Optimistic Wall St may not be enough to lift ASX

William McInnes

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The Australian sharemarket's 11-year high is set to be challenged this week despite ongoing optimism on Wall Street, as investors brace for disappointing big four bank profits and a more sober outlook from other companies.

A shortened week of trading last week saw the local market reach its highest level since December 2007 while on Wall Street on Friday, the S&P 500 and Nasdaq Composite indices both hit fresh record highs.

A strong first quarter GDP print was largely behind the strong performance in the US, although upbeat results from online behemoth Amazon and carmaker Ford also helped the market.

Lachlan Hughes says earnings season is showing the US economy is doing better than expected. **James Brickwood**

The US earnings season has been a positive surprise for most of the market, with 78 per cent of companies beating earnings expectations and 53 per cent surpassing revenue estimates.

"The market was pricing in a significant deterioration in the US economy in December last year but this reporting season is revealing an economy that continues to grow and this should support equity prices," said Swell Asset Management chief investment officer Lachlan Hughes.

"The US consumer is in good shape and despite consumer and business sentiment coming off record highs we remain cautiously optimistic."

A number of the US's largest companies will report their results this week, including Google-owner Alphabet, Apple, General Electric, General Motors, Kraft Heinz and Berkshire Hathaway.

"I suspect the [US] market will take a breather around here and we may see some weakness in May and June however the market should sustain these gains in 2019," Mr Hughes said.

While the local sharemarket typically takes its lead from Wall Street, ASX Futures were pointing 2 points lower to 6366 on Sunday afternoon, as investors braced for a challenging week for the domestic equity market.

The major banks earnings are expected to disappoint, with a number of uncertainties ahead. **Jesse Marlow**

A number of the major financial stocks including National Australia Bank, ANZ Banking Group and Macquarie Group will deliver interim earnings results this week.

Banks are facing tougher capital rules in New Zealand and uncertainty over future compensation charges due to past misconduct in their wealth divisions. Analysts expect the major bank results will disappoint.

"We expect a challenging first-half reporting season for the banks' sector," said Macquarie analyst Victor German.

"While banks have largely pre-announced their remediation charges, we expect underlying revenue trends to be weaker than expected.

"Furthermore, while credit conditions remained generally supportive [in the half], given an uncertain economic outlook, we see downside risk to impairment charges."

A number of other companies could take the chance to provide an update to earnings guidance as fund managers brace for the start of confessions season.

The annual Macquarie Australia conference will be held on Tuesday, Wednesday and Thursday and has a reputation as a place for companies to come clean on how their financial year has started.

Flight Centre already dropped one of the first downgrades of the confession season on Friday, reducing its earnings guidance for the financial year by 14 per cent citing subdued trading conditions in the Australian leisure market.

"We expect benign growth across the board, so from that standpoint expectations will be fairly low," said Wilson Asset Management portfolio manager John Ayoub.

"I wouldn't imagine a lot of upgrades are coming. Boards and management are still very conservative."

Mr Ayoub added there could be similarly steep sell-offs to Flight Centre's on Friday if companies disappointed expectations. "You're not going to stand in front of the downgrade train," he said.

May has been mixed for the local sharemarket in the last few years. In 2018, the market managed to edge out a gain for the month while the benchmark index fell heavily in May of 2017.

"We think for the market to go higher we will need to see earnings growth," said Ophir Asset Management senior portfolio manager Andrew Mitchell.

"The easiest way for the market to go higher is for Australian earnings to surpass the current expectations [but] Australians' wealth has typically been held in their houses and with a soft housing market it is hard for them to increase their spending significantly."