Market Commentary

Q1 2024 (the Quarter) saw global equities advance significantly (+8.1% in USD, +13.1% in AUD) following stronger than expected US macroeconomic data and the Federal Reserve (the Fed) maintaining its dovish tone until late in the Quarter when it shifted to more balanced following the release of mixed inflation data. Geopolitical tensions remained heightened, fueling market volatility.

Over the Quarter information technology, communication services and energy sectors outperformed, while utilities, materials, and consumer staples underperformed.

US equities outperformed (+10.3% in USD) driven by performance of large cap technology names with an artificial intelligence theme. Sentiment remained positive following the release of macroeconomic data which highlighted economic robustness, with the soft/no landing narrative prevailing. As a result, speculation around when and at what speed the Fed will relax monetary policy continued, with ~90bps of interest rates cuts in 2024 removed relative to the beginning of the Quarter, leaving equity markets to digest the impact.

European equities underperformed (+5.2% in USD) although many of the region's indices reached new highs, despite weak overall economic data. This resulted in market speculation the European Central Bank and/or the Bank of England could loosen monetary conditions before the Fed to provide economic stimulus. However, further confidence that inflation is cooling in line with expectation is required. Like the US, performance in the region was driven by large cap leaders dubbed 'the Granolas' – the EU's version of the 'magnificent seven'.

Overall, Asian equities underperformed (+5.2% in USD), with Chinese equities underperforming both regionally and globally (-1.3% in USD) as two significant government meetings during the Quarter failed to outline large stimulus measures in line with market expectation.

Japanese equities outperformed both regionally and globally (+10.5% in USD) following the release of positive economic data. This is despite the Bank of Japan's pivot to tighten monetary policy after decades of loose policy.

Elsewhere, Brent Crude (+11.6% in USD) was strong given tensions in the Middle East, while Gold (+8.1%) was higher on interest rate expectations and similar tensions. The US Dollar ended the Quarter up (+3.1%).

Portfolio Commentary

Over the Quarter, the Antipodes Global Strategy underperformed the benchmark primarily due to an underweight position in North America (in particular mega-cap stocks such as Nvidia) and underweight to quality as a factor which has increasingly become expensive. On an absolute basis however, North American was the largest contributor to return with stocks including Oracle, Merck and Meta performing strongly. This was further complemented by strong returns from Western Europe, in particular positions in Daimler Truck and Siemens Energy and Emerging Markets which included TSMC and KB Financial Group.

On a sector basis, information technology was a notable detractor from relative performance, despite positive absolute contribution from the sector. The portfolio benefited later in the Quarter from a broadening of winners with positive contribution also coming from the financials, industrials and materials sectors.

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.

Source: Performance quoted above sourced from MSCI.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:

- **Merck** reached all-time highs over the Quarter after the company posted positive adjusted profit after sales, attributable to sales in its cancer drugs and vaccines. Gains were driven by Merck's cancer treatment drug, Keytruda, which reported a 21% uplift in sales in addition to its HPV vaccine, Gardisil, registering a 27% increase in sales. Later in the Quarter, Merck won Food and Drug Administration approval for its new cardiovascular drug, Winrevair, designed to treat pulmonary arterial hypertension.
- **Oracle** rebounded from a miss in earnings in late 2023, to finish higher over the Quarter after better-than-expected quarterly earnings showed artificial intelligence boosted the company's cloud business. Management reported increased cloud infrastructure revenue for the February quarter of 49% year-on-year to US$1.9 billion. Oracle's CEO also highlighted the company expected to continue to receive large contracts requiring the reserving of cloud infrastructure capacity.
- German heavy automaker **Daimler Truck** posted strong 2023 earnings of €5.5 billion (before tax) up 38% year-on-year. In addition, the company announced an increase in dividend and a buy-back of €2 billion over the next 24 months. Management however highlighted that difficult economic conditions remained, though reaffirmed confidence key truck markets were expected to return to normal levels in 2024.
- **Siemens Energy** continued its resurgence, with the company recovering from the detection of faults in June 2023 in components used in certain legacy model onshore wind turbines. Over the Quarter, the company declared a Q1 net profit, with management remaining stating they are focused on solving the quality issues and maximising the growth potential of the entire company. These comments coincided with Siemens Energy detailing a new record for its order backlog, further signalling the company is in a strong position to benefit from the energy transition investment cycle.

Key stock detractors to performance over the Quarter included:

- **Country Garden Services Holdings** which continued to be hampered by weaker sentiment around the Chinese property sector and mixed macroeconomic indicators. Later in the Quarter, the property management company Country Garden reported calendar year 2023 results, missing analyst revenue and earnings estimates.
- **Roku** detracted despite reporting mixed fourth-quarter and full-year results. Revenue increased 11% year-on-year, with both platform and device segments demonstrating growth. Roku also reported user accounts of 80 million, up from 70 million in 2022, exceeding analyst expectations. However conversely, gross profit missed analyst expectations. The market reaction was worsened by Roku's warning of an "uneven ad market recovery" with management remaining cautious of near-term challenges in the streaming market. Roku was further impacted by sentiment around Walmart acquiring one of its competitors, Vizio and the adverse impact to Roku of potential synergies.
- **RWE** moved lower early in the Quarter after the German energy company stated it expected lower earnings in 2024 amid a drop in European energy prices. The company said it expected 2024 earnings at the lower end of the range, despite reporting preliminary 2023 earnings exceeding the outlook for the year. Later in the Quarter, management disappointed investors after failing to make a clear commitment on a buyback.
- **Baidu** reported Q4 earnings in February with revenue in line with expectations, however operating margins were lower than expected due to lower advertising revenue and ongoing costs associated with Baidu's artificial intelligence projects. Investors were also concerned around the growth of the advertising business in the medium term against China's macroeconomic backdrop. Antipodes thesis remains in-tact, with revenue from cloud services outpacing that of competitors, with efficiencies from AI integration within its advertising business having the potential to offset current economic weakness.
- On a relative basis, not holding NVIDIA, Alphabet detracted over the Quarter.

Source: Company results above sourced directly from referenced companies.

Portfolio changes

We continued to selectively add to global cyclicals with attractive supply and demand dynamics, many of which have meaningfully de-rated over the last 12 months along with weakness in the industrial production cycle. In addition to adding to **Daimler Truck**, we initiated a position in **Hyundai Motor** as we remain constructive around the auto cycle. Auto demand was meaningfully contained due to COVID supply chain issues and, assuming we are at (or near) the peak of the interest rate cycle and there are no meaningful negative macro shocks, this supply-driven consumption deferral can continue to support auto volumes. Hyundai has a strong mass-market brand, in addition to its luxury brand Genesis and electric vehicle brand Ioniq. The company has also continued to take market share with its competitive EV technology, compelling hybrid offerings and premiumisation of its core brand
We have used adverse market moves in China to rotate our consumer exposure into defensive businesses that have meaningfully de-rated such as **Tsingtao Brewery**, funded by exiting air-conditioner manufacturer Midea. China's beer industry is a consolidated market where the top five brewers account for over 80% of volume[1]. Beer has incrementally taken share of alcohol consumption at the expense of baiju and within this, premium beer is taking share. Tsingtao is China's second largest brewer, with a product mix of 30% premium volumes and 70% mass[2]. Tsingtao's business is proving more resilient in China's current economic backdrop given its sub-premium focus (e.g. Tsingtao is experiencing both price hikes and steady volumes) but it will also benefit when consumer preferences re-accelerate towards the premium category. The company has a strong balance sheet with scope to increase dividends, and based on our forecasts is priced at 8x earnings ex-cash.
Across the semiconductor space, we continued to look for attractively priced exposure across the supply chain adding **Qualcomm** and **Applied Materials** (AMAT) over the Quarter. As a leading provider of low power computing and connectivity chips, Qualcomm benefits from rising demand for connectivity and lower latency with certain AI functionality running locally on devices, or at the "edge". The company has a high single digit earnings growth profile and is gaining share in adjacent markets yet remains priced at a mid-teens earnings multiple relative to the semiconductor complex at 30x. AMAT is a leading player in the highly consolidated semiconductor equipment market. AMAT benefits from two structural tail winds; the global buildout of sovereign semiconductor manufacturing capacity and a once in a decade transition to new transistor architecture.
We also added **Fujitsu**, the largest IT services operator in Japan providing both software and hardware solutions which is poised to benefit from trends in digital transformation. Japan's IT spend of less than 3% of GDP has meaningfully lagged the US (5%), and the broad global average (3.2%)[3], and now more than half of corporate Japan's mission-critical systems are more than 25 years old. This is expected to drive upgrades across the board and propel migration to the cloud to enhance productivity. Fujitsu is also divesting non-core assets and channelling capital into acquiring specialised software solutions to maintain its leading market position. The company also has a solid balance sheet and is buying back stock.
We have been constructive on Korean financials for some time given the consolidated market structure (the top four banks account for over 50% of system loans)[4], mid-single digit loan growth and attractive valuations, with this exposure anchored by **KB Financial** given its strong capital position and profitability. Korea's Value Up programme, which aims to improve payout ratios, incentivise better uses of capital and balance sheets, and reduce cross shareholdings should accelerate KB's existing plans but will also act as a positive catalyst for portfolio addition **Shinhan Financial**, which has a relatively shareholder friendly management team.
Against a backdrop of higher-for-longer scenario, we re-initiated a position in **ING** which can perform better than peers as low-yielding fixed rate assets mature and re-price faster than deposits. We can also see a meaningful step up in capital returns as the company has reiterated returning all excess capital by the end of 2025. This implies over one-third of market cap can be returned to shareholders by the end of next year.
In addition, we exited Terna on concerns around increased interest costs and Richemont which reached valuation targets.

1, **3**, **4** Antipodes estimates
2 Company data

Further information

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