MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Value Opportunities Fund

Monthly Commentary – 30 November 2024

Fund performance (%) [1]

	1 month	3 months	1 year	3 years p.a.	Since inception p.a. 01 Apr 2021
Fund [2]	2.8	3.3	21.3	11.2	11.2
Reference Benchmark [3]	3.7	5.5	23.2	9.1	10.2

Market commentary

The Australian equity market had a strong month, with the S&P/ASX 300 Total Return Index rising 3.7%, broadly consistent with global equity markets. Bond yields fell, with the US 10-year government yield down 0.11% to 4.17% and the Australian 10-year down 0.16% to 4.34%. Commodity markets were mixed, including stable prices for iron ore and modest decline for oil. Looking at performance by sector, Information Technology (+10%) performed best, followed by Utilities (+9%) and Financials (+7%). Materials (-3%) was weakest, followed by Energy (-1%) and Consumer Staples (+1%).

Portfolio commentary

The Fund returned 2.8% over the month, underperforming the benchmark by 0.9%.

Our holding in Origin Energy (+13%) was a key positive contributor to performance. Wholesale electricity futures strengthened over the month which, combined with softening thermal coal prices, should support the earnings outlook for Origin's Energy Markets division. Origin also announced the expansion of its Eraring battery project, extending its duration to 4 hours, as it continues to build its portfolio of renewable generation and storage in anticipation of the closure of the Eraring coal-fired power station.

Our holdings in general insurers Insurance Australia Group (+14%) and QBE Insurance Group (+16%) also performed strongly. The sector rallied hard early in the month due to Trump's US election victory, with his policies considered inflationary and thereby leading to higher-for-longer interest rates, which benefits the insurers. This sentiment endured, despite a sharp moderation in bond yields later in the month. In the case of IAG, the announcement of its acquisition of a majority stake in RACQ's insurance business and a 25-year exclusive agreement to provide RACQ insurance products was well received. The transaction materially increases IAG's exposure to Queensland and should be Earnings Per Share accretive. QBE also issued a Q3 trading update during the month, at which it reaffirmed full-year guidance.

Our decision not to hold Commonwealth Bank of Australia (+11%) was the largest single detractor for the month. Our position in Endeavour Group (-7%) was one of a number of defensive names that contributed negatively. The company gave a first quarter trading update during the month, which disappointed the market. Sales momentum in its retail business remains weak, impacted by market-wide factors including cyclical consumer pressures. Management also gave retail EBIT margin guidance below market expectations, impacted by volume deleverage as well as changing consumer behaviours such as trading down and increased buying on promotion. With materials being weak, our holding in Rio Tinto (-1%) also detracted. This reflected softness in prices for select commodities, although notably not iron ore, and deteriorating sentiment towards China.

Please see next page for Outlook

Notes:
1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, S&P as at 30 November 2024.
2 The Fund's performance is based on the movement in net asset value per unit plus distributions and is before tax and after all fees and charges. Imputation credits are not included in the performance figures.
3 The reference benchmark is S&P/ASX 300 Total Return Index.

Want to find out more?
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Outlook

Global equity markets remain near record levels, supported by the start of the interest rate cutting cycle in the US, UK and Europe. Within the Australian market, we have seen a rotation into cyclicals, notably the banks. This reflects a growing consensus view that we will achieve a 'goldilocks' scenario whereby we see continued solid corporate earnings and inflation falls to acceptable levels, allowing interest rates to be reduced. The narrative of falling rates has also supported many growth stocks, particularly in the technology sector. This rotation has come at the expense of defensive sectors such as consumer staples and communication services. Resources have also lagged.

Looking ahead, we are of the view that markets are not fully pricing in the economic and geopolitical risks that exist. In Australia, growth remains very weak but, with inflation still elevated, rate cuts are unlikely in the near term. In the US, economic growth appears stronger and bond markets suggest the trajectory of rate cuts will be slower than previously expected. Within equity markets, the rotation noted earlier has presented opportunities, with many defensives now offering attractive valuations and some protection against equity market uncertainties. We continue to see appeal in the energy sector and selected resources, given discounted valuations and strong balance sheets. That said, we observe that many cyclical, technology and other premium-rated industrial stocks appear expensive, and our portfolio remains well underweight those segments.

For latest Fund factsheet click here.

Want to find out more?

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