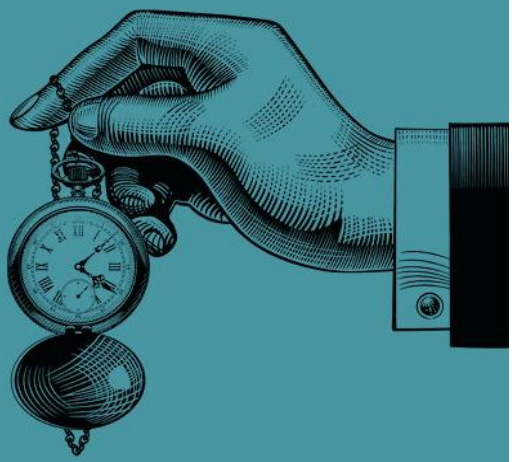
IT'S QUALITY TIME FOR GLOBAL EQUITIES



The Yarra Global Share Fund is invested in the Nikko AM Global Equity Fund, which is managed by the Global Equity Team of Nikko Asset Management Europe.

the 2024 outlook global equities

By the Global Equity Team

In times of change, new market leaders will emerge

Financial regulators like to say that past investment performance is not a clear indicator of future performance. Yet, we investors often look to the past to gain insights into potential future market conditions. There are patterns that can be exploited or traps that may be avoided. However, as we head into 2024, the past may not offer the usual useful insights.

From a macro perspective, central banks' experimentation with quantitative easing—which provided relatively benign market conditions since the Global Financial Crisis—is being unwound, and this "quantitative tightening" presents a new territory for policymakers and investors. Simultaneously, we appear to be approaching a peak in monetary tightening, and inflation appears to be in retreat, but the end game for this battle remains opaque. Recent market actions suggest a turning point is approaching, yet when it comes to timing key events, markets can often be wrong.

Geopolitics also offers few signs of stability. The peace dividend that has prevailed for several decades has abruptly ended, with ongoing developments in the Middle East being the latest addition to broader uncertainty. In addition, a series of national elections in 2024—culminating with a possible second presidential term for Donald Trump in the US—will ensure further drama unfolds.

With all of this in mind, investors will need to adjust their expectations, and portfolios, to account for higher for longer interest rates, the challenges of slower economic growth, stickier inflation, and a testing geopolitical environment. So, in this sea of uncertainty, where can we find a stable port in which to anchor with confidence? For us, we stand by our philosophy of Future Quality—the belief that companies which can grow, attain and sustain superior returns on invested capital, and have all the key quality pillars in place (Franchise, Management, Balance sheet and Valuation), will be the best candidates for capturing longer-term alpha.

While each company will embark on its own, unique journey to Future Quality, there are also common pathways, often driven by structural requirements. Therefore, these companies are less dependent on macro cycles, which we can leverage over the long term. These include the following:

AI Adoption

The emergence of artificial intelligence (AI) was a dominant market force in 2023. We were initially hesitant about joining this party, but our subsequent research has led us to reappraise this position. While we still believe AI contains an element of hype, it has the potential to transform technology for the next generation. It is too early to define the long-term winners from the new business models and use cases being inspired by AI, but there are market leaders already benefitting from the rapid adoption of this new technology that fit our Future Quality criteria. Over recent months, we have added **Synopsys**, **Nvidia**, and **Meta** to the portfolio.

Enablers of the energy transition

There is a need to reduce humankind's reliance on fossil fuels and create cleaner alternatives through renewable sources of energy, but this transition is not straightforward. Increased spending is needed to sustain existing energy production at the same time as mitigating carbon missions. While there is a fruitful pool of investment opportunities on both sides of this equation, the transition is heavily reliant on fiscal spending and political support could prove to be fickle. Portfolio winners in this space have been **Schneider**, **Linde** and **Chart Industries** (sold in Q3 2023).

Normalisation and structural growth in global travel

The travel industry is still in the process of recovering from pandemic-imposed restrictions, with countries at differing stages of normalisation. Yet, when you look at the core consumers of travel, demand remains robust. This is particularly true for younger generations, who place greater value on "experiences". Furthermore, a new travel cohort is emerging from developing countries where rising gross domestic product per capita means more people will be able to afford to travel in the future. **Booking Holdings, Amadeus** and **Samsonite** have been positive contributors to the portfolio in 2023.

Providers and enablers of healthcare efficiency

With an ageing population, providing sufficient and efficient healthcare, as well as reducing the cost of such services, will be one of the world's most important challenges going forward. In our view, this demographic test will—and has been—a great hunting ground for investment ideas as healthcare companies innovate to deliver much-needed solutions. That said, some subindustries within the healthcare sector have underperformed of late because of the pandemic pulling demand forward and creating ongoing staff shortages.

We are heading into a changing world, where the more recent past can no longer be relied on to guide our path forward. There are tools we can use to provide a greater degree of certainty. Our Future Quality approach is designed to help us identify franchises that are set to endure. Some of these companies may not have been in the vanguard of market leadership over the last decade. However, in this instance, we can more reliably believe history when it tells us that in times of change, the market leaders at the start are rarely the same as the ones leading us out of it.

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