MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Equity Trust

Monthly Commentary – 30 November 2023

Fund performance (%) [1]

	1 month	3 months	1 year	3 years p.a.	4 years p.a.	5 years p.a.	Since inception p.a. 31 Dec 1992
Fund [2]	2.2	-3.4	-1.4	9.7	5.3	8.2	10.5
Benchmark [3]	5.1	-1.8	1.1	7.0	4.7	8.7	9.4

Market commentary

The Australian equity market had a very strong month, with the S&P/ASX 300 Total Return Index rising 5.1%. Performance followed global markets, which surged in response to a sharp drop in bond yields. The US Government 10-year yield fell 0.51% to 4.37%, with softer economic data and signs of easing inflation increasing speculation that the US Federal Reserve had finished its tightening cycle. Similarly, the Australian Government 10-year fell 0.52% to 4.41%, despite an increase in the cash rate during the month. The Australian dollar rose sharply against the US dollar. Local economic data was mixed, with softer retail sales and a lower than expected monthly CPI contrasting a resilient labour market and strong house price growth. Commodities were mixed, with notable gains in iron ore and weakness in oil. Looking at performance by sector, growth and other interest rate sensitive stocks outperformed. Health Care (+12%) was best, followed by A-REITs (+11%) and Information Technology (+8%). Financials (+6%) also outperformed. Energy (-7%) was weakest, then Utilities (-6%) and Consumer Staples (-1%).

Portfolio commentary

The Trust returned 2.2% over the month, underperforming the benchmark by 2.9%.

There was a rotation from value into growth stocks during the month, driven by the sharp fall in bond yields, which was a broad headwind to our performance. Our overweight exposure to energy contributed negatively, including holdings in Woodside Energy Group (-9%) and Santos (-10%). The key driver was a weaker oil price, with Brent Crude falling 5% in response to a softer global demand outlook and uncertainty around OPEC's commitment to constrain supply. Similarly, our overweight holding in Origin Energy (-10%) fell. However, this was largely due to developments relating to its proposed takeover by a Brookfield-led consortium. In response to concerns that the offer would not receive the requisite 75% shareholder approval, Brookfield raised an alternative proposal that saw the shareholder vote delayed. The alternative was rejected by the Board and the original scheme ultimately rejected by shareholders in early December. While there is uncertainty around whether another offer will emerge, we see valuation support at the current share price. Our decision not to hold a number of highly rated growth and yield stocks, that outperformed in response to the drop in bond yields, also weighed on performance during the month. The key names were CSL (+13%), James Hardie Industries (+25%), Transurban Group (+10%) and Goodman Group (+10%).

Our overweight holding in Ansell (+12%) was a positive contributor to performance. The stock was supported by improving industry trends including a stabilisation in glove prices and more resilient end user demand, raising hopes that excess capacity will be absorbed and industry margins will improve. Our overweight position in Link Administration Holdings (+15%) outperformed. The company provided a trading update at the AGM, at which it upgraded 2024 earnings guidance. It also updated the market on the key Australian Super contract renegotiation, with management now confident of an outcome by the end of the year. Our overweight position in Seven Group Holdings (+16%) also contributed positively, similarly upgrading earnings guidance at its AGM. Its key Westrac business is performing very well, benefiting from continued strong demand for machinery and service from its mining and construction customers. Boral has also improved markedly under Seven Group control, with pricing discipline a key driver of margin gains.

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 2023.
2 The Trust'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 benchmark is S&P/ASX 300 Total Return Index. Up to 31 March 2000 the Benchmark was the All Ordinaries Accumulation index.

Outlook

Markets remain volatile. While there were signs during the month that global inflationary pressures are easing, there remains significant uncertainty around the outlook for inflation and interest rates. We also observe that 'soft landings' are rare. In Australia, economic signals are mixed, but inflation remains high and further rate increases from the Reserve Bank of Australia are possible. We remain cautious that markets are not pricing in these risks, nor have they adjusted to the 'new normal' whereby inflation and interest rates seem likely to remain structurally higher than we have seen in recent years.

In this environment, we have added to defensive exposures where valuations are attractive. We continue to see appeal in the energy sector and select resources, given discounted valuations, pristine balance sheets and the likelihood of some protection from inflation. We also see valuation support among the major banks, although acknowledge the sector faces heightened risks.

While the extreme divergence in valuations across the market that existed prior to the pandemic has retraced somewhat, we believe we are still in the process of normalisation. It seems unlikely we will see a return to the conditions that drove markets over the past decade and inflated the prices of many 'growth' stocks. In our view, it is more likely we will see a stock picker's market in which past excesses continue to be addressed, an environment that should suit our investment approach.

For latest Fund factsheet click here.

Want to find out more?

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