Q4 FY23 STATUS REPORT

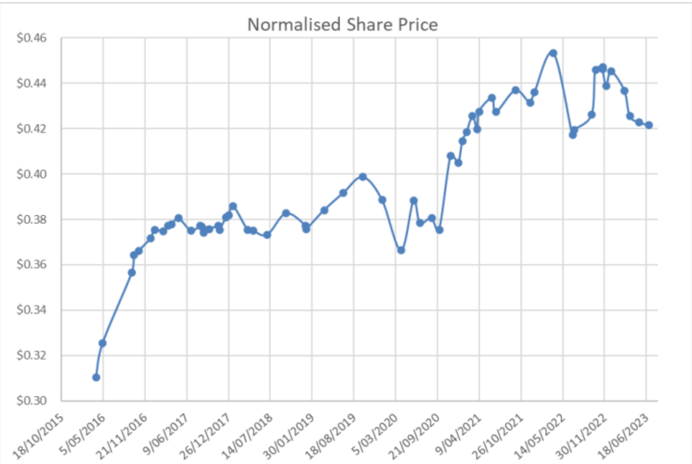
Investment Performance of Deployed Capital

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

30-Jun-23 Snapshot		
Top 4 Equity Holdings	**Ave Entry Price**	**Market Price**
ANZ	\$23.43	\$23.71 (Q1 perf: \$0.78)
BOQ	\$7.96	\$5.49 (Q3 perf: -\$1.00)
NAB	\$19.01	\$26.37 (Q4 perf: -\$1.35)
WBC	\$20.09	\$21.34 (Q4 perf: -\$0.34)
	Current Market Value	

FY23 Dividends	
FY23 Interest#	
Cash Holdings	

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



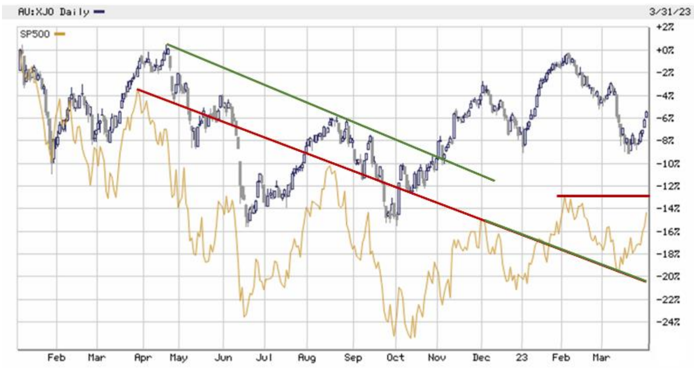
Net performance for the quarter, as indicated by the normalised share price, decreased by \$0.001 - essentially flat, from inspection of the chart. Three out of four of our major holdings are down for the quarter. However, the flat performance was bolstered by dividend payments and a speculative position in Pilbara Minerals taken during the quarter being up 20%.

When we look at the index performance over the quarter (chart below) we see the reason for the flat performance of the normalised share price. The ASX S&P 200 (XJO) was net level for the quarter. During the previous quarter, it only rose by 3%. The Euro Stoxx 50 performed comparably to the XJO. Yet the US S&P 500 index outperformed significantly, up 8% for the quarter.

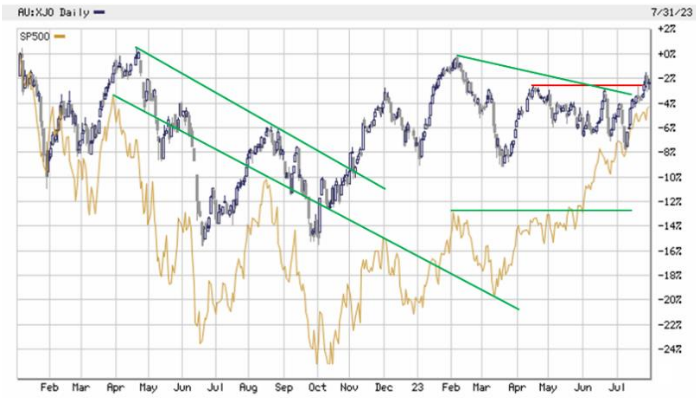
Considering the above, our portfolio performed in line with the market. Not ideal, but it beats underperforming.
The S&P 500 broke out in the manner we were anticipating in previous updates. Whilst lagging (recall, last quarter the yearlong trend of the XJO outperforming the S&P 500 was broken), both the XJO and Euro Stoxx 50 appear to be on the cusp of breaking out also (at the time of writing, post quarter, 1-Aug-23).

Synopsis

Looking at macro price action first up, the S&P 500 broke out as anticipated. Below is the chart as of the XJO versus the S&P 500 as presented at our last update.



We reported on clean bullish price action of the S&P 500, specifically the breaching of the downtrend line, then rebound after the retest, followed by some range bound consolidation between supply (at the red horizontal resistance line just above the price action) and the 200 simple moving average (not shown). This matriculated into a breakout run commencing at the start of June as visible in the chart below.



The XJO, in comparison, has continued to consolidate during that period and has just peaked through a supply zone (red horizontal line). It looks poised to break out. Given the lead provided by the S&P 500, and provided economic conditions remain favourable, a breakout run should be forthcoming.

News flow wise, central banks have been giving mixed messages. The Reserve Bank of Australia's pause (April) only last a month. It was followed up with two straight raises. We think it is too aggressive and has impacted sentiment toward bank shares. Rates have been risen globally, even as inflation has, as discussed in previous updates, shown signs of abating. Recent data has confirmed this, with Australian inflation decelerating to 6% in June relative to the 7% reading in March.[1] The US and UK showed similar patterns.[2,3]

In fact, Deloitte Access Economics stated what many have suspected, that the excessive inflation has mostly been caused by supply side factors, such as the supply chain disruptions of the pandemic, and that inflation is abating as impacted supply chains are repaired.[1] If fact Deloitte Access Economics went as far as to state:

"The Australian economy is softening dramatically, the pace of inflation has peaked and is moderating quickly, wage growth is not excessive and medium-term inflation expectations are not rising. In that context there should be no further interest rate increases in Australia."

Fitch has downgraded US long term debt rating.[4] The basis of the decision was '20 years of steady deterioration standards of financial governance' and significantly increased government debt. Prominent industry figures have dismissed the importance of it, citing that it is markets that determine the price of debt.[5] However, this is only correct to a point and those 'markets' includes central banks pumping more debt / helicopter money into the system. The call by Fitch is a landmark moment as, overtime, more ratings agencies will follow suit and potentially lower the debt ratings further. So yes, when the likes of Jamie Dimon say it does not make much difference, he is correct for now. In fact, the USD rose on the news and commodities such as gold and silver dropped in kind. But with more ratings agencies following suit over time, market confidence will begin to ebb.

Generally speaking, we have been seeing headlines suggesting economic slowdown in Europe (factory output and services contracted as measured by the PMI)[6] and China (factory output contracted for the first time since April).[7] We have also seen declining earnings in tech stocks in the recent earnings calls in the face of the S&P 500's recent run.[8]

The theme here, however, is price action is king. It reflects the net sum of everything. Due to the likelihood of the S&P 500 breakout to be confirmed by other indices, the stance is bullish for now. Caution is still required though, as despite this price action, and the rotation back to value theme we have been discussing over the past 1-2 years, not everything goes up with the tide.[9] Even the instruments you expect to perform have hiccups. For example, some of the banks we hold and commodities that persist in lagging in an inflationary environment.

For us, we some of our focus will be on BOQ. It was added to the portfolio with the thinking that it could provide some alpha, given it is Australia's fifth largest bank and, at the time of selection, was showing good prospects for growth in presenting itself as an alternative to the big four. Well, it has generally lagged instead. It's share price fell 18% in FY23 vs the XJO rising 10%.[10] This was reflected in operating expenses increasing by 7% and net earnings after tax decreasing 4%, in an environment where competition for both depositors and loans is heating up. BOQ management have been implementing their 'integrated program' to improve risk management and are undertaking a digital transformation program to simplify their business and make it more competitive. We will see. In the meantime, the share price outperformed in July, rising 10% versus the XJO's 2.7%. The main driver is probably its attractive dividend of ~ 7.4%.

We will leave it there for this update. Until next time…

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[1] 'Proof' RBA has increased interest rates too far, News.com.au, https://www.news.com.au/finance/economy/interest-rates/proof-rba-has-increased-interest-rates-too-far/news-story/3002b7515fb2bbfa99a31d71e5929ca1

[2] Inflation rose just 0.2% in June, less than expected as consumers get a break from price increases, CNBC, https://www.cnbc.com/2023/07/12/inflation-rose-just-0point2percent-in-june-less-than-expected-as-consumers-get-a-break-from-price-increases.html

[3] UK inflation rate slides to 7.9% in June, below expectations, CNBC, https://www.cnbc.com/2023/07/19/uk-inflation-rate-slides-to-7point9percent-in-june-below-expectations.html

[4] Fitch downgrades U.S. long-term rating to AA+ from AAA, CNBC, https://www.cnbc.com/2023/08/01/fitch-downgrades-us-long-term-ratings-to-aa-from-aaa.html

[5] JPMorgan CEO Jamie Dimon calls Fitch Ratings U.S. downgrade 'ridiculous' but says it 'doesn't really matter', CNBC, https://www.cnbc.com/2023/08/02/jpmorgan-ceo-jamie-dimon-calls-fitch-ratings-us-downgrade-ridiculous-but-says-doesnt-really-matter.html and Warren Buffett says he's not worried about Fitch's U.S. downgrade, CNBC, https://www.cnbc.com/2023/08/03/warren-buffett-says-hes-not-worried-about-fitchs-us-downgrade.html

[6] Eurozone economy stalls in June as services growth wanes and factory production falls, S&P Global, https://www.pmi.spglobal.com/Public/Home/PressRelease/a202d464cebb414eb8bcf81178cec797

[7] Asia markets mixed as private survey showed China's factory activity fell in July, CNBC, https://www.cnbc.com/2023/08/01/asia-markets.html

[8] EXAMPLES: AMD reports better-than-expected results even as PC market shows continued weakness, CNBC, https://www.cnbc.com/2023/08/01/amd-earnings-report-q2-2023.html, Qualcomm shares tumble as phone chip sales falter. Here's what the pros are saying, CNBC, https://www.cnbc.com/2023/08/03/qualcomm-falls-as-phone-chips-falter-heres-what-the-pros-are-saying.html, and Intel reports largest quarterly loss in company history, CNBC, https://www.cnbc.com/2023/04/27/intel-intc-earnings-report-q1-2023.html

[9] We would not be surprised if markets consolidated sideways for an extended period.

[10] What caused the Bank of Queensland share price to sink 18% in FY23?, The Motley Fool, https://www.fool.com.au/2023/07/07/what-caused-the-bank-of-queensland-share-price-to-sink-18-in-fy23/