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Support / Potential "buy" levels	**$8,738.**
Resistance	$9,019.

Key Takeaways

ASX dragged down by banks despite lithium rally – Recommendation: WES

Today we have decided to take profit on **WES, realising a +140% gain from our initial USD 36.68 entry point.** Wesfarmers delivered a strong FY25 with revenue up 3.4% to USD 45.7 billion, net profit after tax climbing 14.4% to USD 2.93 billion, and return on equity reaching an impressive 34.3%, underpinned by Bunnings' estimated 60–80% market share and a 65.4% return on capital. While we continue to view it as one of Australia's strongest companies, the current premium valuation leaves little margin of safety, so we will look to re-enter at a more compelling level.

Market Movers: The ASX 200 fell 0.92% to 8,764.5, weighed by Powell's comments on stretched valuations and higher-than-expected August CPI at 3.0% p.a., which curbed rate cut hopes. Banks slid, with Westpac down 3.2% and CBA off 1.4%, while Tech followed the Nasdaq lower. Lithium miners surged on US plans to take a 10% stake in Lithium Americas, lifting Ioneer 18.5%, Pilbara 5.3% and Mineral Resources 4.5%, offsetting weakness in Financials and Gold.

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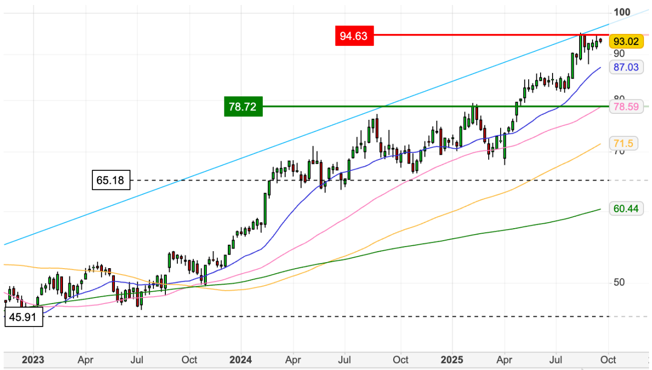
OUR LATEST RECOMMENDATION

Wesfarmers (ASX: WES): Exceptional Company, Overpriced Stock, Taking Profit Now for Safer Entry Later



Wesfarmers has built a reputation as one of Australia's most resilient conglomerates, anchored by its breadth of market-leading businesses. From the all-conquering Bunnings hardware chain to the price-driven Kmart Group, the reliable Officeworks division, a growing health arm, and its chemicals, energy and fertilisers operations, the group has become one of the country's most formidable corporate players. Given the strong performance, we have decided to take profit for now, capturing a capital gain of +140% since our initial recommendation at USD 36.68 per share, and we are now looking for a more favourable price to re-enter at a better risk-adjusted level.

That breadth provides Wesfarmers with a unique shield in a volatile economy, allowing earnings to remain steady even as consumer spending shifts. At the heart of this stability is dominance in its core retail businesses: Bunnings commands an estimated 60% to 80% of the home improvement market, delivering an exceptional return on capital of 65.4%, while Kmart's stands at 47.0%. This operational muscle, underpinned by a relentless "lowest price" strategy, continues to attract value-conscious shoppers even as household budgets tighten.

<u>Financial performance remains robust, with revenue, profit and shareholder returns all climbing strongly in FY25</u>

The company's most recent results underline its operational excellence and financial resilience. Headline figures for the year highlight both top-line growth and an ability to convert that into stronger returns:

- **Revenue:** up 3.4% to $45.7 billion, reflecting steady demand across the portfolio.

- **Net profit after tax:** increased 14.4% to $2.93 billion, showing strong cost discipline and operating leverage.

- **Return on equity:** reached 34.3%, underscoring efficient use of capital and high profitability.

- **Shareholder returns:** a proposed dividend of $2.06 per share, up 4%, complemented by a special $1.50 capital return, signalling management's confidence in future cash generation.

These are numbers that most companies would envy, and they illustrate Wesfarmers' extraordinary resilience. Yet the challenge lies not in the earnings, but in what investors are prepared to pay for them. The market has attached a premium multiple that assumes flawless execution and uninterrupted growth.

<u>Market enthusiasm has driven the valuation to unsustainable levels, leaving no margin of safety for new investors</u>

This is the paradox we face: the higher the quality of the company, the greater the temptation for markets to overpay. In Wesfarmers' case, enthusiasm for its defensive qualities has tipped into excess. The current valuation no longer leaves any margin of safety for new investors, nor does it reflect the more measured pace of long-term growth that a mature conglomerate can realistically deliver.

Our conclusion is straightforward. Despite our admiration for the business and its leadership, we have sold our position. Wesfarmers remains one of Australia's premier companies, but the time to buy such assets is not when the market demands a premium for perfection. We will revisit the company once its valuation once again offers a suitable margin of safety and a clearer alignment with its sustainable growth and profitability.

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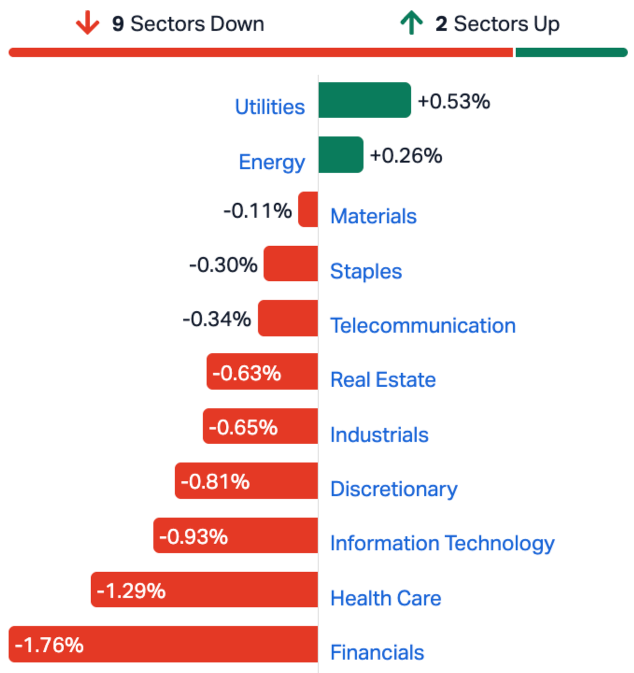
Market Movers

The ASX 200 fell sharply on Wednesday, closing 81.4 points lower, down 0.92%, as a combination of weak offshore leads, hawkish central bank commentary, and stronger-than-expected inflation data weighed on investor sentiment.

The decline left the benchmark index at 8,764.5, 0.93% below its intraday high and just 0.23% above its low, with advancers lagging decliners by a wide margin across the broader S&P/ASX 300, 76 to 186.



The local market was never likely to resist the pull of overnight moves in the US, where Federal Reserve Chair Jerome Powell reminded investors that equities are "fairly highly valued" by several measures. Although the remarks stopped short of Alan Greenspan's famous "irrational exuberance" warning in the late 1990s, the tone was enough to trigger a modest sell-off on Wall Street and an even weaker follow-through in Sydney. The S&P 500 lost 0.55% and the Nasdaq Composite fell 0.95%, with tech heavyweights including Tesla, Amazon, Oracle and Microsoft all posting losses, while Nvidia retreated 2.8% after a blockbuster session the previous day.

Adding to the pressure at home, Australian inflation data for August came in above expectations, with headline CPI rising 3.0% year-on-year compared with 2.8% in July and a consensus forecast of 2.9%.

The result placed inflation at the very top of the Reserve Bank of Australia's 2–3% target band and cooled hopes of additional rate cuts this year. **Bond markets reacted immediately, pushing the 10-year government yield towards 4.30%, its highest level in more than two weeks, while the Australian dollar strengthened to $0.661 against the greenback.**

Traders scaled back the probability of a November rate cut from 70% to 60%, with the RBA expected to hold rates at 3.6% at its September meeting.

Crosses	Price			Day	Year	Date
AUDUSD	0.66216	▲	0.00228	0.35%	-2.90%	14:43
EURAUD	1.7812	▼	-0.0094	-0.52%	9.21%	Sep/24
GBPAUD	2.0377	▼	-0.0119	-0.58%	4.39%	Sep/24
AUDNZD	1.1307	▲	0.0040	0.36%	3.72%	Sep/24
AUDJPY	98.0200	▲	0.6300	0.65%	-0.70%	Sep/24
AUDCNY	4.7164	▲	0.0235	0.50%	-1.73%	Sep/24
AUDCHF	0.5246	▲	0.0024	0.46%	-9.60%	Sep/24
AUDCAD	0.9171	▲	0.0040	0.44%	-0.30%	Sep/24

The banks were among the weakest performers, reversing Tuesday's gains. Commonwealth Bank dropped 1.4% while Westpac led declines with a 3.2% fall, driving the Financials sector down 1.8%. Information Technology also lagged, sliding 0.9% in line with the Nasdaq. Xero shed 1.6%,

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Wisetech Global fell 2.1%, and Audinate slipped 0.4%. The latter has been a consistent underperformer, featuring 45 times in ChartWatch ASX Scans' Downtrend list since May 2024.

Mining was one of the few bright spots. The Resources sector eked out a modest 0.1% gain, supported by small advances from BHP and Fortescue, but the real action came in lithium and other critical minerals stocks. News that the Trump administration plans to take up to a 10% stake in Lithium Americas Corp. sent its NYSE-listed shares up 80% in after-hours trading. The move, which would see the US government swap a $2.3 billion Department of Energy loan for equity, boosted sentiment for Australian lithium players, especially those with American projects. Ioneer surged 18.5%, while Pilbara Minerals, Mineral Resources and Liontown Resources also advanced.

Gold producers were mixed, with the sub-index dipping 0.2% after a strong run. Genesis Minerals fell 1.6%, Catalyst Metals dropped 1.1%, and Ramelius Resources eased 1.1%. But a clutch of junior explorers bucked the trend, including Felix Gold, up 18.1%, Barton Gold, up 10.8%, GBM Resources, up 9.5%, and African Gold, up 6.3%, extending their recent momentum.

Outside equities, the Reserve Bank of Australia issued a sharp rebuke of ASX Ltd, urging "foundational changes" to governance and risk management following last year's trading settlement failure. Assistant Governor Brad Jones warned that the exchange was "not currently meeting the regulators' expectations for an operator of critical national infrastructure," highlighting the need for "resilient and secure" systems. Chief executive Helen Lofthouse conceded the exchange must "accelerate our progress to rebuild trust" and cited contingency measures, code fixes, and memory upgrades as early steps.

Asian markets provided a brighter backdrop. The Shanghai Composite rose 0.83% while the Shenzhen Component jumped 1.8% to a 3½-year high, lifted by technology and new energy stocks.

Indexes	Price			Day	Month	Year	Date
HK50	26,575.00	▲	415.88	1.59%	2.88%	38.92%	Sep/24
SHANGHAI	3,854.45	▲	32.62	0.85%	-0.75%	33.08%	Sep/24
CSI 300	4,566.65	▲	46.87	1.04%	2.18%	34.25%	Sep/24
SHANGHAI 50	2,940.49	▲	20.98	0.72%	-1.65%	23.22%	Sep/24
CH50	15,126.67	▲	70.26	0.47%	0.64%	25.08%	Sep/24

The gains were underpinned by optimism around US-China trade relations and steady policy signals from the People's Bank of China, which left lending rates unchanged but pledged further support if needed. Luxshare Precision and Sungrow Power both advanced more than 7%, while Contemporary Amperex added 3.2%.

Commodities markets were also firm. WTI crude climbed to US$63.4 a barrel after a 3.8-million-barrel draw in US inventories, the largest in seven weeks, stoking supply concerns.

	Price			Day	Month	Year	Date
Crude Oil	63.787	▲	0.377	0.59%	-1.62%	-8.53%	14:45
Brent	68.095	▲	0.465	0.69%	-1.11%	-6.67%	14:44
Natural gas	2.8371	▼	0.0159	-0.56%	1.04%	0.68%	14:45
Gasoline	2.0115	▲	0.0054	0.27%	-6.57%	0.20%	14:45
Heating Oil	2.3501	▲	0.0221	0.95%	0.02%	8.69%	14:44
Coal	103.60	▼	-0.30	-0.29%	-6.92%	-25.73%	Sep/23
Ethanol	1.89	▼	-0.0050	-0.26%	2.72%	18.18%	Sep/23
Urals Oil	62.51	▲	1.16	1.89%	-1.65%	-9.23%	Sep/23

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Gold continued to hover near record highs at US$3,770 an ounce as investors sought refuge amid geopolitical tensions and uncertainty over the Fed's next moves.

	Price			Day	Month	Year	Date
Gold	3777.61	▲	13.43	0.36%	12.24%	42.26%	14:45
Silver	44.225	▲	0.185	0.42%	14.66%	38.96%	14:45
Copper	4.5706	▼	0.0101	-0.22%	2.39%	3.12%	14:45
Steel	3,096.00	▲	25.00	0.81%	-1.09%	-1.02%	Sep/24
Lithium	73,850.00	▲	0	0%	-10.48%	1.86%	Sep/24
Platinum	1,494.80	▲	11.90	0.80%	12.26%	50.78%	Sep/24
Iron Ore	105.49	▲	0	0%	3.83%	14.81%	Sep/23

Taken together, the day's developments highlighted a difficult balancing act for Australian investors: global equity markets are showing signs of fatigue after a strong rally, domestic inflation is proving stubborn, and central banks remain cautious. For now, lithium stocks provided a rare spark of optimism, but the broader market closed under a cloud of rising yields and fading hopes for early monetary easing.

Regards,
Mark Elzayed
Investor Pulse

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Market Data

ASX Top 20

CBA	Commonwealth Bank	164.53	−2.34	−1.40%
BHP	BHP	40.24	+0.02	+0.05%
CSL	CSL	197.34	−2.60	−1.30%
WBC	Westpac Bank	37.58	−1.26	−3.24%
NAB	National Australia Bank	43.10	−0.99	−2.25%
ANZ	ANZ	32.67	−0.60	−1.80%
FMG	Fortescue Metals	19.13	+0.03	+0.16%
WES	Wesfarmers	92.08	−1.02	−1.10%
MQG	Macquarie Group	218.43	−3.99	−1.79%
RIO	Rio Tinto	117.54	−0.74	−0.63%
WOW	Woolworths	26.98	−0.17	−0.63%
TLS	Telstra	4.90	+0.03	+0.62%
GMG	Goodman Group	33.55	−0.30	−0.89%
TCL	Transurban	13.89	−0.20	−1.42%
SQ2	Block Inc			
ALL	Aristocrat Leisure	68.40	−0.07	−0.10%
NCM	Newcrest Mining			
REA	REA Group	228.77	−3.20	−1.38%
WDS	Woodside Energy	22.87	0.00	0.00%
XRO	Xero	161.41	−2.56	−1.56%

Commodities & Forex

TIO1!	IRON ORE
GC1!	GOLD
SI1!	SILVER
HG1!	COPPER
ZW1!	WHEAT
CL1!	CRUDE OIL
NG1!	NATURAL GAS
NCF1!	COAL

AUDUSD	Australian Dollar / U.S. Dollar	0.66216	+0.36%	+0.00
AUDGBP	AUSTRALIAN DOLLAR / BRITISH POUND	0.4904	+0.59%	+0.0029
AUDEUR	AUSTRALIAN DOLLAR / EURO	0.5612	+0.52%	+0.0029
AUDNZD	Australian Dollar / New Zealand Dollar	1.13068	+0.47%	+0.01
AUDJPY	Australian Dollar / Japanese Yen	98.038	+0.65%	+0.64
AUDCNY	AUSTRALIAN DOLLAR / CHINESE YUAN	4.7110	+0.42%	+0.0199
AUDTHB	AUSTRALIAN DOLLAR / THAI BAHT	21.129	+0.58%	+0.122
AUDIDR	AUSTRALIAN DOLLAR / INDONESIAN ...	11,042.2	+0.62%	+67.7

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Economic Calendar

+3

September 25			Actual	Forecast	Prior
19:30		GDP Cons Spending Final			0.5%
		GDP Final		3.3%	−0.5%
		Initial Jobless Clm		235 K Person	231 K Person
21:00		Existing Home Sales		3.96 M Number of	4.01 M Number of
September 29			Actual	Forecast	Prior
16:00		Consumer Confid. Final *			−15.5 Net balance
September 30			Actual	Forecast	Prior
08:30		NBS Manufacturing PMI*			49.4 Index (diffusion)
13:00		GDP QQ			0.7%
		GDP YY			1.3%
21:00		JOLTS Job Openings			7.181 M Person
October 1			Actual	Forecast	Prior
19:15		ADP National Employment			54 K Person
21:00		ISM Manufacturing PMI		49.2 Index	48.7 Index
October 2			Actual	Forecast	Prior
16:00		Unemployment Rate			6.2%