



## IML LARGE-CAP WEBINAR, NOVEMBER 19, 2024

In the November 2024 large cap webinar IML portfolio managers Hugh Giddy and Daniel Moore analysed the recent performance of the Australian stock market and IML's large cap portfolios.

Here are the main points from the webinar:

### Market performance and outlook

The recent strength in equity markets has been characterised by a narrow focus on specific sectors, particularly technology and banking. This concentration has been driven largely by speculative investments, with investors showing a willingness to overlook traditional measures of value in pursuit of chasing higher returns. Despite this environment, we have maintained our commitment to our investment philosophy, focusing on quality business that represent long-term value over short-term popular themes. The IML Investment Team is disappointed by the recent performance but remains confident that their disciplined approach will benefit investors over the long term.

### Sector insights

The Australian banking sector has been a significant contributor to index returns, accounting for roughly half of the market's rise. However, the IML Team remains cautious of this sector due to its high valuations and relatively flat earnings growth and notes that the earnings performance of banks has not warranted their current high valuations. They have been underweight in banks, a position that has been to their detriment in the past year. The speculative nature of technology stocks and cryptocurrencies also warrants caution, as these sectors have seen valuations soar, driven by optimism rather than fundamental earnings growth.

### Global context

Globally, rising bond yields and diminishing equity risk premiums in both the US and Australia signal heightened market optimism. The equity risk premium, which measures the extra return investors demand for choosing equities over bonds, has reached historically low levels, indicating a lack of risk pricing in the markets. This environment of high optimism suggests that investors are largely ignoring potential risks, a scenario that IML believes calls for a more cautious investment approach. They advise against investing in overvalued popular themes and fads, recommending instead a focus on fundamentals and value.

### Stock highlights

Hugh and Daniel discussed several high-quality stocks they believe offer strong investment potential:

- **Sigma Healthcare:** The company has benefited from its acquisition of Chemist Warehouse, with the approval of this transaction by the ACCC leading to a significant increase in its share price. Despite this, they have been strategically reducing their position due to high valuations that factor in substantial synergies.
- **Medibank Private:** As the leading private health insurer in Australia, Medibank Private continues to show good growth potential. It has effectively managed costs and improved customer satisfaction, positioning it well within an industry facing positive demographic trends and government incentives.
- **Viva Energy:** They see Viva Energy as a compelling opportunity, with its integrated refining and retail operations benefiting from a changed industry landscape post-COVID. The company's refining operations are now supported by government guarantees, and its acquisition of On The Run Retail (OTR) is expected to significantly enhance its retail profitability.

In conclusion, the IML Investment Team recommends a prudent investment stance amidst current market exuberance. They remain focused on identifying undervalued, high-quality companies that are well-positioned to weather potential market downturns. By sticking to their disciplined investment philosophy, they aim to deliver long-term value and income for their investors, even in an environment characterised by high optimism and speculative activity.

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