AUDUCO

Q3 FY24 STATUS REPORT

"Our focus, trust"

"Accounting for every trade"

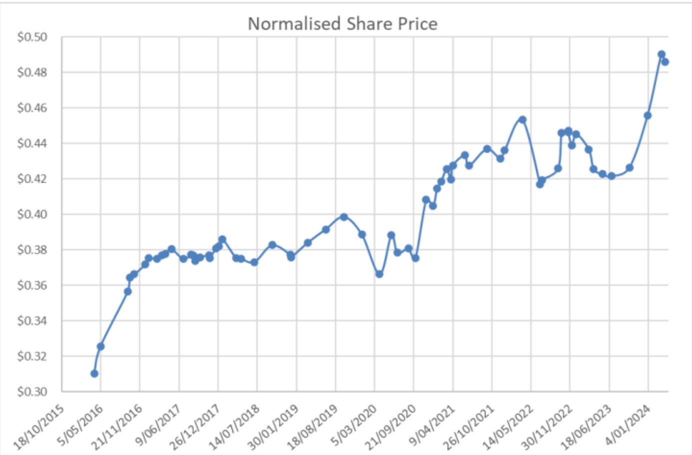
Investment Performance of Deployed Capital

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

31-Mar-24 Snapshot		
Top 4 Equity Holdings	**Ave Entry Price**	**Market Price**
ANZ - Aust. & NZ Banking	$23.43	$29.40 (Q1 perf: $3.40)
BOQ	$7.96	$6.32 (Q3 perf: $0.24)
NAB	$19.01	$34.64 (Q4 perf: $3.94)
WBC	$20.94	$26.10 (Q4 perf: $3.20)
	Current Market Value	

FY24 Dividends	
FY24 Interest#	
Cash Holdings	

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

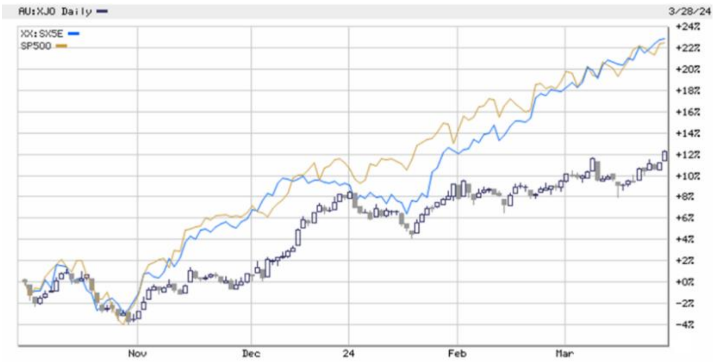


What to say when performance is good. Our normalised share price hit a new all-time high during the quarter. Most of our large holdings were all up significantly. Of those large holdings, WBC[1] experienced the greatest appreciation over the quarter with 14.0%, validating our strategy to accumulate it while it was out of favour. ANZ and NAB where not far behind with 13.4% and 12.8%, respectively. In the main, they performed better than most of our smaller holdings, which tended to fall away from their peak values toward the end of the quarter compared to the larger holdings. BOQ produced the sort of long-term technical signal we like to see but continues to lag.

During the quarter we took up new positions in Accent Group and Lynas Rare Earths. We also added to positions in ANZ, BOQ, WBC, Deep Yellow, Peninsula Energy and Pilbara Minerals.

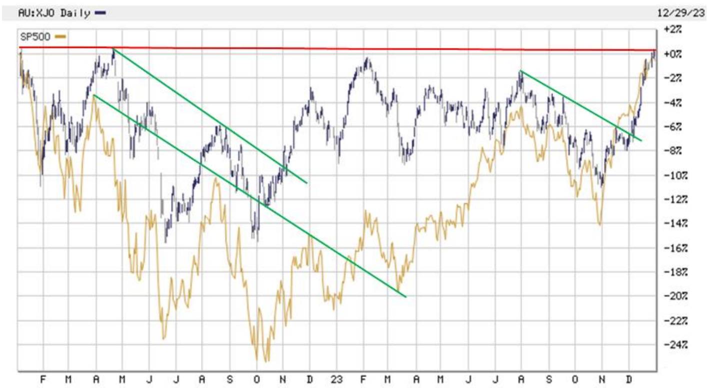
It was all on the back of a solid five month run across most western markets, which transitioned from a bear to a bull cycle. Unlike individual stocks, market indices literally peaked on the last day of the quarter and have been in a slight corrective mode since (though there are big individual falls in the technology space).

Below, we are showing the index comparison over six months instead of the usual three to illustrate the S&P 500 and Euro Stoxx 50 not missing a beat for five months. The XJO (ASX S&P 200) reverted to its usual lagging posture, falling significantly behind, but it still put in a steady trend. Plus, a key differentiator of the XJO is the much higher dividend yields in solid companies compared to international counterparts.



Synopsis

Kicking off with the market indices comparison that we have been presenting over the past year, below is the chart from the last update (Q2 FY24) showing the S&P ASX 200 and the S&P 500:



[1] ANZ = Australia and New Zealand Banking Group, BOQ = Bank of Queensland, NAB = National Australia Bank, WBC = Westpac Banking Corporation.

The indices had pushed up and touched the high from two years prior (January 2022) right on new year, the point of resistance that, according to Dow Theory, will signify the end of the correction only once it is surpassed. But the run to that resistance point commenced two months prior in November.

Fast forward to end of the March quarter and you see there is a clear break of the two-year correctional resistance level:

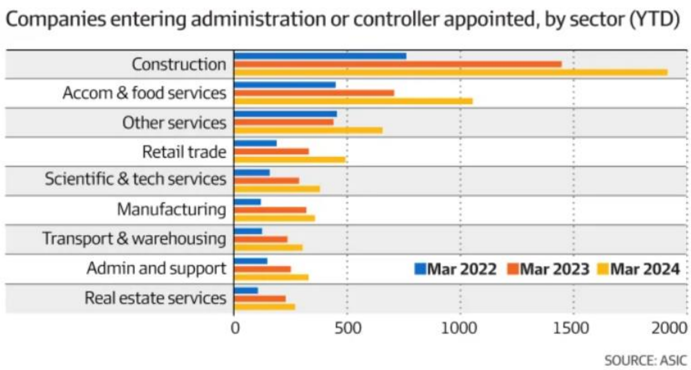
So, we are now in a bull market. The five-month run for the S&P 500 looks pseudo-linear. It never missed a stride. From this point going forward, one would expect some kind of correction to the new support line and then continuance of the bull run.

There was a fair bit of news flow over the quarter.

Recall from the last update, the market surge was precipitated by the US Federal Reserve's cues that the rate rise cycle might be at an end. We also reported that investment banks concurrently began making calls on expectations of recession and multiple rate cuts. The latest on this front is that the Fed has kept rates steady – a positive in that there was no rise – but is indicating they may remain at current levels for the time being, owing to not being able to see further improvement in inflation.[2] Wall street pundit views on when and how many times rates will be cut this year are starting to diverge.[3]

However, March saw the first of rate cut by any central bank globally, with the Swiss National Bank making a surprise move.[4] And locally, inflation is seen to be stubborn, making the case for a cut difficult, with even the OECD encouraging the maintaining of rates higher for longer.[5] We discussed in previous updates reasons why the Australian Reserve Bank will be one of the last to initiate cuts. Australian media-wise, there has been noise predicting further rate rises, yet some pundits are indicting rapid decreases are more likely.[6]

That sustained inflationary environment is having an impact. The cost of doing business is high and the ability to deliver work is deteriorating in a rapidly changing world where, for example, digital and A.I. related skills are in demand but challenging to source given the dearth in people with the necessary expertise. Even in more traditional industries high costs and staff shortages are an issue. We have had multiple conversations with tradespeople over the past couple of years who report that, whilst they are extremely busy, they are not making major profits. Along the way there have been significant numbers of headlines on construction companies going bust, with the theme of the contributing factors being "high interest rates, labour shortages and material supply constraints following the pandemic."[7] And the chart below shows bankruptcies currently surging, eclipsing recent years and its only March.[6] This information was echoed by accountants who relate that their clients are struggling, that many are reaching breaking point after several years of trying to stick it out. Globally, insolvencies have grown 9% so far this year according to Allianz.[8]



[2] Fed keeps rates steady as it notes 'lack of further progress' on inflation, CNBC, https://www.cnbc.com/2024/05/01/fed-rate-decision-may-2024-.html

[3] Wall Street is confused and divided over how many times the Fed will cut rates this year, CNBC, https://www.cnbc.com/2024/05/02/wall-street-is-confused-and-divided-over-how-many-times-the-fed-will-cut-rates-this-year.html.

[4] Major central banks reached a pivotal point this week. Here's what happened — and what's next, CNBC, https://www.cnbc.com/2024/03/22/central-banks-had-a-big-week-heres-what-happened-and-whats-next.html, The one central bank that runs counter all this is Japan's which has maintained negative rates for 17 years.

[5] OECD calls for elevated interest rates, NDIS spending clampdown, News.com.au, https://www.news.com.au/finance/economy/australian-economy/oecd-calls-for-elevated-interest-rates-ndis-spending-clampdown/news-story/3c77b2384f7d8b982a5467f4b3c376c7.

[6] Vital clue Australia is headed for an interest rate cut - not the hike a few noisy economists claim, Yahoo Finance, https://au.finance.yahoo.com/news/vital-clue-australia-is-headed-for-an-interest-rate-cut---not-the-hike-a-few-noisy-economists-claim-054950462.html, &

Leading forecaster Warren Hogan predicts RBA will hike cash rate to 5.1 per cent this year, News.com.au, https://www.news.com.au/finance/economy/interest-rates/leading-forecaster-warren-hogan-predicts-rba-will-hike-cash-rate-to-51-per-cent-this-year/news-story/f6f2f084778953ccaa0538383f67449f.

[7] 'Tsunami' of headwinds faces builders as collapses surge by a third, Financial Review, https://www.afr.com/property/commercial/tsunami-of-headwinds-faces-builders-as-collapses-surge-by-a-third-20240402-p5fgpm#:~:text=As%20of%20March%2010%2C%201913,to%20the%20latest%20ASIC%20update.

[8] Insolvency Outlook, Allianz Trade, https://www.allianz-trade.com/en_BE/news/latest-news/insolvency-outlook-2024.html.

Onto the bigger negative theme – China. We have discussed the Chinese property market collapse over the course of several updates, from prior to when the impacts were being felt elsewhere. Continuous Government intervention has held things up, but eventually they had to (selectively) withdraw support. The economy is still growing and Beijing's target for this year is 5%. Yet some are forecasting lower growth, e.g. 4.2%.[9] Most readers will recall that not too long ago, growth was consistently above 10%, and some will recall explanations during the GFC that Beijing needed to maintain GDP growth above 7% to ensure the population remained fully employed. We are now seeing news pieces describing how the middle class is adjusting to new realities and thoughts that their children will not have the same standard of living.[10] Given China's property situation and aging population, the IMF is forecasting a sustained slowdown through to 2028.[11]

With this, comes the challenges for raw material exporting countries like Australia. With China's property recession extending past two years old, prices are down as much as 20%. But more telling is that the annual number of apartment starts (i.e. being built) has crashed 60% and new sales are down about 50%.[12,13] This clearly appears ominous given that China accounts for 70% of global iron ore demand and, within the middle kingdom, 40% of that demand comes from property. The iron ore price has dopped significantly (yet is somewhat recovered at the time of writing), but a devastating drop in demand has not been seen yet. According to Goldman Sachs this is because developers have a large inventory of half-finished dwellings and building activity has yet to adjust to cratered sales and starts. Goldman Sachs says it will, refers to it as the "completions cliff", and sees it coming in 2025.

Despite these headwinds some areas are on the rise. Gold and Silver on the back of lingering inflation. Uranium on the back of inventory depletion, the world waking up to the notion of the large number of plants in planning and the realisation that a green future is not achievable without nuclear power. Lithium stocks also caught a bid temporarily. And, copper has gone on a tear, breaking out of long-term consolidation, due to its forecast demand in a green future.[14] It is interesting to see it commence an up-trend in light of the above headwinds as copper is often referred to as Dr Copper, owing to its performance as being an economic barometer.

But not everything is on the up and up. Palladium and Platinum which are heavily oversold cannot seam to catch a lasting bid. Some large cap Technology stocks have experienced sharp falls, despite a shallow correction in the S&P 500 and Nasdaq Composite index. Nvidia is the big example. It plunged 10% in 30 minutes on no news – this was after quarter end. Given that it is the third largest stock in US markets with a pre-drop capitalisation around USD $2.3 trillion, such an event will always make the news. In the context of what Nvidia has achieved over the past year, such a drop is understandable. Trillion dollar stocks have been only been around for six years, starting with Apple. There are seven of them now and they are all tech. Nvidia joined the club in June 2023. Its value has increased 4.5x in only 13 months.

And, of the companies exposed to China, BHP, the world's largest miner experienced an 86% drop in net profit after tax in the 6 months to December 2023. This had a lot to do with the nickel price collapse (45% in 18 months) and BHPs miscalculations around competition.[15] That has not stopped BHP making a bid to acquire Anglo American.

In the meantime, the world remains awash with excessive debt, government and individuals alike and articles are entering that mainstream media space and using the buzz word 'debt bomb'.[16]

Doing the usual synopsis roundoff with the Buffet Indicator, we can see the market is now showing extremely overvalued.[17] It is sitting at 2x standard deviation relative to fair value, the same sort of levels as during Covid. It is no wonder why some pundits are now debating whether the markets are frothy.[18] But bullish

---

[9] Export fears amid China's economic slowdown, Financial Review, https://www.afr.com/world/asia/china-hits-gdp-target-but-growth-tipped-to-slow-20240117-p5exx9#:~:text=ANZ's%20chief%20economist%20for%20greater,per%20cent%20in%20December%202023.

[10] As China's economy falters, so does middle-class confidence, NBC News, https://www.nbcnews.com/news/world/china-economy-falters-middle-class-confidence-xi-business-rcna145809.

[11] China economic slowdown to persist through 2028: IMF, France 24, https://www.france24.com/en/live-news/20240202-china-economic-slowdown-to-persist-through-2028-imf.

[12] Iron ore 'completions crash' is 'inevitable and 'unavoidable', Macrobusiness via News.com.au, https://www.news.com.au/finance/business/mining/iron-ore-completions-crash-is-inevitable-and-unavoidable/news-story/50f834c16be45e443da5631b73746bf3, & China's 'completions cliff' to send Australia spiralling, Macrobusiness via News.com.au, https://www.news.com.au/finance/business/mining/chinas-completions-cliff-to-send-australia-spiralling/news-story/a331018eb24206b6fbe91314ed1bf342

[13] Profit Collapse Looms for BHP, Rio Tinto, and Fortescue, Forbes, https://www.forbes.com/sites/timtreadgold/2024/02/26/profit-collapse-looms-for-bhp-rio-tinto-and-fortescue/?sh=59e6271a918f

[14] Copper prices climb to 2024 high as Citi calls the start of the metal's second bull market this century, CNBC, https://www.cnbc.com/2024/04/10/copper-climbs-to-2024-high-as-wall-street-banks-raise-price-forecasts.html#:~:text=Copper%20prices%20climb%20to%202024,second%20bull%20market%20this%20century&text=Copper%20prices%20with%20May%20delivery,2022%20in%20the%20previous%20session.

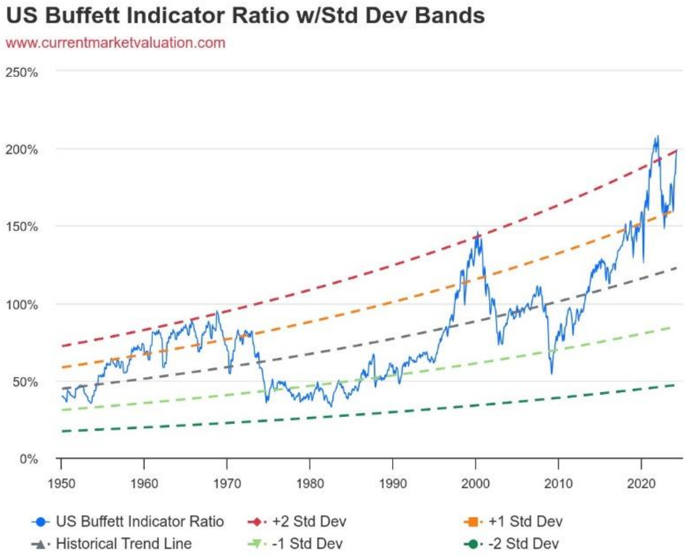
[15] BHP Profit Falls By 86% As The Nickel Crash Bites, Forbes, https://www.forbes.com/sites/timtreadgold/2024/02/19/bhp-profit-falls-by-86-as-the-nickel-crash-bites/?sh=4cc69ec570f7.

[16] Is a Global Debt Bomb about to Explode, Al Jazeera, https://www.aljazeera.com/features/2023/7/4/is-a-global-debt-bomb-about-to-explode & A huge number of Aussies are risking a debt bomb 'disaster' with long-term consequences, News.com.au, https://www.news.com.au/finance/a-huge-number-of-aussies-are-risking-a-debt-bomb-disaster-with-longterm-consequences/news-story/e16aab922bfea1e19218a81f4c45ef03.

[17] The Buffett Indicator, Current Market Valuation, https://www.currentmarketvaluation.com/models/buffett-indicator.php

[18] Record highs (nearly everywhere): it's starting to feel frothy again, The Guardian, https://www.theguardian.com/business/nils-pratley-on-finance/2024/mar/05/record-highs-nearly-everywhere-its-starting-to-feel-frothy-again, & A Frothy Market Misses Vital Bubble Ingredients, Wall Street

calls remain. "Run with the bulls", is what Société Générale says.[19] The extent of over valuation does give us pause.



Get Set Alerts

Regarding the our alerts service, the site is now on production servers and is at MVP: https://www.get-set-alerts.com. We are currently undertaking final testing before advertising for customers in the coming month. If you would like access to review and provide feedback, please reach out.

For more information contact Dr Gianluca Paglia, 0425 388

Journal, https://www.wsj.com/finance/stocks/a-frothy-market-misses-vital-bubble-ingredients-510efbaf.

[19] 'Run with the bulls.' Don't worry about the S&P 500 until it reaches 6,250, says SocGen., MarketWatch, https://www.marketwatch.com/story/run-with-the-bulls-dont-worry-about-frothy-markets-until-s-p-500-hits-6-250-says-socgen-f56ef02a.