Market Commentary

Q3 2024 (the Quarter) was eventful and volatile, though global equities delivered strong gains (+6.6% in USD, +2.6% in AUD, +2.1% in NZD). The European Central Bank began its rate cutting cycle during the Quarter with two 25bps cuts, with the Federal Reserve (the Fed) following suit with a larger than expected 50bps reduction in rates. In late September, China surprised the market with larger and more cohesive stimulus measures, fuelling a sharp rally in Chinese equities. Additionally, geopolitical tensions in the Middle East escalated further, weighing on commodities.

Over the Quarter utilities, financials and industrials sectors outperformed however, energy, information technology and communication services underperformed.

Despite performing strongly, US equities underperformed the broader market (+5.8% in USD) over the Quarter despite a 50bps interest rate cut by the Fed. Concerns lingered around the possibility of excess slack returning to the labour market and subsequent impacts to economic growth.

European equities performed in-line with broader global equities during the Quarter (+6.6% in USD), as the ECB cut base rates twice, with core European Union economic data continuing to underwhelm in combination with political uncertainties. Despite this, many EU periphery economies continued to deliver notable outperformance. The Bank of England also cut interest rates by 25bps despite healthier economic growth data combined with stickier services inflation.

Overall, Asian equities outperformed during the Quarter (+8.7% in USD), led by Chinese equities (+22.3% in USD). The significant outperformance was triggered by Chinese authorities surprise announcement of a stimulus package that exceed market expectation in size, scope and sentiment. Authorities also highlighted the potential for additional measures to restore confidence in the economy. Japanese equities (+5.7% in USD) underperformed amid political uncertainty, mixed commentary from the Bank of Japan and a possible allocation shift towards China following strong momentum.

Elsewhere, Brent Crude (-16.9% in USD) was lower and Gold (+13.2%) was higher. The US Dollar (-4.8%) was weaker following the commencement of the Fed's rate cutting cycle.

Portfolio Commentary

Over the Quarter, the Antipodes Global Long strategy (the Strategy) outperformed the benchmark led by portfolio exposure in Emerging Markets and Western Europe. Underweight positioning in North America detracted from relative performance over the Quarter.

On a sector basis, the portfolio benefited from sector positioning in real estate (KE Holdings), consumer discretionary (Alibaba) and industrial (Siemens Energy) sectors. However, stock selection in Energy (Occidental Petroleum) detracted over the Quarter amid volatility in commodity prices.

The Portfolio was positioned strongly as markets rotated towards more value-orientated sectors over the Quarter and a broadening of regional performance. The Strategy outperformed the MSCI ACWI Value index over the Quarter, adding to calendar year-to-date outperformance.

Detailed commentary on key contributors and detractors is outlined below and further detail on the portfolio and positioning is provided in the Antipodes Quarterly Outlook.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:

- **Siemens Energy** again moved higher over the Quarter, following positive sell-side analyst revisions and continued appreciation for the company's role in accelerated spending around the energy transition, including the company's gas and grid divisions. Sentiment was also driven by further signs that the turnaround in the previously troubled wind turbine unit, Siemens Gamesa, is on track.
- China holdings **Alibaba, Ping An Insurance** and **KE Holdings** (among other Chinese exposures) contributed positively over the quarter following a strong rally in Chinese equities towards the end of the month. 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.
- **Sanofi** finished higher over the Quarter following a solid beat-and-raise in 2Q24 earnings. This was coupled with improving investor sentiment, post the release of revised margin guidance for 2025. In addition, several unofficial reports fuelled speculation around private equity bidders for Sanofi's consumer health business.
- **Barrick Gold** performed strongly, in line with the continued appreciation of the gold price and positive investor sentiment. The company remains well-positioned, as key growth projects advance per schedule and within budget, underpinning the company's planned production ramp-up throughout 2024. Barrick reported preliminary 2Q24 production of 948,0000 ounces of gold and 43,000 tonnes of copper, and remains on track to meet full year guidance.

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.
- **Occidental Petroleum** finished lower over the Quarter in-line with volatility in global commodity prices, with the company reporting weaker than expected quarterly earnings following the finalisation of its acquisition of Permian shale oil producer, CrownRock.
- **Samsung Electronics** sold off over the Quarter amid a broader selloff in memory players on fears around hyperscaler capex slowing and reduced demand for memory. This was coupled with investor concerns around the memory industry cycle peaking 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.
- **Merck** finished lower over the Quarter, despite reporting second quarter earnings that exceeded analyst estimates. This included a 7% year-on-year increase in revenue, in addition to an adjusted earnings beat. However, poorer investor sentiment was driven by a downbeat outlook, with the company lowering its 2024 profit outlook and projected EPS, citing the impact of the company's recent acquisition of EyeBio, a biotech firm specializing in ophthalmology. Later in the Quarter concerns around the 2028 patent cliff of key immunology treatment Keytruda continued to drive weaker sentiment, with investors questioning key long term growth drivers for the pharmaceutical company.
- On a relative basis, not holding Apple and Tesla detracted over the Quarter.

Portfolio changes

	Increased exposure to Financials in developed markets, initiating positions in Ally Financial and St. James Place. We added US retail banking franchise Ally Financial upon a fall in the stock price following the market's disappointment around higher non-performing loans in its core auto financing business, relating specifically to loans written in 2022. While the write-offs were slightly worse than expected, the company began originating higher quality loans at lower starting used car prices from 2023. Despite deposit rates falling with lower policy rates, auto loans written three to five years ago will roll off onto higher interest rates which can see Ally's net interest margin expand even in a loosening cycle. St James's Place is the UK's leading wealth management platform with almost GBP 200b in funds under management. FUM has grown 10-15% p.a. over the last decade with a key driver being mid-single digit growth in the adviser base. The industry itself has a structural growth opportunity as wealth and savings are increasingly shifting towards defined contribution plans, supported by attractive tax concessions. St James, with its scale platform and network of nearly 5,000 advisers, is well placed to take advantage of this transition.
	Increased our exposure to Internet/Software via adding Workday, whereby the company has evolved from leading HR software provider to a broader enterprise resource planning (ERP) software platform via the development of its financial management software. ERP is the last major cloud transition opportunity, with penetration still only c. 35% and where a cloud (or subscription) based customer generates 2-3x the revenue of an on-premise customer over the life of the contract as infrastructure is also provided to the client. AI is adding impetus to shift ERP software to the cloud to take advantage of this technology.
	Rotated exposure within Internet/Software – Emerging Markets initiating a 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, though Didi has regained some of its 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 also has established ride hailing businesses in international markets, with Brazil and Mexico most prospective given the consolidated market structure. We see Didi reporting 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.
	Similarly, within Internet/Software – Emerging Markets, we added e-commerce retailer Pinduoduo (PDD) which focuses on discount goods and is taking market share, benefiting from the consumer trading-down in a weaker macro backdrop. Traffic to the platform is growing, the launch of new ad formats has increased merchants' advertising spending which is lifting the take rate. Additionally, the quality of goods sold is improving, and the platform's popularity is increasing amongst emerging brands. The additions of PDD and Didi were funded via the exit of Tencent which has outperformed relative to peers.
	Elsewhere in Emerging Markets we exited our positions in KB Financial and Itau Unibanco after both meaningfully outperformed their regional indices resulting in less attractive relative valuations.
	Within Industrials, we trimmed our exposure to Daimler Truck on concerns the company may be entering a period of destocking. COVID excesses still need to be worked through as inventory levels remain elevated and the order book is deteriorating. While we are still constructive around the broader structure of the truck industry, Daimler's strong market position particularly in the US coupled with opportunities to grow market share and improve profitability, and its attractive valuation, the near-term margin of error in the investment thesis has widened. We rotated into Airbus given its attractive two-player market structure, the company's leading competitive position, and growth drivers from demand for travel, population growth and the replacement of aging fleet.
	We significantly reduced our exposure to US drug distributor Cencora (formerly AmerisourceBergen) as the stock reached our price target.

Further information

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