26 February 2024

MEDIA RELEASE

Fiscal 2024 likely to trump fiscal 2023: Tribeca Investment Partners

With only a few days left of the current ASX reporting season, it is clear that economic recession is now a declining tail risk that has been largely removed from the consensus vocabulary, and that peak uncertainty is in the rear vision mirror, according to Jun Bei Liu, lead portfolio manager of the Tribeca Alpha Plus Fund.

While it can be hard to give up the ghost for those who are adamant that rate hike cycles result in recession, Ms Liu says the current reporting season illustrates that corporates are well placed to navigate further growth weakness.

"Interest rates are likely at peak, economic growth has remained resilient, inflation is falling, house prices have not collapsed, mortgage defaults have not become systemic, and the list goes on.

"Corporates remain cautious but fiscal 2024 is likely to be better than fiscal 2023."

Ms Liu concedes there are pockets of weakness, but says this varies by industry and stock.

"There is a rolling slowdown underway, rather than an abrupt shock that has impacted all corporates at the same time and to the same degree.

"This is good for investors as it means there are pockets of strength – for instance in infrastructure, mining services and technology – to offset pockets of weakness – such as in consumer and cyclicals.

"Despite sells off in areas which have disappointed – as we have seen with consumer staple companies Woolworths (ASX: WOW) and Dominos (ASX: DMP) – there is no loss of faith in the overall outlook as tends to happen when there is fears of capitulation.

"Instead, there appears to be a strong willingness to buy the equity market, including cyclical stocks, and to accept that even for areas where further weakness is expected, they can be purchased at the right price.

"This bodes well for the market and suggests that signs of further improvement will be greeted positively even if they come against a backdrop that remains a little uncertain.

"Certainly the mood of investors is more hopeful than fearful and, as witnessed in 2023, this is a very powerful mechanism to limit market downside and drive further strength."

For investors, she says, the reporting season always brings challenges but equally it brings opportunities.

"Over the coming year we expect to see additional policy support for the Chinese economy, which should provide a stronger tailwind for selected commodity exposures, for short rates to begin falling which should help provide a floor for some rate sensitive areas that are not under structural pressures and for the cyclical outlook to begin to improve, once we are through a short and shallow slowdown.

"Relative valuations provide strong support for defensive growth areas like Healthcare and Technology vis-a-vis deep cyclicals, which are already priced for a rebound and leave little room for disappointment, but we do think that adding risk as more transparency on the timing and pace of policy support will be an enduring theme throughout 2024.

"We started the year with a stronger than consensus call to be positive on the equity market and it feels like we have already been rewarded with the market bouncing around all-time highs.

"The market will require lower rates and certainty that the earnings slowdown is bottoming out if it is to sustainably trade higher, but we think these drivers will come as the year progresses.

"We don't think investors should be overly concerned by elevated volatility, which is now part and parcel of a world where economic and geopolitical risks remain high. We think pull-backs will be opportunities to buy rather than sell, as the market grinds its way higher," Ms Liu says.

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