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MEDIA RELEASE

AI and resilient corporate earnings to drive global markets for remainder of 2023

While investment opportunities in global share markets hinge on a number of factors, such as artificial intelligence and resilience in corporate earnings, the Australian market continues to be a source of high dividend yields and has the potential to be a strong relative economic outperformer, according to GSFM fund manager partners Munro Partners, Man GLG and Tribeca Investment Partners.

Factors including developments in artificial intelligence (AI), relatively robust consumer spending, and companies being able to maintain discipline on their cost structures, will be key for investors in global equities.

Munro Partners portfolio manager, Qiao Ma, says that the long term interest rates have peaked in October 2022, and the Munro team is observing encouraging signs of the start of corporate earnings re-acceleration.

"Clearly we are not completely out of the woods yet with sticky inflation and further rate hikes expected over the next few months, so we stay very vigilant with risk management," she says.

"However, we have seen the earnings growth trajectory picking back up over the past few months. Consumers have been more resilient than expected, especially around the trends such as health and wellness. The start of AI super-cycle will likely accelerate the rate of innovation across many industries for years to come. In the second half, we also expect good performance from the industrial companies driven by spending plans in the US, including the Inflation Reduction Act and the CHIPS Act.

"It is heartening to see that the market has been returning to a more normalised environment, where share prices follow earnings. This bodes well for our process of looking for earnings growth opportunities backed by a structural tailwind.

"Our portfolio is exposed to the many different idiosyncratic growth drivers, such as AI, resilient consumers, as well as industrial companies benefiting from de-carbonisation. We are well positioned for the second half of 2023 and beyond," Ma says.

Man GLG's head of Asia (ex-Japan) equities, Andrew Swan, says he is also watching developments within generative AI closely, on the expectation that they may kick off a new investment cycle, with associated productivity gains driving better than expected economic growth.

"The equity market has been quick to revalue the entire tech hardware supply chain in Asia in hopes of a new tech cycle as evidenced by strong price performance of the sector.

“We recognise that the use cases for AI are evolving rapidly and believe this may potentially act as a catalyst to start another tech hardware cycle.

“We expect South Korea and Taiwan to be the main beneficiaries of this shift - both markets play a vital role in the tech hardware supply chain and are home to some the world's largest electronics and semiconductor manufacturers.

“Semiconductors have been our preferred means to access the AI value chain so far.

“Opportunities in China appear less clear at present, however, and that may have earnings implications for both companies developing AI capabilities and those supplying AI hardware globally,” Swan says.

Locally, Tribeca Investment Partners lead portfolio manager, Jun Bei Liu, says while the Australian market might take comfort from an expected end to rate hikes, investors will have to deal with a slowdown in economic and earnings growth as tightening liquidity conditions finally take their toll on household spending and on business activity and hiring.

“It is usual for equity markets to weaken into recessionary conditions, but while the near-term risk-reward outlook suggests some caution, we do not expect to see a deep or prolonged downturn.

“The good news is that a lot of the valuation de-rating as a response to rising rates has already taken place with many areas heavily discounted since the start of interest rate hikes back in the second quarter of 2022. Provided bond yields don’t have a lot more upside and the growth slowdown is relative short and shallow, then the need for further valuation de-rating at a broad market level is not necessary.

“In addition, Australian corporates are well capitalised having refinanced or issued debt during the COVID-19 pandemic period at rock bottom rates which should provide some protection should financial conditions materially change.

“More importantly, uncertain, and volatile markets are about seeking out the most attractive relative value opportunities and we are less focused on the direction of the market than we are on stocks that have been overly discounted because of macroeconomic uncertainty.

“Longer term we think the broader market can recover from any near-term cyclical weakness as solid economic supports cushion against downside risks such as strong population growth and elevated commodity revenue, and corporates manage costs into a weakening demand backdrop.

“Australia still has one of the highest dividend yields on offer and, downturn or not, Australia has the potential to be a strong relative economic outperformer. We think market dislocations will be short lived and that any weakness over coming months will be an opportune time for active managers to pick over stocks and position for the start of the next upswing,” Liu says.

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GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016 Canadian wealth manager CI Financial Corp (CI) purchased an 80 per cent stake in the business, acquiring the stake previously held by Grant Samuel.

GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors, and has formed partnerships with six specialist investment managers:

- New York based Epoch Investment Partners, Inc.
- Tribeca Investment Partners, a successful Australian boutique manager headquartered in Sydney
- Payden & Rygel, a Los Angeles based independent investment management firm
- Munro Partners, an independent global equity manager based in Melbourne
- London-based Man Group plc
- Tanarra Credit Partners, a specialist in private credit instruments
- Australian Entertainment Partners, to produce the AEP Screen Fund, an investment vehicle dedicated to supporting Australian film and television endeavours.

GSFM represents approximately $8.6 billion funds under management (as at 30 June 2023).

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