ASX 200	ALL ORDINARIES	BEST (ASX 50)	WORST (ASX 50)	$A	OIL (BRENT)	IRON ORE
		NEWCREST MIN	ORICA LTD	US CENTS	$US PER BARREL	$US PER TONNE
6684.10	6802.40	$30.25	$21.98	70.09 ¢	$68.4	$91.52
-120.80 -1.77%	-119.20 -1.72%	+.19 .63%	-.84 -3.68%	+0.16 +0.22%	+0.21 +0.30%	-0.03 -0.03%

6900
6825
6750
6675
6600
10 11 12 1 2 3 4

rates were forcing investors to increase their risk profile and buy shares.

"There is a disconnect between the real economy and the share market," Mr Felsman said.

He said the ASX 200's dividend yield — a measure of its annual dividend payments to shareholders — averaged 4.5 per cent during 2019, making it an attractive option as returns from fixed interest products withered.

"What's driving the share market is that search for yield, that's the key thing," Mr Felsman said.

The health and information-technology sectors were the strongest performers, while the financial sector was the weakest.

The best performing stock for the year was Avita Medical, which sells spray-on skin treatments for burns patients.

Its share price surged 696.3 per cent — from 8c to close the year at 64.5c — as it expanded into the US.

Fellow biotech PolyNovo, which also makes treatments for burns, was the second best performer as its share price jumped 231.1 per cent to $1.97.

Digital gift card payment provider EML Payments, iron ore miner Fortescue Metals and fund manager Magellan Financial Group round out the top five performing companies. EML's share price rose 204.7 per cent to $4.54, Fortescue put on 155.1 per cent to $10.69 and Magellan gained 141.9 per cent to $56.95.

At the other end of the scale, the worst-performing stock was fruit and vegetable grower Costa Group.

Its share price dropped 66.7 per cent to $2.47.

Shares in lithium miner Pilbara Minerals shed 55.2 per cent to 28c while generic medicines maker Mayne Pharma lost 43.9 per cent to close the year at 43.5c.

john.dagge@news.com.au

MARKET WRAP

THE Australian share market fell sharply yesterday, wiping $36 billion from the value of the nation's biggest companies as investors took some of the year's phenomenal profits off the table.

The benchmark ASX 200 index closed an abbreviated New Year's Eve session down 120.8 points, or 1.8 per cent, at 6684.1 points, while the broader All Ordinaries was down 119.2 points, or 1.7 per cent, at 6802.4.

"Not a very good day, it was just indiscriminate selling, pure profit taking," Bell Direct market analyst Jessica Amir said. "But zooming out, it's still our best annual gain in 10 years."

For December the ASX200 lost 161.8 points, or 2.4 per cent, in just its third losing month for the year. It was flat for the quarter, with a 4.2 point loss.

Telstra dropped 2.8 per cent to $3.54 while tech darlings **Afterpay Touch** was down 2.8 per cent to $29.28 and **WiseTech Global** 5.5 per cent to $23.37.

Supermarket giant **Woolworths** dropped 3.4 per cent to $36.16 while **Coles** fell 3.3 per cent to $14.84.

In health care, blood products giant **CSL** fell 2.2 per cent to $275.76.

The **Commonwealth Bank** fell 1.5 per cent to $79.90, **National Australia Bank** 1 per cent to $24.63 and **Westpac** and **ANZ** both dropped 0.7 per cent to $24.23 and $24.63, respectively.

BHP was down 1.3 per cent to $38.92, **Rio Tinto** 1.2 per cent to $100.40 and **Fortescue Metals** 1.8 per cent to $10.69.

When earnings streams are music to the ears

THE SHORT CUT

ANDREW MACKEN

THE new low-interest-rate world in which we find ourselves is strange.

Why does it make sense that an investor should have to pay for the privilege of lending to the German government for 20 years, for example?

And yet, the yield on German 20-year bonds is negative — effectively implying exactly this.

There are many reasons why interest rates are low.

These include ageing populations all around the world, very high indebtedness by many corporations and governments, an increasing dominance of technology which is less labour and capital intensive, and an increasingly globalised world connected by US dollar-denominated trade.

The latter, as it turns out, also contributes to the wave of global disinflation which is keeping rates low.

Should global interest rates remain lower for longer, there are significant implications for asset prices, including for equities.

There are two ways to argue the effect of low rates on equities.

First the bear case, which goes something like this:

Interest rates are low because global economic growth is slowing.

Slower growth naturally leads to slower revenue growth for corporates, which then slows the rate of earnings growth.

Slower earnings growth should, in turn, result in lower valuation multiples.

Therefore, this new world signals downside risk in equity prices.

Now here is the bull case:

In a protracted lower interest rate environment, the implied "hurdle rate" of return demanded by equity investors may decrease. The logic here would be that, even while preserving the premium over the risk-free rate of return that equity investors demand for taking equity risk, the fact that global risk-free rates have largely stepped down should, in turn, result in an equivalent step down in the hurdle rate of return required by equity investors.

Now, all else being equal, for the implied hurdle rate to reduce, equity prices must increase.

We have seen this latter dynamic in bond prices over the past 12 to 18 months.

> Should global interest rates remain lower for longer, there are significant implications for asset prices, including for equities"

As interest rates have fallen, bond prices have delivered very strong double-digit capital gains.

Equities should be no different — and indeed, higher-growth earnings streams should be even more sensitive to reductions in hurdle rates than lower-growth earnings streams.

One logical investment approach in such a new lower-for-longer interest rate environment would be to buy earnings streams which are growing sustainably.

That is, earnings growth which should materialise under nearly all economic environments that play out.

Take the French company, Vivendi, for example.

It owns the largest record label in the world — Universal Music Group.

UMG earns a royalty from subscription fees paid by consumers to music-streaming platforms such as Apple Music, Spotify and others.

Therefore, as more consumers adopt digital music streaming all around the world, UMG's revenues and earnings grow.

And this dynamic is structural with a long runway still ahead.

Consider that only around 13 per cent of adults in the US subscribe to a paid digital streaming service.

In countries like France, Germany and the UK today, this penetration rate is less than 10 per cent.

And in China today it's around 1 per cent.

These low penetration rates underwrite structural growth in global digital streaming revenues of around 20 per cent per annum, well into the new decade.

In a low-interest-rate world, growth becomes increasingly valuable to investors.

But what drives rates low in the first instance, is tied to lower economic growth.

Therefore, as bears will argue, low rates are a warning sign for equities.

But a strategy which focuses on owning earnings streams which are growing sustainably, should benefit from the magnification in value of the growth, without the risk of the growth becoming impaired.

ANDREW MACKEN IF THE CHIEF INVESTMENT OFFICER AT MONTAKA GLOBAL INVESTMENTS. MONTAKA'S FUNDS OWN SHARES IN VIVENDI.

Huawei fights for survival

CHINESE telecommunications giant Huawei says "survival" is its first priority after announcing 2019 sales are expected to fall short of projections as a result of US sanctions.

The comments from chairman Eric Xu follow Huawei being banned, due to national security fears, from Australia's 5G rollout and from working with American firms.

Mr Xu said global sales were expected to reach 850 billion yuan ($174 billion) for 2019, up roughly 18 per cent from 2018 but much lower than initially expected.

In a New Year's message to employees, Mr Xu said the US government was in the midst of

TECHNOLOGY

a "strategic and long-term" campaign against the company that would create a "challenging environment for Huawei to survive and thrive".

"Survival will be our first priority," Mr Xu said.

He said Huawei would need to "go all out" to build up its mobile services ecosystem — its answer to the Google apps and services — to "ensure that we can keep selling our smartphones in overseas markets".

While telecom experts consider Huawei a global leader in 5G equipment in terms of both technology and price, the company has faced obstacles and suspicion from the US and other foreign nations who are wary of its close relationship with the Chinese government.

Vodafone Hutchison Australia this week announced it would team up with Nokia for the rollout of its national 5G network. It had originally planned to use Huawei.

Founded in 1987 by former People's Liberation Army engineer Ren Zhengfei, Huawei was dragged into the spotlight a year ago when Mr Ren's daughter, Huawei executive Meng Wanzhou, was arrested in Canada.

The US wants to put her on trial for allegedly lying to banks about violating sanctions against Iran.