Market Commentary

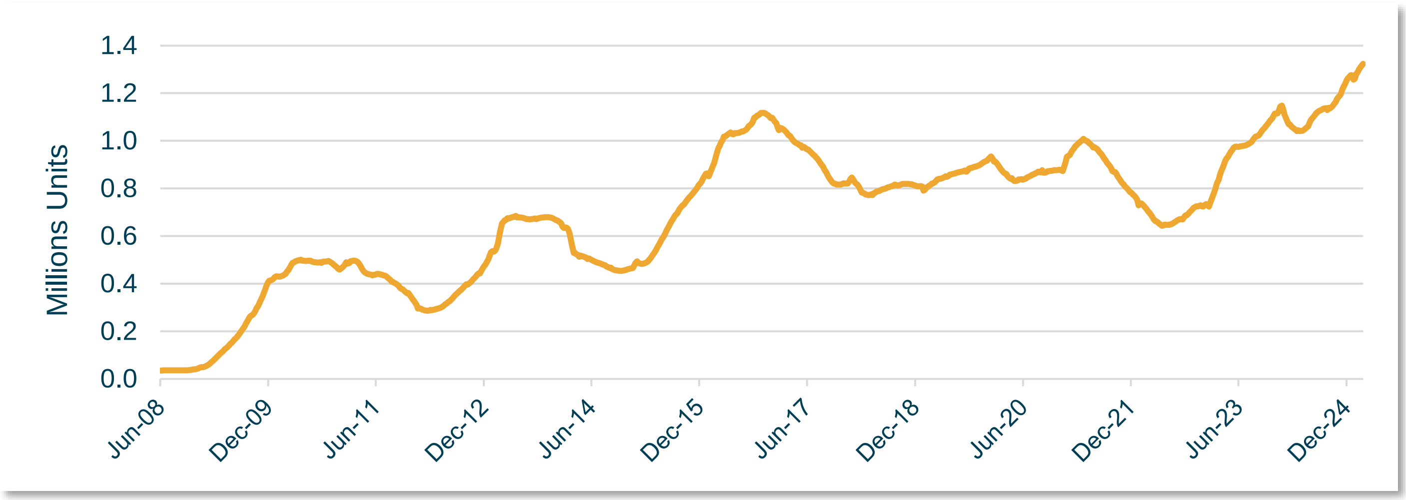
Emerging market equities showed resilience over the first quarter 2025 (the Quarter) as Chinese AI emerged and economic data remained stable. Slowing US economic data and a drawdown in the Magnificent Seven, also saw capital shift from the US to China, Brazil, Mexico and Europe. Consequently, the MSCI Emerging Markets Index returned 3.6% (USD) and 2.3% (AUD) over the Quarter, significantly outperforming the S&P500 and MSCI ACWI indices, which delivered negative returns in USD. Post Quarter-end however, the announcement of Trump's tariffs resulted in a sharp increase in global volatility, with concerns for global growth impacting returns.

Markets priced for US exceptionalism

Before discussing tariffs, it is important to understand the context behind the change in market leadership that saw the Hang Seng industrials index increase by 15% over the Quarter, while the Nasdaq index declined ~8%. This divergence, in Antipodes view is driven by several factors:

1) Stability in Chinese economic data after the latest round of stimulus in October 2024. Prior acts to stimulate China's economy and especially property have typically been effective for weeks (not months). We are now seeing secondary property transactions in key cities hit new peaks on a weekly basis and house prices in tier 1 cities showing signs of growth. New home sales outside of the top cities continue to decline but at an improving rate. Commentary from consumer companies point to a stable (but not yet improving) recovery through the Quarter.

Figure 1. Rolling 52 weeks 18 cities secondary transaction volume



Source: WIND

2) Investors were beginning to show interest in the Chinese recovery when in late January, DeepSeek, a relatively new Chinese startup, announced it was able to develop an AI model at an apparent fraction of the cost of the large American LLMs. China's AI industry is now developing with only a small lag to the US, without access to the leading chips as deployment of foundational models is now cheaper and easier. This means the benefits of AI will accrue to companies around the world, beyond the Magnificent Seven. China is particularly well placed with a native software and cloud industry that has historically been under-monetised. As AI is integrated customers will extract more value, increasing their willingness to pay more.

The return to growth for the Chinese tech industry was cemented when President Xi hosted a closed-door symposium (17 February 2025) with some of the country's prominent business leaders, including Jack Ma. This rare meeting was promoted to signal that private enterprises are encouraged to grow and invest with the hope that this will reignite animal spirits. Prices of software and internet companies like Tencent, Alibaba and Kingdee showed significant appreciation, but valuations remain attractive relative to the expected growth.

Figure 2. Valuations remain attractive

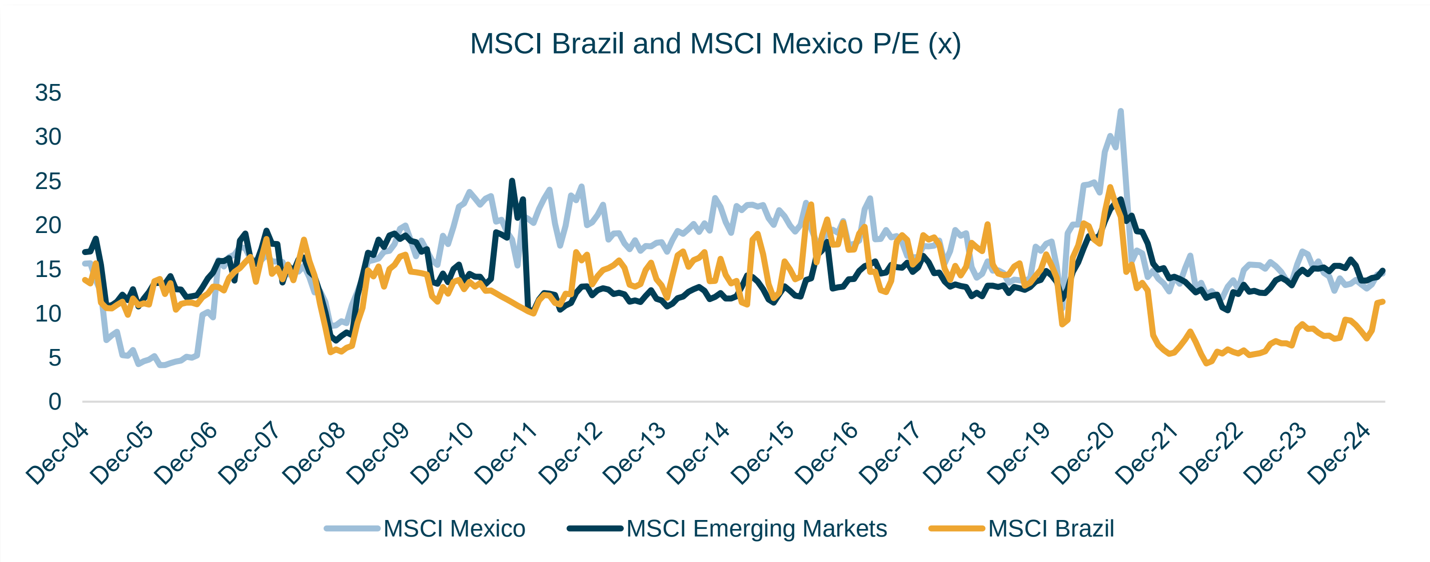
China internet	2024-2027 Rev CAGR	2024-2027 EPS CAGR	2025 dividend yield	2025 P/S	2025 P/E (non-GAAP)	2025 P/E (GAAP)
Alibaba (Mar-end)	6.3%	13.6%	1.0%	1.7x	10.7x	12.3x
JD	6.4%	8.8%	2.5%	0.3x	7.9x	9.0x
PDD	17.6%	15.0%	0.0%	1.9x	7.5x	8.0x
Meituan	14.7%	20.4%	0.4%	2.1x	16.7x	20.0x
Tencent	8.6%	10.2%	1.1%	5.3x	16.0x	18.4x
Netease	7.5%	8.1%	2.4%	4.0x	12.7x	14.3x
Didi	8.4%	75.2%	0.0%	0.6x	15.2x	19.0x
Beike	13.0%	18.5%	0.3%	1.5x	18.4x	25.9x
TCOM	13.6%	9.1%	0.3%	4.5x	15.6x	18.0x
Full Truck Alliance	14.8%	38.0%	1.5%	5.9x	13.4x	14.9x
Boss Zhipin	12.5%	17.1%	0.2%	6.1x	14.8x	21.4x
Baidu	4.7%	5.7%	0.0%	1.5x	8.3x	10.1x

Source: Factset consensus

The realisation of relative value was not confined to China. Brazil and Mexico also saw a period of strong performance, returning 12.5% and 8.2% in USD over the Quarter.

Brazil returns were driven by lower expectations for rate hikes from extreme levels, along with increasing realisation that the country is favourably positioned for the impeding trade war. While Mexico benefitted from rate cuts and an increasingly stable political environment helping equities bounce from depressed valuations.

Figure 3. LATAM valuations



Source: Factset

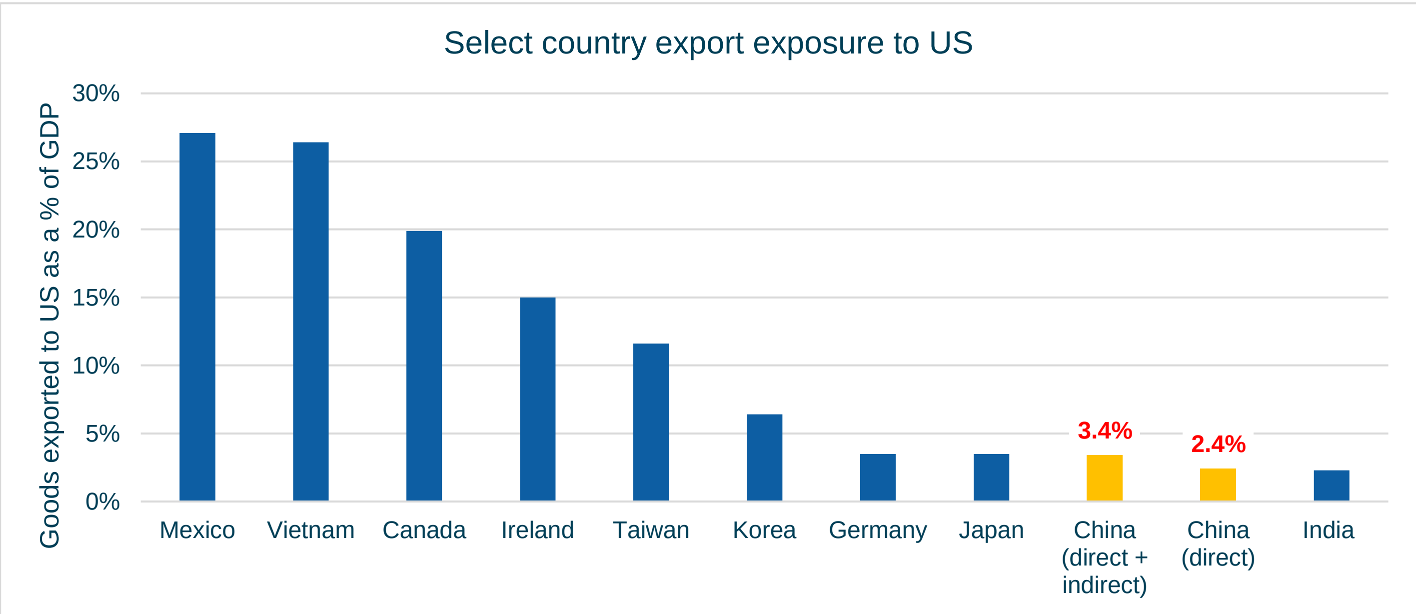
Tariff table tennis

The first two weeks of April saw one of the fastest near-20% drawdowns in the global equity index from all-time highs in market history, culminating in tangible panic in global credit markets on Tariff D-Day, April 9. Trump all but reversed course issuing a 90-day pause on reciprocal tariffs, leaving the 10% universal tariff coupled with an eye-watering 145% tariff on China - the bullseye of Trump's tariff target. These numbers still imply a weighted average global tariff rate rise in the US from 2.5% to roughly 30% - the highest tariff in over 100 years.

Outside of China, however, negotiations appear to be progressing. The calculation behind the initial reciprocal tariffs is simply the trade deficit and dividing by the value of imports, and then dividing this figure by two. Any claims from Trump and his team that these tariffs are set to address non-trade barriers is false.

Tariff table tennis between the US and China continues with Presidents Trump and Xi indicating they are unwilling to back down. Around 15% of the US' exports come directly from China, which works out to be around 2.5% of China's GDP. But China's supply chain extends beyond its own borders, with indirect exports passing through other parts of Asia, Latin American and Mexico. Analysis of such trade flows shows tangible evidence that trade pass from China through Vietnam to the US, and this has accelerated since Trump's first term. But surprisingly there is little evidence of such direct flow through across other Asian or Latin American countries. Our best estimates suggests that closer to 20% of Chinese exports are destined to the US in one way or another. This equates to 3.4% of China's GDP – which is still a lot less than most of the US' trading partners. The US only accounts for 6% of China's total imports.

Figure 3. China better placed than other economies



Source: Jefferies, Antipodes estimates

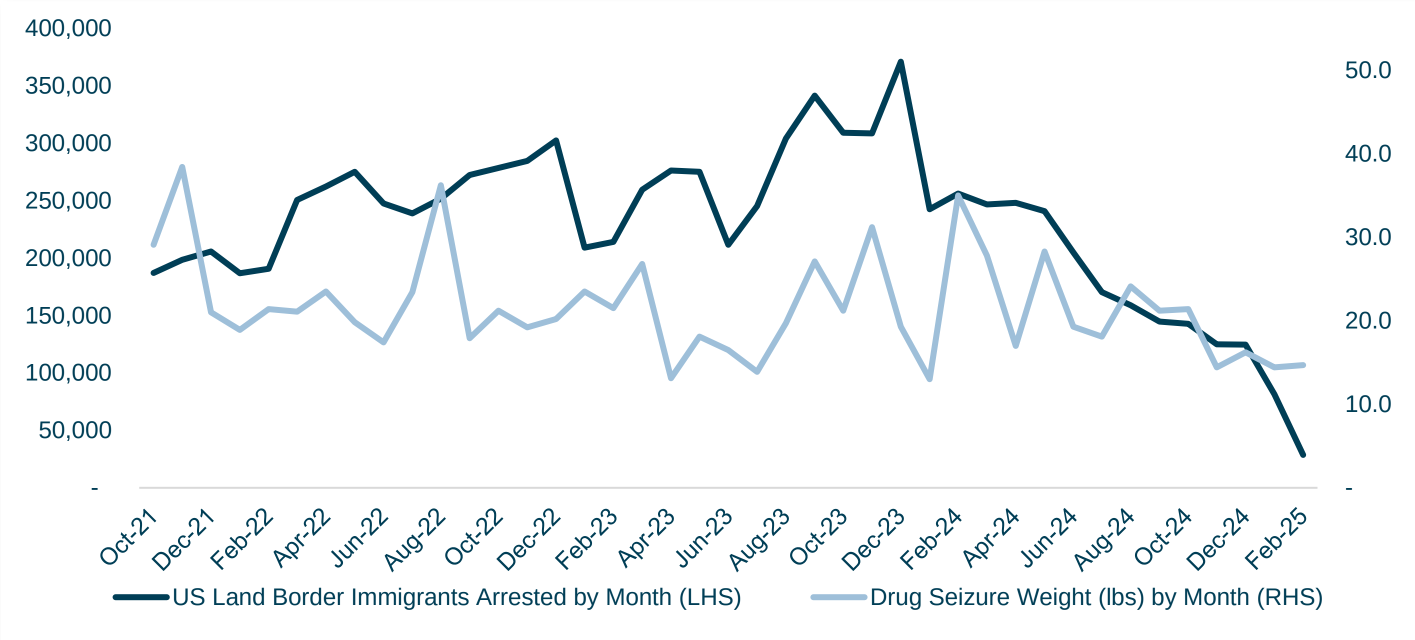
In addition to its own retaliatory tariff (which now take the total tariff to 125%), China has played its "trump" card via restricting the export of rare earths which will challenge the US "administration's" plans to reshore supply chains. China accounts for 70% of rare earth extraction and 90% of processing. The US' dependence saw China's rare earths exempt from additional tariffs. That is, China is not without its own leverage. It could also depreciate its currency and is the second largest holder of US Government bonds after Japan.

China has embedded itself into global supply chains which will make it hard for Trump to influence other countries to cut them out, outside of those that are reliant on protection from the United States (namely Taiwan, South Korea and Japan). How the rest of the world reacts is likely to shape geopolitics for decades and China has gone on the offensive with Xi set to visit Vietnam, Malaysia and Cambodia in April and there are already reports of Europe looking to spread their bets by easing their tariffs on Chinese EV's.

ASEAN economies are vulnerable to aggressive tariff actions as some countries are directly reliant on trade (e.g. Vietnam) while others would suffer from tighter liquidity that would come with a global recession (e.g. Indonesia). We are being very selective with investments in this region.

Mexico however has emerged from initial tariff negotiations in a better position than expected with a renegotiation of the MCA trade agreement looking increasingly likely. President Sheinbaum has proven an effective negotiator that has quickly acted on the requests of the United States. We have seen arrests for illegal migrant border crossings and drug seizures drop materially. This has resulted in Sheinbaum's domestic approval rating improving even while the fiscal deficit has been cut and economic data has worsened. The Mexican people are clearly rewarding the President's efforts to raise Mexico as a partner of the US which will bring long-term investment and growth.

Figure 4. Drugs seizures and illegal immigrants captured on US land borders



Source: US Customs and Border Protection (CBP)

It will take time for the impact of tariffs to be fully understood given most North American trade is in intermediate goods, tariffs heighten the risk of supply chain disruptions and upward pressure on inflation on top of lower economic growth.

All else equal, a c.30% tariff could add almost 2.3% to core PCE inflation, which is currently running at 2.8%. To state the obvious, this will create a significant demand/growth shock. A weaker currency in the face of tariffs will also feed into inflation more so than what was experienced during the first round of Trump tariffs in 2017 where the dollar remained stronger.

The risk remains that Trump's shock therapy approach to re-industrialisation is just too much for the US or global economy to bear and the US stumbles into stagflation. This is not lost on the President's administration which increases the likelihood of deals.

What does this mean for Emerging Markets?

The lack of clarity regarding US tariffs is expanding the range of outcomes for equities globally. But importantly, there are signs that President Trump is concerned by moves in bond prices that could effectively provide a back stop. For emerging market equities there are several opportunities that are becoming more attractive, while the risk premium is increasing in other markets such as ASEAN where the impact of tariffs could be significant.

We are positively exposed to Emerging Markets that have capacity to stimulate the local economy especially in light of the negative fiscal impulse in the United States. China stands out, where we expect to see domestic stimulus as a key tool to offset the pressure on exports. We have increased our exposure to Chinese consumer and property companies that show resilience and continue to trade at material discounts to historical valuations.

We have increased our weight to India, although still underweight versus the benchmark. Although MSCI India has declined by 18% since the peak in September (USD equivalent), valuations remain elevated. There are some attractive opportunities emerging as the policy setting has turned stimulatory with the RBI cutting rates and reversing policies that were taking liquidity out of the system. Demand drivers are mostly domestic therefore the economy should remain sheltered from the trade war.

The overweight to Brazil and Mexico has increased as lower rates, protection from tariff shocks and relative political stability should see a normalization of depressed valuations. The focus is on resilient businesses, such as FEMSA and Sendas Distribuidora as well as idiosyncratic opportunities such as Mexican cement companies that saw share prices unduly impacted by tariffs news flow.

Positioning in tech hardware companies is currently underweight given the potential risk to global growth and the changing policy stance in the US. We have increased our positioning in defensives and will lean in further should our growth shock conviction increase. For now, however, we are comfortable with the current portfolio tilts given the range of outcomes remains very wide, and we are reluctant to become too bearish. We are cognisant the Federal Reserve can respond via injecting liquidity into the market, the US will generate revenue from tariffs, and there will be some stimulus out of Europe and China.

Portfolio Commentary

Over the Quarter, the Antipodes Emerging Markets Strategy outperformed the benchmark. Absolute performance was driven by Latin America (Brazil and Mexico) and China/HK, with benchmark relative underweights in Taiwan and India contributing also contributing to performance. On a sector basis, consumer staples and information technology were the most notable contributors, with positioning in financials, consumer discretionary communication services sectors detracting.

Detailed commentary on key contributors and detractors is outlined below.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:

- **Kingdee International Software Group** finished higher over the Quarter in line with Chinese technology peers, following the promising results from DeepSeek's large-language model igniting a more optimistic outlook on Chinese AI development and domestic deployment.
- Similarly, **Tencent** also finished higher, with the platform benefitting from exuberance around Chinese technology. The company remains well positioned to capture incremental AI benefits through improving advertising targeting to drive higher ROI, supporting advertising revenue. In addition, sentiment remains positive around the benefits of AI in improving Tencent's game development and accelerating its cloud growth.
- **Sendas Distribuidora** performed strongly over the Quarter, driven by robust fourth-quarter results that exceeded expectations. This included better-than-anticipated cash generation, surpassing the initial leverage guidance. In addition, the short-term end of the Brazilian yield curve has softened, benefiting the rate-sensitive companies.

Key stock detractors to performance over the Quarter included:

- **Taiwan Semiconductor Manufacturing Company** (TSMC) sold off late in the Quarter in line with major chip players following President Trump's reciprocal tariff announcements.
- **NARI technology** finished lower over the Quarter, with a thematic rotation in China favouring AI technology stocks in addition to concerns around central procurement of distribution equipment and no forthcoming announcement of new ultra-high voltage components.
- **Bank Tabungan Negara Persero** was disproportionately impacted by the Indonesia sell-off driven by question marks over governance within the Prabowo administration. Sentiment was impacted by concerns around fiscal spending, potential governance issues surrounding the country's new sovereign wealth fund, Danantara, as well as increase military involvement in civilian life. There is no change to Antipodes thesis, where we view government steps to address concerns as adequate and the country risk premium as potentially overblown.

Portfolio changes

Alibaba	We rotated our China exposure following the significant moves in that market post the DeepSeek announcement. We reduced our position in Alibaba, which experienced an outsized move resulting in less upside versus our other China holdings. In terms of our exposure to China's platform and industry vertical internet companies we see greater upside in property platform KE Holdings (with 45% share of secondary property transactions), JD.com (a beneficiary of consumer stimulus in China and/or a recovery in consumer confidence), Tencent (with a heavily under-monetised network which can adopt AI to further drive search and advertising revenue, with a cloud infrastructure business) and Didi (ride sharing which is growing structurally).
華潤啤酒 CR BEER 中國海外 CHINA OVERSEAS	Elsewhere in China, we saw opportunity to reposition the portfolio to consumer and property exposures where we see stabilisation and improvements that are not reflected in share prices. We initiated a position in China Resources Beer (China's largest brewer, skewed towards the mass affluent, with on-premise consumption poised for a recovery) and China Overseas Land and Investment (COLI), which has become one of the largest property developers in the country with an estimated 9% market share (attributable contract sales basis) within the top 100 developers in China. COLI has achieved this through the combination of a strong balance sheet, attractive project pipeline and solid execution. The bulk of COLI's attributable exposure is in tier 1 and 2 cities where we're seeing signs of stabilisation, and we remain constructive on longer-term supply-demand dynamics. These positions were funded via exiting Ping An Insurance, Beijing Oriental Yuhong Waterproof Technology and China Mengniu Dairy.
ASSAÍ ATACADISTA	We added to Latin America through increasing exposure to Brazilian wholesaler Sendas Distribuidora after a sharp selloff in long-term Brazilian government bonds in late 2024. The Assai franchise continues to show improving cash generation and is narrowing same-store-sales gap to its main competitor whilst standing to benefit from rising food inflation and maturing stores.
FEMSA	We also added to Mexican convenience store chain Fomento Economico Mexicano (FEMSA) as market concerns over post-Trump macro risks and traffic at Oxxo franchises seem overblown, with the stock trading at near-lows despite strong margin gains from commercial initiatives.
nu bank	We added to Brazilian digital bank, Nubank after the stock sold off. We view concerns over asset quality and credit growth deceleration to be exaggerated.
PRIO	We built on the position in Brazilian oil field redeveloper Petro Rio at an attractive entry point. We view future upside on free-cash-flow yield and limited political risk ahead of elections in Brazil next year.
Aavas FINANCIERS LTD SAPNE AAPKE, SAATH HAMAARA	In India, we initiated a position in Aavas Financiers, offering attractively valued exposure to the Indian housing sector, an underserved industry with strong operational moats. Leading players with strong execution like Aavas can grow AUM at up to ~20% over the long term. Aavas remains well capitalised, offering the potential for loan book growth without need to raise capital.

Further information

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