Market Commentary

Q3 2024 (the Quarter) saw Emerging Market equities perform strongly (8.7% in USD, 4.7% in AUD), as the Fed's rate cutting cycle commenced and Chinese stimulus measures drove markets higher.

In late September, Chinese policy makers announced aggressive stimulus measures, with the Chinese Communist Party (CCP) delivering a comprehensive plan and promise of fiscal stimulus funded from ultra long-term and special sovereign bonds. The Fed's recent loosening gave China the scope to announce more aggressive stimulus without placing the Chinese Yuan at risk. This announcement was significant given it was confirmed at an out-of-cycle policy meeting, which are historically reserved for exceptional circumstances. The last out-of-cycle meeting was held in March 2020, at the peak of COVID concerns. Although clarity on the size and direction of fiscal stimulus is to be confirmed, the CCP's tone indicates a clear directional shift.

Such announcements are positive, however may not be enough to avoid a continued economic slowdown and deflationary pressure faced by the Chinese economy. To date tangible efforts have been directed at improving asset prices with efforts to attract investment in the stock market however, additional stimulus directed at consumers and/or industry is needed to ensure the impact is felt in the real economy and deliver a sustainable recovery. We continue to monitor the situation closely for updates regarding fiscal spending in the coming months.Despite the vertical move in Chinese equities post recent announcements, the benchmark remains priced at a discount to the historical average at less than 11x forward earnings.

South-East Asian economies are also positioned to benefit from lower Fed rates. Many of these economies have managed inflation well and maintained strong fiscal positions post COVID, electing to avoid stimulatory policy in order to manage their currency against the USD. As the US Federal Reserve (the Fed) continues to cut rates , these economies can now utilise both monetary and fiscal tools to drive growth, with both the Philippines and Indonesia cutting rates for the first time in the cycle in the last Quarter. Importantly, equity valuations in these countries remain compelling and do not reflect the prospect of accelerating growth.

The Indian market remained one of the strongest performers over the Quarter continuing to attract strong flows from both foreign and domestic investors. However, Antipodes sees elevated risk in Indian equities which are trading at historic premiums (next-12-month P/E of 26x) with increased uncertainty post the recent election. As confidence increases in growth across other emerging markets regions, Antipodes expects flows to move towards more attractively valued markets.

Returns in Brazil and Mexico were flat relative to Asia, as politics weighed on valuations, despite the Fed commencing its rate cutting cycle. Expectations of rate rises in Brazil weighed on sentiment, with increased concern around the Government's fiscal expenditure. In Mexico, concerns regarding the concentration of power within the ruling Morena party continued, even as incoming President Claudia Sheinbaum took office in October. Antipodes exposure to these markets remains selective given the political uncertainty.

Portfolio Commentary

Over the Quarter, the Antipodes Emerging Markets strategy outperformed the benchmark. Absolute performance was driven by the portfolio's China exposure, with selection and allocation accretive to relative performance. Relative performance was also complemented by positive contributions from the Philippines, Thailand and Indonesia. Portfolio exposure in Korea, Brazil, and an underweight allocation to India detracted. On a sector basis, industrials and real estate were the most notable contributors, with stock selection in consumer staples and an underweight to healthcare detracting.
Detailed commentary on key contributors and detractors is outlined below.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:

- China holdings **KE Holdings**, **Li Ning**, **Kingdee International**, **Tsingtao**, **Alibaba (among other Chinese exposures)** contributed positively in September driving quarterly performance, following a strong rally in Chinese equities. Chinese policymakers announced a raft of new stimulus measures, including further interest rate cuts and reduced downpayment requirements for home purchases. Although policymakers have delivered similar style measures in a piecemeal fashion over the past 12-18 months, markets interpreted the coordinated nature of September's announcement as the clearest signal yet that the CCP stands ready to support the Chinese economy and equities market.

- **Bank Mandiri** moved higher over the Quarter after benefitting from Indonesian Central Bank rate cuts and, indirectly, the Fed's rate cut driving flows from foreign investors. Domestically, rate cuts in Indonesia can allow for increased corporate loan growth driving positive investor sentiment for the stock.

Key stock detractors to performance over the Quarter included:

- **Sendas Distribuidora** detracted over the Quarter, with the Brazilian wholesale grocer impacted by concerns over interest rate expectations in Brazil, after rates were raised during September for the first time in two years. Given the company's existing leverage, sell-side analysts revised earnings forecasts over the month in-light of future potential rate hikes.

- **Samsung Electronics** sold off amid a broader selloff in memory players as fears the industry is at the peak of the cycle and oversupply issues in any potential downcycle. Concerns also persisted around Samsung's poorer perceived execution relative to peers and subsequent impacts on the company's profitability.

- **Hyundai Motor** pulled back over the Quarter despite reporting strongly, with the market concerned about the health of the US consumer and the impact on the strength and sustainability of Hyundai's continued earnings post COVID-related supply disruptions.

- **Mediatek** reported a 18% quarterly decline in net income for the most recent quarter with the smartphone chip designer citing peaks in inventory. Further revenue guidance remained flat into the third quarter as customers work through inventory with Q3 historically seasonably lower.

Portfolio changes

MGM 美高梅	Initiated a position in MGM China, as consumer traffic and spending in Macau continues to improve and the company well positioned to capitalise. The stock has sold off in recent months in line with broader macroeconomic weakness offering an attractive entry point.
CPALL	Initiated a position in CP All Public Co. (CP) convenience store operator in Thailand, where we see improving returns from the continued integration of Thai wholesalers Lotus and Siam Makro. Valuations remain compelling amid sluggish performance in the Thai market and we see a pathway of continued improvement in profitability from CP's existing store footprint of 7Eleven franchises supported by incremental government consumption incentives in Thailand.
suzano	Initiated a position in Brazlian pulp and paper producer Suzano after the stock sold off following the termination of the proposed acquisition of US-based International Paper in June 2024. Suzano has a ~15% share of global pulp supply, and is a low-cost operator owing to optimised logistics, favourable climate and good onward access for sales to Asia.
DiDi	Increased the position in Didi Global, China's leading ride hailing business with around 73% market share, reporting low double digit ride growth. Ride hailing in China has a very long tail of smaller competitors as well as aggregator platforms, the bulk of which emerged during Didi's 18-month suspension. Didi has regained some of this lost market share since operations resumed in 2023. The company also participates in bike sharing, intra-city freight, autonomous driving technology and robotaxis in the domestic market. The company has also established ride hailing businesses in international markets, with Brazil and Mexico most prospective given the consolidated market structure. We expect Didi to report its first net profit this year and growing earnings meaningfully thereafter as take rates increase, losses from other domestic initiatives fall and international operations pivot from loss making to profit making.
HYUNDAI	Trimmed the position in Hyundai around the concerns of sustainability of Hyundai's continued earnings post COVID-related supply disruptions (as per above) and weakness in the global auto cycle given Hyundai's presence in over 200 countries worldwide.
LUXSHARE ICT	Exited Luxshare Precision Industry Co. following the weaker than expected launch of the iPhone 16, with an inflection point for earnings for the components manufacturer likely pushed-out.

Further information

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Unless otherwise specified, all amounts are in Australian Dollars (AUD). Options exposure represents the market downside. For put options (typically used to limit potential downside) delta-adjusted exposure is used and for call options (typically used to capture potential upside) exposure is calculated using the current option value.