AUDUCO

Q1 FY25 STATUS REPORT

"Our focus, trust" *"Accounting for every trade"*

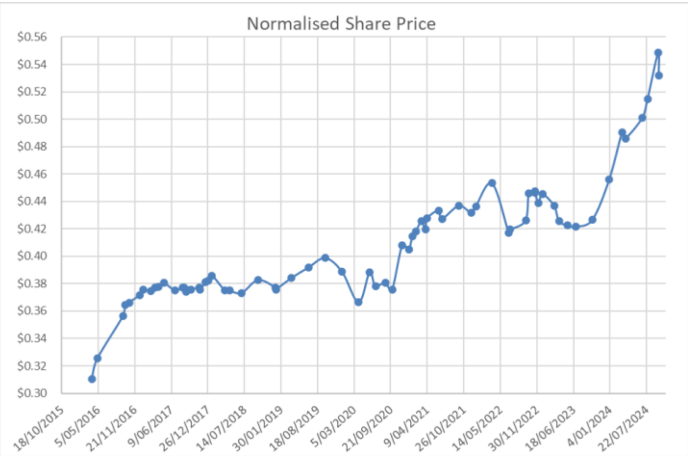
Investment Performance of Deployed Capital

Auduco Pty Ltd's current investment position and normalised share price are summarised in the table and figure below.

30-Sep-24 Snapshot		
Top 4 Equity Holdings	**Ave Entry Price**	**Market Price**
ANZ	$23.43	$30.48 (Q1 perf: $2.24)
BOQ	$7.96	$6.18 (Q3 perf: $0.37)
NAB	$19.01	$37.35 (Q4 perf: $1.12)
WBC	$20.94	$31.72 (Q4 perf: $4.49)
	Current Market Value	

FY25 Dividends	
FY25 Interest#	
Cash Holdings	

Note #: Does not include interest currently being accrued in term deposit accounts.

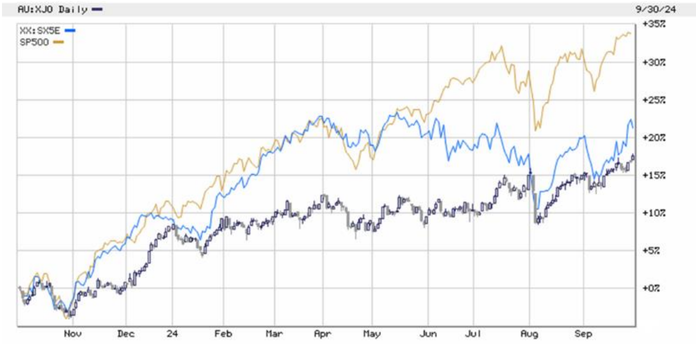


Our normalised share price notched a further all time high during the quarter before easing up slightly. Given the level of our cash reserves, and the fact that our chief market has been a laggard, the performance has been good. This is a consequence of our concentration in banking shares, in a market whose two largest sectors are having opposite fortunes, as discussed in the last update.

All our major holdings were up. Bank of Queensland (BOQ) had advanced significantly but this was undone in the final days of the quarter, so it continues to lag. Westpac (WBC) was up massively, despite a substantial pullback toward the end of the quarter, to notch a 16.5% increase. This has been great vindication for our substantial accumulation over time when it was drastically out of favour with the market.

The majority of the rest of our holdings finished the quarter approximately level with their starting points, with the exception of Lynas (LYC). It rose a whopping 32%. We managed only 6% on our commodity trades compared the to the 300+% achieved in the previous quarter.

For the index comparison, we display 12 months instead of the usual three to show the progression since the commencement of the bull market in November 2023. Whilst the Euro Stoxx 50 has now shows a net performance in line with the XJO (ASX S&P 200), the S&P 500, despite a brief and sharp correction, remains the pace setter.



Synopsis

The bull market continues to power on in the USA in the face of extreme overvaluation according to the Buffet indicator. The S&P 500 experienced a sharp but very brief correction before resuming its advance.

The point of turnaround and resumption of uptrend did not occur from a direct testing of the typical lines of support; i.e. it did not touch a support level, which is what typically occurs.

Also, after a strong run, as the S&P 500 has had, a larger correction than what occurred is typically expected. Below is a snapshot of index from 16-Aug-24, when we provided some social media commentary on what was then considered a reflexive rally before a likely decline to support at either the 200-day simple moving average (yellow line in the chart), the red support line that reflects the Dow theory end of the 2 year correction, or the green long term uptrend line. None of that eventuated.

What we got instead was some more triangulation style consolidation followed by another breakout, with the go-line being respected upon a subsequent retest:

A very large proportion of trades in markets are driven by algorithms and they appear to follow a buy the dip strategy that's worked well for over a decade. That's all we have to explain the 'illogical bottom' compared to a natural touch of key support. It was a v-shaped bottom, which is bullish. Moreover, as it came close to the 200 day simple moving average we can conclude that was the major support 'tested and respected', with the gap signifying bullishness. This is synonymous with a situation that could result in price accelerating exponentially.

In the backdrop markets are even more strongly overvalued, per the Buffet Indicator[1] update below:

This does not, in itself, forbode bad news but an interesting development is the 10-year minus 2-year yield curve, which we discussed last update. Recall that it has been inverted for a lengthy about two years and whilst this is a reliable predictor of recession, the problems do not start until it reverts to normal (i.e. crosses back above zero) usually as it steepens out. It has now just crossed above zero.

Yet general economic news in western economies has been good. The latest jobs report from the USA was a blowout, which showed previous months figures being revised up and wage growth also.[2] The expectation was for it to signify a slowdown. Resilience became the theme of reports. Inflation rates have gone back to, or at least are approaching the 2% that central banks aim to maintain. The last Euro zone reading was 1.8%,[3] while the US fell to 2.4%.[4] Both the European Central Bank and the US Federal reserve have lowered interest rates on the back of this. The US Fed cut by more than expected on 18-September for the first time since Covid, which prompted markets to rally to all time highs. Markets are betting on two more rate cuts for the remainder of the calendar year,[5] but the Fed has so far telegraphed one and has indicated there is no need to rush to reduced rates, particularly as higher inflation rates are still seen as possible.[6]

Of course, to confuse matters, not all news is good. China continues to experience negative news with corporate profits experiencing their largest slump of the year.[7] Lack of expected market demand was one of the underlying factors called out (which does surprise us at all, does it, dear reader). But a greater than normal impact of natural disasters such as high temperatures, heavy rains, and floods in some areas were also called out as contributors. Due to their ongoing deflationary pressures, China announced stimulus measures on 24-September,[8] which sparked rallies in their stock markets and various commodities. Fast forward to the time of writing (15-20-October) and the stimulus is seen as insufficient so more has been announced, but its release will be gradual.[9]

[1] Current Market Valuation, https://www.currentmarketvaluation.com/models/buffett-indicator.php

[2] Blowout US employment report reinforces economy's resilience, Reuters, https://www.reuters.com/markets/us/us-job-growth-surges-september-unemployment-rate-falls-41-2024-10-04/,

US adds over 250,000 jobs in September, defying fears of slowdown, The Guardian, https://www.theguardian.com/business/2024/oct/04/us-jobs-report-september

[3] Euro zone inflation falls to 1.8% in September, below the European Central Bank's 2% target , CNBC, https://www.cnbc.com/2024/10/01/euro-zone-inflation-september-2024.html

[4] US inflation rate fell to 2.4% in September – here's what that means for interest rates and markets, The Conversation, https://theconversation.com/us-inflation-rate-fell-to-2-4-in-september-heres-what-that-means-for-interest-rates-and-markets-240872

[5] Traders keep bets on 25 basis point Fed rate cuts in November, December, Reuters, https://www.reuters.com/markets/rates-bonds/traders-keep-bets-25-bps-fed-rate-cuts-nov-dec-2024-10-11/

[6] Fed's Powell Says Rate Cuts Can Sustain Soft Landing, but Sees No Need to Rush, The Wall Street Journal, https://www.wsj.com/economy/central-banking/feds-powell-says-rate-cuts-can-continue-to-support-soft-landing-8792c77a

[7] China's industrial profits suffer biggest slump this year, adds to economic woes, Reuters, https://www.reuters.com/world/china/chinas-industrial-profit-growth-swings-back-decline-august-2024-09-27/

[8] Evaluating Chinese Equities' Performance After Stimulus, MSCI, https://www.msci.com/www/blog-posts/evaluating-chinese-equities/04999586885

[9] China deflation pressure mounts as investors seek more stimulus for economy, Financial Times, https://www.ft.com/content/cb152479-e2ff-41e3-bc57-4912e3195383

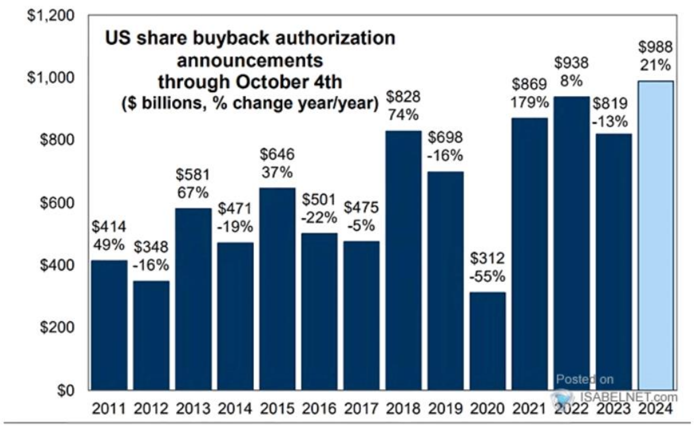
Countries reliant on China demand, like Australia, have been impacted. We covered the dichotomy of performance of the largest two Australian market sectors in the last update when explaining why its lagging the US - resources sector in correction counterbalancing the finance sector being in a bull run. The Australian economy itself experienced its slowest growth in seven years.[10] Migration and government spending has been propping it up. This has seen households reducing their spending due to cost-of-living pressures and high interest rates (the central bank has yet to telegraph reductions).

Nonetheless, the Australian share market is at all time high levels.[11]

Pivoting back to the global bell-weather market, the S&P 500's recovery from the summer correction has not been led by the big seven tech stocks as it typically the case (AAPL, AMZN, GOOG, META, MSFT, NVDA, TSLA). At time of writing, with the exception of META, none have advanced to new highs (though some are now forming buy signals). Instead, it looks as though the rest of the stocks comprising the S&P 500 have driven the index to its new highs and are, hence, catching up.[12]

This is an election year and pundits tend to think of them as bullish, at least until election day. Statistically, the average return for the S&P 500 is 7.5%[13]. However, it's the third year of an election cycle where performance is statistically the best (13.5%), which equates to 2023 in our instance. But the market spent most of that year in a corrective phase, so there is not much that can be garnered from historical cycle statistics.

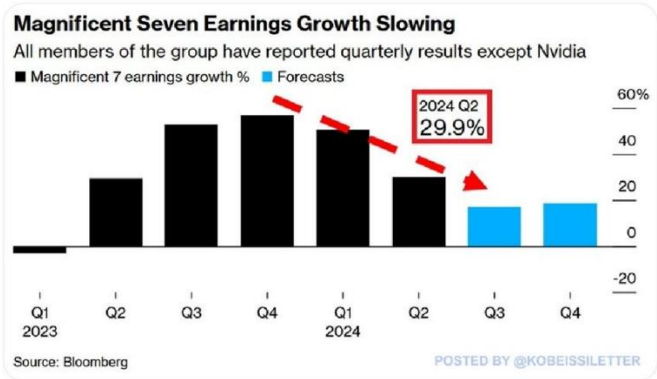
We may have "election year sentiment" driving the market ascent, but a more decisive driver would be corporate buy backs. Here is a visual of the annual trend as of 4-October this year:[14]



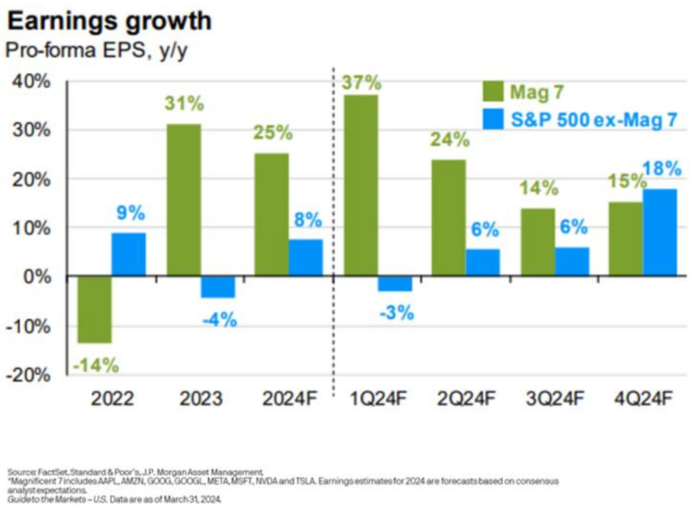
Source: GS FICC and Equities, Birinyi Associates, Goldman Sachs Global Investment Research

Fast forward two weeks and MarketWatch has reported the planned buy backs for 2024 will be higher at ~1.2 trillion.[15] And that probably explains it.

In the face of this we see (from our last update) that big tech earnings are slowing:



But at the same time, non-magnificent seven growth is increasing, finally:[16]



This, along with buybacks, helps explain the S&P 500's continuing to charge up despite the hitherto dominant performers waning. The US economy is otherwise looking strong.

[10] Australia's economy growing at slowest pace since 1990s recession, as households cut back on spending, ABC News, https://www.abc.net.au/news/2024-09-04/gdp-june-quarter-2024-australia-economic-growth/104305324

[11] ASX closes on fresh record high, strong jobs numbers dampen talk of early rate cuts — as it happened, ABC News, https://www.abc.net.au/news/2024-10-17/asx-markets-business-live-news/104482256

[12] Big Tech's slide has the 'other 493' catching up, Financial Post, https://financialpost.com/investing/big-techs-slide-has-the-other-493-catching-up.

[13] Presidential Election Cycle Theory: Meaning, Overview, and Examples, Investopedia, https://www.investopedia.com/terms/p/presidentialelectioncycle.asp

[14] US Share Buy Back Announcements, Isabelnet, https://www.isabelnet.com/u-s-share-buyback-announcements-2/

[15] Corporate stock buybacks on track for a fresh record in 2024, MarketWatch, https://www.marketwatch.com/livecoverage/stock-market-today-dow-futures-take-a-pause-after-sell-off/card/corporate-stock-buybacks-on-track-for-a-fresh-record-in-2024-GaC3nlZqsi1rIEDdYTgq

[16] Earnings Growth Is Broadening Outside the Magnificent Seven, JMG Financial Group, https://www.jmgfinancial.com/earnings-growth-is-broadening-outside-the-magnificent-seven/

The recent expectation beating jobs report signifies this.[17] It basically tells us economic activity in the fourth quarter is likely to remain at a solid pace.

So we have a bell-weather US economy essentially at full employment with the economy apparently flying on all cylinders. Yet, whilst inflation is now down, cost pressures remain high (as a lower rate does not mean prices are falling), the market is strongly overvalued, systemic debt is excessive, and the yield curve that has now un-inverted and is in the danger zone. It sounds like a powder keg situation in several respects.

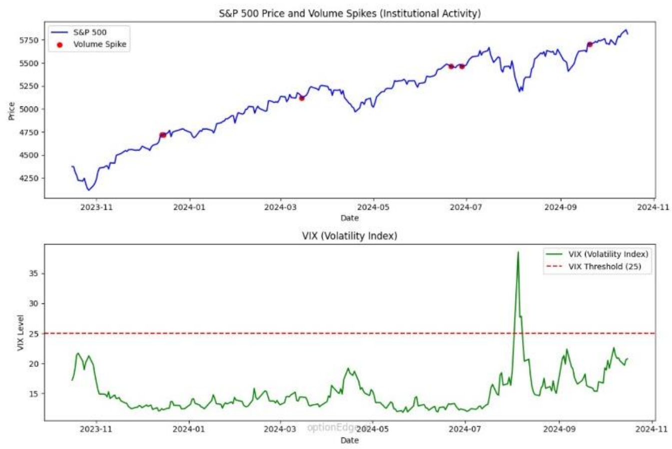
We might have to leave conclusions on this one to the economists.

Curiously, our VIX Sustainability Threshold model is still flagging caution:

This is unusual as the model is reliable with respect to indicating when taking trades is a safe bet. With S&P advanced strongly from its dip, in line with the past 15 years or history, the VIX would be expected to compress.

This relates to the VIX remaining relatively elevated, despite the S&P 500 making new highs. Statistically, since 1990, new S&P 500 highs usually correspond to VIX at around 13.5.[18] Recent highs have corresponded to VIX being over 20 on several occasions – which has only occurred 12% of the time, historically.

The graph below shows the actual VIX levels against the S&P 500:



The VIX Index is based on one-month options prices. Its expectations are usually somewhat extrapolative, hinging on recent history.[18] For example, if the market just had a big down day, people will be more concerned about the potential for the beatings to continue until morale improves. Vice versa if there's been smooth sailing recently.

What is the significance of this? Potentially that smart money is slowly selling into strength and buying a lot of puts. It contradicts the buy back data, but the end of the institutional buying could become an inflection point.

The main thing from a trading perspective is the price trend is positive, we have a market that still is freshly out of a 2-year consolidation phase, and the Fed and other central banks are now lowering rates, which is supportive. It could be a simple as "the trend is your friend" and continued "don't fight the Fed".

The majority of our holdings are in sectors we are comfortable with, we continue to hold high levels of cash, and the balance is traded nimbly in line with market conditions. That is, we are well positioned to ride any volatility and continue to accumulate when appropriate.

We will keep monitoring.

For more information contact Dr Gianluca Paglia, 0425 388 222

[17] U.S. job creation roared higher in September as payrolls surged by 254,000, CNBC, https://www.cnbc.com/2024/10/04/september-2024-us-jobs-report.html; Dow jumps 300 points for record close as September's big jobs report spurs rally: Live updates, CNBC, https://www.cnbc.com/2024/10/03/stock-market-today-live-updates.html

[18] Massive divergence between US stocks and the stock market's "fear gauge" as election looms, Sherwood News, https://sherwood.news/markets/presidential-election-vix-fear-gauge-index-vs-stock-market-performance/