided it's a temporary phenomenon and things will get back to whatever normal looks like at some stage."

But the spike in Melbourne cases has added a layer of uncertainty. In fact, some investors are already somewhat anxious ahead of the cut-off of economic support programmes in September, the Investors Mutual founder said.

"We have the added question about what happens post-September. I think that most people are expecting JobKeeper to be extended in some format and possibly even interest deferrals from the bank. These are quite important areas that are uncertain at the moment."

This week, Australian banks were given a reprieve from strict loan reporting rules enabling lenders to extend the repayment holidays of customers who have deferred home loans or business loans for up to another four months if they need it.

Treasurer Josh Frydenberg pledged the Coalition government would continue to provide support to Victoria.

With many sectors "fully valued", Mr Tagliaferro is instead looking to buy companies such as packaging group Amcor, and supermarket Coles, on days of market weakness given that he is attracted to stocks with a strong franchise that can generate cash through the economic cycle.

"Companies like Coles look good on a three-to-five year outlook. We also like [explosives group] Orica because we think they are in a very strong position. Aurizon looks fairly well placed given it owns the Queensland rail network which should give it some level of stability."

Mr Wong said his stock and sector choices were guided with the knowledge that "we are heading into reporting season which will be tricky". Most businesses ruled off their accounts last week for 2019-20.

"We tend to pivot our portfolios towards stocks that we feel have somewhat better certainty where earnings are concerned - both in the short and the medium term," he said.

"We would have smaller positions in companies where we have no idea what’s happening, such as [education provider] IDP," he said.