WEEK 12

STORIES TO READ FROM FNArena

Friday, 21 March 2025

Risk Off Puts Supermarkets In Focus

The GenAI Arms Race Is Just Getting Started

Rudi's View: Navigating The Trump Slump

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AUSTRALIA

The Market In Numbers - 15 Mar 2025

The Market In Numbers: Look under the bonnet and what do you see?

For most investors, whatever goes on in financial markets is experienced through their own portfolio and personal matters of interest.

The below detailed overview in raw numbers and calculations might assist with assessing trends and currents that might not be apparent from daily volatility and movements.

All index data are ex dividends. Commodities are in USD.

Australia & NZ

Index	15 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
NZ50	12266.250	-1.08%	-2.66%	-6.44%	-6.44%	4.68%
All Ordinaries	8013.30	-2.02%	-4.65%	-4.84%	-4.84%	-0.01%
S&P ASX 200	7789.70	-1.99%	-4.68%	-4.53%	-4.53%	0.29%
S&P ASX 300	7726.80	-1.97%	-4.65%	-4.59%	-4.59%	0.24%
Communication Services	1630.40	-2.62%	-3.53%	0.18%	0.18%	8.61%
Consumer Discretionary	3765.70	-3.28%	-6.50%	-3.72%	-3.72%	7.24%
Consumer Staples	11352.10	-1.43%	-5.57%	-3.54%	-3.54%	-8.29%
Energy	7747.60	0.08%	-7.38%	-10.15%	-10.15%	-22.77%
Financials	8023.50	-3.14%	-7.60%	-6.86%	-6.86%	4.79%
Health Care	40915.40	-3.53%	-4.30%	-8.85%	-8.85%	-7.55%
Industrials	7642.10	-2.69%	-4.42%	-0.06%	-0.06%	12.19%
Info Technology	2348.80	-4.35%	-6.19%	-14.31%	-14.31%	0.31%
Materials	16352.10	0.51%	0.68%	1.41%	1.41%	-3.12%
Real Estate	3585.10	-0.21%	-2.28%	-4.69%	-4.69%	0.61%
Utilities	8929.70	3.23%	-1.42%	-1.14%	-1.14%	-3.83%
A-REITs	1638.30	-0.29%	-2.27%	-4.66%	-4.66%	0.86%
All Technology Index	3450.00	-4.95%	-6.97%	-9.34%	-9.34%	9.95%
Banks	3346.70	-3.21%	-7.39%	-7.20%	-7.20%	4.74%
Gold Index	10563.50	5.13%	7.99%	25.40%	25.40%	43.58%
Metals & Mining	5337.50	0.76%	1.00%	1.56%	1.56%	-3.84%

The World

Index	15 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
FTSE100	8632.33	-0.55%	-2.01%	5.62%	5.62%	5.73%
DAX30	22986.82	-0.10%	1.93%	15.46%	15.46%	26.06%
Hang Seng	23959.98	-1.12%	4.44%	19.44%	19.44%	35.22%
Nikkei 225	37053.10	0.45%	-0.28%	-7.12%	-7.12%	-6.39%
DJIA	41488.19	-3.07%	-5.37%	-2.48%	-2.48%	6.06%
S&P500	5638.94	-2.27%	-5.30%	-4.13%	-4.13%	3.27%
Nasdaq Comp	17754.09	-2.43%	-5.80%	-8.06%	-8.06%	0.12%

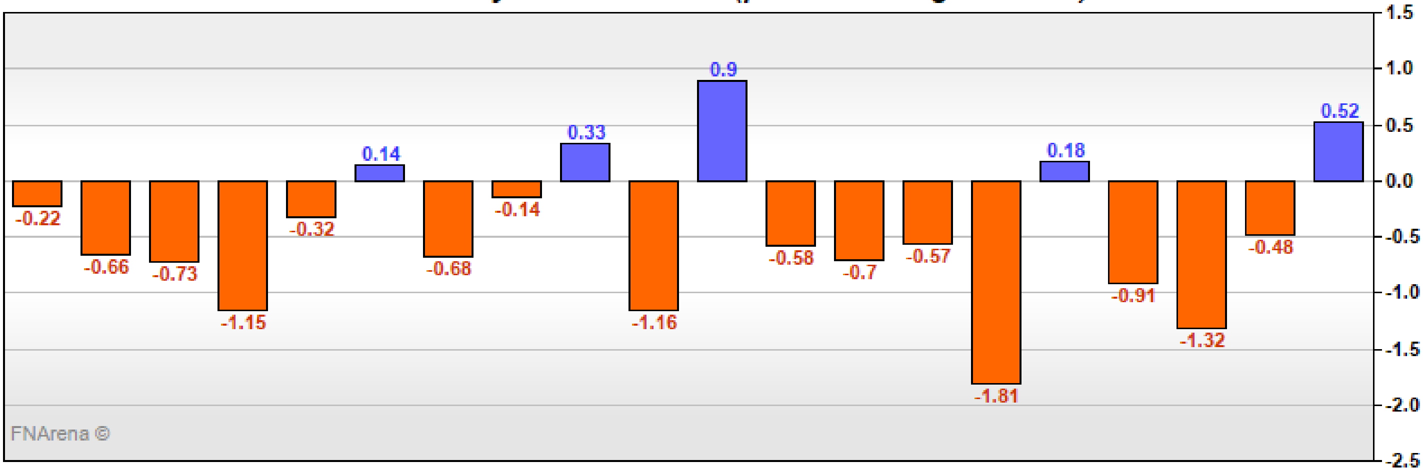
Metals & Minerals

Index	15 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
Gold (oz)	2997.40	2.61%	3.88%	14.11%	14.11%	28.21%
Silver (oz)	34.44	3.78%	9.34%	13.95%	13.95%	17.74%
Copper (lb)	4.9150	2.51%	6.81%	19.98%	19.98%	13.42%
Aluminium (lb)	1.2164	-0.10%	2.54%	6.41%	6.41%	8.17%
Nickel (lb)	7.3893	4.82%	6.72%	3.42%	3.42%	-5.00%
Zinc (lb)	1.3278	0.61%	4.82%	-1.74%	-1.74%	0.13%
Uranium (lb) weekly	63.25	-1.94%	-3.07%	-12.15%	-12.15%	-24.02%
Iron Ore (t)	102.16	0.91%	-4.59%	-1.62%	-1.62%	-4.08%

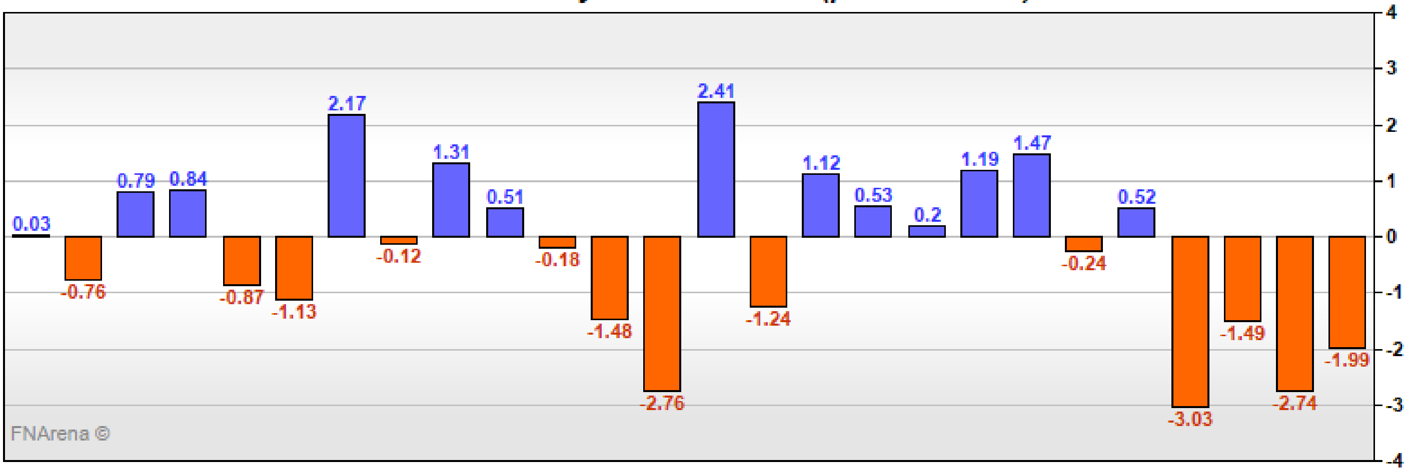
Energy

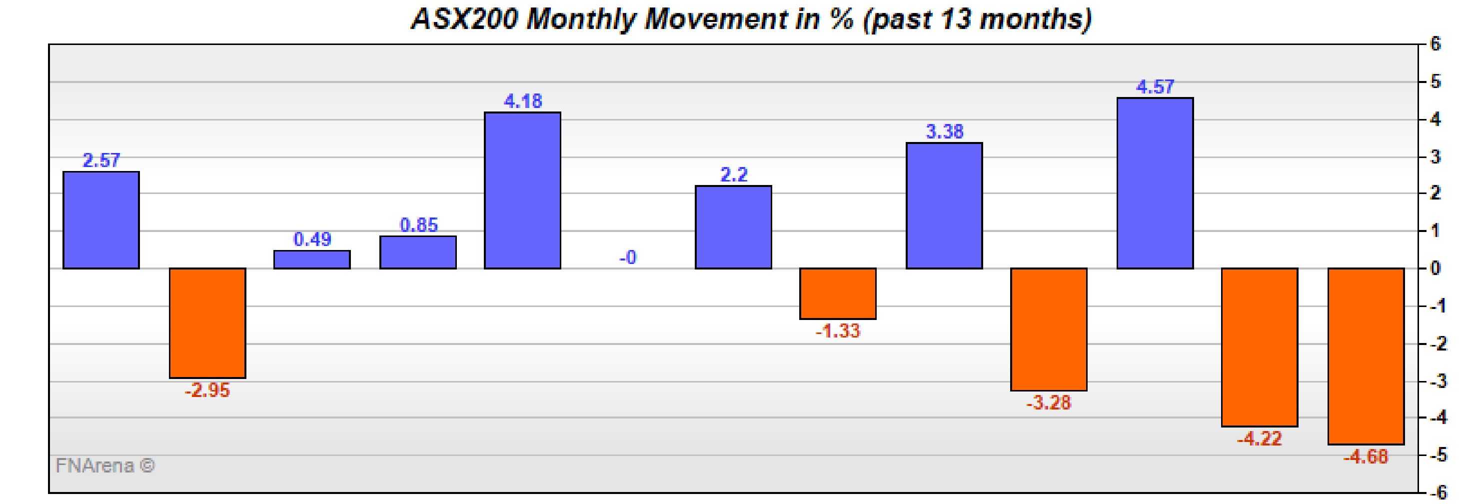
Index	15 Mar 2025	Week To Date	Month To Date (Mar)	Quarter To Date (Jan-Mar)	Year To Date (2025)	Financial Year To Date (FY25)
West Texas Crude	66.69	0.68%	-5.03%	-4.02%	-4.02%	-18.53%
Brent Crude	69.91	0.53%	-4.70%	-3.65%	-3.65%	-18.18%

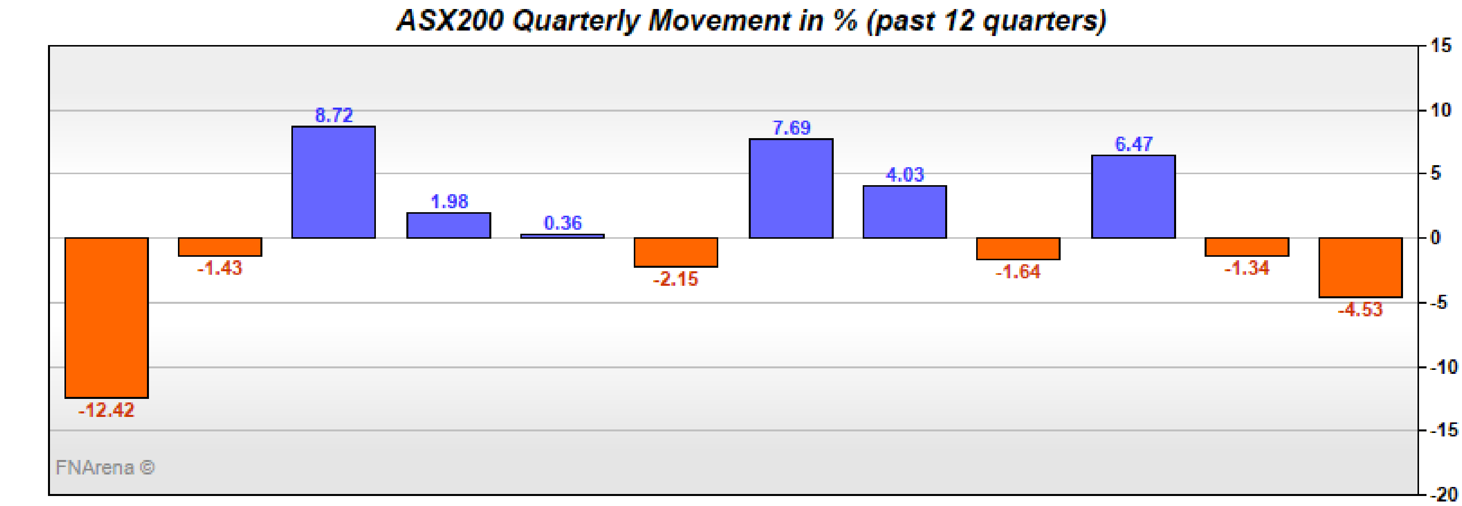
ASX200 Daily Movement in % (past 20 trading sessions)



ASX200 Weekly Movement in % (past 26 weeks)







The composition of above rankings and calculations is fully automated, based on raw data. Investors are advised to find context, interpretation and background elsewhere.

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AUSTRALIA

Risk Off Puts Supermarkets In Focus

The Risk Off environment has once again shifted the limelight onto the two major supermarket operators on the ASX.

-Investor focus is shifting towards defensives such as Coles and Woolworths
-Could the ACCC report provide an opportunity?
-Coles has the upper hand over Woolworths for the time being

By Mark Woodruff

A persistent Risk Off environment for US and Australian equities amidst ongoing uncertainty about US policy decisions and their economic impacts is forcing investment portfolios to once again focus on defensives and safe havens.

In Australia, the focus has sharpened towards supermarket operators Woolworths Group ((WOW)) and Coles Group ((COL)).

In a recent sector update, Morgan Stanley reiterated its preference for supermarkets over discretionary retailers, citing relative valuation appeal, defensive positioning, and FY26 earnings growth profile.

Macquarie also has greater conviction in defensive exposures (particularly supermarkets given low valuations), pointing to concerns over slowing global growth due to tariffs and a potential buying opportunity ahead of the ACCC's final report on supermarkets.

Staples are trading at a -20% relative P/E multiple discount to discretionary retailers, highlights Morgan Stanley, marking a ten-year low between the two categories.

Benign inflation and moderately positive volume growth have kept sales growth solid for supermarkets, but deeper analysis shows per-capita volumes remain in decline, partially driven by leakage to non-grocery players.

Management teams at Coles and Woolworths have pointed to weak sales in non-food categories and loss of share to non-supermarket players.

Non-food comprises around 20% of supermarket sales and generally offers higher gross margins than packaged foods and fresh, highlights Citi.

This broker also points to material price differences between major supermarkets and Chemist Warehouse ((SIG)), Amazon and Bunnings ((WES)) in the household cleaning, pets, and personal care categories.

Coles recently announced it has lost -$100m in sales to non-supermarket players every year for the past four years, equivalent to circa -0.25% of total annual sales.

Citi suggests several strategies, including a shift towards an everyday low price (EDLP) model to drive customer loyalty and enhance price perception. The broker also advocates for price reinvestment, funded by cost savings and supplier contributions, to narrow the pricing gap with non-supermarket competitors.

To better compete with Bunnings, Citi sees an opportunity to improve unit pricing by offering larger pack sizes, while expanding private label offerings could provide customers with lower-priced alternatives to branded products sold by Amazon.

The analysts also note the pending ACCC grocery pricing report could help mitigate market share losses if it establishes clearer guidelines on recommended retail price (RRP) communication.

Citi also highlights Click & Collect (C&C) is a key differentiator for the major supermarkets, helping to minimise share losses to Aldi and others.

Supermarket customers are increasingly switching to C&C from in-store purchases, with this channel now accounting for around 40% of online supermarket sales.

While cost may blow out to circa -$1.5bn by FY30 in the absence of new measures, Citi points out putting a price signal in place (i.e. a charge) has the potential to lift in-store sales, provide room to reinvest into pricing (particularly in non-food), and grow earnings.

C&C is a more profitable channel than delivery since it avoids delivery costs and generates a much larger average basket of circa $150 than the overall average basket of around $50.

For Woolworths, Macquarie believes improved operating performance could stem from a strategic reset across its business units (e.g. New Zealand or Big W) and a broader optimisation of assets and scale within its core Australian Food segment.

Higher shelf prices (despite occasional deep discounts) have in Morgan Stanley's view contributed to share loss over time, which suggests Woolworths may follow Coles by simplifying its discount program while also initiating more everyday low-price products.

In the first half to December, Coles experienced double-digit ecommerce growth across all propositions, same day delivery, next day delivery, rapid, and C&C.

Ecommerce remains a strong performer for both Woolworths and Coles with first-half growth of 21.7% and 22.2%, respectively.

Woolworths' ecommerce grew more in dollar terms, though Coles grew more quickly in percentage terms off a lower base, explains Morgan Stanley.

Macquarie contemplates potential upside from the ACCC report on supermarkets.

As per previous enquiries into the banks, Qantas Airways ((QAN)) and childcare, the broker observes the market tends to "sell the rumour" and "buy the fact", with share prices materially improving after the release of the regulator's conclusions.

In this instance, Macquarie believes the re-rating opportunity is greatest for Woolworths given its five-year low relative valuation compared to Coles Group.

Cost management

Significant increases in depreciation and amortisation (D&A), interest costs, and one-off supply chain expenses, along with ongoing cost inflation, are driving a continued focus on cost reduction for both Woolworths and Coles.

Morgan Stanley observes the February reporting season underscored this emphasis, with Woolworths announcing a -$400m above-store cost reduction initiative, though the extent of reinvestment remains undecided.

Meanwhile, Coles' cost-saving measures fully offset wage and other cost inflation in the half.

Recent sector views

Macquarie maintains its preference for Outperform-rated Coles, with margins continuing to benefit from supply-chain investments.

As a result of Coles' Simplify & Smarter Initiatives (SSI) program and a wind-down of dual running costs, the analyst anticipates FY26 will be a particularly strong year for the group, with earnings having been the key driver of recent share price performance.

Macquarie has also upgraded its rating for Woolworths to Outperform from Neutral. While it may take some time, the broker sees upside potential via both a re-rate as the market becomes comfortable with risks around the ACCC report and following the Federal Election which must be held by May.

Despite having the largest Australian supermarket network (around 1,100 locations), Woolworths has been more exposed to de-leverage impacts across the sector, explains Macquarie, with earnings (EBIT) margins declining by around -90bps in the first half of FY25 compared to a year earlier.

The suggest\ion made is management's ability to manage costs and leverage broader scale may create an opportunity for margin improvement from a lower base.

Morgan Stanley has upgraded Coles to Overweight after removing the previous discount applied to its valuation due to improved performance across a more streamlined portfolio.

This broker cites a favourable margin trajectory driven by the removal of transitional supply chain costs, improved execution, and top-line momentum from ecommerce share gains.

While Woolworths (Overweight) is generating higher ecommerce revenue, Coles is expected to continue gaining market share as its customer fulfilment centre (CFC) investments scale-up.

Citi agrees with Macquarie in favouring Coles, rating it Buy compared to a Neutral stance on Woolworths.

Average targets and ratings

All up, there are seven brokers covered daily by FNArena researching Woolworths Group, comprising three Buys (or equivalent) and four Holds.

The average target is $32.15, suggesting more than 14% upside (excluding the dividend) to the latest share price.

For Coles Group, seven covering brokers are divided over five Buy ratings and two Holds, with an average target of $21.44, more than 15.50% above the share price around $18.65.

Outside of daily coverage, Goldman Sachs and Jarden both have Buy ratings for Woolworths with an average target of $36.55, while each broker has a Neutral rating for Coles (average target $19.25).

COMMODITIES

New Hope Buyback Counters 2025 Uncertainty

A share buyback surprise and juicy half year dividend have injected fresh enthusiasm into New Hope's share price.

-Latest results affirm positive cost structure for New Hope
-Thermal coal prices down but not out
-Capital management a balancing act

By Danielle Ecuyer

New Hope Corp's ((NHC)) first-half results for the fiscal 2025 year had enough good news to pull the bottom fishers in, with shares staging a noticeable rally post the release of financials and a fresh share buyback.

Unanimously, the $100m share buyback to be completed over the next year was welcomed as a pleasant surprise, with the 19c dividend per share slipping between "as expected" to "slightly higher than forecast" among FNArena daily monitored brokers.

As is usually the case, underlying earnings (EBITDA) of $517m were pre-reported. Morgans viewed the net profit after tax as better than forecast by 7%, including a $122m impairment reversal for the discontinuation of legal action against New Acland's expansion plus an impairment of -$53m for its Bridgeport energy business.

Macquarie saw the underlying net profit after tax result as a slight miss and below consensus by -4%, while acknowledging the net profit after tax included the as-described one-off items.

This analyst pointed to slightly lower-than-forecast net operating cash flow, by -3% against consensus, but in line with Macquarie's expectations. A decline in capex by -14% versus consensus resulted in higher-than-forecast free cash flow by 6%. Both met the broker's estimates.

Citi explains Bengalla achieved "steady state" operations of a 13.4mtpa run rate following completion. Free on-board costs declined by -16% to US$68.3/t, and the mine is on schedule to achieve production of between 8.1 to 8.7mt in FY25.

The conclusion of the Oakey Coal Action Alliance's legal challenges permits New Acland to expand to 5mtpa by FY27, with management focusing on speeding up infrastructure works to gain access to Manning Vale West pit for early 2026, Citi highlights.

New Acland cash cost is expected to be competitive with Bengalla's cash costs. In the half-year, New Acland unit costs of US$60/t were lower than Goldman Sachs' estimate of around US$80/t due to capitalisation of an expense of around -$38m for the Willeroo pit box-cut.

New Hope also increased its shareholding in Malabar Resources by 3% to 22.97% over the first half at a cost of -$32m.

Management lowered sustaining capex guidance to -$185m-$225m from -$200m-$245m for Bengalla, due to timing around the mine fleet replacement. Both production and cost guidance remain unchanged.

The company ended the period with cash and fixed income investments of $805m and debt (including leases) of $361m, leaving a net cash position of $444m, Bell Potter notes.

While welcoming the buyback, Bell Potter expects management to retain cash against the backdrop of weaker coal prices to fund growth opportunities as they arise.

Morgans believes the buyback is prudent at current share price levels ($4.03) and could be EPS accretive by an estimated 5% in FY26. This analyst does not believe New Hope will seek out external M&A.

The stock's valuation sits at a smaller discount to key comparisons, Whitehaven Coal ((WHC)) and Stanmore Resources ((SMR)), which is attributed to the margin buffer and a more robust balance sheet which can generate franked dividends through the cycle, Morgans states.

In contrast, Goldman Sachs questions the buyback decision, stating a year earlier management highlighted a dividend policy to shareholders rather than buybacks. The share price sell-off may have just been too enticing for directors.

FNArena's consensus target price declined by -43c to an average of $4.688, with two Buy-equivalent ratings and two Hold-equivalent ratings from brokers monitored daily.

Among non-daily monitored researchers, Goldman Sachs has a Sell rating alongside a $4.30 target price. Morningstar has a fair value estimate of $6.10 and sees the shares as "materially undervalued."

Coal prices challenged in 2025

In the run-up to the company's first-half earnings report, investors were more than happy to sell down shares in New Hope Corp to a 52-week low of $3.64 in early March from an October 52-week high of $5.30, as high-calorific coal prices slumped from levels around US$126.75/t in December 2024.

Ord Minnett noted in January thermal prices were being impacted by soft Asian demand and oversupply. At that stage, prices were around US$115/t. The broker forecasts prices to rebound over 2025 to around US$130/t on average.

Barrenjoey explains high-calorific value thermal coal prices declined by a further -18% in February, coming in at US$102/t FOB, which suggests to this analyst oversupply remains an issue for the market.

Goldman Sachs' global commodities team forecasts lower thermal coal prices in 2025, resulting from weaker global import demand, expanding supply, and ongoing efforts to decarbonise.

This commodities team specifically has a "*weakening*" outlook for Chinese imports, resulting from growth in domestic production and anticipated record-high inventories. Expanding export capacity from Indonesia, Australia, and Russia is also expected.

Against the current spot price of around US$100/t, Goldman Sachs forecasts the price to average around US$120/t in 2025 for the Newcastle thermal coal price (NEWC), which is viewed as the benchmark for high-energy (calorific) thermal coal.

New Hope remains a price taker, and as recent share price volatility would show, riding the commodity cycle is not for the fainthearted when the shares fall over -30% as the price of the exposed commodity, thermal coal, declines just over -20%.

Bell Potter remains cautious on coal prices for 2025 and believes the market rebalancing necessitates further supply cuts.

Morningstar expects any supply challenges to be borne by the higher-cost thermal coal producers and assumes average coal prices of around US$145/t from 2024 to 2026, with a forecast mid-cycle price of circa US$105/t from 2028.

As an aside, coal mining this year is impacted by weather conditions in major supply markets.

New Hope, by way of history

New Hope is predominantly a thermal coal producer and is primarily exporting to Asia, although the company doesn't disclose specifics.

The company also owns and operates Queensland Bulk Handling, a coal export terminal in Brisbane, which was commissioned in 1983.

In 2001, New Hope developed the New Acland mine, which is situated around 16 km northwest of Oakey. New Acland is an open-cut mine.

The company also has an 80% interest in the Bengalla mine, NSW, located near Muswellbrook. Bengalla is an open-cut mine. New Hope acquired its initial 40% stake in 2016 and a further 40% in 2018.

Looking ahead, the development of New Acland Stage 3 will leave New Hope reliant on thermal coal, according to Morningstar research.

The analyst forecasts the company's equity sales of coal to lift to around 13m metric tonnes in FY29 from around 8.7m in FY24, due to the ramp-up of New Acland and explains New Hope operates in or around the lowest quartile of the thermal cost curve.

The company is positioned to capitalise on demand for high-quality thermal coal (high energy, low ash), underpinned by Asia's growth in young, high-energy, low-emission coal-fired power stations.

Morningstar also points to additional resources in Queensland with a 23% stake in Malabar Resources, which owns NSW's Maxwell metallurgical coal mine. The mine started production in 2023 with an expected mine life of over twenty years and unit costs at the bottom of the industry cost curve.

Malabar is also seen offering slight diversification into metallurgical coal.

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COMMODITIES

Liontown Resources: Going Underground

Focus is turning towards the ramp-up of Katheen Valley and potential funding hurdles post in-line interim results from Liontown Resources

-In-line interim and steady guidance for Liontown Resources
-Key Focus: Kathleen Valley ramp-up and underground mining
-Outlook for the price of lithium remains all-important

By Mark Woodruff

The focus for hard-rock lithium producer Liontown Resources ((LTR)) following in-line interim results is now largely on the Kathleen Valley lithium project in Western Australia and the transition to underground from open pit mining over 2025.

At the half-year results, management maintained second-half guidance and released a Board-approved capital allocation framework.

Capital will first be allocated to sustaining operations at Kathleen Valley. Morgans notes additional priorities include growth through Kathleen Valley expansion or M&A, debt management, and shareholder returns via dividends or buybacks.

In early-February, UBS had already upgraded its rating for Liontown on an improved production and cost outlook following management's operational update, which increased the broker's confidence in the project ramp-up profile over FY25-27.

Given Kathleen Valley's performance so far is generally tracking ahead of expectations, the Board has confidence to declare commercial production for the processing plant effective January 1, 2025, meaning all operating costs including processing plant depreciation will now flow through the P&L statement.

Kathleen Valley will be the first large-scale, spodumene-focused underground mine globally, and hence, not without risk, points out Jarden, though early signs are labeled as "encouraging".

Significant off-take agreements for spodumene concentrate have already been secured with major global players in the electric vehicle (EV) battery supply chain, including Tesla, Ford, and LG Energy Solution.

The mine, which produces high-quality spodumene concentrate with a lithium oxide (Li_2O) content of approximately 6% to meet the demands of global battery manufacturers, has been in ramp-up phase since first production in the second half of 2024.

Management is simultaneously developing the Buldania lithium project, also located in Western Australia, and is also exploring potential for downstream processing to produce higher-value lithium products, such as lithium sulphate and battery-grade lithium hydroxide.

Pleasingly, highlights Jarden, plant availability and overall recoveries at Kathleen Valley, have continued the overall rising December-half trend into the March quarter.

Plant availability has remained above 90% with increasing periods of sustained operation, noted management on a post result earnings call with analysts, while the 64% overall recovery rate in February included periods where rates verged on 70%.

Liontown is targeting the March quarter of FY26 to achieve 70% recoveries and is aiming for the feasibility study estimate of 78% thereafter.

Cash Remains King

Bell Potter forecasts Liontown is fully funded until its operations achieve free cash flow. Along the way, Ord Minnett expects FY26 will be a transition year with higher unit operating costs, potentially leading to cash burn exceeding -$100m.

Period-end cash was $193m and debt $698m including a $300m funding facility with Ford, and a US$250m convertible note with LG Energy Solution, both Kathleen Valley off-take partners.

Management highlighted several liquidity options, noting progress sourcing up to $100m in additional debt capacity, as well as operational cost reductions.

Jarden forecasts short-term liquidity tightness, somewhat countered by its view that lithium prices have bottomed.,

Regarding cash flows, Liontown has previously spent to build-up around 1.3mt of run-of-mine (ROM) ore to sustain production between the transition to underground mining from open pit mining, explains Morgans.

As the broker's commentary, a recently revised mine plan provides the company with optionality in the current low-priced environment and prioritises high-grade product.

Risks remain, however, to near-term liquidity and funding if lithium prices remain at current levels, notes Morgans, as management is required to begin re-paying its Ford debt facility from declaration of commercial production onwards.

Interim Results

Liontown announced first half FY25 revenue of $100m, underlying earnings of $66m and a loss of -$15m from 92kdmt spodumene concentrate sold.

Management made the decision to capitalise all costs related to the Kathleen Valley ramp-up and recognise a nil gross profit margin in the first half.

Underlying earnings (EBITDA) of $66m exceeded expectations due to the capitalisation of excess costs, and a net loss of -$15.1m was recorded.

Underground costs will continue to be capitalised until underground commercial production is achieved later this year.

Outlook

Bell Potter posits Kathleen Valley remains highly strategic in terms of scale, long project life and location in a tier-one mining jurisdiction.

Neutral-rated Jarden highlights commodity price movements remain critical to Liontown's prospects at this stage, along with additional uncertainty on the ramp-up of underground mining and understanding the true long-term variable and fixed unit costs.

Presumably because lithium is not exactly flavour of the month, Macquarie and UBS are yet to update for Liontown Resources' interim result, which leaves four up-to-speed daily monitored brokers in the FNArena database.

From these four, Bell Potter has a Speculative Buy rating; all others prefer to sit on Hold, with an average target of 79.5 cents, heavily impacted by by Bell Potters' $1.25 target. Most price targets are sitting within the 60c-75c range.

Liontown shares closed at 74c yesterday.

Outside of daily coverage, Neutral-rated Jarden and Goldman Sachs did update post interim-result with an average target of 68 cents.

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ESG FOCUS

ESG Focus: Fund Flows, Tariffs, Defence & AI

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https://fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

ESG and sustainability trends are not immune to the ructions from Washington with investors and companies juggling a fast changing world.

-Sustainability funds are not feeling the love in 2025
-Are European aerospace and defence stocks a sustainable asset sector?
-Gender pay gap, an ongoing Australian challenge
-US tariffs impacts, winners and losers
-More companies embrace AI in reporting season

By Danielle Ecuyer

Sustainability funds outflows continue

Europe represents around 80% of sustainable funds in RBC Capital Markets' universe and has been caught in the crosshairs of pending European greenwashing legislation.

In the US, changing policy from the new Trump Administration is underwriting uncertainty and a risk-off tone.

RBC Capital notes both active and passive sustainable equity fund flows have not started 2025 well, with outflows recommencing in January and early data inferring outflows were continuing into February.

The broker highlights active outflows have been more robust than passive flows, with positive trends for Climate Transition Funds, Sustainable Real Estate Funds, and Sustainable Technology Funds.

Within RBC's observed sustainable fund universe, outflows have been notably "severe" for Impact/Sustainable Development Goal (SDG), Environmental Solutions, and Clean Energy-themed funds.

In other thematic classifications, 2025 has been more challenging for AI-related funds, including nuclear power and grid solutions. Sustainable Agriculture, Food, Water, and Digital Security have been the better-performing themes for 2025 thus far.

With ongoing expected volatility from the new US Administration's policy changes, RBC envisages the prime opportunities in Digital Security and Grid Solutions, and more positives than negatives for Nuclear Power going forward.

Digital Security has risen in score rankings with improving long-term growth expectations as well as upward earnings revisions.

The Water theme has declined in the broker's scorecard rating to neutral, with higher relative valuations and a downgrade in long-term growth expectations to the historical average.

Sustainable Forestry has moved into negative across RBC's quantitative indicators, while Grid Solutions continues to score well, with valuations moving to neutral.

Compared to sustainable equity funds, sustainable income funds have continued to experience inflows and have retained their market share of total fixed income assets under management.

Is national security an sustainability issue?

Changing geopolitics and the global, notably European, race to re-arm has Morgan Stanley proposing a "what if?" scenario under which Sustainability Funds remove the exclusion of defence stocks as part of their investible universe.

The broker's research finds an average of 5% of equity Sustainable Financial Disclosure Regulation Article 9 (dark green) and Article 8 (light green) funds have exposure to European aerospace and defence companies.

This represents 0.3% exposure of the total assets under management, or US$10bn, and 2% of the aerospace and defense (A&D) stock market capitalisation.

Morgan Stanley considers two cases: one where the exposure increases to the most widely held stock, Nvidia, and the second whereby exposure increases to match benchmarks such as the MSCI Europe and/or MSCI ACWI (All Country World Index).

In the first case, exposure to European A&D stocks would rise by US$97bn through additional fund flows, or ten times growth versus current levels and 24% of A&D market cap exposure.

In the second case, the MSCI ACWI is overweight the A&D sector with 1.78% against 0.3% for sustainability funds. An increase to the same level in sustainability funds would equal additional flows of US$53bn, or six times growth in exposure versus current levels and 14% of A&D market cap exposure.

MSCI Europe is overweight A&D at 3.64% and would result in equivalent fund inflows of US$119bn in sustainable funds, or twelve times growth in exposure versus current levels and 29% of A&D market cap exposure.

Addressing the probability of inclusion, Morgan Stanley highlights with over 90% of sustainability funds excluding controversial weapons, any change could "take time".

Client conversations suggest growing discussions around the potential for defense equipment inclusion regarding as part of the "protecting national security" narrative. To date, most of the investment in A&D companies has been through carbon abatement strategies.

Australia's gender pay gap update

Jarden looks at the second year of gender pay gap data for 2023-2024 across 7,800 private sector employees and 1,700 corporates, encompassing an average gender pay gap of 21.8% nationally and a median national gender pay gap of 19%, as a percentage of total remuneration across Australia's corporate landscape.

Taking a flyover of the results for S&P/ASX200-listed companies, the broker points to real estate, oil & gas, and retail as having the higher average of median total gender pay gaps, with food & beverage, technology, telcos, gaming, and leisure the lowest.

The data can be skewed depending on which departments have submitted. Notably, Wesfarmers ((WES)) has an average gender pay gap of 55.7% at head office but 11.8% at the corporate level.

By company, **Goodman Group** ((GMG)) and **Lovisa Holdings** ((LOV)) have the highest average gender pay gaps at 66.8% and 51.9%, respectively, due to high CEO pay. **Aristocrat Leisure** ((ALL)) and **Insignia Financial** ((IFL)) have the lowest at -14.3% and -4.5%, respectively.

Looking at the median total, the largest increases in gender pay gap are for **Treasury Wine Estates** ((TWE)), up 20.3%, **Magellan Financial Group** ((MFG)), up 12.9% to 45.3%, and **Tabcorp Holdings** ((TAH)), up 10.5% to

15.7%.

Pinnacle Investment Management's ((PNI)) gap moved down -20.3% to 12.2%, **Ramelius Resources** ((RMS)) down -14% to 11.15%, and **Web Travel** ((WEB)) down -9.4% to 16.9%.

Jarden makes the point the gender pay gap is not a "perfect measure" and commentary from companies and other data points are important factors for correct framework and interpretation.

The broker believes a more broad-based action plan is needed to create more equitable gender opportunities, including part-time or job-share managerial roles to support equal sharing of "caring priorities" and employment.

February Monthly ESG update

From an environmental perspective, the US's 25% tariffs on all aluminum and steel imports as of March 12, with no exemptions, will result in a possible supply response from the domestic steel sector, according to the Macquarie Macro Strategy & Commodities Research Team.

For aluminium, demand will be the key determinant of sustainable cost pass-throughs, the broker explains.

Rio Tinto ((RIO)) is the largest foreign supplier of aluminium to the US, accounting for around 17% of the company's revenue from sales to the US. Rio's aluminium is mainly sourced from its Canadian smelters, with around 10% of the company's Australian smelter exports destined for the US.

BlueScope Steel's ((BSL)) US operation, North Star, will directly benefit from rising prices due to tariffs. The company's downstream businesses, Steelscape and ASC Profiles, import 200-300ktpa in raw steel from Australia, and since they add value through processing, their products might be more insulated from tariffs.

Competitors that import finished steel could face higher tariff burdens, allowing BlueScope to generate higher value-added margins.

Regarding **Sims** ((SGM)), Macquarie anticipates net benefits from US tariffs. Sims' ferrous (iron/steel scrap) and non-ferrous (copper, aluminium) recycling businesses should benefit from higher domestic prices driven by tariffs.

The company's A&NZ exports, in turn, could be impacted by tariffs or lower demand as US buyers move to domestic suppliers. The broker believes the timing is uncertain but envisages Sims as a net beneficiary.

Planning laws change approval process for windfarms

The Queensland government amended the wind farm approval process to include impact assessments, aligning with the process for mining and agriculture projects.

Macquarie highlights ASX-listed companies to be impacted by the pause in wind farm applications due to the changes, including **Fortescue** ((FMG)), owner of the 1.4GW Wongalee Wind Farm near Hughenden. The project has been placed on hold until May 16.

The pause of the 1.4GW Bungapan Wind Farm in Gladstone, also until May 16, will impact Rio Tinto's transition to renewables for its Boyne Island aluminium smelter and Yarwun refinery.

BHP Group ((BHP)) is noted for a large power purchase agreement from Qld renewable energy generation.

Expected changes to the European Commission's review of the EU Carbon Border Abatement Adjustment Mechanism are anticipated to have a "minimal direct impact" on Australian exports.

Targeted sectors represent slightly over 2% of Australia's total exports to Europe.

Return to work a challenge

The "social" aspect of ESG is tackled by Macquarie in terms of the PAR Group's research on return-to-office trends post-pandemic. The study reveals office attendance has risen in some Australian cities, but there are still fewer office workers, with -240,000 fewer on peak days (Tuesday through Thursday) compared to pre-covid levels.

There are also significant differences between peak and off-peak days, with -235,000 fewer people working in offices on Mondays and Fridays compared to midweek.

Macquarie highlights the largest office attendance gap is in Melbourne, with -114,534 fewer workers on off-peak days, or -32% of the city's white-collar workforce.

Opal data shows -33,342 fewer workers on off-peak days in Sydney's CBD.

Management team are expected to underpin a shift toward a four-day office week, aiming to reduce extended weekends and encourage remote work from regional areas.

The broker highlights return-to-office mandates from **ANZ Bank** ((ANZ)), **CommBank** ((CBA)), **Flight Centre Travel** ((FLT)), **Origin Energy** ((ORG)), **Suncorp Group** ((SUN)), **Tabcorp Holdings** ((TAH)), and **Woolworths Group** ((WOW)).

Artificial intelligence is more than a buzz word

Macquarie explains AI was a "key" talking point during February's reporting season, with 25 companies under coverage mentioning it, primarily in communication services, financials, and healthcare, as well as companies in consumer discretionary, industrials, IT, real estate, and energy.

AMP Ltd ((AMP)), CommBank, **Jumbo Interactive** ((JIN)), and **Ventia Services** ((VNT)) highlighted responsible AI uses and applications.

Car Group ((CAR)), CommBank, **Northern Star Resources** ((NST)), **Netwealth Group** ((NWL)), and **TPG Telecom** ((TPG)) referenced security and harm prevention AI initiatives.

Productivity and operational efficiency improvements were detailed by **Iress** ((IRE)), Jumbo Interactive, **Karoon Energy** ((KAR)), Netwealth, **Readytech Holdings** ((RDY)), **Ramsay Health Care** ((RHC)), **Resimac Group** ((RMC)), **Seek** ((SEK)), and **Block** ((XYZ)).

Predictive insights and intelligence were detailed by **Integral Diagnostics** ((IDX)), Jumbo, **Monadelphous Group** ((MND)), Northern Star, and **Temple & Webster** ((TPW)).

AI customer support and chatbots were mentioned by Car Group, Jumbo, Northern Star, Netwealth, **Transurban** ((TCL)), Temple & Webster, and **Megaport** ((MP1)).

IDP Education ((IEL)), **Ramsay Health Care** ((RHC)), and Ventia are employing AI pilots and trials.

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
https://fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

FEATURE STORIES

Rudi’s Comprehensive February 2025 Review

A compilation of stories relating to the February 2025 corporate reporting season in Australia, including FNArena's final balance for the season.

Content (in chronological order of publication):

-Cochlear, Guzman y Gomez, SiteMinder, Wesfarmers & Xero
-Earnings Optimism On The Rise
-AGL Energy, Bega Cheese, BRG, Harvey Norman, Imdex & Superloop
-Hope Trumps Uncertainties
-BHP, Capstone Copper, NextDC, WiseTech & Woodside
-Turning Laggards Into Winners
-More Beats In Early Feb Results
-Best Ideas & Conviction Calls
-February's Reality Check
-To Sell Or Not To Sell
-Preparing For Tougher Times Ahead
-Post February Conviction Calls
-Navigating The Trump Slump
-Best Buys In Copper, Small Caps, Tech, Healthcare, And More

By Rudi Filapek-Vandyck, Editor FNArena

Cochlear, Guzman y Gomez, SiteMinder, Wesfarmers & Xero

Morningstar's selection of **Best Buys** on the ASX (with no changes from the prior update in December):

Morningstar has a typical value' oriented methodology, which does not apply well for Growth and Technology stocks, plus, on my personal observation, a very outdated view on what makes a moat'.

As undervalued stocks can be quite often "cheap" for very good reasons (like: no earnings growth) selected companies can remain on Morningstar's list for a long while; in some cases literally multiple years.

The two exceptions from what you just read are Brambles and SiteMinder.

-APA Group ((APA))

-ASX ((ASX))

-Aurizon Holdings ((AZJ))

-Bapcor ((BAP))

-Brambles ((BXB))

-Domino's Pizza ((DMP))

-Dexus ((DXS))

-Endeavour Group ((EDV))

-Fineos Corp ((FCL))

-IDP Education ((IEL))

-IGO Ltd ((IGO))

-Ramsay Health Care ((RHC))

-SiteMinder ((SDR))

-Santos ((STO))

-TPG Telecom ((TPG))

****

Healthcare sector analysts at RBC Capital have used their preview to the February results season to express their preferences:

-Cochlear ((COH))
-Integral Diagnostics ((IDX))
-Australian Clinical Labs ((ACL))
-Ansell ((ANN))
-Regis Healthcare ((REG))
-Monash IVF ((MVF))

Ironically, Australian Clinical Labs has been identified as at risk for delivering a negative surprise next month, alongside Sonic Healthcare ((SHL)) and Healius ((HLS)).

Among Australia's **Small Cap Industrials**, RBC Capital's three top picks are:

-G8 Education ((GEM))
-Temple & Webster ((TPW))
-Zip Co ((ZIP))

That last nominee released a rather disappointing market update on Thursday, which pulled down the share price more than -20%.

RBC analysts foresee multiple catalysts for the company in the year ahead, so maybe this won't change their positive view?

Among ASX-listed **Technology companies** Xero ((XRO)) and TechOne ((TNE)) are the two Key Picks.

****

Morgan Stanleys two key picks among **consumer-related companies** on the ASX ahead of February are Guzman y Gomez ((GYG)) and IDP Education ((IEL)).

The first nominee has potential to deliver a positive margin surprise while IDP Education is expected to release better-than-feared visa data and ongoing progress in China.

Morgan Stanley is Underweight-rated on JB Hi-Fi ((JBH)), Harvey Norman ((HVN)), Super Retail ((SUL)) and Wesfarmers ((WES)); all should report solid sales numbers, but the broker sees risk in margins.

This broker's preferred local Real Estate stocks are Goodman Group ((GMG)), Charter Hall ((CHC)), Stockland ((SGP)), Scentre Group ((SCG)), GPT Group ((GPT)), and Centuria Capital Group ((CNI)).

All nominations have in common that each have small short term concerns heading into Feb-25 reporting, the broker highlights.

****

When it comes down to consumer related stocks on the ASX, analysts at **Goldman Sachs** are suggesting a two-pronged strategy:

-Buy industry leaders gaining market share, with long-term growth options, like Wesfarmers ((WES)) and BRG Group ((BRG)), also known as Breville;

-Buy industry leaders with short-term earnings risk for a re-rating later in the year, such as Woolworths Group ((WOW)) and Endeavour Group ((EDV)).

Best Ideas & Conviction Calls

Stockbroker Morgans harbours positive expectations ahead of the upcoming February results season for the following 12 companies:

-Expecting forecast-beating results from the renamed Breville, BRG Group ((BRG)), Computershare ((CPU)), Guzman y Gomez ((GYG)), and Tasmea ((TEA))

-Expecting a strong outlook from Lovisa Holdings ((LOV)), Megaport ((MP1)), Pinnacle Investment Management ((PNI)), ResMed ((RMD)), Superloop ((SLC)) and Universal Store Holdings ((UNI))

-Regal Partners ((RPL)) is expected to announce capital management

-Treasury Wine Estates ((TWE)) is expected to report better-than-feared financials

On the negative side, Morgans sees earnings risk for Healius ((HLS)), HealtCo Healthcare and Wellness REIT ((HCW)), IDP Education ((IEL)), Monadelphous ((MND)), Ramsay Health Care ((RHC)), Tourism Holdings Rentals ((THL)), and Ventia Services Group ((VNT)).

A soft market update might feature results from ARB Corp ((ARB)), Domino's Pizza ((DMP)), Endeavour Group ((EDV)), and Woolworths Group ((WOW)).

Other companies that might be under threat of releasing a weaker-than-expected result in February are nib Holdings ((NHF)) and PeopleIn ((PPE)).

Taking into account the local share market is trading at a notable premium to its long-term valuation multiples, Morgans prefers caution, suspecting that companies that fail to deliver on high valuations will be punished.

The broker's **best tactical calls** among small caps include Acrow ((ACF)), Lovisa, Megaport, Pinnacle Investment Management, Regal Partners, Superloop, Tasmea and Universal Store.

Preferred exposures on current weakness for resources stocks include BHP Group ((BHP)), Sandfire Resources ((SFR)), South32 ((S32)), Whitehaven Coal ((WHC)) and Woodside Energy ((WDS)).

Key calls for the Financial Services sector are QBE Insurance ((QBE)), Suncorp Group ((SUN)), Challenger ((CGF)), MA Financial ((MAF)) and Tyro Payments ((TYR)).

Taking all of the above, and more, into account, Morgans' **key calls for February** include Computershare, Guzman y Gomez, Lovisa Holdings, Megaport, Pinnacle Investment Management and Superloop.

****

Morgan Stanleys six **High Conviction calls** ahead of next month's results releases are:

-Corporate Travel Management ((CTD))

-Data#3 ((DTL))

-Fleetpartners Group ((FPR))

-Life360 ((360))

-Lovisa Holdings ((LOV))

-Tuas ((TUA))

This broker's team of Quant analysts has identified Rio Tinto ((RIO)) and Pro Medicus ((PME)) as top-ranked ideas ahead of February.

The short list of top ranked ideas for the Asia-Pacific region ex-Japan also includes REA Group ((REA)).

The negative side has equally three ASX-listed companies; TPG Telecom ((TPG)), TechnologyOne ((TNE)), and Transurban Group ((TCL)).

***

January's re-assessment of the **global mining sector** by **RBC Capital** has triggered a downgrade for recommended portfolio exposures to Diversified & Bulk miners, but RBC retains Overweight recommendations for base metals, precious metals, and uranium.

In terms of individual stocks, and readers should keep in mind this is a global exercise, RBC's selection of Best Ideas has seen the inclusion of Westgold Resources ((WGX)).

Northern Star ((NST)), on the other hand, was removed even before this week's market update.

As reported previously, RBC Capital's global selection of Best Ideas among energy producers includes

Woodside Energy ((WDS)) as the sole ASX representation.

***

Healthcare analysts at Citi have placed a positive Catalyst Watch on both ResMed ((RMD)) and Australian Clinical Labs ((ACL)) implying both are expected to surprise positively with their upcoming financial updates.

Their colleagues at the retail desk have done the same for both JB Hi-Fi ((JBH)) and Harvey Norman ((HVN)) as industry feedback over the Christmas sales period suggests upside risk to market expectations.

***

Ord Minnett has identified Aristocrat Leisure ((ALL)) and Brambles ((BXB)) as two strong (out)performers from 2024 that are most likely able to continue performing in the year ahead.

Sticking with that theme, analysts at **Wilsons** believe the following four outperformers remain poised to see ongoing upgrades to consensus forecasts in 2025:

-Xero ((XRO))

-Hub24 ((HUB))

-TechnologyOne ((TNE))

-WiseTech Global ((WTC))

****

Evans and Partners sees potential for ongoing strong performances from local **Tech companies and AI beneficiaries.**

The broker has kept a positive view on:

-NextDC ((NXT))

-Megaport ((MP1))

-Macquarie Technology Group ((MQG))

As well as on:

-WiseTech Global ((WTC))

-Block ((SQ2))

-SiteMinder ((SDR))

While sticking with a Neutral rating for the time being on (with positive view nevertheless):

-Xero ((XRO))

-TechnologyOne ((TNE))

***

UBS has retained its forecast for a US$2,900/oz gold price by mid year, which equates to A$4,500/oz or even higher if the weak AUD prevails, the broker suggests.

UBS currently has a Buy rating for Northern Star ((NST)), Perseus Mining ((PRU)), Gold Road Resources ((GOR)), and Bellevue Gold ((BGL)).

***

Bell Potter has lined up its **Key Ideas among A-REITs** ahead of February market updates.

Preferred sector exposures are Centuria Industrial REIT ((CIP)), Dexus ((DXS)), Aspen Group ((APZ)), Cromwell Property Group ((CWP)) and HMC Capital ((HMC)).

Sector analysts at JP Morgan believe 2025 is the year when investor interest will broaden from Goodman Group ((GMG)), and to a lesser extent Charter Hall ((CHC)) and Scentre Group ((SCG)).

JPMorgan analysts have upgraded Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) to Overweight, and Region Group ((RGN)) to Neutral.

Both Goodman Group and Hotel Property Investments ((HPI)) have been downgraded to Neutral, with Charter Hall Long WALE REIT ((CLW)) downgraded to Underweight.

****

Shaw and Partners' Model Large Cap Portfolio currently consists of the following:

-Block ((SQ2))

-CSL ((CSL))

-Flight Centre ((FLT))

-Paladin Energy ((PDN))

-ResMed ((RMD))

-Suncorp Group ((SUN))

-Telix Pharmaceuticals ((TLX))

-Xero ((XRO))

The broker's favourites among **Emerging Companies**:

-Amaero International ((3DA))

-Australian Vanadium ((AVL))

-Bannerman ((BMN))

-Chrysos ((C79))

-Humm Group ((HUM))

-Metro Mining ((MMI))

-Santana Minerals ((SMI))

-Southern Cross Electrical ((SXE))

****

Morgan Stanley's international selection of 31 **Best Businesses**, which aims to combine elements of corporate Quality with valuation', forecasts and Quant analysis, for a two-year investment horizon (which can be extended, of course), includes two ASX-listed companies: Macquarie Group ((MQG)) and Rio Tinto ((RIO)).

****

Ord Minnett's selection of **Conviction Calls** ("*our best small cap stock ideas as selected by our analysts*").

-ARB Corp ((ARB))
-Aussie Broadband ((ABB))
-Brazilian Rare Earths ((BRE))
-Cosol ((COS))
-Cuscal ((CCL))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-GQG Partners ((GQG))
-Qoria ((QOR))
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-Stanmore Resources ((SMR))
-Vault Minerals ((VAU))
-Waypoint REIT ((WPR))

-Zip Co ((ZIP))

****

January's update on the **APAC Conviction List at Goldman Sachs** has seen the inclusion of Worley ((WOR)) and Iluka Resources ((ILU)), for which the broker harbours bullish forecasts for the next four years.

Both are the only ASX-listed stocks included in a selection of 26 stocks.

****

The team of analysts and strategists at **Shaw and Partners** is convinced the time is right to invest in Australian small cap companies.

Shaw's **Top 10 list of Small Cap Ideas for 2025**:

-Amaero International ((3DA))
-Australian Vanadium ((AVL))
-Beforepay ((B4P))
-Bannerman Energy ((BMN))
-Chrysos ((C79))
-Humm Group ((HUM))
-Metro Mining ((MMI))
-Santana Minerals ((SMI))
-Silex Systems ((SLX))
-Southern Cross Electrical Engineering ((SXE))

****

In December, analysts at **Bell Potter** published their most favoured stock picks for the year ahead, with multiple ideas put forward per sector.

-Listed Investment Companies (LICs): Australian Foundation Investment Company (AFI), Qualitas Real Estate Income Fund ((QRI)), and MFF Capital Investments ((MFF))

-Technology & Gaming: Life360 ((360)), Light & Wonder ((LNW)), and Gentrack Group ((GTK))

-Diversified Financials: Perpetual ((PPT)) and Regal Partners ((RPL))

-Real Estate: Aspen Group ((APZ)), Cedar Woods ((CWP)), and Dexus Convenience Retail REIT ((DXC))

-Retailers: JB Hi-Fi ((JBH)), Premier Investments ((PMV)), and Accent Group ((AX1))

-Industrials: GenusPlus Group ((GNP)), SRG Global ((SRG)), and Duratec ((DUR)) as well as Austal Ltd ((ASB)), Brickworks ((BKW)), and IPD Group ((IPG))

-Healthcare: PolyNovo ((PNV)), Clarity Pharmaceuticals ((CU6)), and CSL ((CSL)) as well as EBR Systems ((EBR)), Biome Australia ((BIO)), and Genetic Signatures ((GSS))

-Gold companies: Genesis Minerals ((GMD)), Gold Road Resources ((GOR)), and Santana Minerals ((SMI))

-Base Metals: AIC Mines ((A1M)) and Nickel Industries ((NIC))

-Strategic Minerals: Alpha HPA ((A4N)) and IperionX ((IPX))

-Bulks & Energy companies: Boss Energy ((BOE)), Champion Iron ((CIA)), and Fenix Resources ((FEX))

****

Jarden's December update reduced the number of **Best Ideas** from the circa 110 smaller cap companies covered (ex-AS100) to 18 from 20 previously.

The broker's Emerging Companies' Key Picks (in order of total shareholder return) are:

-Qualitas ((QAL))
-Universal Store Holdings ((UNI))
-SiteMinder ((SDR))
-Temple & Webster ((TPW))

-Nick Scali ((NCK))
-EVT Ltd ((EVT))

The above are all picked by the broker's Emerging Companies research team. The following stock picks have been selected by respective sector analysts:

-Champion Iron ((CIA))
-Domain Holdings Australia ((DHG))
-Genesis Energy ((GNE))
-Integral Diagnostics ((IDX))
-Ingenia Communities Group ((INA))
-Inghams Group ((ING))
-Karoon Gas ((KAR))
-Michael Hill International ((MHJ))
-Monadelphous ((MND))
-Pointsbet Holdings ((PBH))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

****

Macquaries selection of **best fundamental picks among quality mid-cap companies** on the ASX:

-AUB Group ((AUB))
-Breville Group ((BRG))
-Ebos Group ((EBO))
-Flight Centre ((FLT))
-Fisher & Paykel Healthcare ((FPH))
-Integral Diagnostics ((IDX))
-Lovisa Holdings ((LOV))
-Nick Scali ((NCK))
-Megaport ((MP1))
-Monash IVF ((MVF))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Management ((PNI))
-Qualitas ((QAL))
-Reliance Worldwide ((RWC))
-Ventia Services ((VNT))

****

Crestone's Best Sector Ideas are an attempt to identify the best in breed business models for major industry group sectors for long-term oriented investors. Anticipated performance over the next three years is part of the key considerations.

December's updated selection consists of 17 companies:

-Aristocrat Leisure ((ALL))
-Ampol ((ALD))
-APA Group ((APA))
-Beach Energy ((BPT))
-Brambles ((BXB))
-CSL ((CSL))
-Goodman Group ((GMG))
-IGO Ltd ((IGO))
-James Hardie Industries ((JHX))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Monadelphous Group ((MND))
-REA Group ((REA))
-ResMed ((RMD))

-Suncorp Group ((SUN))
-Xero ((XRO))

Crestone's selection of **sustainable dividend growers** consists of 22 names. Historically, the stock pickers remind investors, companies that grow dividends consistently can offer superior long-term return for those who own them.

-Amcor ((AMC))
-Ampol ((ALD))
-APA Group ((APA))
-Atlas Arteria ((ALX))
-Beach Energy ((BPT))
-BHP Group ((BHP))
-Car Group ((CAR))
-Coles Group ((COL))
-Dalrymple Bay Infrastructure ((DBI))
-Iress Ltd ((IRE))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Mirvac Group ((MGR))
-Pro Medicus ((PME))
-QBE Insurance ((QBE))
-RAM Essential Services ((REP))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Tabcorp Holdings ((TAH))
-Telstra ((TLS))
-Westpac Banking ((WBC))

****

Morgan Stanley's Macro+ Focus List in Australia is currently made up of:

-AGL Energy ((AGL))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-GPT Group ((GPT))
-James Hardie ((JHX))
-Macquarie Group ((MQG))
-Paladin Energy ((PDN))
-Santos ((STO))
-Suncorp Group ((SUN))
-WiseTech Global ((WTC))

****

Morgan Stanley's **Australia Macro+ Model Portfolio** is currently made up of the following:

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac ((WBC))

-Macquarie Group ((MQG))

-Suncorp Group ((SUN))

-Goodman Group ((GMG))
-GPT Group ((GPT))
-Scentre Group ((SCG))
-Stockland ((STG))

-Aristocrat Leisure ((ALL))

-CAR Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-WiseTech Global ((WTC))

-James Hardie ((JHX))

-Orica ((ORI))

-Coles Group ((COL))

-CSL ((CSL))
-ResMed ((RMD))

-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban ((TCL))

-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))

-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

****

Macquarie Wealths recommended **Growth Portfolio**:

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-James Hardie Industries ((JHX))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Pinnacle Investment Management ((PNI))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))
-IGO Ltd ((IGO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-ANZ Bank ((ANZ))
-BHP Group ((BHP))
-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))

-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

****

Macquarie's ASX Quality Compounders:

The highest quality compounders' as identified by Macquarie quant research inside the ASX300:

-James Hardie ((JHX))
-Cochlear ((COH))
-REA Group ((REA))
-TechnologyOne ((TNE))
-ResMed ((RMD))
-Data#3 ((DTL))
-Pro Medicus ((PME))
-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure ((ALL))
-Spark New Zealand ((SPK))
-Codan ((CDA))
-Clinuvel Pharmacauticals ((CUV))
-Redox ((RDX))

Given Macquarie's research strong leaning on the past five years, with high barriers to match, the following 11 companies fell just outside the above list:

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))
-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

My own research and All-Weather stock selections are 24/7 available for paying subscribers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

See also 2024's final update: https://fnarena.com/index.php/2024/12/23/rudis-view-final-best-buys-conviction-ideas/

as well as last week's: https://fnarena.com/index.php/2025/01/16/rudis-view-best-buys-convictions-for-2025/

Earnings Optimism On The Rise

The February results season will soon be in full swing. As I traditionally like to point out: every season has its specific character. This time will be no different.

But results seasons are rarely guided by earnings reports only. Events over the weekend past have reminded investors US policy decisions will be part of the mix that impacts on share prices this year.

Irrespective, most market updates released locally last week saw share prices weaken in the aftermath, including for the two companies that issued financial results, Credit Corp ((CCP)) and ResMed ((RMD)).

If we include market updates on profit guidance and quarterly performances the list of casualties grows quickly, also including Accent Group ((AX1)), Autosports Group ((ASG)), ImpediMed ((IPD)), Kogan ((KGN)), MedAdvisor ((MDR)), Origin Energy ((ORG)), Premier Investments ((PMV)), Zip Co ((ZIP)), and numerous others.

Last year's August season proved a rather underwhelming experience, generating 37% in misses well above average and only 27% of beats, marking the worst milestone for corporate results in Australia post 2013, when FNArena started gathering such stats.

Should investors worry about a lack of progress made since?

Probably not. The RBA is readying Australia for rate cuts this year which no doubt will be reflected in more optimism when companies provide forward-looking guidance.

The same optimism is also creeping into investors' mindset which might lead to more companies receiving the benefit of the doubt this month, as long as there's a genuine prospect of better operational momentum later in the year.

The offset is that valuations generally are a lot higher too and many a market watcher seems worried about what might happen to share prices if expectations are not met.

Shares in Zip Co, for example, are now down more than -29% since disappointing the market, though some of that weakness is US import tariffs related.

Before we start digging deeper into likely signals and potential impacts, let's take a look first at the broader framework for the Australian share market in the opening weeks of 2025.

Earnings Growth (And The Lack Thereof)

The first observation is that underwhelming corporate earnings have not prevented the Australian share market from posting 11.17% in total return over 2024, which compares quite favourably with a much more modest general sentiment throughout the year.

A lot can be explained by the positive performance from the banks, despite little to no growth for the sector generally.

Local superfunds proved the key buyers during the first three quarters last year and international investors joined in during the closing three months.

With no disasters or major downgrades expected, and with banks and financials expected to outperform this year internationally, it seems likely shares in Australian banks will remain supported throughout 2025, despite the absence of strong earnings growth.

Outside of the banks, only about half of ASX200 companies experienced a gain in share price last year and an even smaller group outperformed the index; those performances were much closer aligned with underlying growth in earnings.

The same observation applies to the much larger group for whom sustainable share price gains proved a bridge too far; look no further than the absence of earnings growth if a proper explanation is required.

Average earnings per share growth in Australia has been negative in FY23 and FY24. FY25 (June 30) looks set for a continuation of that trend.

Those numbers are always heavily impacted by what happens in energy and commodity markets, but don't let that blind you to the fact corporate Australia does have a growth problem.

The gap between, say, Aurizon Holdings ((AZJ)), LendLease ((LLC)) and Healius ((HLS)) on one side and Pro Medicus ((PME)), WiseTech Global ((WTC)) and REA Group ((REA)) on the other side has grown to the size of the Indian Ocean in recent years.

We don't need a Master of Finance degree to explain the difference in share price performances.

Close That Gap!

Many in today's market are counting on a narrowing of the gap between Winners and Laggards, which all else remaining equal should allow those Laggards to put in a better share price performance.

The current quarterly reporting season in the US is providing plenty of signals this might indeed be happening in North America.

Analysts at RBC Capital reported the following this week:

The shift we've seen in leadership this year, with Value beating Growth and Small Cap stabilizing relative to Large Cap also seems justified from an EPS perspective, even without last week's DeepSeek episode.

Our favorite gauge of EPS sentiment the rate of sell-side revisions to the upside has shifted in favor of Small Cap over Large Cap (this means Small Cap has been seeing more upward revisions to EPS forecasts for this year and next).

This stat is technically still stronger for Growth and the top 10 market cap stocks in the S&P500 compared to Value and the rest of the S&P500, but the gaps have started to narrow suggesting Mega Cap Growth's dominance on near-term EPS dynamics has softened.

In Australia, where the RBA has yet to deliver its first rate cut and with uncertainties looming from state and federal elections, we are unlikely to witness those same dynamics play out this month already, but we might spot some early green shoots.

Such optimism has underpinned a positive share market performance in January (up 4.57%) with various forecasters suggesting **earnings in Australia are near a bottom** or they might already be on the way up.

Assuming this early optimism proves justified, the big difference with August last year when most misses were caused by underwhelming forward guidance, is this time boards and management teams might prove more optimistic.

Earnings Forecasts And Broker Ratings

Despite many downgrades happening on the back of corporate updates in January, it appears consensus forecasts are trending upwards, albeit cautiously, which is a signal that general optimism is rising.

As we are still in the early phase of earnings growth recovery, and with momentum inside the domestic economy uneven, there will still be plenty of room for nasty disappointments.

Consider, for example, Autosports Group issued a profit warning in November last year and did it again in January.

Another worry is a share market trading near its all-time high leaves little room for disappointment for the Winners in today's market.

Even if we adjust for the local PE ratio to have risen to 16x over the past ten years, the current market multiple remains double digit above that average (closer to 19x before Monday's sell-off).

My humble suggestion is having some cash on the sideline might prove very apposite throughout February as the market's short-term knee-jerk response might create opportunities for those with a longer-term horizon.

A recent preview by stockbroker Morgans suggests average EPS growth for calendar year 2025 is poised to rise to 5% from -2% in 2024.

The bulk of this improvement might not show up until the second half, but markets are forward-looking (in the absence of short-term disruptions).

All of the above is reflected in stockbrokers' Buy, Hold and Sell ratings for ASX-listed stocks.

For the eight stockbrokerages monitored daily, the percentage of Buy and equivalent ratings has now risen to above 60% which, as the graphic below shows, is a rather rare occurrence.

But the percentage of Buy ratings has been exceptionally high post covid, which reflects the uneven and narrow-based recovery for the Australian share market since.

It's all well and good to proclaim shares in small caps and cyclicals are undervalued, without a notable recovery in earnings those share prices can remain "cheap" for a very long time.

In line with that extremely high percentage of Buys, the share of Hold/Neutral ratings has fallen below 33%, which hardly leaves anything left for Sell ratings (7.50%).

Early Signals

As suggested at the start of today's Weekly Insights, let's investigate whether there are lessons to be drawn from January's market updates.

Credit Corp's result missed consensus forecasts and thus the share price received instant punishment while forecasts were adjusted downwards.

At face value, the company is positioned for strong growth this year, but this follows two years of declining profits.

The finer details show FY25 might still not match the result achieved in FY22. Competition for buying bad debt ledgers in the US remains key.

Zip Co's market update also disappointed because of the US business, though in this case analysts believe the share price shellacking is overdone. Citi has upgraded to Buy.

More troubles in the US, however, has also triggered a warning from Citi analysts about the risks for online fashion platform operator Cettire ((CTT)) whose revenues are heavily skewed towards US consumers.

Virtual pharmacist company MedAdvisors' ((MDR)) disappointment also concerns slower US market momentum.

Import tariffs on Mexican goods has prompted Fisher & Paykel Healthcare ((FPH)) to specify 60% of US sales are sourced from the neighbouring country.

This is likely to see analysts reduce forecasts in the days coming.

Do we have a theme here?

ResMed's Q2 performance was better-than-expected though some might fret about a gross margin that failed to lift.

ResMed's share price rallied strongly into the release, then failed to extend that rally as the degree of positive surprise simply wasn't large enough to warrant even more excitement.

The average target price from the brokers monitored daily by FNArena has risen to $43.05 from $41.08 and that's the clearest indication that analysts, overall, liked the result and have been increasing their projections in response.

The ResMed experience also shows a great result does not by default always translate into a positive share price response.

Longer-term, that response immediately after the result counts for nothing. It's good to remember that too.

Plenty of insights from Consumer-related companies, including Myer ((MYR)), Kogan, Accent Group, Premier Investments, etc.

Autosports Group's tough conditions can equally be traced back to household budgets under duress in Australia.

The discussion among analysts is still the same: are Australian consumers ready to increase their spending on the back of more election promises and RBA rate cuts?

Needless to say, there's skepsis galore.

Today's debate also features Christmas purchasing and who was left out in the cold? All shall be revealed in the weeks coming.

Traps & Triggers

Stock pickers at Goldman Sachs have identified the following for a positive surprise in February:

-BRG Group (Breville) ((BRG))
-News Corp ((NWS))

-Codan ((CDA))
-QBE Insurance ((QBE))
-Worley ((WOR))
-HMC Capital ((HMC))
-Newmont Corp ((NEM))

Candidates for a likely negative surprise include:

-TPG Telecom ((TPG))
-Flight Centre ((FLT))
-Beach Energy ((BPT))
-ARB Corp ((ARB))
-Cochlear ((COH))

AGL Energy, Bega Cheese, BRG, Harvey Norman, Imdex & Superloop

Looking forward to **Australian utilities** releasing financial reports this month, analysts at **Morgan Stanley** have re-affirmed their conviction in AGL Energy's ((AGL)) outlook, based on projections for electricity demand (data centres included) and what is still seen as an "undemanding valuation".

Stock Analysis shows Morgan Stanley's $12.88 price target for the shares is currently a positive outlier.

In case anyone wonders: the same analysts do not like Origin Energy ((ORG)), not at all.

Stock Analysis shows when it comes to Origin Energy, Morgan Stanley is the negative outlier with a price target of $9.06 only.

A similar sector preview for **infrastructure** by **Citi** has seen this broker expressing upside risk potential for Auckland International Airport ((AIA)) Citi's most preferred exposure and for Atlas Arteria ((ALX)).

Citi analysts are currently not so keen on Transurban ((TCL)), which has been downgraded to Neutral.

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Pending RBA rate cuts will put **A-REITs** back on investors' mind, sector analysts at **Citi** believe.

Fresh buyers will be looking for growth' with Citi highlighting Goodman Group ((GMG)), National Storage ((NSR)), Ingenia Communities Group ((INA)), Scentre Group ((SCG)), and Stockland ((SGP)).

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Investors looking for **uranium** exposure should consider Paladin Energy ((PDN)), Boss Energy ((BOE)) and/or Deep Yellow ((DYL)) on the ASX, suggest analysts at **Canaccord Genuity**.

While 2024 has been a disappointing experience for the sector, Canaccord argues contracting levels will not remain below replacement rates forever and pricing will improve in the years ahead.

Colleagues at **Petra Capital** have a different approach; they believe smaller companies that are advancing their mining projects, with near-term catalysts, offer the greatest upside potential in 2025.

As such, Petra Capital's two favourites are currently NexGen Energy ((NXG)) and Aura Energy ((AEE)).

****

Crestone's Best Sector Ideas are an attempt to identify the best in breed business models for major industry group sectors for long-term oriented investors. Anticipated performance over the next three years is part of the key considerations.

The latest updated selection consists of 17 companies, with no changes made from December.

-Aristocrat Leisure ((ALL))

-Ampol ((ALD))

-APA Group ((APA))

-Beach Energy ((BPT))

-Brambles ((BXB))

-CSL ((CSL))

-Goodman Group ((GMG))

-IGO Ltd ((IGO))

-James Hardie Industries ((JHX))

-Lottery Corp ((TLC))

-Macquarie Group ((MQG))

-Metcash ((MTS))

-Monadelphous Group ((MND))

-REA Group ((REA))

-ResMed ((RMD))

-Suncorp Group ((SUN))

-Xero ((XRO))

Crestone's selection of **sustainable dividend growers** consists of 22 names. Historically, the stock pickers remind investors, companies that grow dividends consistently can offer superior long-term return for those who own them.

This selection has equally seen no changes from December.

-Amcor ((AMC))

-Ampol ((ALD))

-APA Group ((APA))

-Atlas Arteria ((ALX))

-Beach Energy ((BPT))

-BHP Group ((BHP))

-Car Group ((CAR))

-Coles Group ((COL))

-Dalrymple Bay Infrastructure ((DBI))

-Iress Ltd ((IRE))

-Lottery Corp ((TLC))

-Macquarie Group ((MQG))

-Metcash ((MTS))

-Mirvac Group ((MGR))

-Pro Medicus ((PME))

-QBE Insurance ((QBE))

-RAM Essential Services ((REP))

-ResMed ((RMD))

-Suncorp Group ((SUN))

-Tabcorp Holdings ((TAH))

-Telstra ((TLS))

-Westpac Banking ((WBC))

****'

With just about everyone else putting forward their **Top Picks among smaller cap companies** ahead of results season, **UBS** analysts too have lined up their predictions for beats' and misses' this month.

At risk of missing forecasts with their financial performance are, according to UBS, Dicker Data ((DDR)), IDP Education ((IEL)) and Infomedia ((IFM)).

The broker sees negative risk to outlook guidance for Autosports Group ((ASG)), Imdex ((IMD)) and Kogan ((KGN)).

More bad news from Autosports Group?

Then there's a group that might present a double negative this month, disappointing both on result and on guidance. UBS has nominated ARB Corp ((ARB)), Articore Group ((ATG)) and Megaport ((MP1)).

On the positive side, UBS sees upside surprise potential from results to be delivered by Codan ((CDA)), MA Financial ((MAF)) and Temple & Webster ((TPW)).

Companies that may well positively surprise with their guidance include Eagers Automotive ((APE)), Bega Cheese ((BGA)), Corporate Travel Management ((CTD)), Flight Centre ((FLT)), NRW Holdings ((NWH)), NextDC ((NXT)), Ridley Corp ((RIC)), SiteMinder ((SDR)), Superloop ((SLC)), and Tyro Payments ((TYR)).

Companies that have been selected for a double positive surprise this season are Life360 ((360)), Adairs ((ADH)), BRG Group (Breville) ((BRG)), G8 Education ((GEM)), and ServCorp ((SRV)).

Smaller cap companies UBS likes for the year ahead are Life360, Amotiv ((AOV)), Codan, MA Financial, NextDC, Superloop, TechOne ((TNE)), and Webjet ((WEB)).

Other worthy mentions include Bega Cheese, Hansen Technologies ((HSN)), and Temple & Webster.

****

Quant analysis conducted by **Citi analysts** has unearthed the strongest conviction for upside potential in the following Buy-rated companies:

-Auckland International Airport ((AIA))
-Coles Group ((COL))
-Harvey Norman ((HVN))
-Ingenia Communities Group ((INA))
-JB Hi-Fi ((JBH))
-National Storage ((NSR))
-NextDC ((NXT))
-Superloop ((SLC))
-Zip Co ((ZIP))

as well as the strongest conviction for downside risk to the following Sell-rated companies: Eagers Automotive ((APE)) and Imdex ((IMD)).

****

Goldman Sachs has identified the following for a positive surprise in February:

-BRG Group ((BRG))
-News Corp ((NWS)), which has been confirmed earlier today
-Codan ((CDA))
-QBE Insurance ((QBE))
-Worley ((WOR))
-HMC Capital ((HMC))
-Newmont Corp ((NEM))

For a negative surprise, Goldman Sachs has nominated:

-TPG Telecom ((TPG))
-Flight Centre ((FLT))
-Beach Energy ((BPT)), confirmed today

-ARB Corp ((ARB))
-Cochlear ((COH))

****

Analysts at **Macquarie** had equally nominated News Corp ((NWS)) for a positive surprise.

They do not like Domain Holdings Australia ((DHG)) while also harbouring some doubt about Cleanaway Waste Management ((CWY)).

Among consumer-related companies, Macquarie's Key Picks are Coles Group ((COL)), Harvey Norman ((HVN)), JB Hi-Fi ((JBH)) and Treasury Wine Estates ((TWE)).

Least preferred are Domino's Pizza ((DMP)) and Endeavour Group ((EDV)).

Best Ideas & Conviction Calls

Morningstar's selection of **Best Buys** on the ASX:

-APA Group ((APA))

-ASX ((ASX))

-Aurizon Holdings ((AZJ))

-Bapcor ((BAP))

-Brambles ((BXB))

-Domino's Pizza ((DMP))

-Dexus ((DXS))

-Endeavour Group ((EDV))

-Fineos Corp ((FCL))

-IDP Education ((IEL))

-IGO Ltd ((IGO))

-Ramsay Health Care ((RHC))

-SiteMinder ((SDR))

-Santos ((STO))

-TPG Telecom ((TPG))

****

Healthcare sector analysts at RBC Capital have used their preview to the February results season to express their preferences:

-Cochlear ((COH))
-Integral Diagnostics ((IDX))
-Australian Clinical Labs ((ACL))
-Ansell ((ANN))
-Regis Healthcare ((REG))
-Monash IVF ((MVF))

Ironically, Australian Clinical Labs has been identified as at risk for delivering a negative surprise next month, alongside Sonic Healthcare ((SHL)) and Healius ((HLS)).

Among Australia's **Small Cap Industrials**, RBC Capital's three top picks are:

-G8 Education ((GEM))
-Temple & Webster ((TPW))
-Zip Co ((ZIP))

That last nominee released a rather disappointing market update on Thursday, which pulled down the share price more than -20%.

RBC analysts foresee multiple catalysts for the company in the year ahead, so maybe this won't change their positive view?

Among ASX-listed **Technology companies** Xero ((XRO)) and TechOne ((TNE)) are the two Key Picks.

****

Morgan Stanleys two key picks among **consumer-related companies** on the ASX ahead of February are Guzman y Gomez ((GYG)) and IDP Education ((IEL)).

The first nominee has potential to deliver a positive margin surprise while IDP Education is expected to release better-than-feared visa data and ongoing progress in China.

Morgan Stanley is Underweight-rated on JB Hi-Fi ((JBH)), Harvey Norman ((HVN)), Super Retail ((SUL)) and Wesfarmers ((WES)); all should report solid sales numbers, but the broker sees risk in margins.

This broker's preferred local Real Estate stocks are Goodman Group ((GMG)), Charter Hall ((CHC)), Stockland ((SGP)), Scentre Group ((SCG)), GPT Group ((GPT)), and Centuria Capital Group ((CNI)).

All nominations have in common that each have small short term concerns heading into Feb-25 reporting, the broker highlights.

****

When it comes down to consumer related stocks on the ASX, analysts at **Goldman Sachs** are suggesting a two-pronged strategy:

-Buy industry leaders gaining market share, with long-term growth options, like Wesfarmers ((WES)) and BRG Group ((BRG)), also known as Breville;

-Buy industry leaders with short-term earnings risk for a re-rating later in the year, such as Woolworths Group ((WOW)) and Endeavour Group ((EDV)).

****

Stockbroker Morgans harbours positive expectations ahead of the upcoming February results season for the following 12 companies:

-Expecting forecast-beating results from the renamed Breville, BRG Group ((BRG)), Computershare ((CPU)), Guzman y Gomez ((GYG)), and Tasmea ((TEA))

-Expecting a strong outlook from Lovisa Holdings ((LOV)), Megaport ((MP1)), Pinnacle Investment Management ((PNI)), ResMed ((RMD)), Superloop ((SLC)) and Universal Store Holdings ((UNI))

-Regal Partners ((RPL)) is expected to announce capital management

-Treasury Wine Estates ((TWE)) is expected to report better-than-feared financials

On the negative side, Morgans sees earnings risk for Healius ((HLS)), HealtCo Healthcare and Wellness REIT ((HCW)), IDP Education ((IEL)), Monadelphous ((MND)), Ramsay Health Care ((RHC)), Tourism Holdings Rentals ((THL)), and Ventia Services Group ((VNT)).

A soft market update might feature results from ARB Corp ((ARB)), Domino's Pizza ((DMP)), Endeavour Group ((EDV)), and Woolworths Group ((WOW)).

Other companies that might be under threat of releasing a weaker-than-expected result in February are nib Holdings ((NHF)) and PeopleIn ((PPE)).

Taking into account the local share market is trading at a notable premium to its long-term valuation multiples, Morgans prefers caution, suspecting that companies that fail to deliver on high valuations will be punished.

The broker's **best tactical calls** among small caps include Acrow ((ACF)), Lovisa, Megaport, Pinnacle Investment Management, Regal Partners, Superloop, Tasmea and Universal Store.

Preferred exposures on current weakness for resources stocks include BHP Group ((BHP)), Sandfire Resources ((SFR)), South32 ((S32)), Whitehaven Coal ((WHC)) and Woodside Energy ((WDS)).

Key calls for the Financial Services sector are QBE Insurance ((QBE)), Suncorp Group ((SUN)), Challenger ((CGF)), MA Financial ((MAF)) and Tyro Payments ((TYR)).

Taking all of the above, and more, into account, Morgans' **key calls for February** include Computershare, Guzman y Gomez, Lovisa Holdings, Megaport, Pinnacle Investment Management and Superloop.

****

Morgan Stanleys six **High Conviction calls** ahead of next month's results releases are:

-Corporate Travel Management ((CTD))

-Data#3 ((DTL))

-Fleetpartners Group ((FPR))

-Life360 ((360))

-Lovisa Holdings ((LOV))

-Tuas ((TUA))

This broker's team of Quant analysts has identified Rio Tinto ((RIO)) and Pro Medicus ((PME)) as top-ranked ideas ahead of February.

The short list of top ranked ideas for the Asia-Pacific region ex-Japan also includes REA Group ((REA)).

The negative side has equally three ASX-listed companies; TPG Telecom ((TPG)), TechnologyOne ((TNE)), and Transurban Group ((TCL)).

***

January's re-assessment of the **global mining sector** by **RBC Capital** has triggered a downgrade for recommended portfolio exposures to Diversified & Bulk miners, but RBC retains Overweight recommendations for base metals, precious metals, and uranium.

In terms of individual stocks, and readers should keep in mind this is a global exercise, RBC's selection of Best Ideas has seen the inclusion of Westgold Resources ((WGX)).

Northern Star ((NST)), on the other hand, was removed even before this week's market update.

As reported previously, RBC Capital's global selection of Best Ideas among energy producers includes Woodside Energy ((WDS)) as the sole ASX representation.

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Healthcare analysts at Citi have placed a positive Catalyst Watch on both ResMed ((RMD)) and Australian Clinical Labs ((ACL)) implying both are expected to surprise positively with their upcoming financial updates.

Their colleagues at the retail desk have done the same for both JB Hi-Fi ((JBH)) and Harvey Norman ((HVN)) as industry feedback over the Christmas sales period suggests upside risk to market expectations.

***

Ord Minnett has identified Aristocrat Leisure ((ALL)) and Brambles ((BXB)) as two strong (out)performers from 2024 that are most likely able to continue performing in the year ahead.

Sticking with that theme, analysts at **Wilsons** believe the following four outperformers remain poised to see ongoing upgrades to consensus forecasts in 2025:

-Xero ((XRO))

-Hub24 ((HUB))

-TechnologyOne ((TNE))

-WiseTech Global ((WTC))

****

Evans and Partners sees potential for ongoing strong performances from local **Tech companies and AI beneficiaries.**

The broker has kept a positive view on:

-NextDC ((NXT))

-Megaport ((MP1))

-Macquarie Technology Group ((MQG))

As well as on:

-WiseTech Global ((WTC))

-Block ((SQ2))

-SiteMinder ((SDR))

While sticking with a Neutral rating for the time being on (with positive view nevertheless):

-Xero ((XRO))

-TechnologyOne ((TNE))

***

Bell Potter has lined up its **Key Ideas among A-REITs** ahead of February market updates.

Preferred sector exposures are Centuria Industrial REIT ((CIP)), Dexus ((DXS)), Aspen Group ((APZ)), Cromwell Property Group ((CWP)) and HMC Capital ((HMC)).

Sector analysts at JP Morgan believe 2025 is the year when investor interest will broaden from Goodman Group ((GMG)), and to a lesser extent Charter Hall ((CHC)) and Scentre Group ((SCG)).

JPMorgan analysts have upgraded Vicinity Centres ((VCX)) and Abacus Storage King ((ASK)) to Overweight, and Region Group ((RGN)) to Neutral.

Both Goodman Group and Hotel Property Investments ((HPI)) have been downgraded to Neutral, with Charter Hall Long WALE REIT ((CLW)) downgraded to Underweight.

****

Shaw and Partners' Model Large Cap Portfolio currently consists of the following:

-Block ((SQ2))

-CSL ((CSL))

-Flight Centre ((FLT))

-Paladin Energy ((PDN))

-ResMed ((RMD))

-Suncorp Group ((SUN))

-Telix Pharmaceuticals ((TLX))

-Xero ((XRO))

The broker's favourites among **Emerging Companies**:

-Amaero International ((3DA))

-Australian Vanadium ((AVL))

-Bannerman ((BMN))

-Chrysos ((C79))

-Humm Group ((HUM))

-Metro Mining ((MMI))

-Santana Minerals ((SMI))

-Southern Cross Electrical ((SXE))

****

Morgan Stanley's international selection of 31 **Best Businesses**, which aims to combine elements of corporate Quality with valuation', forecasts and Quant analysis, for a two-year investment horizon (which can be extended, of course), includes two ASX-listed companies: Macquarie Group ((MQG)) and Rio Tinto ((RIO)).

****

Ord Minnett's selection of **Conviction Calls** ("*our best small cap stock ideas as selected by our analysts*").

-ARB Corp ((ARB))
-Aussie Broadband ((ABB))
-Brazilian Rare Earths ((BRE))
-Cosol ((COS))
-Cuscal ((CCL))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-GQG Partners ((GQG))
-Qoria ((QOR))
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-Stanmore Resources ((SMR))
-Vault Minerals ((VAU))
-Waypoint REIT ((WPR))
-Zip Co ((ZIP))

****

January's update on the **APAC Conviction List at Goldman Sachs** has seen the inclusion of Worley ((WOR)) and Iluka Resources ((ILU)), for which the broker harbours bullish forecasts for the next four years.

Both are the only ASX-listed stocks included in a selection of 26 stocks.

****

The team of analysts and strategists at **Shaw and Partners** is convinced the time is right to invest in Australian small cap companies.

Shaw's **Top 10 list of Small Cap Ideas for 2025**:

-Amaero International ((3DA))
-Australian Vanadium ((AVL))
-Beforepay ((B4P))
-Bannerman Energy ((BMN))
-Chrysos ((C79))
-Humm Group ((HUM))
-Metro Mining ((MMI))
-Santana Minerals ((SMI))
-Silex Systems ((SLX))
-Southern Cross Electrical Engineering ((SXE))

****

In December, analysts at **Bell Potter** published their most favoured stock picks for the year ahead, with multiple ideas put forward per sector.

-Listed Investment Companies (LICs): Australian Foundation Investment Company (AFI), Qualitas Real

Estate Income Fund ((QRI)), and MFF Capital Investments ((MFF))

-Technology & Gaming: Life360 ((360)), Light & Wonder ((LNW)), and Gentrack Group ((GTK))

-Diversified Financials: Perpetual ((PPT)) and Regal Partners ((RPL))

-Real Estate: Aspen Group ((APZ)), Cedar Woods ((CWP)), and Dexus Convenience Retail REIT ((DXC))

-Retailers: JB Hi-Fi ((JBH)), Premier Investments ((PMV)), and Accent Group ((AX1))

-Industrials: GenusPlus Group ((GNP)), SRG Global ((SRG)), and Duratec ((DUR)) as well as Austal Ltd ((ASB)), Brickworks ((BKW)), and IPD Group ((IPG))

-Healthcare: PolyNovo ((PNV)), Clarity Pharmaceuticals ((CU6)), and CSL ((CSL)) as well as EBR Systems ((EBR)), Biome Australia ((BIO)), and Genetic Signatures ((GSS))

-Gold companies: Genesis Minerals ((GMD)), Gold Road Resources ((GOR)), and Santana Minerals ((SMI))

-Base Metals: AIC Mines ((A1M)) and Nickel Industries ((NIC))

-Strategic Minerals: Alpha HPA ((A4N)) and IperionX ((IPX))

-Bulks & Energy companies: Boss Energy ((BOE)), Champion Iron ((CIA)), and Fenix Resources ((FEX))

****

Jarden's December update reduced the number of **Best Ideas** from the circa 110 smaller cap companies covered (ex-AS100) to 18 from 20 previously.

The broker's Emerging Companies' Key Picks (in order of total shareholder return) are:

-Qualitas ((QAL))
-Universal Store Holdings ((UNI))
-SiteMinder ((SDR))
-Temple & Webster ((TPW))
-Nick Scali ((NCK))
-EVT Ltd ((EVT))

The above are all picked by the broker's Emerging Companies research team. The following stock picks have been selected by respective sector analysts:

-Champion Iron ((CIA))
-Domain Holdings Australia ((DHG))
-Genesis Energy ((GNE))
-Integral Diagnostics ((IDX))
-Ingenia Communities Group ((INA))
-Inghams Group ((ING))
-Karoon Gas ((KAR))
-Michael Hill International ((MHJ))
-Monadelphous ((MND))
-Pointsbet Holdings ((PBH))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

****

Macquaries selection of **best fundamental picks among quality mid-cap companies** on the ASX:

-AUB Group ((AUB))
-Breville Group ((BRG))
-Ebos Group ((EBO))
-Flight Centre ((FLT))
-Fisher & Paykel Healthcare ((FPH))
-Integral Diagnostics ((IDX))
-Lovisa Holdings ((LOV))
-Nick Scali ((NCK))

-Megaport ((MP1))
-Monash IVF ((MVF))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Management ((PNI))
-Qualitas ((QAL))
-Reliance Worldwide ((RWC))
-Ventia Services ((VNT))

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Morgan Stanley's Macro+ Focus List in Australia is currently made up of:

-AGL Energy ((AGL))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-GPT Group ((GPT))
-James Hardie ((JHX))
-Macquarie Group ((MQG))
-Paladin Energy ((PDN))
-Santos ((STO))
-Suncorp Group ((SUN))
-WiseTech Global ((WTC))

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Morgan Stanley's **Australia Macro+ Model Portfolio** is currently made up of the following:

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac ((WBC))

-Macquarie Group ((MQG))

-Suncorp Group ((SUN))

-Goodman Group ((GMG))
-GPT Group ((GPT))
-Scentre Group ((SCG))
-Stockland ((STG))

-Aristocrat Leisure ((ALL))
-CAR Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-WiseTech Global ((WTC))

-James Hardie ((JHX))

-Orica ((ORI))

-Coles Group ((COL))

-CSL ((CSL))
-ResMed ((RMD))

-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban ((TCL))

-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))

-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

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Macquarie Wealths recommended **Growth Portfolio**:

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-James Hardie Industries ((JHX))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Pinnacle Investment Management ((PNI))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))
-IGO Ltd ((IGO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-ANZ Bank ((ANZ))
-BHP Group ((BHP))
-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

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Macquarie's ASX Quality Compounders:

The highest quality compounders' as identified by Macquarie quant research inside the ASX300:

-James Hardie ((JHX))
-Cochlear ((COH))
-REA Group ((REA))
-TechnologyOne ((TNE))
-ResMed ((RMD))
-Data#3 ((DTL))
-Pro Medicus ((PME))

-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure ((ALL))
-Spark New Zealand ((SPK))
-Codan ((CDA))
-Clinuvel Pharmacauticals ((CUV))
-Redox ((RDX))

Given Macquarie's research strong leaning on the past five years, with high barriers to match, the following 11 companies fell just outside the above list:

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))
-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

My own research and All-Weather stock selections are 24/7 available for paying subscribers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

Hope Trumps Uncertainties

Pay attention to short positions.

The February result season for corporate Australia has hardly gained any traction thus far, as the bulk of releases occurs in the second half of the month, but already some market watchers have noted the outsized responses post market updates by Domino's Pizza ((DMP)) and Nick Scali ((NCK)).

Prior to last week's updates, some 12.85% of shares in Domino's Pizza were positioned for a further fall in the share price while the percentage of short positions in the furniture retailer stood only a smidgen short of 5%.

Both shares have rocketed higher following another weak performance from Domino's, but with management announcing further reductions in underperforming outlets, and following better-than-expected financials from Nick Scali, with further improvement to follow from the UK operations.

Other companies with large short positions include IDP Education ((IEL)), Star Entertainment ((SGR)), Megaport ((MP1)), Lifestyle Communities ((LIC)), Droneshield ((DRO)), Cettire ((CTT)), Johns Lyng ((JLG)), and Corporate Travel Management ((CTD)), outside of uranium companies and smaller cap resources companies.

If these two early examples prove indicative of what is yet to follow next over the coming three weeks, there will be a lot of fireworks in case financial releases prove not-as-bad-as-feared, or better.

FNArena keeps track of local **shorts data** as compiled by ASIC via a dedicated segment on the website: https://fnarena.com/index.php/analysis-data/the-short-report/

Analysts at Macquarie highlighted on Monday other consumer-related companies such as Eagers Automotive ((APE)), Endeavour Group ((EDV)), Lovisa Holdings ((LOV)) and BRG Group (Breville) ((BRG)) equally have sizable short positions.

In particular the latter company is currently the subject of a lively public debate among analysts. Has the share price rallied too far, too quickly in the face of potential headwinds from US import tariffs?

Some analysts have nominated BRG Group for a positive surprise when the company reports on

February 11 (tomorrow), while others seem convinced the risk is to the downside.

The shares are up some 40% since mid last year, so this pre-result set up could prove interesting.

UBS' Picks For February

Analysts at UBS nominated Breville for a negative outcome, alongside packaging company Orora ((ORA)) and recycler Sims ((SGM)).

The broker's list for potential upside surprises is a lot larger: Amotiv ((AOV)), Downer EDI ((DOW)), Temple & Webster ((TPW)), BlueScope Steel ((BSL)), GPT Group ((GPT)), Cleanaway Waste Management ((CWY)), Servcorp ((SRV)), Worley ((WOR)), Light & Wonder ((LNW)), Dicker Data ((DDR)), and Life360 ((360)).

Here the inclusion of Dicker Data stands out as the leading distributor of IT hardware and software across the Tasman Sea has been identified elsewhere for downside potential.

The conference call between management at JB Hi-Fi ((JBH)) and analysts on Monday revealed some interesting on-the-ground insights, potentially, regarding BRG Group and Dicker Data.

JB HiFi's financial performance yet again beat market forecasts, although there was no reward for a share price that had already rallied by some 80% since April last year.

JB Hi-Fi has seen vacuum cleaner sales pick up post the collapse of Godfreys some 11 months ago while the coffee category has equally been a strong performer.

Its computing category is back into growth post two years of post-covid normalisation, assisted by new AI driven demand, but competition is fierce and consumers are looking for price discounts and bargains.

JB Hi-Fi's business in New Zealand continues to struggle with the overall downbeat environment and will remain loss-making in H2.

As also pointed out last week, a number of less-than-perfect market updates feature disappointment from US-based operations, including from Car Group ((CAR)) on Monday.

Ansell ((ANN) was included in UBS's positive selection too and this proved prescient when the manufacturer of latex products reported on Monday.

Turning Laggards Into Winners

The quarterly reporting season in the US hasn't been a negative experience to date, with underlying statistics merely trending back to previous trends, but one observation stands: a better-than-forecast result is no longer by definition a trigger for further outperformance while any misses' will receive instant punishment.

The early balance in Australia is showing similar dynamics, with investors seemingly prepared to look beyond short-term headwinds for companies whose share price hasn't performed well and whose operations might benefit from RBA rate cuts.

For good measure, we are still talking about a minuscule sample size with the **FNArena Results Monitor** on Monday only including twelve results delivered and assessed, but market responses to financial reports from JB Hi-Fi, Pinnacle Investment Management ((PNI)) and ResMed ((RMD)) have been less than enthusiastic, to say the least.

It certainly hasn't been a black and white experience thus far with both REA Group ((REA)) and Nick Scali ((NCK)) being rewarded for strong performances.

But after two years of seeing the local index perform on a small selection of companies, and with the RBA preparing for rate cuts and local earnings seemingly having bottomed, it seems but plausible investors are keen to see a *remontada* from those share prices that have been lagging.

Positive share price responses to results released by Amcor ((AMC)), Ansell and News Corp ((NWS)), as well as by Domino's Pizza, only further fuel expectations for better times ahead for yesterday's laggards.

A weaker share price for outperforming Growth stocks does not by definition need to be a negative either as many should have many more years of strong growth ahead, offering a cheaper entry point for those looking to get on board.

Notes From Nominations

Apart from the aforementioned UBS analysts, many have communicated their favourites and best-to-avoid lists of stocks for the season ahead (see also bottom of today's story).

Below are some observations from those nominations.

JB Hi-Fi was many a forecaster's favourite for a very strong performance beforehand. Recent ABS data into consumer sales late in 2024 underpinned such positive expectations, pushing the share price above $100 last week.

Similar as with ResMed, that proved a bridge too far in terms of short-term share price potential.

Those same expectations have kept a strong bid under the share price of major competitor **Harvey Norman** ((HVN)) too.

Harvey Norman shares weakened on Monday in sympathy with the retreat in JB Hi-Fi shares.

Other consumer-related companies that feature regularly for a positive surprise are **Guzman y Gomez** ((GYG)), **Temple & Webster** ((TPW)), and **Universal Store Holdings** ((UNI)).

The opposite dynamic applies for manufacturer of car accessories **ARB Corp** ((ARB)) for whom general expectation seems to favour a disappointing market update on February 18.

This is why the share price is below $37.50 versus above $40 only weeks ago.

A decline in local light commercial vehicle sales, with plenty of signals around of a budget-constrained consumer postponing large expenses, plus fierce competition in the US market seems to have analysts worried about ARB's short-term prospects.

Two sectors seem dominated by a strong divide between Winners and Losers; **healthcare** and **telecommunication.**

Five years post the covid pandemic and the broader healthcare sector is still struggling to rediscover its former self.

On my observation, analysts' confidence ahead of February results is probably as low as it has been in multiple years with the likes of Ramsay Health Care ((RHC)), Sonic Healthcare ((SHL)) and Cochlear ((COH)) all former market darlings surrounded by lots of caution and hesitancy.

Management at CSL ((CSL)) better take some guidance from the margin turnaround over the year past by ResMed too.

The sector still contains a number of strong performers, of course, but the likes of ResMed, Pro Medicus ((PME)) and Telix Pharmaceuticals ((TLX)) are vastly outnumbered nowadays.

Two nominations for a positive performance and outlook that may not be on investors' radar just yet are **Australian Clinical Labs** ((ACL)) and **Integral Diagnostics** ((IDX)).

Over at the healthcare research desk of Citi, for example, confidence is so high in a positive surprise from Australian Clinical Labs, the analysts have opened a so-called Positive Catalyst Watch on the shares pre-results release.

Recent medicare data support the analysts' conviction with Citi's target price of $4 still some 9% above the share price.

The medium-term case for owning shares in Integral Diagnostics was explained in our story from December: https://fnarena.com/index.php/2024/12/18/diagnostic-imaging-radiates-opportunity/

Followers of my research also know the stock is now held inside the **All-Weather Model Portfolio.**

Inside telecommunication, expectations remain ultra-low for **TPG Telecom** ((TPG)), though, similar to Domino's Pizza, one should never underestimate the surprise that might stem from management's determination to achieve a better outcome.

There might be news forthcoming on the proposed sale of the company's fibre assets to Vocus?

Superloop ((SLC)) is often isolated for continued outsized growth (out)performance, while for **Telstra ((TLS))** the debate is all about the size of the dividend.

A recent report by Jarden stated Telstra needs to secure more franking credits or face limited ability to raise its dividend.

When it comes to capital management through bonus dividend payments and share buybacks, everybody's favourite sector are the **local insurers**.

All of them, as outlined here: https://fnarena.com/index.php/2025/01/24/insurers-to-pamper-shareholders-with-buybacks/

Lastly, **Worley** ((WOR)) seems to be a popular choice too for a cyclical company whose share price implies below-consensus growth numbers, while analysts consider the likelihood of a positive margin surprise.

Earnings risk is considered low and there's scope for capital management on the back of better cash generation.

All shall be revealed in the three weeks ahead.

BHP, Capstone Copper, NextDC, WiseTech & Woodside

This month's update on **Morningstar's Best Stock Ideas** has seen the fresh inclusion of Woodside Energy ((WDS)) which probably comes as no surprise given the energy sector's last hurrah dates from 2023 and Morningstar's choices tend to have a predilection towards underpertforming, "cheaply" priced equities.

But then things are not by default that simple given Santos's ((STO)) shares have hardly shot the lights out over the past number of years, and that stock has now been removed. Morningstar explains the decision by stating it still thinks Santos is undervalued, but Woodside shares, having weakened by almost one third since mid-2023, are seen as better value.

In comparison, Santos shares have merely trended sideways for the past seven years, if we casually ignore a deep dive in 2020 when the world locked down and a subsequent steep recovery from that temporary bottom.

FNArena's consensus price target is currently some 9% above Woodside's slumbering share price, with an estimated 8.2% dividend yield for 2024 (though this is expected to fall to 5.3% for 2025) while the consensus target for Santos remains more than 16.5% above today's share price while offering 5.8% and 5.0% respectively in comparable yields.

I guess this means Morningstar's opinion on Woodside versus Santos is not widely shared across the market.

The analysts' selection of Best Stock Ideas contains 14 other nominations:

-APA Group ((APA))
-ASX ((ASX))
-Aurizon Holdings ((AZJ))
-Bapcor ((BAP))
-Brambles ((BXB))
-Domino's Pizza ((DMP))
-Dexus ((DXS))
-Endeavour Group ((EDV))
-Fineos Corp ((FCL))
-IDP Education ((IEL))
-IGO Ltd ((IGO))
-Ramsay Health Care ((RHC))
-SiteMinder ((SDR))
-TPG Telecom ((TPG))

When **RBC Capital** analysts select their global best ideas for the energy sector, they too include Woodside Energy as the one and only nomination from the ASX.

Sector analysts at **Jarden** reported this morning they are looking for a positive update from Woodside management on the Louisiana LNG sell-down process and whether the company has retained its 80% payout ratio.

The latter could be possibly assisted via other funding options such as the reintroduction of a dividend reinvestment plan, this broker suggests.

In terms of the outlook for crude oil prices, usually a rising energy price is required to get share prices going, analysts at **Morgan Stanley** noted this week that with all the uncertainty weighing on the sector currently, it is probably likely OPEC-Plus will refrain from loosening current production quotas anytime soon and this might actually prove great news for oil pricing in the second half this year.

As noted, only two technology companies are making the list (unless we define IDP Education as technology) and Fineos Corp and SiteMinder wouldn't be on many an investor's radar. The first has yet to deliver a convincing growth trajectory since listing in 2019 and SiteMinder has yet to turn a profit, though at least more analysts covering this company share the enthusiasm.

The situation is remarkably different internationally with Morningstar's Global Best Stock Ideas now also including Microsoft and NXP Semiconductors, with PayPal Holdings already selected.

As noted in weeks prior, SiteMinder is put forward by multiple analysts as potentially one of the surprise performers of the current February results season. The share price has risen in response (of course!) but most price targets are still higher. On current projections, this company will deliver its first statutory profit in FY26.

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Don't you worry about a thing, is the key message analysts at **Wilsons** are communicating with their clientele this week. **Gen.Ai** is the real thing and demand for **cloud services and data centres** is not only firmly supported, it still stands to accelerate.

As one of the chapters in this week's report reads: *Cloud Is Great, But GenAI Will Be Gen-Sational'*

Wilsons' preferred ASX-listed exposures to the theme are (in order of preference) NextDC ((NXT)), Macquarie Technology ((MAQ)), then DUG Technology ((DUG)). The report makes an explicit point of the fact Wilsons does not cover NZ-based Infratil ((IFT)).

In the analysts own words: *"We see NextDC as the pre-eminent, Australian-listed data centre pure-play and the highest quality listed way to play the data centre, cloud computing and GenAI thematics. Macquarie Technology Group is another solid player, but is a concentrated opportunity, needing to develop a portfolio approach for to justify a sustained move higher."*

Most investors probably are not yet familiar with Wilsons' third choice, but DUG Technology has developed a liquid immersion cooling technology that potentially can also be applied by data centres, where direct-to-chip cooling dominates the sector today, but this solution is expected to become insufficient as centres become larger and more complex.

Analysts at **RBC Capital** expressed a similarly positive view for NextDC and Macquarie Technology this week, arguing that contrary to all the *hullabaloo* about DeepSeek and possible ramifications, Hyperscaler investments are continuing, and they are on a trajectory that will beat current market projections.

If anyone needs an explanation about Hyperscalers or their importance for data centre operators, I highly recommend reading up on the subject via FNArena's own dedicated AI section: https://fnarena.com/index.php/tag/gen-ai/

We have a Special Report on the subject too. Paying subscribers can download it via the Special Reports section.

RBC Capital has Outperform ratings for NextDC and Macquarie Technology, and a Sector Perform/Speculative assessment for the much more volatile Megaport ((MP1)).

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When it comes to **mining companies**, **Citi analysts** remain Buy rated on the coal and uranium names, with selective Buy calls elsewhere including for BlueScope Steel ((BSL)), Capstone Copper ((CSC)) and BHP Group ((BHP)). Citi continues to prefer Pilbara Minerals ((PLS)) for ASX100 lithium exposure.

In separate research, specifically zooming in on dividend payments this February results season, **Macquarie** analysts believe Rio Tinto's ((RIO)) payout announcement is likely to surprise, with Fortescue ((FMG)) expected to meet expectations and both BHP Group and South32 ((S32)) likely to disappoint.

Those expectations are based on BHP conserving cash to compensate for outflows related to Samarco and the Vicuna deal. South32's result is thought to be weaker than expected, with impact on the dividend.

Those forecasts were backed-up by analysts at **UBS** who add Mineral Resources ((MIN)) will likely pay out zilch.

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Consumer sector analysts at Jarden see upside risk for corporate results from JB Hi-Fi ((JBH)) confirmed by now and Temple & Webster ((TPW)) equally confirmed. The third one mentioned doesn't report until later this month; Harvey Norman ((HVN)).

Have been nominated for a negative surprise: Endeavour Group ((EDV)) and Woolworths Group ((WOW)).

Their peers at **UBS** have only two Sell ratings for the sector; JB Hi-Fi (too expensive) and Lovisa Holdings ((LOV)), with the latter expected to disappoint this month.

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Lastly, the **tech** desk at **Morgan Stanley** has the highest conviction in the upcoming results release by WiseTech Global ((WTC)) while singling out Domain Holdings Australia ((DHG)), TPG Telecom ((TPG)) and Seven West Media ((SWM)) as Least Preferred options.

Turning Laggards Into Winners

It has become the unofficial' tradition in recent years: an interview with Livewire Markets ahead of yet another corporate reporting season in Australia. Below is a sub-edited transcript from the pre-February results season interview that took place on February 11. The video is available on Livewire and on YouTube.

Sarah Allen: Hello and welcome to one of Livewire's favourite reporting season traditions. Today, I'm joined by Rudi Filapek-Vandyck from FNArena to talk all things reporting season.

Rudi, thank you so much for joining us today. The share market's been at near record highs of late. What are the big opportunities or risks that you're seeing this reporting season?

Rudi Filapek-Vandyck: Each reporting season has its own character and this reporting season has a very particular character, which is probably going to surprise a lot of people.

Recently, I was walking around and I saw a religious statement that said: hope never disappoints.

I don't want to drag this into some religious corner or anything, but I do remember it because I thought that's a very nice summary of what February is going to offer us.

Another way of looking at it is: how do we turn yesterday's laggards and losers into winners?

That's definitely what's on investors' mind right now. What I mean to say is: we've had a share market now for two years that has, at face value, performed quite well, but it was carried by about 40% of the market.

So there's 60% that hasn't performed over the past two years, at least. What 2025 might bring is that we pull in at least a big part of that 60% to perform this year.

And there are a few reasons why that's on investors' mind. First, we haven't seen any earnings growth in Australia for three years and counting.

The way the share market works, on a very simple comparison of what were you doing last year and what are you doing this year, that means the longer it lasts, the easier the comparison becomes for that 60% that hasn't performed.

All you need is two bad years and now a little bit of a better year, and wow, we're in for growth!

So that's one component, but equally important is there is growing confidence that earnings in Australia have bottomed and that we will see better times ahead.

That's already being reflected in forecasts. Forecasts are on the rise, which hasn't been the case for quite a while.

From the US, we are seeing the earnings base is broadening and the gap between the winners and the laggards is narrowing.

Then, of course, we have one big trigger in Australia: the RBA is going to cut interest rates, and that's going to keep optimism high.

We always tend to look at the numbers, valuations, forecasts, targets, ratings, you name it, but I think market sentiment, investor sentiment, is the all-important factor here.

Those elements I've just summed up, we've seen that in January already, they're already changing the mindset of the average investor.

We're now looking at company reports and market updates with a positive mindset.

If I look at what we've seen so far, reports by Amcor ((AMC)), for example, market updates by Incitec Pivot ((IPL)) and by Seven West Media ((SWNM)): those are not necessarily great reports, but with a positive mindset, they're good enough to get on board.

That's what we see in this reporting season, and I'm assuming we will see a lot more of that in reporting season and outside of it.

Investors are now taking a different view on reports with the aim of: can I get on board or not? Is it worth it?

That's going to be the big difference between August last year and February this year.

Last year August was completely different. There was no confidence. There was no optimism, or very, very little optimism.

We had the usual suspects performing very, very well, and the other 60% a little bit wishy-washy.

Investors had no appetite to go outside of the winner's circle, and that's why the momentum trade last year was so strong.

2024 was a year of momentum trade. If you were on a good ticket, it just kept going. If you weren't there, a lot of investors got frustrated last year.

I suspect that's going to change this year.

Now, how are we going to respond to that as an investor? That's the $64m question, of course.

It's very interesting, I think, because it's not that straightforward. It basically depends on what type of investor you are and what's your strategy? What are you interested in?

There is a possibility that the winners from last year, the REAs ((REA)), the Car Groups ((CAR)), Goodman Groups ((GMG)), NextDCs ((NXT)) and others, that they might hit a ceiling for the time being.

They've done very well for two years. None of them are cheap. They might perform in line with expectations, maybe a little bit better, maybe a little bit worse. There may not be that much momentum behind those stocks for the time being.

Now, depending on the type of investor you are, are you now going to say goodbye to those stocks? Are you going to jump on some of the laggards instead? Or are you taking on, temporarily, some underperformance with a longer-term view?

Or even better: you have cash available, and you hope some of them are actually going to sell off.

Notice, for example, very good results by ResMed ((RMD)) but the share price is weaker. Slightly disappointing results by Car Group, and share price is weaker.

If you're a particular type of investor, which I am very much aligned to, that's not cause for jubilation or to cry out: see I told you, they were too expensive!

It's the opposite: I have cash available, maybe I should add some of those in my portfolio?

That is the proposition, I think, that 2025 is more likely than not going to put forward to investors. It's a completely different dynamic. So, everything will be different this year.

Interviewer: Speaking of some of those companies that have had really high valuations, but also still performance: the big banks. Most of the banks report out of season, but we do have Commonwealth Bank ((CBA)) and Bendigo and Adelaide Bank ((BEN)) coming up. Let's cut to the chase: Can they continue to deliver?

Rudi: I think the answer is yes. A lot has been written about and said, in particular about

Commonwealth Bank, but let's start with the basics.

Banks are not in a fantastic place. They are not a screaming buy. They're not growing very strongly. They're basically holding their turf, not doing too badly, keeping the financial metrics intact.

And with the exception of maybe a Bank of Queensland ((BOQ)), not too many disappointments or disasters are happening. So that's a very safe course, but the shares are in demand.

I think there are two elements too many commentators and too many investors do not understand about the banks.

One element is the international aspect. That's why I'm not negative about the sector.

As the Editor of FNArena, I'm little bit privileged. I do get a lot of research from research houses internationally.

The dynamics internationally are still to the extent that the finance sector, banks in particular, often are being put forward as one of the outperformers for 2025, internationally.

If that is correct, international banks don't have to be the number one sector, but if they keep performing internationally, there's no way Australian banks are going to sell off.

That's just plain logic. For the same reason, if the Nasdaq keeps up in the US, we won't see a big draw down in local technology stocks. That's just how these things work.

The other element, which is equally important, is often missed by people who only look at banks in an isolated case.

You look at Commonwealth Bank in an isolated Commonwealth Bank case, and you look at valuation, prospects, growth, etc and you probably conclude the shares are extremely overvalued. There's no one who will deny this.

But I already figured out 10 years ago that's not how you look at Commonwealth Bank.

Commonwealth Bank is at arm's length the best bank in Australia. There are many ways to illustrate that.

By default, the market puts a premium on Commonwealth Bank in comparison to the sector.

So, the way you should look at Commonwealth Bank is through that premium versus the sector.

Hence, Commonwealth Bank shares at $150, or at $160, or whatever, in isolation looks very expensive, but you need to see it in comparison to the other banks.

If shares in other banks keep rising, Commonwealth Bank will keep its premium. The sector needs to fall as a whole, for Commonwealth Bank shares to come down as well. And that obviously isn't happening.

It's a bit of a long explanation, but I wouldn't necessarily expect the banks are going to shoot the lights out. I don't think they're in for full disaster either.

I think they probably will do relatively well, and for a lot of investors, as we know, the banks offer dividends and franking, and they just love it.

Interviewer: Turning more broadly, which stocks and sectors are on your watch list this season?

Rudi: Some of the stocks I just mentioned, they're very much either in my portfolio or on my wish list.

But two sectors have caught my attention this season, because the expectations are so polarised. So, it becomes a case of winners and losers inside the same sector.

The two sectors are healthcare and telecommunication.

Healthcare used to be, pre-covid, the best performing sector in Australia. I even learned recently that, at that time, this was the only sector in Australia that would outperform its peers internationally.

Five years post covid and those times are over. Covid is really weighing on that sector. We can see that from share prices of Ramsay Health Care ((RHC)), Sonic Healthcare ((SHL)), Healius ((HLS)), even CSL ((CSL)) and Cochlear ((COH); it's all not quite the same as it used to be.

We still have very good performing companies in that sector. Telix Pharmaceuticals ((TLX)) is one of them, as is Pro Medicus ((PME)), although you can argue whether that's more of a technology stock, and ResMed; I'm still a big fan of ResMed.

So, there is still quality and performance in there.

What I noticed recently is when analysts put forward their potential surprises for the season, they've often put forward two of the smaller stocks in healthcare and both are worth considering.

One is Australian Clinical Labs ((ACL)), the other is Integral Diagnostics ((IDX)), which is a merger company.

It seems to be that pre-results confidence is high both will come out with good results and share prices should respond positively.

Full disclosure: I am a shareholder in Integral Diagnostics. I think that's probably a multi-year growth story emerging.

Telecommunication is equally polarised. For those who think that, for example, shares in TPG Telecom ((TPG)) are finally due for a rebound, that's not the view of analysts who still think there's more bad news forthcoming.

But here's the takeaway: analysts also thought that was the case for Domino's Pizza ((DMP)), and all it took for Domino's was to announce restructuring, with less costs and closing down of outlets.

TPG could announce something similar. They are also in negotiations to sell some of their assets. It's not necessarily bad news only.

The discussion about Telstra ((TLS)) is whether it will increase its dividend and whether it can. Apparently, they're running into limits on their franking credits, and that might be a problem.

The one telecommunication company that's being put forward as potentially shooting the lights out this year is Superloop ((SLC)), and that company has been on a tear for quite a while.

I guess, for investors, there's also a message in here that just because a company has performed, it doesn't mean this is the end of performance just yet.

Interviewer: You've mentioned a few growth names. Where are you seeing the best opportunities for growth?

Rudi: The best opportunities are in quality growth; companies that have a runway that is longer than just two or three years.

I already mentioned REA. There's no end to that road. Yes, they will acquire more business at some point. They probably have another go in the UK, if they find a new CEO anytime soon.

Car Group; one of the great stories we have on the stock exchange. My experience is that if you're part of the register, you are more likely to have a big smile on your face after a while.

You have to take the volatility on board. Not every year is a super year for those companies, but on average they're up there, they grow and continue growing and that's basically what you want being a long-term investor.

Interviewer: Are there any areas you steer clear off in the current season?

Rudi: I tend not to jump on when I suspect growth is more manufactured than real, or if it's of low quality, and if the company itself is not that high in quality.

I have this special gene: if everyone's making money out of something, I don't need to be part of that.

Every once in a while, that gene kicks in. Whenever there's disasters on the share market. I'm seldom there.

I like to make comparisons. For example, if I have a choice between Healius and Sonic Healthcare, I will never opt for Healius.

But in the current context, maybe it's better to look at either Australian Clinical Labs or at Integral Diagnostics.

Otherwise, I own no banks outside of Macquarie Group ((MQG)), and no energy stocks.

With the added observation that when analysts make their forecasts for this season, Worley ((WOR)) sits high on everyone's list, not just because of a potential not-as-bad-as-feared result, but there's potential for a surprise on the margins, plus, apparently, since the last changes they made, cash is coming in.

Now everyone starts speculating what are they going to do? Share buyback? More dividends?

It will keep interest in the stock.

Interviewer: In the past, you had reasonably high cash balances. You went as high as 40% in 2022 and cash was at 18% in 2023. What are you holding at the moment?

Rudi: At the moment I have 12.5% in cash. But I think we need to add as well that I have about 5% or 6% in gold. I think that's equally important.

I've been carrying gold for years. My principle is: everyone should own gold. If you ask how much? Well, it sort of depends: How worried are you about the world?

Back in 2020, I had, from memory, about 11% or 13% in gold. The world was closing down. It was looking very worrisome at the time.

On average I own about 5% or 6% in gold because I do think there are plenty of reasons to have some gold in your portfolio. You just don't worry about the volatility.

If you want to do it in Aussie dollars, or US dollars, that's by the by. The currency sometimes works against you or for you.

About that cash: I was prepared to see Trump go really nasty if the election went the other way last year. As it turned out, he won that election quite comfortably and he didn't go nasty.

Subsequently, I've kept that cash just because I wasn't quite sure what was going to happen.

You can now argue, with all-time highs for the market, or almost, this has been my mistake. Too cautious.

Maybe yes, maybe no. I've had two great years with the portfolio. I'm now underperforming but I don't think that's because I'm 12.5% in cash.

That is simply because the market is making a switch into the laggards and the losers from last year, and I'm simply, to a very large extent, not there.

Just a little bit; everyone has portfolio constituents that haven't performed.

But the opportunities will come. They will come through volatility caused by Trump or otherwise, or they will come because of the results.

And as I said earlier, if some of those great growth, quality stocks we have on the stock exchange sell off, I'll be buying.

That's why I have some cash on the sidelines. Otherwise, I can't do it.

Companies that I own now, Hub24 ((HUB)) and WiseTech Global ((WTC)); I bought them when they sold off. I did the same thing with ResMed about 15, 16 months ago

That's why you have cash on the sidelines. It's not necessarily a view that everything will fall apart. When opportunity comes along, it's good to have a little bit on the sidelines.

For some people, 12.5% sounds like a lot, wow! But you find two or three stocks to put some money in and all of a sudden you already start wondering, like, ooh, do I have too much in the market?

Interviewer: Final question: if there was only one Aussie large cap and one small cap that hasn't reported already that you could hold for the rest of the financial year, what would they be?

Rudi: I have a bad history with this as last time I picked CSL ((CSL)), although that was with a longer-term view in mind.

In the current context, I think I would pick NextDC, because I think it's still not well understood by investors. Plus, I think this whole data centre growth story is definitely not near its end, and the share price is still lower than where it was late last year.

I'm very confident that's still an ongoing growth story, and that share price should be a lot higher in years to come, whether that's end of this year or the end of the following year, that's by the by.

NextDC doesn't pay a dividend, of course, and on paper there are no profits, but that's the type of story we're talking about.

I'm very confident in holding NextDC shares.

Interviewer: And the small cap?

Rudi: Well, how about we do Integral Diagnostics? I mentioned it earlier. I'm a shareholder. I think everyone should pay some attention.

It's an interesting combination they've put together. The company seems to be in a segment of the market that seems to have the wind in the sails, or at least soon will be, and they're not necessarily battling the headwinds that Healius has, or Ramsay Healthcare, or CSL, so they should be in a better place.

The share price is definitely not priced for it.

Interviewer: Thank you so much for sharing those tips and sharing your insights today, Rudi, a great repeat of the tradition.

More Beats In Early Feb Results

If everything goes to plan, the RBA will deliver its first rate cut since 2020 at Tuesday's board meeting.

Whether this will be supportive of further share market gains remains to be seen as forward-looking equities have, of course, already responded to the local bond market that has made Tuesday's rate cut pretty much a done deal.

Meanwhile, in the background of it all, the public debate has shifted from will they/won't they to how many rate cuts should we expect this year?

The bond market is suggesting at least three and potentially four rate cuts are on the agenda. Plenty of voices around think that's too optimistic. So what happens if/when the RBA cuts and then signals a la Jerome Powell there's no hurry to follow up with another one until more clarity emerges about what's going on in the world generally?

The ASX200 is trading on an average Price-Earnings (PE) ratio of 18.2x which, no matter how one cuts the numbers, remains well above past averages. One comparison is the multi-decade long average which is around 14.7x. The average for the past ten years is around 16x.

In the US too forecasts for the next Fed rate cut are currently being pushed out towards September or beyond. A similar observation can be made about share market valuations over there. The current quarterly reporting season does not carry the same halo as its predecessors from the past 18 months.

Depending on what exactly we focus on, there's an argument to be made US corporate result outcomes thus far have a slight negative skew, without trying to make this a major development in itself. But the Fed is now on pause and there's plenty to worry about in and around Washington, or at least there's plenty of uncertainty.

US equity markets, throughout all their rallies and turbulence, are essentially at their levels from December. This is very different from the picture that dominates equity markets in Europe and in Asia. Even the ASX200 looks to be carving out what looks more of an ongoing uptrend on price charts, culminating into a fresh all-time record high on Friday.

Co-responsible for the local share market's positive performance thus far in February, following on from an already positive January, has been the positive trend in the first two weeks of the local results season. With investor optimism riding high and the domestic economy holding up reasonably well, the first 50-odd corporate releases have, on average, generated much better outcomes than what we witnessed in both results seasons last year.

Despite all the criticism about a share price that cannot possibly be justified, in isolation, the interim release from CommBank ((CBA)) did not sour the mood and financial performances from Ansell ((ANN)), Computershare ((CPU)), JB Hi-Fi ((JBH)), News Corp ((NWS)), Nick Scali ((NCK)), Pinnacle Investment Management ((PNI)), ResMed ((RMD)), SGH Ltd ((SGH)) and Temple & Webster ((TPW)) all turned out better-than-forecast, even if not all have been immediately rewarded for it.

As is also apparent from FNArena's weekly update on ratings, price targets and earnings forecasts (see: https://fnarena.com/index.php/2025/02/17/weekly-ratings-targets-forecast-changes-14-02-25/) adjustments made to analysts' valuations and forecasts have been much larger than downgrades applied.

But here follows the sobering truth: the numbers in Australia thus far are still relatively low and most reporting seasons start off on a positive note. Let's call it the nature of the beast. By early March the FNArena Monitor will contain updates on circa 390 companies. On Monday, when I am writing these sentences, the corresponding number is still only 57.

FNArena's Corporate Results Monitor: https://fnarena.com/index.php/past-corporate-results-analysis/

Indeed, on Monday shares in Bendigo and Adelaide Bank ((BEN)) are trading down by double digits as margin pressure surprised to the downside. A quarterly update by Westpac ((WBC)) equally did not please, and neither did updates by AMP ((AMP)) on Friday and Insurance Australia Group ((IAG)) before that.

A pre-result guidance by Woodside Energy ((WDS)) has confirmed market worries about the sustainability of the energy producer's dividend.

Sector analysts at Citi have not been in favour of owning shares in Australia's largest energy producer for a long while now (and correct about it too). Following Woodside's market update, they have decided to open a 30-day Downside Catalyst Watch on the shares, which essentially implies they see the share price weakening further.

As also shown in Stock Analysis on the FNArena website, analysts are already anticipating ongoing dividend cuts by Woodside, with the dividend projected to fall from US253c in 2022 to US82c by late 2025. I guess the question now is: how much lower will these numbers go?

For good measure: Monday's results also offered plenty of good news releases as shown by share price responses for a2 Milk ((A2M)), Audinate Group ((AD8)), BlueScope Steel ((BSL)), and GPT Group ((GPT)).

In contrast, shares in perennial struggler Aurizon Holdings ((AZJ)) have sunk to a fresh 13-year low as yet another operational result was unable to meet analysts' forecasts.

This company is often erroneously it needs to be emphasised hailed as a local Buffett stock and many a domestic value' investor carries it in portfolio, only to see the share price continuing its stretched-out, long-winded downtrend.

On my observation, many a shareholder is not even that sad about it, instead focusing on the fact the shares continue offering a high yield; currently estimated at 6.1% and 6.9% for this financial year and FY26, plus 60% franking on top. Seldom does any of those shareholders mention the decline in capital which is now almost -50% from pre-covid 2019.

Make of that what you like. But collecting high yielding dividends while seeing your capital erode away is not my idea of a great investment.

Aurizon Holdings is not the only company in Australia for which expectations for a successful turnaround have come too early this season. That list will continue to grow this month as RBA rate cuts haven't happened yet and there may not be as many as hoped for.

In addition, many operational headwinds remain in place, including for Amotiv ((AOV)), AMP, CSL ((CSL)), Cochlear ((COH)), Lendlease ((LLC)), Orora ((ORA)) and Treasury Wine Estates ((TWE)).

Countering the early enthusiasm from February results, FNArena's Monitor is showing more misses' than beats' for both the ASX50 and the ASX200 to date. That's far from an excellent start, even if these numbers might look better once we include updates for Monday's results.

We should all have a much better insight by week's end, even if that still leaves the final week with plenty of questions to be answered.

Meanwhile, analysts at Macquarie are pondering whether expectations for the Finance sector had become too optimistic, with results to date noticeably polarised. See the ASX ((ASX)), AMP, Bendigo and Adelaide Bank, Insurance Australia Group and Westpac versus CommBank and Suncorp Group ((SUN)).

Combining all 57 result assessments thus far, the pendulum is still very much in favour of beats'

(36.8%) with 33.3% of releases in line with forecasts, and the remaining 29.8% falling short of expectations. Those numbers, if sustained, would make this a better season than August and February last year, but let's not get ahead of ourselves.

There will be plenty of swings and roundabouts in the two weeks before March.

Best Ideas & Conviction Calls

Crestone's Best Sector Ideas are an attempt to identify the best in breed business models for major industry group sectors for long-term oriented investors. Anticipated performance over the next three years is part of the key considerations.

The latest updated selection consists of 17 companies, with no changes made from December.

-Aristocrat Leisure ((ALL))
-Ampol ((ALD))
-APA Group ((APA))
-Beach Energy ((BPT))
-Brambles ((BXB))
-CSL ((CSL))
-Goodman Group ((GMG))
-IGO Ltd ((IGO))
-James Hardie Industries ((JHX))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Monadelphous Group ((MND))
-REA Group ((REA))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Xero ((XRO))

Crestone's selection of **sustainable dividend growers** consists of 22 names. Historically, the stock pickers remind investors, companies that grow dividends consistently can offer superior long-term return for those who own them.

This selection has equally seen no changes from December.

-Amcor ((AMC))
-Ampol ((ALD))
-APA Group ((APA))
-Atlas Arteria ((ALX))
-Beach Energy ((BPT))
-BHP Group ((BHP))
-Car Group ((CAR))
-Coles Group ((COL))
-Dalrymple Bay Infrastructure ((DBI))
-Iress Ltd ((IRE))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Mirvac Group ((MGR))
-Pro Medicus ((PME))
-QBE Insurance ((QBE))
-RAM Essential Services ((REP))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Tabcorp Holdings ((TAH))
-Telstra ((TLS))
-Westpac Banking ((WBC))

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Morningstar's Best Stock Ideas currently consists of the following 15 nominations:

-APA Group ((APA))
-ASX ((ASX))
-Aurizon Holdings ((AZJ))
-Bapcor ((BAP))
-Brambles ((BXB))
-Domino's Pizza ((DMP))
-Dexus ((DXS))
-Endeavour Group ((EDV))
-Fineos Corp ((FCL))
-IDP Education ((IEL))
-IGO Ltd ((IGO))
-Ramsay Health Care ((RHC))
-SiteMinder ((SDR))
-TPG Telecom ((TPG))
-Woodside Energy ((WDS))

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Wilsons' preferred ASX-listed exposures to the artificial intelligence theme are (in order of preference) NextDC ((NXT)), Macquarie Technology ((MAQ)), then DUG Technology ((DUG)).

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When it comes to **mining companies**, **Citi analysts** remain Buy rated on the coal and uranium names, with selective Buy calls elsewhere including for BlueScope Steel ((BSL)), Capstone Copper ((CSC)) and BHP Group ((BHP)). Citi continues to prefer Pilbara Minerals ((PLS)) for ASX100 lithium exposure.

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Shaw and Partners' Model Large Cap Portfolio currently consists of the following:

-Block ((SQ2))
-CSL ((CSL))
-Flight Centre ((FLT))
-Paladin Energy ((PDN))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Telix Pharmaceuticals ((TLX))
-Xero ((XRO))

The broker's favourites among **Emerging Companies**:

-Amaero International ((3DA))
-Australian Vanadium ((AVL))
-Bannerman ((BMN))
-Chrysos ((C79))
-Humm Group ((HUM))
-Metro Mining ((MMI))
-Santana Minerals ((SMI))
-Southern Cross Electrical ((SXE))

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Morgan Stanley's international selection of 31 **Best Businesses**, which aims to combine elements of corporate Quality with valuation', forecasts and Quant analysis, for a two-year investment horizon (which can be extended, of course), includes two ASX-listed companies: Macquarie Group ((MQG)) and Rio Tinto ((RIO)).

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Ord Minnett's selection of **Conviction Calls** ("*our best small cap stock ideas as selected by our* *analysts*').

-ARB Corp ((ARB))
-Aussie Broadband ((ABB))
-Brazilian Rare Earths ((BRE))
-Cosol ((COS))
-Cuscal ((CCL))
-EQT Holdings ((EQT))
-Electro Optic Systems Holdings ((EOS))
-GQG Partners ((GQG))
-Qoria ((QOR))
-Regis Healthcare ((REG))
-SiteMinder ((SDR))
-Stanmore Resources ((SMR))
-Vault Minerals ((VAU))
-Waypoint REIT ((WPR))
-Zip Co ((ZIP))

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Shaw and Partners Top 10 list of Small Cap Ideas for 2025:

-Amaero International ((3DA))
-Australian Vanadium ((AVL))
-Beforepay ((B4P))
-Bannerman Energy ((BMN))
-Chrysos ((C79))
-Humm Group ((HUM))
-Metro Mining ((MMI))
-Santana Minerals ((SMI))
-Silex Systems ((SLX))
-Southern Cross Electrical Engineering ((SXE))

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In December, analysts at **Bell Potter** published their most favoured stock picks for the year ahead, with multiple ideas put forward per sector.

-Listed Investment Companies (LICs): Australian Foundation Investment Company (AFI), Qualitas Real Estate Income Fund ((QRI)), and MFF Capital Investments ((MFF))

-Technology & Gaming: Life360 ((360)), Light & Wonder ((LNW)), and Gentrack Group ((GTK))

-Diversified Financials: Perpetual ((PPT)) and Regal Partners ((RPL))

-Real Estate: Aspen Group ((APZ)), Cedar Woods ((CWP)), and Dexus Convenience Retail REIT ((DXC))

-Retailers: JB Hi-Fi ((JBH)), Premier Investments ((PMV)), and Accent Group ((AX1))

-Industrials: GenusPlus Group ((GNP)), SRG Global ((SRG)), and Duratec ((DUR)) as well as Austal Ltd ((ASB)), Brickworks ((BKW)), and IPD Group ((IPG))

-Healthcare: PolyNovo ((PNV)), Clarity Pharmaceuticals ((CU6)), and CSL ((CSL)) as well as EBR Systems ((EBR)), Biome Australia ((BIO)), and Genetic Signatures ((GSS))

-Gold companies: Genesis Minerals ((GMD)), Gold Road Resources ((GOR)), and Santana Minerals ((SMI))

-Base Metals: AIC Mines ((A1M)) and Nickel Industries ((NIC))

-Strategic Minerals: Alpha HPA ((A4N)) and IperionX ((IPX))

-Bulks & Energy companies: Boss Energy ((BOE)), Champion Iron ((CIA)), and Fenix Resources ((FEX))

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Jarden's December update reduced the number of **Best Ideas** from the circa 110 smaller cap companies covered (ex-AS100) to 18 from 20 previously.

The broker's Emerging Companies' Key Picks (in order of total shareholder return) are:

-Qualitas ((QAL))
-Universal Store Holdings ((UNI))
-SiteMinder ((SDR))
-Temple & Webster ((TPW))
-Nick Scali ((NCK))
-EVT Ltd ((EVT))

The above are all picked by the broker's Emerging Companies research team. The following stock picks have been selected by respective sector analysts:

-Champion Iron ((CIA))
-Domain Holdings Australia ((DHG))
-Genesis Energy ((GNE))
-Integral Diagnostics ((IDX))
-Ingenia Communities Group ((INA))
-Inghams Group ((ING))
-Karoon Gas ((KAR))
-Michael Hill International ((MHJ))
-Monadelphous ((MND))
-Pointsbet Holdings ((PBH))
-Pepper Money ((PPM))
-Telix Pharmaceuticals ((TLX))

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Macquaries selection of **best fundamental picks among quality mid-cap companies** on the ASX:

-AUB Group ((AUB))
-Breville Group ((BRG))
-Ebos Group ((EBO))
-Flight Centre ((FLT))
-Fisher & Paykel Healthcare ((FPH))
-Integral Diagnostics ((IDX))
-Lovisa Holdings ((LOV))
-Nick Scali ((NCK))
-Megaport ((MP1))
-Monash IVF ((MVF))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Management ((PNI))
-Qualitas ((QAL))
-Reliance Worldwide ((RWC))
-Ventia Services ((VNT))

****

Morgan Stanley's Macro+ Focus List in Australia is currently made up of:

-AGL Energy ((AGL))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-GPT Group ((GPT))
-James Hardie ((JHX))
-Macquarie Group ((MQG))
-Paladin Energy ((PDN))
-Santos ((STO))
-Suncorp Group ((SUN))
-WiseTech Global ((WTC))

****

Morgan Stanley's **Australia Macro+ Model Portfolio** is currently made up of the following:

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac ((WBC))

-Macquarie Group ((MQG))

-Suncorp Group ((SUN))

-Goodman Group ((GMG))
-GPT Group ((GPT))
-Scentre Group ((SCG))
-Stockland ((STG))

-Aristocrat Leisure ((ALL))
-CAR Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-WiseTech Global ((WTC))

-James Hardie ((JHX))

-Orica ((ORI))

-Coles Group ((COL))

-CSL ((CSL))
-ResMed ((RMD))

-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban ((TCL))

-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))

-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

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Macquarie Wealths recommended **Growth Portfolio**:

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-James Hardie Industries ((JHX))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Pinnacle Investment Management ((PNI))
-Treasury Wine Estates ((TWE))

-Viva Energy ((VEA))
-Xero ((XRO))
-IGO Ltd ((IGO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))
-ANZ Bank ((ANZ))
-BHP Group ((BHP))
-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

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Macquarie's ASX Quality Compounders:

The highest quality compounders' as identified by Macquarie quant research inside the ASX300:

-James Hardie ((JHX))
-Cochlear ((COH))
-REA Group ((REA))
-TechnologyOne ((TNE))
-ResMed ((RMD))
-Data#3 ((DTL))
-Pro Medicus ((PME))
-Jumbo Interactive ((JIN))
-PWR Holdings ((PWH))
-Netwealth Group ((NWL))
-Aristocrat Leisure ((ALL))
-Spark New Zealand ((SPK))
-Codan ((CDA))
-Clinuvel Pharmacauticals ((CUV))
-Redox ((RDX))

Given Macquarie's research strong leaning on the past five years, with high barriers to match, the following 11 companies fell just outside the above list:

-Fisher & Paykel Healthcare ((FPH))
-Medibank Private ((MPL))
-Coles Group ((COL))
-The Lottery Corp ((TLC))
-Lovisa Holdings ((LOV))
-CSL ((CSL))
-IDP Education ((IEL))
-Pinnacle Investment Management ((PNI))
-ARB Corp ((ARB))
-Breville Group ((BRG))
-Johns Lyng ((JLG))

My own research and All-Weather stock selections are 24/7 available for paying subscribers: https://fnarena.com/index.php/analysis-data/all-weather-stocks/

February's Reality Check

No matter how one tries to cut and slice the facts, February has been a sore disappointment for Australian investors, starting with price action as the ASX200 retreated by -4.22% over the month but kept losses limited to -3.79% through bank and other dividends.

February marked a notable reversal from the optimism that saw January starting off with strong gains, pushing the index up by 4.6%, but all of those gains, and widespread optimism, have now disappeared.

Given the negative trend that dominated the final week of the month, investors might consider it a positive to see the major index unchanged for the year to date.

Excitement Arrived Too Early

February also marks the interim results season for most ASX-listed companies and here too a firm reality check has descended upon the market.

Pre-season there was widespread optimism that earnings might have bottomed and companies would be whetting investors' appetite with better cost control and rising sales, and early signs of greenshoots appearing on top.

Alas, such forecasts and anticipations have been proven to be largely premature, with businesses continuing to struggle with exposures to New Zealand across the Tasman, and Victoria on the mainland, in addition to uphill battles in places like the US and the UK.

At face value, February did generate more earnings beats' than misses', but the gap between these two outcomes notably reversed throughout the final stretch of the season as more smaller cap companies reported.

Analysts at Morgan Stanley observed when measured against sales and revenues, the balance actually swings in favour of more misses', which yet again indicates times remain tough out there for most companies.

Which is also the key reason as to why boards and management teams preferred to communicate with caution.

Strategists at Macquarie had anticipated much more talk about greenshoots and better times arriving, but it simply wasn't to be.

UBS research shows more companies have seen forecasts being downgraded than upgraded in February.

Results Are Better, But Not Great

The **FNArena Results Season Monitor** for the month doesn't simply look at reported earnings, but also takes into account broader items and forward-looking guidance, and its balance shows beats/meets/misses at roughly one third each for ASX200 companies.

While this does mark a significant improvement on last year's August season when disappointments made up the largest percentage, it was not better than February twelve months ago which was not a particularly ebullient experience either.

Now all companies have reported for the season, consensus EPS growth has declined to -0.7% for FY25, implying negative growth on average for the third consecutive year for Australia.

The good news is EPS growth for FY26 currently stands at 8%. For a market that needs something positive to look forward to, significantly above-average growth on the horizon is exactly what the doctor would prescribe.

Sectors mostly responsible for the reduction in profit forecasts are Energy, Banks, Healthcare and Tech sectors.

The offset is many, including RBA decision makers themselves, question the bond market's optimism on the number of rate cuts forthcoming.

There's still plenty of uncertainty about the exact impact from the new US administration's policies, not the least since that spectacular blow up in negotiations with the Ukraine.

If February is our guide for what follows next, it very much looks like US economic momentum is increasingly under a question mark. It's eerily quiet on private equity deal makings. Don't count on investor anxiety to disappear anytime soon.

Greenshoots & Portfolio Rotation

It wasn't all bad news that happened throughout February, of course. When viewed through more pink-coloured glasses, it can be argued many sectors in Australia are exhibiting resilience in the face of multiple headwinds and much of the negatives I just highlighted are the result of resources companies feeling the pressure (yet again).

But one of the key characteristics of February has been that positive surprises did not automatically receive a reward, as is usually the case.

Plenty of examples around to support that observation. Think JB Hi-Fi ((JBH)) and Hub24 ((HUB)), but also ResMed ((RMD)), Wesfarmers ((WES)) and Pinnacle Investment Management ((PNI)), and others.

In contrast, consensus-beating results by the likes of a2 Milk ((A2M)), Audinate Group ((AD8)), oOh!media ((OML)), Bapcor ((BAP)) and BlueScope Steel ((BSL)) have seen their share prices rally hard in response.

One possible interpretation is that some prices had already run too hard, irrespective of results still beating forecasts.

Another explanation seems equally valid: investors' focus remains on the upcoming cyclical upturn, hence cyclical laggards on a relatively cheap valuation remain the *flavour du jour*, hopefully while avoiding too many disasters along the way.

Landmines Galore

With respect to the latter group of companies, every results season generates a list of sorry disappointments and savage sell-offs, but February in particular seemed ultra-treacherous for the unsuspecting investor.

An observation confirmed by UBS strategist Richard Schellbach whose number crunching puts the average intra-day swing in share prices at 7% on days of result reporting.

Such volatility is "unprecedented", reports Schellbach, but also likely to stay with the market so investors will simply have to find ways to deal with it.

As to why the average share price response has become much heavier these days, the UBS strategist suggests more passive money (think broad-based ETFs), reduced liquidity, and stale earnings estimates are probably all part of the explanation.

Regarding the latter, it is a fact most brokerages operate on smaller teams of analysts these days and less time and opportunity no doubt translates into less attention and fewer updates for less important (less popular) companies. Hence, increased odds for significantly different results, in either direction.

February's list of eye-catching punishments includes the likes of AMP ((AMP)), Mineral Resources ((MIN)), Bendigo and Adelaide Bank ((BEN)), SiteMinder ((SDR)), Integral Diagnostics ((IDX)), Viva Energy ((VEA)), Domino's Pizza ((DMP)), Platinum Asset Management ((PTM)), and Magellan Financial ((MFG)).

Here one observation is worth highlighting in reference to the legendary Warren Buffett's observation that many a turnaround story never genuinely turns around.

What do companies such as Aurizon Holdings ((AZJ)), Lendlease ((LLC)), IDP Education ((IEL)), Platinum Asset Management and Domino's Pizza have in common?

These are all businesses operating in struggle street for multiple years on end, and February did yet again not deliver that long-awaited positive reversal in fortune that many a loyal shareholder is holding out for. We can also add the healthcare sector generally to that list as well.

One firm conclusion from February is investors better be extremely picky when positioning for businesses to emerge from troubled waters.

Lest we forget: those buying and holding on to Star Entertainment Group ((SGR)) shares might see the value of their allocation reduce to zero as administrators are waiting to be called in while trading is suspended because no financial result has been forthcoming.

Another observation worth highlighting is when times are tough and tricky, smaller cap companies do represent significantly more risk to the downside.

In February, all five heaviest decliners inside the ASX300 weakened in excess of -30%. Shares in Appen ((APX)), which nowadays is only inside the All-Ords and the local Technology index, dropped more than -50% for the month.

On the flipside, owning shares in Nanosonics ((NAN)), Megaport ((MP1)) or Arafura Rare Earths ((ARU)) would have delivered 30%-plus in net gains.

Revenues & Dividends

Morgan Stanley has spotted a close relationship between positive surprises at the top line level (sales and revenues rather than simply margins or profits) and strong share price rewards post result releases.

Also, some 22% of companies reporting have triggered meaningful positive revisions to analysts' forecasts and these share prices too have been handsomely rewarded.

Companies that fall into this category include Telix Pharmaceuticals ((TLX)), Ramelius Resources ((RMS)), Nanosonics ((NAN)), Temple & Webster ((TPW)) and HMC Capital ((HMC)) for FY25 forecasts.

For the following year of FY26, this also includes Coronado Global Resources ((CRN)), MAC Copper ((MAC)), Paladin Resources ((PDN)), SiteMinder, and Service Stream ((SSM)).

Morgan Stanley's number crunching also shows for the second season in a row revenues generated more misses than positive surprises with the final balance a net negative outcome.

This has no precedent over the past decade and surely puts the debate about the true state of the Australian economy and whether RBA rate cuts are justified to rest.

Total dividend announcements have equally been recorded as a net negative for the season.

To Sell Or Not To Sell

Within the space of a number of weeks only, the prospect of further gains for US equities looks quite remote, as the early euphoria from Trump's election victory has quickly evaporated.

There are still voices in the market who believe the tough guy' President will flinch first if/when the current draw down threatens to descend into a much bigger black hole for share markets, but who knows, really?

The **FNArena-Vested Equities All-Weather Model Portfolio** has lifted its allocation to cash to circa 15% in addition to some 7% exposure to gold.

Elsewhere, we note some portfolios have moved to 80% in cash, while pondering whether 100% is more appropriate for the uncertainty ahead.

The All-Weather Portfolio had moved to 40%-plus in cash back in 2022, when a global reset in bond yields worked as a sledgehammer on valuations for Quality and Growth stocks. We'll do it again, and possibly more, if we are convinced a new GFC-like bear market is waiting to descend upon financial markets, but we are not yet convinced of that.

There is definitely a possibility for times to remain rough and tough for quite a while. From the Asian currency crisis, Y2K, the GFC, covid and the global bond reset; the past few decades have seen plenty of issues arising that weighed on markets for many, many months. Think also Grexit and EU-related problems.

This might well be one of such times. We don't know for certain yet.

As far as my own experiences go, such times are ideal for upgrading and re-calibrating the investment portfolio. Throw out the misfits, the disappointments, the keep-my-fingers-crossed-it-won't-get-worse Hail Marys, and the higher risk, small cap possibilities for a future ten bagger.

Instead, it is time to start researching those Higher Quality stalwarts you always thought were too expensively priced to buy. If the current trend remains ongoing, you'll soon be able to purchase them at much cheaper levels. This is the true gift that share markets present when risk off dominates the global landscape.

From personal experience, I can also confirm it does wonders to one's mindset. Of course, the value of the portfolio still goes down with every day of weakening share prices, but you'll be surprised how much of a difference it makes to one's mindset to have cash available for whenever the right opportunity comes along.

To the trained eye, the February result season would have provided plenty of such examples. I intend to elaborate more on this in Monday's follow-up edition of Weekly Insights.

There remains, of course, my personal research into **All-Weather Performers**, including some of the smaller cap companies I believe still have a long runway of growth ahead with higher quality attributes than most of their peers.

Some changes have been made to the selections available on the dedicated section of the website:

Have been removed: APA Group ((APA)), IDP Education ((IEL)), Integral Diagnostics ((IDX)), and Redox ((RDX)) not all from the same selections.

Have been added: Sigma Healthcare ((SIG)) and Pinnacle Investment Managers ((PNI)).

I intend to elaborate more on these changes in Monday's Weekly Insights. (See also further below).

https://fnarena.com/index.php/analysis-data/all-weather-stocks/

Longview Stays Equities Neutral

Longview Economics removed its portfolio Equities Overweight recommendation in early February as more and more technical Sell signals accumulated but Chief Market Strategist Chris Watling had already concluded late last year the US bull market looked tired and exhausted.

Longview's most recent strategy update, released this week, has stuck with a Neutral equities exposure alongside an Overweight allocation for US Treasuries and Underweight Cash.

It is Watling's observation that more and more signals are pointing towards slowing economic momentum for the US economy, while Trump's tariffs add more negative pressure, but US equities are also -6% off their recent all-time peak, and weakening daily.

Under different circumstances, reports Watling, one might be inclined to start considering a more constructive view on the markets, but not this time. Longview Economics is anticipating a relief rally of some sorts shortly, but weakness should resume soon after.

It is Longview's assessment equity markets might be staring at multiple weeks of weakness, potentially morphing into multiple months in case of a worse outcome. Tactically Cautious is the main theme. But also: Neutral, not Sell.

Incidentally, **Franklin Templeton** sent out a press statement this week in which Fixed Income CIO Sonal Desai argues taking a too pessimistic view on the trajectory ahead seems "premature" at this stage, with the US economy, despite everything, still expected to grow above potential in 2025.

Crestone Downgrades To Neutral

Scott Haslem, Chief Investment Officer at **Crestone**, has equally stuck with a Neutral allocation to both Australian equities and government bonds, having trimmed Overweight allocations in February, while retaining an optimistic view overall for the US economy and corporate profits.

Locally, while the February reporting season proved far from fantastic, Haslem argues significant downside scenarios seem unlikely and the remainder of 2025 should see moderate guidance upgrades overall from corporate Australia.

Crestone retains Overweight positions for US and Japanese equities.

Crestone's **Best Sector Ideas** are an attempt to identify the best in breed business models for major industry group sectors for long-term oriented investors. Anticipated performance over the next three years is part of the key considerations.

The latest updated selection consists of 18 companies, with Cochlear added to the prior list of 17 (unchanged).

-Aristocrat Leisure ((ALL))
-Ampol ((ALD))
-APA Group ((APA))
-Beach Energy ((BPT))
-Brambles ((BXB))
-Cochlear ((COL))
-CSL ((CSL))
-Goodman Group ((GMG))
-IGO Ltd ((IGO))
-James Hardie Industries ((JHX))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Monadelphous Group ((MND))
-REA Group ((REA))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Xero ((XRO))

Crestone's selection of **sustainable dividend growers** consists of 22 names. Historically, the stock pickers remind investors, companies that grow dividends consistently can offer superior long-term return for those who own them.

This selection has seen no changes.

-Amcor ((AMC))
-Ampol ((ALD))
-APA Group ((APA))
-Atlas Arteria ((ALX))
-Beach Energy ((BPT))
-BHP Group ((BHP))
-Car Group ((CAR))
-Coles Group ((COL))
-Dalrymple Bay Infrastructure ((DBI))
-Iress Ltd ((IRE))
-Lottery Corp ((TLC))
-Macquarie Group ((MQG))
-Metcash ((MTS))
-Mirvac Group ((MGR))
-Pro Medicus ((PME))
-QBE Insurance ((QBE))
-RAM Essential Services ((REP))
-ResMed ((RMD))
-Suncorp Group ((SUN))
-Tabcorp Holdings ((TAH))
-Telstra ((TLS))
-Westpac Banking ((WBC))

Cit's Focus On Healthcare

The interim update disappointed and Integral Diagnostics' ((IDX)) share price received an absolute shellacking, but **healthcare analysts at Citi**, for one, are keeping the faith.

They have elevated the stock to their number one preferred exposure in Australian healthcare, now beating CSL ((CSL)), Australian Clinical Labs ((ACL)), ResMed ((RMD)), and Cochlear ((COH)).

Ratings for all three of Integral Diagnostics. ResMed and Cochlear were upgraded to Buy this week.

ResMed's share price weakness following a strong performance operationally in February has equally caught the attention of stock pickers at **Goldman Sachs**.

ResMed has now been added to the broker's **APAC Conviction List**, where the stock joins Worley ((WOR)) and Iluka Resources ((ILU)) as the only other representatives from the ASX.

Healthcare sector analysts at Wilsons have selected ResMed, Telix Pharmaceuticals ((TLX)), Clarity Pharmaceuticals ((CU6)), Clinuvel Pharmaceuticals ((CUV)), and CSL for most potential upside.

Wilsons Adjusts Focus Portfolio

The February results season has seen **Wilsons' Focus Portfolio** sell out of Steadfast Group ((SDF)) and trim exposure to Xero ((XRO)), although the latter did not release any financials during the month as it reports in between the main seasons.

The proceeds from both changes have been used to add exposure to WiseTech Global ((WTC)) and also add Brambles ((BXB)) into the mix.

Other changes made involve more exposure to Goodman Group ((GMG)) through its capital raise, with minor negative adjustments to portfolio weightings of Aristocrat Leisure ((ALL)) and Hub24 ((HUB)).

RBC Capital Prefers Coles

This week, **RBC Capital** initiated coverage on Australia's two dominant supermarket operators with a preference for Coles Group ((COL)) over Woolworths Group ((WOW)).

That preference revolves around the simple observation that positive momentum, for the time being, is with the smaller operator of the two, a fact yet again confirmed during the February results season.

On the opposing side, Woolworths management certainly has a sizeable task at hand to once again righten the ship.

RBC analysts also suggest were Coles to continue on its positive growth trajectory, and with Woolworths still in struggle street, it is not inconceivable shares in Coles will revert to a relative premium from a narrowing valuation discount over the year past.

Woolworths thus starts with a $31 price target and Sector Perform rating while Coles enjoys an Outperform rating and $22 price target.

Morgan Stanley Makes No Changes

Morgan Stanley's **Macro+ Focus List** in Australia is currently made up of:

-AGL Energy ((AGL))
-Aristocrat Leisure ((ALL))
-Car Group ((CAR))
-GPT Group ((GPT))
-James Hardie ((JHX))
-Macquarie Group ((MQG))
-Paladin Energy ((PDN))
-Santos ((STO))
-Suncorp Group ((SUN))
-WiseTech Global ((WTC))

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Morgan Stanley's **Australia Macro+ Model Portfolio** is currently made up of the following:

-ANZ Bank ((ANZ))
-CommBank ((CBA))
-National Australia Bank ((NAB))
-Westpac ((WBC))

-Macquarie Group ((MQG))

-Suncorp Group ((SUN))

-Goodman Group ((GMG))
-GPT Group ((GPT))
-Scentre Group ((SCG))
-Stockland ((STG))

-Aristocrat Leisure ((ALL))
-CAR Group ((CAR))
-Domino's Pizza ((DMP))
-The Lottery Corp ((TLC))
-Wesfarmers ((WES))
-WiseTech Global ((WTC))

-James Hardie ((JHX))

-Orica ((ORI))

-Coles Group ((COL))

-CSL ((CSL))
-ResMed ((RMD))

-AGL Energy ((AGL))
-Origin Energy ((ORG))
-Telstra ((TLS))
-Transurban ((TCL))

-BHP Group ((BHP))
-Newmont Corp ((NEM))
-Rio Tinto ((RIO))
-South32 ((S32))

-Paladin Energy ((PDN))
-Santos ((STO))
-Woodside Energy ((WDS))

No Changes From Macquarie

Macquarie Wealths recommended **Growth Portfolio**:

-Goodman Group ((GMG))
-Seek ((SEK))
-Aristocrat leisure ((ALL))
-Northern Star ((NST))
-CSL ((CSL))
-Computershare ((CPU))
-NextDC ((NXT))
-Flight Centre ((FLT))
-Cleanaway Waste Management ((CWY))
-Steadfast Group ((SDF))
-James Hardie Industries ((JHX))
-ResMed ((RMD))
-Pexa Group ((PXA))
-Pinnacle Investment Management ((PNI))
-Treasury Wine Estates ((TWE))
-Viva Energy ((VEA))
-Xero ((XRO))
-IGO Ltd ((IGO))

Macquarie Wealth's recommended **Income Portfolio:**

-Suncorp Group ((SUN))
-Telstra ((TLS))
-National Australia Bank ((NAB))
-Westpac Bank ((WBC))

-ANZ Bank ((ANZ))
-BHP Group ((BHP))
-CommBank ((CBA))
-Premier Investments ((PMV))
-Coles Group ((COL))
-Viva Energy ((VEA))
-Atlas Arteria ((ALX))
-Aurizon Holdings ((AZJ))
-APA Group ((APA))
-GPT Group ((GPT))
-Deterra Royalties ((DRR))
-Metcash ((MTS))
-Amotiv ((AOV))
-Charter Hall Retail REIT ((CQR))
-Amcor ((AMC))

Preparing For Tougher Times Ahead

A little over four months since the 2024 presidential election and circa seven weeks after Donald J Trump was sworn in as the 47th president of the USA, financial markets are grappling with the realisation this new administration is not simply about getting rid of red tape and lowering taxes.

There's a much more radical strategy that is being rolled out, making America more isolationist and American businesses home base-focused. Forcefully unwinding 80 years of trading and investing globally will never be a rapid and smooth process.

Can it work' in the way the Trump administration thinks it should?

One of my favourite expressions, one I often use in relation to central bank policies and specific economic initiatives is: in theory, there is no difference between theory and practice. In practice, however, there almost always is.

It's quite popular among investors these days to mock all those forecasts that economic recession and a savage bear market would be the result of never-before-witnessed central bank tightening but the consensus recession never arrived and the brief bear market for Quality, Growth and Technology stocks that did eventuate has long been forgotten about as these stocks rallied to fresh all-time highs by late last year.

Both economists and financial markets have an abysmal track record when it comes to accurately predicting the future, but one thing cannot be ignored or denied: markets don't like uncertainty.

Right now, there are very few matters that remain set in stone or that can be relied upon with 100% certainty.

To a very large extent, this is of the US president's own making as we all know he likes the broad media attention, as well as creating chaos to leave everyone else guessing about his next possible moves, and thus there are no guarantees left for financial markets looking for clues and likely outcomes.

The one question that remains on my mind is how much of a backflip, and how many backflips, will follow once protests in the streets reach enough members of Congress and inside this administration as many actions and inititiatives will hurt US businesses and households hard and, frankly, they often seem to make little sense, also taking into account many US citizens that will be feeling the pain voted for Trump at the November election.

Even more important, the radical change that is being forced upon the US economy has never been attempted before. There is literally no historical precedent.

Sure, there have been times when the US, and other countries, actively applied and relied upon tariffs, but that never before has occurred in the context of weening the entire economy away from international trading.

No precedent means there's no historical framework investors can rely upon for what's coming up next. Are tariffs inflationary? They can be, assuming consumers simply keep buying irrespective of higher prices. They can also be deflationary if higher prices have the opposite effect.

Pick your pick. It is well possible that inflation comes first, then the economic slow down and deflation.

Constant messaging by the US administration that plans and implications have been well-thought through and offer no surprises will only harden the market's anxiety that things may well become a lot worse first.

No surprise thus, the overall climate for US equities, and in Australia as well, has deteriorated in recent weeks. Gone are the widespread enthusiasm and forecasts of yet another year of positive return.

Right now the mood is Risk Off and general anxiety revolves around how low can these markets fall?

How we respond to this change in the overall climate and direction of the share market is very much a personal choice. One school of thought tells us anything nefarious will prove to be but temporary.

History shows things always get back on the right track, as that's the scenario that always plays out, even after global wars, financial system meltdowns and severe economic recessions.

The flipside is, of course, there are plenty of stocks around that never recovered from the Nasdaq meltdown (25 years ago), or from the GFC (18 years ago), or more recently the covid lockdowns (4-plus years ago).

Plus it can take many, many years to make up for the fall in capital value of our investments in case markets do experience a deep and prolonged bear market.

The other factor to note is it is one thing to look back at history and conclude troubled times never last, it is a complete different experience to be in the thick of market turbulence and see the dollars flying off one's investment portfolio.

Who really has the stomach, and the confidence, if given the choice?

Others prefer to simply sell out and retreat to the sideline. After all, if you're going to panic, you better do it early and capital preservation, for most among us, is not a luxury.

This strategy is not without its pitfalls either. Plenty of examples around of investors who miss the turnaround or who are misled by the next bear market rally and end up being worse off.

Some investors who had abandoned investing in the share market back in 2020 only returned last year. Confronted with the same dilemma, after having missed out on the strong gains in between, surely those investors must be thinking this is getting all too hard?

The way most humans operate, having no skin left in the game it usually doesn't take long before general interest wanes and finds something else to focus on.

But investing is like playing golf. If you want to retain any chance of success, you must continue to focus and practice, even during the down times.

All bear markets present long term opportunities, but to grab such opportunities, and leave as little to plain good luck as possible, it's probably best investors continue to research and prepare, and resort to that rather rare commodity: patience.

The market does what it does and does not care about our goals, strategy or level of experience.

The first thing to make sure is to reduce our own anxiety. Having sleepness nights is never a recipe for throughtfull actions and success.

Which is why my personal strategy consists of cleansing the portfolio by getting rid of the duds, the disappointments and the less reliable performers.

This, by the way, is the complete opposite of what most investors do when confronted with these tougher-outlook dilemmas.

They sell the winners in order to save the profits that were made. This is why we see bigger share price falls in last year's winners. At least, this is what happens in the first phase.

As not every sell-off or downturn follows the same script, and given nobody is familiar with mass-tariffs and their impacts, we can only speculate exactly how the script for 2025 unfolds, but a few general rules might well apply:

-if this is the start of a prolonged Risk Off period, solid, dependable, cash generating, lowly indebted, higher quality businesses will prove their mettle, eventually

-Risk tends to show up during Risk Off periods, meaning cyclicals are ultimately hit harder and large cap companies outperform their smaller cap peers

Regarding the latter: if there's one lesson to draw from the February results season just concluded it is smaller cap companies are much more likely to disappoint when the operating environment is tough and challenging.

A second conclusion from February is that a tough environment means companies in struggle most likely continue to struggle.

Regardless of what we all had in mind in January, February and now March are signalling the likelihood of rough(er) and tough(er) times ahead.

In my playbook now is the time to be more cautious, not necessarily to panic, but to make sure we sleep at night and we prepare for better times ahead.

In the end, all this might eventually not generate the outcome we are preparing for, like Tropical Cyclone Alfred this month, but we cannot be sure about these things in advance.

So dial back on the risk taking, lower the overall risk profile of the portfolio, have cash on the sideline, be patient and don't lose interest. Take heed of the lessons from historical precedents and from February results.

The **FNArena-Vested Equities All-Weather Portfolio** has over the past decade never gone 100% in cash, but being more conservative and having cash on the sideline has more than once proven its utility and value, like in 2020 and during 2022.

These are times to hunker down rather than speculate on tiny specs and hope for the best. The Portfolio includes a standard allocation to gold (ETF) and sturdy, trustworthy dividend payers, which currently include Telstra ((TLS)), HomeCo Daily Needs REIT ((HDN)), and Dicker Data ((DDR)).

The change in general climate, after a disappointing February, has already triggered revisions and a rethink by market strategists and analysts at Goldman Sachs and Ord Minnett, to name but two. More about those changes in Rudi's View follow up on Thursday.

I have equally made a number of changes to my curated stock selections, as also highlighted on Thursday last week.

One of my personal disappointments in Febuary came from **Integral Diagnostics ((IDX))**, a tie-up with Capitol Health that should take out joint synergies and see profit margins increase further as the business scales up, but February arrived too soon for such benefits to show up.

So instead of starting what seemed like a pre-determined, multi-year growth story, the share price tanked by some -28%.

In light of the level of disappointment, which was in the single digits and nowhere near the level of punishment received, and the outlook for the company and the industry overall domestically, the market's response looks well overcooked.

Let this be yet another reminder to us all: smaller cap companies do represent higher risk.

Not only because smaller setbacks can have a relatively larger impact on their operations, but also because less liquidity in the share price and less familiarity among investors can easily lead to outsized outcomes; in this case to the downside.

As also highlighted last Thursday, healthcare analysts don't think the investment thesis has now been invalidated.

Some analysts have made Integral Diagnostics their number one favourite for healthcare sector exposure on the ASX.

Stock Analysis shows all seven brokers actively covering the company rate it a Buy with price targets set well above that beaten down share price.

All of a sudden there are market rumours too that private equity is now eyeing the company.

Integral Diagnostics will remain on my personal radar, but to be selected and included in my curated lists requires a higher level of dependability and performance. After all, a label of higher Quality cannot just be handed out to every company with favourable growth potential.

Not to mention the general context right now. Hence, why Integral Diagnostics might well still enjoy a favourable view among sector analysts, it cannot remain on my selected lists.

The story of **chemicals distributor Redox ((RDX))** post February is not that dissimilar.

Higher costs, albeit for different reasons, equally meant Redox' interim performance in February fell short of forecasts and its share price got duly shellacked in response. The share price has to date failed to recover and is down circa -34% from the day prior to the release.

Redox originally attracted my attention as Macquarie Quant analysis into Quality Compounders on the ASX highlighted this domestic market leader as exhibiting the same key characteristics that have made the likes of REA Group ((REA)), TechOne ((TNE)) and Pro Medicus ((PME)) such a wonderful asset for such a long time.

Redox only listed in mid-2023 but its share price had enjoyed a steady up-trend since, until last month.

Same as with Integral Diagnostics; Redox cannot at this stage be included in my selections of Higher Quality Performers on the local bourse, but I am keeping a close watch on further developments.

For the coming weeks, the focus in my writings will be on companies that are on my personal radar as markets travel through volatile and uncertain times.

Hopefully, my own observations and insights can assist investors with navigating the challenges forced upon markets this year.

Post February Conviction Calls

The February results season did not live up to expectations and share markets have gone into a negative spiral during and since.

As Steve Miller once sang: *"Round and round it goes, where it stops, nobody knows"*.

The ideal environment, one might conclude, to refresh the strategy and portfolio, while taking some key observations and conclusions from February results on board.

Analysts at **Morgan Stanley** have yet again communicated their **Conviction Calls among ASX-listed smaller cap companies**. That selection post-February consists of the following six:

-Corporate Travel Management ((CTD))
-Generation Development ((GDG))
-Dicker Data ((DDR))
-McMillan Shakespeare ((MMS))
-Propel Funeral Partners ((PFP))
-Superloop ((SLC))

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Analysts at **Goldman Sachs** too have shared their key calls post the season described as "volatile and idiosyncratic".

Key positive picks:

-Life360 ((360))
-Codan ((CDA))
-Collins Foods ((CKF))

Do note Collins Foods reports on a different cycle and will release FY24 financials in July.

Fast food chain Guzman y Gomez ((GMG)) has been selected as a prime Sell as the analysts cannot reconcile what they believe is an overly ambitious expansion plan with an elevated valuation, on top of overhang from shareholders coming out of escrow in March and August, respectively opening up 13% and 40% of total capital possibly up for sale.

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Portfolio managers at **UBS** decided to downgrade the local Energy sector to Underweight led by poor earnings results released by the sector in February, as well as an equally poor macro picture overhanging the sector's outlook.

UBS also highlighted its fundamentals based view for an Underweight allocation to Australian banks was, simply put, vindicated in February. The broker's model portfolio retains an Overweight allocation to Insurers, TMT (Technology, Media and Telecommunication) and to Industrials.

The local Heathcare is also Underweighted, as are Small Caps.

As far as individual stocks are concerned, UBS's list of **Most Preferred Exposures** has witnessed the inclusion of six names:

-BHP Group ((BHP))
-Lifestyle Communities ((LIC))
-Collins Foods ((CKF))
-Medibank Private ((MPL))
-Light & Wonder ((LNW))
-Life360 ((360))

Are no longer on the broker's Most Preferred list:

-Cleanaway Waste Management ((CWY))
-NextDC ((NXT))
-Rio Tinto ((RIO))
-Santos ((STO))
-Suncorp Group ((SUN))

The switch in preference for BHP over Rio Tinto is due to BHP's higher quality iron ore operation in the Pilbara, but also because of less risks from tariffs, explains the broker.

UBS's selection of **Least Preferred exposures** currently consists of:

-APA Group ((APA))
-Aurizon Holdings ((AZJ))
-ASX Ltd ((ASX))
-Bank of Queensland ((BOQ))
-CommBank ((CBA))
-IDP Education ((IEL))
-JB Hi-Fi ((JBH))
-Reece ((REH))
-Sonic Healthcare ((SHL))

Have been removed from the negative selection:

-Cochlear ((COH))
-National Australia Bank ((NAB))
-Scentre Group ((SCG))

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With February one of the most volatile seasons ever observed, analysts at **Morgans** believe the observation should act as a reminder to investors it's best to take an active approach to portfolio management and allocation.

Have been added to Morgans selection of **Best Ideas**:

-Corporate Travel Management ((CTD))
-DigiCo Infrastructure ((DGT))
-Guzman y Gomez ((GYG))
-Light & Wonder ((LNW))
-Megaport ((MP1))
-Orica ((ORI))

No longer included:

-Camplify Holdings ((CHL))
-NextDC ((NXT))
-PolyNovo ((PNV))
-The Lottery Corp ((TLC))

Morgans' Best Ideas now comprises of 34 ASX-listed companies, also including the likes of Collins Foods ((CKF)), WH Soul Pattinson ((SOL)), QBE Insurance ((QBE)), ResMed ((RMD)), and WiseTech Global ((WTC)). The full list will be included in next week's edition.

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Athena Kospetas, research analyst at **Ord Minnett** has equally drawn some key conclusions from the February results season and reviewed the broker's **most preferred sector exposures.**

At its core, the suggestion made to investors is maybe, at least for the time being, preference companies with strong balance sheets, leading market positions and positive earnings momentum.

Those are the key principles that underpin Ord Minnett's updated sector allocations and preferences.

-Financials; the preference is for Judo Bank ((JDO)) and Macquarie Group ((MQG)) and if you must own one of the Big Four, the preference goes out to ANZ Bank ((ANZ)).

Elsewhere, the preference lays with Insurance Australia Group ((IAG)), as well as with insurance brokers AUB Group ((AUB)) and Steadfast Group ((SDF)), and with Medibank Private ((MPL)).

-Resources; Northern Star ((NST)) has been chosen as a large cap gold exposure, while Vault Minerals ((VAU)) has been selected among smaller caps. BlueScope Steel ((BSL)) is equally viewed positively (tariffs are ultimately a positive, the broker predicts).

-Consumer Stocks; Ord Minnett's three favourites are Metcash ((MTS)), Coles Group ((COL)), and Aristocrat Leisure ((ALL)).

-Real Estate; Dexus ((DXS)), Vicinity Centres ((VCX)), and Waypoint REIT ((WPR)) are preferred.

-Energy and Utilities; Most preferred are Karoon Gas ((KAR)), Santos ((STO)), APA Group ((APA)) and Origin Energy ((ORG)).

-Healthcare; the three sector favourites are CSL ((CSL)), ResMed ((RMD)), and Regis Healthcare ((REG)).

-Communication Services and IT; Xero ((XRO)), SiteMinder ((SDR)), Telstra ((TLS)), and Aussie Broadband ((ABB)) are the favourites (all for very different reasons).

-Industrials; Ord Minnett favours Brambles ((BXB)), Qube Holdings ((QUB)), and Qantas Airways ((QAN)).

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Jarden publishes a list of High Conviction Calls, dubbed **Best Ideas**, for investors looking to invest in **ASX-listed smaller cap companies**. That list, updated post February, now carries 17 Best Ideas.

In order of prospective total shareholder return, the following seven stand above the corn field (in order of return potential):

-Dicker Data ((DDR))
-GQG Partners ((GQG))
-Qualitas ((QAL))
-SiteMinder ((SDR))
-Universal Store Holdings ((UNI))
-EVT Ltd ((EVT))
-Temple & Webster ((TPW))

Apart from those seven, the following have been selected:

-Genesis Energy ((GNE))
-Harvey Norman ((HVN))
-Integral Diagnostics ((IDX))
-Ingenia Communities ((INA))
-Jumbo Interactive ((JIN))
-Karoon Energy ((KAR))
-Michael Hill ((MHJ))
-Pepper Money ((PPM))

-Superloop ((SLC))
-Vault Minerals ((VAU))

In terms of changes made, all of Nick Scali ((NCK)), Pointsbet Holdings ((PBH)) and Regis Healthcare ((REG)) are no longer selected, while both Dicker Data and Jumbo Interactive have freshly joined.

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Macquarie's post-February update on Australia's **industrials companies** centres around the following statement:

"In an uncertain macro and market context, we are preferring defensive positioning, where growth visibility is above-average."

Macquarie in particular likes Amcor ((AMC)), Brambles ((BXB)), Cleanaway Waste Management ((CWY)), and James Hardie ((JHX)).

Still not liked remains Fletcher Building ((FBU)).

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UBS's smaller cap favourites ("**Key Picks**") post February are:

-Codan ((CDA))
-Dicker Data ((DDR))
-Hansen Technologies ((HSN))
-Life360 ((360))
-MA Financial Group ((MAF))
-NextDC ((NXT))
-Ridley Corp ((RIC))
-Superloop ((SLC))
-Web Travel Group ((WEB))
-Zip Co ((ZIP))

In addition, the UBS team covering Emerging Companies' also highlights a positive stance on Corporate Travel Management ((CTD)), Megaport ((MP1)), Imdex ((IMD)), and oOh!media ((OML)). They are cautious regarding ARB Corp ((ARB)).

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A post-season update on **financial services** by stockbroker **Morgans** has resulted in the following Key Sector Calls (in order of preference):

-QBE Insurance ((QBE))
-Suncorp Group ((SUN))
-Generation Development ((GDG))
-MA Financial ((MAF))

And while February overall provided a rather mixed bag from the local **Healthcare** sector, Morgans' team of sector analysts maintains sector fundamentals are strong and valuations attractive. Risk/reward is seen as pointing to upside.

Morgans' sector favourites: CSL ((CSL)), ResMed ((RMD)), Avita Medical ((AVH)), and Imricor Medical Systems ((IMR)).

Staying with the Healthcare sector, **Jarden** analysts were certainly disappointed overall, but equally believe market responses throughout February for the sector were often too punitive and too harsh.

Jarden's sector favourites are CSL ((CSL)), ResMed ((RMD)), Telix Pharmaceuticals ((TLX)), and among smaller cap companies, Integral Diagnostics ((IDX)) and Regis Healthcare ((REG)).

Back to **Morgans** where ALS Ltd ((ALQ)) and Monadelphous ((MND)) have been nominated for exposure to **contractors**.

Navigating The Trump Slump

Financial markets are now, broadly measured, divided into two categories of people, as is in fact the global population, including those who do not actively invest:

-those who look at events unfolding from the perspective that nothing fundamentally has changed, waiting for old' dynamics to re-assert themselves in due course

-those who instinctively, or otherwise, sense things are changing, but there are no answers yet available as to what exactly the end outcome might be

The division between these two groups of people is nothing new. This happens every time financial markets change direction and composure. It's human nature to stick to the familiar script and view the world through an unchanged lens long after the facts have fundamentally changed.

It's one of the key reasons as to why bear markets, in particular in the early stages, experience strong relief rallies. Everyone who is pre-dispositioned to see a retreat as a buy-the-dip opportunity is today yet again ready to allocate more money into cheaper-priced equities.

Let's be honest about this; if we assume markets have been selling off merely out of fear and discomfort, because actions and tariffs by the US administration have made life in general more uncertain, then share prices that have fallen by -10% and more have become a lot more attractive, even if valuations might have looked somewhat bloated earlier in the year when sentiment was overly positive.

To the second group of people, such point of view ignores the fact things **are** shifting, and yesterday's set-up and general framework belong firmly in the past. If one assumes tomorrow might be a whole lot different from yesterday, buying-the-dip doesn't seem the smartest strategy around.

One mistake investors on Wall Street, and elsewhere, have made is to solely concentrate on the pro-business policies this freshly installed Trump 2.0 administration embodies. Less red tape and lower taxes equals higher share prices, right?

Within the space of a number of weeks only it has dawned upon many this new administration has in reality a much more radical transformation in mind; a plan to make the American economy more isolationist and inward-looking.

Even if one assumes everything will unfold according to plan, the imposed detox', as Secretary of the US Treasury, Scott Bessent, recently put it, still represents major disruption for the US economy, and elsewhere.

In macro terms, the key headwinds currently building can be identified as follows:

-The intention to shrink the federal government and its many institutions is leading to large redundancies and significant insecurity among those keeping their job. Those affected are all consumers.

-Indiscriminate import tariffs are wreaking havoc and significant supply-chain disruptions and uncertainty. Little surprise, US companies, big and small, are putting spending intentions on hold.

-Concentrating as much executive power as possible into the US Presidency, with constitutional checks and balances reduced to the absolute minimum, greatly upsets the 50% who did not vote for this administration, as well as a large proportion of those who did. Again, these are all consumers and business owners.

It should thus not surprise economic indicators such as consumer sentiment and capex intentions have deteriorated in recent weeks, upsetting financial markets. The key upset stems from the fact those soft' indicators are falling at an uncomfortably rapid pace, raising the prospect of significant slowing ahead for the world's most powerful economic engine.

All of a sudden, the US economy experiencing a recession this year doesn't seem out of the question.

Historically, while US recessions sometimes go hand in hand with prolonged bear markets for US equities, this is not always the case, but the starting point this time around has been above-average valuations (including in Australia) and a tremendous boom for AI, banks, technology stocks and crypto currencies.

An extended period of Risk Off sentiment can potentially pull valuations back to below average levels, which implies today's share prices can fall a whole lot further still, in particular for those stocks that fully participated in the bull market phase that started late in 2023.

Not making things any easier, it is equally possible none of the above applies. President Trump can reverse course or amend policies at will any time. The Federal Reserve has the ability to look through short-term inflation and announce further rate cuts, even re-introduce Quantitative Easing (QE) to prevent worst case scenarios from happening. US consumers and businesses can once again prove more resilient.

Back in 2020, things looked genuinely dire, at first, but worst case scenarios were prevented and I am fairly confident most investors today would agree that, on balance, the share market trajectory post-covid has been more positive than negative, even including the Great Bond Markets Reset in 2022.

The counter-argument is bear markets always look like an angry kitten in hindsight, but when the proverbial hits the fan and average valuations shrink a lot further, depression tends to kick in when investors look at the damage done to their portfolios, even if it's only short-term.

To avoid any miscommunication: I do not have better foresight than others in these matters and there are times when simply ignoring all the risks and potential negatives is the better strategy in order to not sell at the wrong time or miss out on the recovery upswing altogether, but what if that does not include this time?

UBS strategist Richard Shellbach is advocating investors run **a truly diversified portfolio** to deal with the many risks and uncertainties in 2025.

After all, AI and other megatrends might well have much further to run, but portfolio rotation and PE multiples deflating further can keep downward pressure on share prices for longer while cheaply priced cyclicals and laggards might be at risk of earnings downgrades if economic momentum deteriorates significantly.

Adding US and reciprocal tariffs into the mix, and maybe higher inflation too, makes assessing companies and their operational outlook just a tad more complicated. Under all scenarios, unless one adopts a short-term trading strategy, keeping our focus firmly on the longer-term horizon seems but a necessity.

It is equally important to understand most investment experts, analysts and market strategists are living inside the everything is fine until it is not' world, meaning the probability of economic recession is not on their radar. Not yet. Hopefully it never will be, but hope' as an investment strategy has many flaws and weaknesses.

For example, analysts at **RBC Capital** have declared shares in accountancy software company Xero ((XRO)) an obvious Conviction Buy following a -15% weakening in the share price since mid-February.

As a long-standing supporter myself, I'd be inclined to welcome such calls as confirmation of my own positive view. Xero is categorised as a High Quality, Prime Growth story on the All-Weather Stocks section of the website.

But what if the US does experience a recession and financial markets move into Risk Off mode for a whole lot longer? It almost by default means Xero's share price can fall a lot deeper.

The counter-argument to RBC Capital's optimism came from **Macquarie strategists** on Monday.

Unless Trump blinks, Macquarie declared, share markets are destined for a bear market (-20% or more). Sectors including Technology, Discretionary Retail and Media are thus facing the double whammy of downward pressure on earnings and a de-rating in valuation multiples.

Macquarie's model portfolio is reducing exposure to last year's momentum winners and keeping the portfolio overall in a defensive positioning.

The idea is if one has exposure to some of the trusted outperformers from 2024, be they Goodman Group ((GMG)), or TechnologyOne ((TNE)), or Hub24 ((HUB)), or even SGH Ltd ((SGH)) and BlueScope Steel ((BSL)), to at least reduce such exposures in favour of cheaper priced alternatives.

For example; Macquarie has sold some shares in Coles Group ((COL)) and moved the proceeds into Woolworths Group ((WOW)) shares. Elsewhere, GPT Group ((GPT)) has been the recipient of reduced exposure to Charter Hall ((CHC)) and Goodman Group ((GMG)).

Equally noteworthy: Macquarie's portfolio has now added the beaten-down shares in IDP Education ((IEL)).

In Macquarie's world, Xero shares are not a genuine buy at current level. But investors should also note: both UBS and Macquarie, and probably RBC Capital too, don't hold high hopes for Australian banks either. It's a valuation consideration with both UBS and Macquarie preferring (cheaper priced) commodities instead (gold in particular).

Such are the dilemmas confronting investors in 2025. Under different circumstances, the focus would shift to solid, reliable, High-Quality growers with little debt and solid balance sheets, but import tariffs, concentrated positioning, FX, momentum trades and valuations are this time around having their say too.

This by no means implies companies like Aristocrat Leisure ((ALL)), Car Group ((CAR)), JB Hi-Fi ((JBH)), Netwealth Group ((NWL)), Pro Medicus ((PME)), ResMed ((RMD)) and Wesfarmers ((WES)) by definition cannot continue growing for many more years to come.

I'd be willing to put my head on the block and state: they most likely will continue growing for many years into the future.

Shorter-term, however, their valuation (and thus share prices) might be more dependent on what exactly is transpiring inside and from the US.

Common sense tells me reducing risk and hedging for whatever the end outcome seems but the most logical and appropriate thing to do. Whether this is best done through following in UBS's footsteps or by adopting Macquarie's view is probably determined by personal choice and preferences.

The **FNArena-Vested Equities Model Portfolio** has reduced some exposure to 2024 winners, increased the allocation to cash, but also added Xero shares into the mix. We remain fully aware that relief rallies are part of the script, and intend to remain vigilant, cautious and nimble.

As reported previously, the All-Weather Model Portfolio has 7% allocated to gold (ETF).

Best Buys In Copper, Small Caps, Tech, Healthcare, And More

A reminder from the research desk at **Macquarie**: ASX-listed **contractors** on average delivered solid, resilient performances in February, carried by "good" margins, cash flow and share buybacks.

In addition, most inside the sector are somewhat insulated from global risks and uncertainties with operations concentrated domestically.

Macquarie has Outperform ratings for five companies in the sector:

-Ventia Services ((VNT))
-Monadelphous ((MND))
-Worley ((WOR))
-SGH Ltd ((SGH))
-Service Stream ((SSM))

Macquarie's forecasts are projecting "healthy" growth in EPS for the companies mentioned between FY25-27.

In an unrelated, earlier sector update analysts at **Morgans** identified ALS Ltd ((ALQ)) and Monadelphous as their two favourites.

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Bell Potter strategists Paul Basha and Rob Crookston, together with analyst Chris Savage have released an ongoing positive forecast for the price of **gold**, which, all else remaining equal, should continue to bode well for ASX-listed gold producers as the prospect for rising bullion prices isn't yet priced into share prices.

Bell Potter's Top Pick to play the theme is Evolution Mining ((EVN)). Also viewed positively is Northern Star ((NST)), with both preferred over Newmont Corp ((NEM)).

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Some interesting statistics from the strategy team at **UBS**: about one quarter (25%) of share market corrections turns into a bear market, with the data analysis only going back to 2010.

Looking back over the past 55 years, all bear markets can be traced back to economic recessions, with exception of 2022 and 1987.

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Ord Minnett Head of Asset Allocation, Malcolm Wood: *"Despite recent market weakness, we remain cautious and are awaiting a more material correction before looking to add risk assets. We are monitoring policy responses to pressure from Trump, particularly in China".*

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Many an investor has become less enamoured with CSL ((CSL)) ever since covid lockdowns pushed the shares to an all-time record high back in 2020.

No such scepsis is embedded in **Morgan Stanleys healthcare initiation** report, released earlier on this Thursday morning. The broker's macro conclusion is the risk vs reward balance for the sector on the ASX seems "balanced", also reflected in a maiden In-Line sector view.

The two most preferred exposures are CSL and ResMed ((RMD)) also the sole representatives that take off with an Overweight rating while Cochlear ((COH)) has received the sole Underweight rating.

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The faithful in a long-term lasting resurgence for the **copper sector** have had to exert a lot of patience throughout the years past, but analysts at **Wilsons** have not lost their conviction in the theme.

Quote from this week's sector update: *"believe we are only part way through this multi-decade thematic with both strong demand and supply side drivers supporting copper pricing to move to higher highs (and indeed higher lows also, along a volatile path)."*

Wilsons has made the effort of lining up its favourites to have portfolio exposure (no doubt with more patience in mind), hence, in order of most preferred first:

-Capstone Copper ((CSC))
-MAC Copper ((MAC))
-Sandfire Resources ((SFR))

Wilsons has equally a positive view on:

-Hillgrove Resources ((HGO))
-New World Resources ((NWC))

Goes without saying, both BHP Group ((BHP)), the world's largest copper miner by volume, and Rio Tinto ((RIO)) also offer exposure, but in both cases lots of other materials are involved too.

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Elsewhere, **strategists at Wilsons** believe markets pulling back from all-time highs has opened up investment opportunities in a number of high-quality, ASX-listed businesses. As per always, not everything that pulls back automatically becomes a great opportunity.

Wilsons singles out Australian banks as not providing an opportunity, despite share prices falling noticeably since the February results season. Instead, potentially providing a buying opportunity include:

-Car Group ((CAR))
-Goodman Group ((GMG))
-Pinnacle Investment Management ((PNI))
-ResMed ((RMD))
-SiteMinder ((SDR))
-Telix Pharmaceuticals ((TLX))
-WiseTech Global ((WTC))
-Xero ((XRO))

Wilsons' Model Portfolio has added some defensive exposure as volatility has picked up significantly for share markets. The decision was made to include Brambles ((BXB)) next to The Lottery Corp ((TLC)), ResMed ((RMD)) and CSL ((CSL)) already in the Portfolio.

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In past editions, we have reported on several small cap research teams lining up their most favoured smaller cap Top Picks. This week, the team of stock pickers at **Macquarie** has joined in, placing the focus on "quality" and "fundamental value" in Australia's **small and midcap space**.

Best Picks:

-Austal ((ASB))
-AUB Group ((AUB))
-a2 Milk Co ((A2M))
-Breville Group ((BRG))
-G8 Education ((GEM))
-GQG Partners ((GQG))
-Integral Diagnostics ((IDX))
-IPH Ltd ((IPH))
-JB Hi-Fi ((JBH))
-Lovisa Holdings ((LOV))
-Monadelphous ((MND))
-Megaport ((MP1))
-Monash IVF ((MVF))
-Nick Scali ((NCK))
-oOh!media ((OML))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Partners ((PNI))
-Qualitas ((QAL))
-Service Stream ((SSM))
-Reliance Worldwide ((RWC))
-Temple & Webster ((TPW))
-Universal Store Holdings ((UNI))
-Ventia Services ((VNT))

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Morgans post-February update on local TMT stocks (**Technology, Media and Telcos**) has resulted in the following Key Picks:

-In Technology, WiseTech Global ((WTC)) is most preferred

-In Media, the new favourite is Car Group ((CAR)) following share price weakness and Airtasker ((ART)) among small caps

-Among Telcos, Superloop ((SLC)) is most preferred

-In Gaming, Morgans' favourite remains Light & Wonder ((LNW))

Same broker also updated on **Financial Services** (insurers, wealth managers, payment platforms, stock brokers, etc) and here its Key Picks are now (in order of preference) QBE Insurance ((QBE)), Suncorp Group ((SUN)), Generation Development ((GDG)), and MA Financial ((MAF)).

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AI isn't over and anxious investors are throwing out babies with the bathwater when it comes to **Technology and Telcos** listed on the ASX. Those are the two key themes from recent **Macquarie** research on both sectors.

The broker's key pick post broad based selling is accountancy software platform operator Xero ((XRO)) for which the analysts retain high expectations.

Other suggestions made are those with a longer-term horizon should consider adding WiseTech Global ((WTC)), while shares in Megaport ((MP1)), in Macquarie's opinion, have never looked this good (i.e. attractive).

Almost goes without saying; in a world anxious about tariffs and their potential impact, telcos as a defensive look even more appealing, the report posits.

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And finally, as promised last week, all **34 Best Ideas by stockbroker Morgans**, freshly updated and re-confirmed post the February results season:

-Acrow ((ACF))
-ALS Ltd ((ALQ))
-Amotiv ((AOV))

-Avita Medical ((AVH))
-BHP Group ((BHP))
-Collins Foods ((CKF))
-Corporate Travel Management ((CTD))
-CSL ((CSL))
-Dalrymple Bay Infrastructure ((DBI))
-DigiCo Infrastructure ((DGT))
-Elders ((ELD))
-Guzman y Gomez ((GYG))
-HomeCo Daily Needs REIT ((HDN))
-James Hardie ((JHX))
-Karoon Energy ((KAR))
-Light & Wonder ((LNW))
-Lovisa Holdings ((LOV))
-Maas Group ((MGH))
-MA Financial ((MAF))
-Megaport ((MP1))
-GQG Partners ((GQG))
-Orica ((ORI))
-ResMed ((RMD))
-Rio Tinto ((RIO))
-Qualitas ((QAL))
-QBE Insurance ((QBE))
-South32 ((S32))
-Treasury Wine Estates ((TWE))
-Universal Store Holdings ((UNI))
-Webjet Group ((WJL))
-WH Soul Pattinson ((SOL))
-Whitehaven Coal ((WHC))
-WiseTech Global ((WTC))
-Woodside Energy ((WDS))

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

P.S. II - *If you are reading this story through a third party distribution channel and you cannot see charts included*, we apologise, but technical limitations are to blame.

INTERNATIONAL

The GenAI Arms Race Is Just Getting Started

Selling in public markets and tumbling tech equity valuations are not telling the full GenAI story, as private markets and China power on.

-Public versus private markets; two different AI stories
-Implementation of GenAI is not slowing
-All roads suggest there is money to be made from AI
-Is China the new AI face of change?

by Danielle Ecuyer

AI's not going anywhere

While public markets have been captured by the Trump tariffs' twists and turns, and major AI-related stocks have fallen out of favour, including the not-so-magnificent anymore Mag-7, private markets are showing an insatiable demand for AI, described as no less than a frenzy by the *FT*, as US venture capital gorges itself on this thematic start-up wave.

US start-ups are raising more cash than at any time since 2021 due to AI, according to data from PitchBook. The firm highlights AI and machine learning's private equity investment has reached almost EUR3bn in transactions to date in 2025, following on from a record EUR11.4bn in 2024.

In the US, some US$30bn has been invested this year, with an additional US$50bn in the pipeline. Venture capitalists are reported as working on deals with OpenAI, Safe Superintelligence, and Anduril, a defense tech start-up.

The December quarter of 2024 experienced US$80bn in US fundraising after a two-year trough, and the March quarter is expected to be at a similar level.

Major deals in the offing include OpenAI in talks with SoftBank to raise US$40bn to a US$260bn valuation, the largest funding round ever achieved, post-Databricks' US$10bn raising in 2024.

Anduril is looking to raise at least US$2bn for more than a US$30bn valuation, which is twice the valuation of a funding round in the US summer of 2024.

Monetising AI, what is the upside

Morgan Stanley takes a deep dive into assessing the potential return on investment from capital spend on GPUs and AI and sees **"GenAI driving around a US$1 trillion revenue opportunity by 2028 from only around US$45bn in 2024."**

In summary::

-Some US$400bn in GenAI software spend by 2028 from US$16bn in 2024. The US$400bn equals around 22% of total expected software spending in 2028.

-US$680bn in GenAI consumer spending by 2028 versus US$29bn in 2024, with an increase in GenAI e-commerce of US$469bn from under US$18bn in 2024. GenAI advertising is projected to rise to US$197bn from US$28bn in 2024.

-Spending on GenAI autonomous driving is expected to be US$6bn in 2028 from under US$1bn in 2024, and GenAI wearables US$10bn from under US$1bn in 2024.

-The spending and investment include US$280bn in sales in 2028 from US$115bn in 2024 from GPUs and application-specific circuit boards. Other GenAI hardware, networking, and memory spend is expected to grow to US$276bn in 2028 from US$98bn in 2024.

-GenAI will require 98GW of power by 2028 from 12GW in 2024, at a cost of US$84bn over the same period, up from US$10bn.

-Data centre-related labour costs of US$7bn, up from US$1bn over the period.

Companies embrace GenAI

McKinsey's *The State of AI* report shows the use of GenAI has jumped since the beginning of 2024. The consultant's report showed 71% of surveyed respondents revealed their companies regularly use GenAI in at least one business function, a rise from 65% at the beginning of 2024.

Organisations are most often using GenAI in marketing and sales, product and service development, service operations, and software engineering business functions. The application in these segments is likely to produce the most value, according to previous research.

McKinsey also highlighted companies with more than US$50m in annual revenue are using GenAI throughout more of their operations than smaller peers.

Shelly Palmer from The Palmer Group takes the discussion around AI applications a step further, highlighting a 1,200% increase in traffic on US retail websites from GenAI sources between July 2024 and February 2025, according to Adobe Analytics.

The data showed Cyber Monday traffic rising 1,950% year-on-year, with consumers driving the shift.

Out of 5,000 US shoppers surveyed, 39% had used AI for online shopping, with 53% intending to do so this year. Consumers applied AI for product research, recommendations, deal hunting, gifts, product discovery, and creating shopping lists (who would have thought it).

Shelly highlights engagement is also higher than for traditional sources, with 12% more page visits, 8% more time spend on sites, and a lower bounce rate of -23%.

While conversational AI increases confidence, it has not yet led to higher conversion rates, which remain -9% behind traditional sources, though the gap is closing.

Expectations continue to rise that AI-driven agents won't just assist shoppers but may start shopping for them. Shelly believes the latest data are just the beginning of this story.

Seeing the wood for the trees

E&P is the latest research house to address concerns around the GenAI trade and investing theme.

The investing thematic has been impacted by negative headlines, the analyst proclaims, such as Microsoft cancelling leases and the release of the DeepSeek R1 model undermining the US narrative. Both are believed to be over-emphasised and giving investors the wrong message.

Touching on each of the major sectors, E&P views demand from the semiconductor sector as remaining strong, noting Nvidia's latest quarterly result, which showed Q4 data centre growth up 16% sequentially and 93% on a year earlier, including revenue from the latest GPU, Blackwell, ramping up from Hopper.

The analysts also reference the strength from 1Q25 revenues for Broadcom, up 25% year-on-year, and earnings before interest and tax rising 41% annually.

Regarding hyperscalers, E&P expects capex in 2025 to advance to US$322bn (announced from Apple, Microsoft, Amazon, Meta, Oracle, and Alphabet) compared to US$233bn in 2024.

Recent earnings reports showed growth in Microsoft Cloud revenue of 21% on a year earlier to exceed US$40bn for the first time. The report quotes Microsoft:

"We continue to expand our data center capacity in line with both near-term and long-term demand signals. We have more than doubled our overall data center capacity in the last three years, and we have added more capacity last year than any other year in our history. Azure and other cloud services revenue grew +31%. Azure growth included 13pts from AI services, which grew +157% year-on-year and was ahead of expectations as demand continued to be higher than our available capacity."

Amazon and Meta made similar upbeat statements on cloud computing and AI. Quote from Meta:

"These are big investments, especially the hundreds of billions of dollars that we will invest in AI infrastructure over the long term. I announced last week that we expect to bring online almost 1 gigawatt of capacity this year. And we're building a 2-gigawatt and potentially bigger AI data center that is so big that it'll cover a significant part of Manhattan if we were placed there."

Global data centre operators also highlighted robust growth. Equinix noted APAC was the fastest-growing geography at 13% in the latest full-year results, and Digital Realty received over US$1bn of bookings, a new record in 2024.

In Australian news, the analysts detail up to a $1.2bn investment from Partners Group, a global private equity firm, to step up GreenSquare data centre into a new-generation data centre platform.

ISPT, owned by IFM Investors, is awaiting approval for a 170MW data centre in North Ryde at a development cost of $1.8bn.

Amazon is reported as increasing its activity in Melbourne, with three different deals close to finalisation or already finalised for over 200MW of capacity for AWS in Melbourne.

CDC has also announced a 210MW data centre development in Western Melbourne to compete with AirTrunk, Digital Realty, and Equinix.

E&P has a Positive rating on **NextDC** ((NXT)) with a valuation of $27.76. Both **Macquarie Technology Group** ((MAQ)) and **DigiCo Infrastructure REIT** also enjoy Positive ratings with valuations of $105.34 and $5.13, respectively.

Megaport ((MP1)) is equally rated Positive with a valuation of $17.59.

E&P's Positive rating infers the stock is *"expected to outperform the S&P/ASX200 over the coming 24 months"*.

<u>When geopolitics and AI collide</u>

The arrival of the DeepSeek model has laid bare the growing challenges and divide between the two superpowers, China and the US.

As described by Ninety One's Global Tech Sector Analyst, Anton de Plooy, DeepSeek's models are achieving AI performance approaching the US's top GenAI LLMs, such as OpenAI's GPT-4, at a much cheaper cost.

The significance and market concerns around DeepSeek, as outlined in the February 6 GenAI update (see below for link), focused on the ability to create AI outcomes at a much cheaper cost using older Hopper GPUs from Nvidia.

Not unlike the advances made by Huawei and the electric vehicle industry in China, the US's strategy of attempting to restrict advanced US technologies across semiconductors and software has resulted in China embracing its own innovation pathways.

De Plooy highlights this as the law of unintended consequences, with China embedding AI in state-driven industrial policies such as the *New Generation AI Development Plan* and *Made in China 2025.*

Ironically, as the new Trump Administration becomes more isolationist with restrictive export controls, the US government **"may be accelerating, rather than hindering, China's AI capabilities."** the analyst argues.

In contrast, Initial concerns around DeepSeek's cost efficiencies and the flow-on impact on AI infrastructure have not, to date, materialised.

Spending by hyperscaler cloud providers in both the US and China has re-accelerated, de Plooy explains, as rising production efficiency results in increasing demand, known as Jevons Paradox.

Ninety One is not alone in questioning the US's technological supremacy in AI development and the narrative of exceptionalism across stocks, US markets, and technology.

For investors, de Plooy argues AI is **"no longer a US-centric phenomenon and accelerated adoption creates opportunities far beyond traditional infrastructure plays in the next phase of AI-driven transformation."**

Is AI disruption causing a headache for software incumbents?

China is not the only country or entity disrupting AI innovation.

Nilesh Jasani, Founder of GenInnov, regularly publishes his latest insights on the ever-changing world of GenAI.

In recent updates, Jasani highlighted the disruptive impact of AI on everything-as-a-service models for software delivery to customers due to the *copiability* of new software features or even entire products, stating these can be replicated by others.

"Now, if a SaaS app unveils a cool AI-powered feature on Monday, a competitor (or an open-source community) can have a comparable feature out by Tuesday. This dynamic erodes one of the SaaS model's key defenses: uniqueness."

Jasani suggests GenAI will not be a distinct standalone aspect but rather an integral part of an offering, much like how electricity altered the functionality of machines.

As such, BYD's introduction of a self-driving system (software) in all its vehicles, including the lowest-priced Seagull model for US$9,900 to US$12,000 (available in China only), makes Tesla's full-self-driving (FSD) software, priced at US$8,000 or US$99 per month, questionable.

Jasani explains AI capabilities can be embedded into other devices, offering unique selling points. Regarding software, GenAI may drive a shift back toward product-specific services rather than all-encompassing, cross-sector offerings.

Businesses that are reluctant to change and adapt will no doubt face disruption.

For more reading on GenAI including DeepSeek and Robotics:

https://fnarena.com/index.php/2025/02/06/deepseek-fuels-ai-technology-advances/

https://fnarena.com/index.php/2025/01/28/deepseek-more-ai-excitement-for-2025/

https://fnarena.com/index.php/2024/12/12/the-2024-gen-ai-xmas-special-incl-2025-outlook/

Or check out the dedicated FNArena GenAI section on the website:

https://fnarena.com/index.php/tag/gen-ai/

RUDI'S VIEWS

Rudi's View: Navigating The Trump Slump

By Rudi Filapek-Vandyck, Editor

Financial markets are now, broadly measured, divided into two categories of people, as is in fact the global population, including those who do not actively invest:

-those who look at events unfolding from the perspective that nothing fundamentally has changed, waiting for 'old' dynamics to re-assert themselves in due course

-those who instinctively, or otherwise, sense things are changing, but there are no answers yet available as to what exactly the end outcome might be

The division between these two groups of people is nothing new. This happens every time financial markets change direction and composure. It's human nature to stick to the familiar script and view the world through an unchanged lens long after the facts have fundamentally changed.

It's one of the key reasons as to why bear markets, in particular in the early stages, experience strong relief rallies. Everyone who is pre-dispositioned to see a retreat as a buy-the-dip opportunity is today yet again ready to allocate more money into cheaper-priced equities.

Let's be honest about this; if we assume markets have been selling off merely out of fear and discomfort, because actions and tariffs by the US administration have made life in general more uncertain, then share prices that have fallen by -10% and more have become a lot more attractive, even if valuations might have looked somewhat bloated earlier in the year when sentiment was overly positive.

To the second group of people, such point of view ignores the fact things **are** shifting, and yesterday's set-up and general framework belong firmly in the past. If one assumes tomorrow might be a whole lot different from yesterday, buying-the-dip doesn't seem the smartest strategy around.

One mistake investors on Wall Street, and elsewhere, have made is to solely concentrate on the pro-business policies this freshly installed Trump 2.0 administration embodies. Less red tape and lower taxes equals higher share prices, right?

Within the space of a number of weeks only it has dawned upon many this new administration has in reality a much more radical transformation in mind; a plan to make the American economy more isolationist and inward-looking.

Even if one assumes everything will unfold according to plan, the imposed 'detox', as Secretary of the US Treasury, Scott Bessent, recently put it, still represents major disruption for the US economy, and elsewhere.

In macro terms, the key headwinds currently building can be identified as follows:

-The intention to shrink the federal government and its many institutions is leading to large redundancies and significant insecurity among those keeping their job. Those affected are all consumers.

-Indiscriminate import tariffs are wreaking havoc and significant supply-chain disruptions and uncertainty. Little surprise, US companies, big and small, are putting spending intentions on hold.

-Concentrating as much executive power as possible into the US Presidency, with constitutional checks and balances reduced to the absolute minimum, greatly upsets the 50% who did not vote for this administration, as well as a large proportion of those who did. Again, these are all consumers and business owners.

It should thus not surprise economic indicators such as consumer sentiment and capex intentions have deteriorated in recent weeks, upsetting financial markets. The key upset stems from the fact those 'soft' indicators are falling at an uncomfortably rapid pace, raising the prospect of significant slowing ahead for the world's most powerful economic engine.

All of a sudden, the US economy experiencing a recession this year doesn't seem out of the question.

Historically, while US recessions sometimes go hand in hand with prolonged bear markets for US equities, this is not always the case, but the starting point this time around has been above-average valuations (including in Australia) and a tremendous boom for AI, banks, technology stocks and crypto currencies.

An extended period of Risk Off sentiment can potentially pull valuations back to below average levels, which implies today's share prices can fall a whole lot further still, in particular for those stocks that fully participated in the bull market phase that started late in 2023.

Not making things any easier, it is equally possible none of the above applies. President Trump can reverse course or amend policies at will any time. The Federal Reserve has the ability to look through short-term inflation and announce further rate cuts, even re-introduce Quantitative Easing (QE) to prevent worst case scenarios from happening. US consumers and businesses can once again prove more resilient.

Back in 2020, things looked genuinely dire, at first, but worst case scenarios were prevented and I am fairly confident most investors today would agree that, on balance, the share market trajectory post-covid has been more positive than negative, even including the Great Bond Markets Reset in 2022.

The counter-argument is bear markets always look like an angry kitten in hindsight, but when the proverbial hits the fan and average valuations shrink a lot further, depression tends to kick in when investors look at the damage done to their portfolios, even if it's only short-term.

To avoid any miscommunication: I do not have better foresight than others in these matters and there are times when simply ignoring all the risks and potential negatives is the better strategy in order to not sell at the wrong time or miss out on the recovery upswing altogether, but what if that does not include this time?

UBS strategist Richard Shellbach is advocating investors run **a truly diversified portfolio** to deal with the many risks and uncertainties in 2025.

After all, AI and other megatrends might well have much further to run, but portfolio rotation and PE multiples deflating further can keep downward pressure on share prices for longer while cheaply priced cyclicals and laggards might be at risk of earnings downgrades if economic momentum deteriorates significantly.

Adding US and reciprocal tariffs into the mix, and maybe higher inflation too, makes assessing companies and their operational outlook just a tad more complicated. Under all scenarios, unless one adopts a short-term trading strategy, keeping our focus firmly on the longer-term horizon seems but a necessity.

It is equally important to understand most investment experts, analysts and market strategists are living inside the 'everything is fine until it is not' world, meaning the probability of economic recession is not on their radar. Not yet. Hopefully it never will be, but 'hope' as an investment strategy has many flaws and weaknesses.

For example, analysts at **RBC Capital** have declared shares in accountancy software company Xero ((XRO)) an obvious Conviction Buy following a -15% weakening in the share price since mid-February.

As a long-standing supporter myself, I'd be inclined to welcome such calls as confirmation of my own positive view. Xero is categorised as a High Quality, Prime Growth story on the All-Weather Stocks section of the website.

But what if the US does experience a recession and financial markets move into Risk Off mode for a whole lot longer? It almost by default means Xero's share price can fall a lot deeper.

The counter-argument to RBC Capital's optimism came from **Macquarie strategists** on Monday.

Unless Trump blinks, Macquarie declared, share markets are destined for a bear market (-20% or more). Sectors including Technology, Discretionary Retail and Media are thus facing the double whammy of downward pressure on earnings and a de-rating in valuation multiples.

Macquarie's model portfolio is reducing exposure to last year's momentum winners and keeping the portfolio overall in a defensive positioning.

The idea is if one has exposure to some of the trusted outperformers from 2024, be they Goodman Group ((GMG)), or TechnologyOne ((TNE)), or Hub24 ((HUB)), or even SGH Ltd ((SGH)) and BlueScope Steel ((BSL)), to at least reduce such exposures in favour of cheaper priced alternatives.

For example; Macquarie has sold some shares in Coles Group ((COL)) and moved the proceeds into Woolworths Group ((WOW)) shares. Elsewhere, GPT Group ((GPT)) has been the recipient of reduced exposure to Charter Hall ((CHC)) and Goodman Group ((GMG)).

Equally noteworthy: Macquarie's portfolio has now added the beaten-down shares in IDP Education ((IEL)).

In Macquarie's world, Xero shares are not a genuine buy at current level. But investors should also note: both UBS and Macquarie, and probably RBC Capital too, don't hold high hopes for Australian banks either. It's a valuation consideration with both UBS and Macquarie preferring (cheaper priced) commodities instead (gold in particular).

Such are the dilemmas confronting investors in 2025. Under different circumstances, the focus would shift to solid, reliable, High-Quality growers with little debt and solid balance sheets, but import tariffs, concentrated positioning, FX, momentum trades and valuations are this time around having their say too.

This by no means implies companies like Aristocrat Leisure ((ALL)), Car Group ((CAR)), JB Hi-Fi ((JBH)), Netwealth Group ((NWL)), Pro Medicus ((PME)), ResMed ((RMD)) and Wesfarmers ((WES)) by definition cannot continue growing for many more years to come.

I'd be willing to put my head on the block and state: they most likely will continue growing for many years into the future.

Shorter-term, however, their valuation (and thus share prices) might be more dependent on what exactly is transpiring inside and from the US.

Common sense tells me reducing risk and hedging for whatever the end outcome seems but the most logical and appropriate thing to do. Whether this is best done through following in UBS's footsteps or by adopting Macquarie's view is probably determined by personal choice and preferences.

The **FNArena-Vested Equities Model Portfolio** has reduced some exposure to 2024 winners, increased the allocation to cash, but also added Xero shares into the mix. We remain fully aware that relief rallies are part of the script, and intend to remain vigilant, cautious and nimble.

As reported previously, the All-Weather Model Portfolio has 7% allocated to gold (ETF).

Model Portfolios, Best Buys & Conviction Calls

This section appears from now on every Thursday morning in a separate update on the website. See **Rudi's Views** for the archive going back to 2006 (not a typo).

FNArena Subscription

A subscription to FNArena (6 or 12 months) comes with an archive of Special Reports (21 since 2006); examples below.

(This story was written on Monday, 17th March, 2025. It was published on the day in the form of an email to paying subscribers, and again on Wednesday as a story on the website).

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions. All views are mine and not by association FNArena's see disclaimer on the website.

In addition, since FNArena runs a Model Portfolio based upon my research on All-Weather Performers it is more than likely that stocks mentioned are included in this Model Portfolio. For all questions about this: contact us via the direct messaging system on the website).

RUDI'S VIEWS

Rudi's View: Best Buys In Copper, Small Caps, Tech, Healthcare, And More

By Rudi Filapek-Vandyck, Editor

A reminder from the research desk at **Macquarie**: ASX-listed **contractors** on average delivered solid, resilient performances in February, carried by "good" margins, cash flow and share buybacks.

In addition, most inside the sector are somewhat insulated from global risks and uncertainties with operations concentrated domestically.

Macquarie has Outperform ratings for five companies in the sector:

-Ventia Services ((VNT))
-Monadelphous ((MND))
-Worley ((WOR))
-SGH Ltd ((SGH))
-Service Stream ((SSM))

Macquarie's forecasts are projecting "healthy" growth in EPS for the companies mentioned between FY25-27.

In an unrelated, earlier sector update analysts at **Morgans** identified ALS Ltd ((ALQ)) and Monadelphous as their two favourites.

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Bell Potter strategists Paul Basha and Rob Crookston, together with analyst Chris Savage have released an ongoing positive forecast for the price of **gold**, which, all else remaining equal, should continue to bode well for ASX-listed gold producers as the prospect for rising bullion prices isn't yet priced into share prices.

Bell Potter's Top Pick to play the theme is Evolution Mining ((EVN)). Also viewed positively is Northern Star ((NST)), with both preferred over Newmont Corp ((NEM)).

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Some interesting statistics from the strategy team at **UBS**: about one quarter (25%) of share market corrections turns into a bear market, with the data analysis only going back to 2010.

Looking back over the past 55 years, all bear markets can be traced back to economic recessions, with exception of 2022 and 1987.

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Ord Minnett Head of Asset Allocation, Malcolm Wood: *"Despite recent market weakness, we remain cautious and are awaiting a more material correction before looking to add risk assets. We are monitoring policy responses to pressure from Trump, particularly in China".*

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Many an investor has become less enamoured with CSL ((CSL)) ever since covid lockdowns pushed the shares to an all-time record high back in 2020.

No such scepsis is embedded in **Morgan Stanley**'s **healthcare initiation** report, released earlier on this Thursday morning. The broker's macro conclusion is the risk vs reward balance for the sector on the ASX seems "balanced", also reflected in a maiden In-Line sector view.

The two most preferred exposures are CSL and ResMed ((RMD)) --also the sole representatives that take off with an Overweight rating-- while Cochlear ((COH)) has received the sole Underweight rating.

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The faithful in a long-term lasting resurgence for the **copper sector** have had to exert a lot of patience throughout the years past, but analysts at **Wilsons** have not lost their conviction in the theme.

Quote from this week's sector update: *"...believe we are only part way through this multi-decade thematic with both strong demand and supply side drivers supporting copper pricing to move to higher highs (and indeed higher lows also, along a volatile path)."*

Wilsons has made the effort of lining up its favourites to have portfolio exposure (no doubt with more patience in mind), hence, in order of most preferred first:

-Capstone Copper ((CSC))
-MAC Copper ((MAC))
-Sandfire Resources ((SFR))

Wilsons has equally a positive view on:

-Hillgrove Resources ((HGO))
-New World Resources ((NWC))

Goes without saying, both BHP Group ((BHP)), the world's largest copper miner by volume, and Rio Tinto ((RIO)) also offer exposure, but in both cases lots of other materials are involved too.

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Elsewhere, **strategists at Wilsons** believe markets pulling back from all-time highs has opened up investment opportunities in a number of high-quality, ASX-listed businesses. As per always, not everything that pulls back automatically becomes a great opportunity.

Wilsons singles out Australian banks as not providing an opportunity, despite share prices falling noticeably since the February results season. Instead, potentially providing a buying opportunity include:

-Car Group ((CAR))
-Goodman Group ((GMG))
-Pinnacle Investment Management ((PNI))
-ResMed ((RMD))
-SiteMinder ((SDR))
-Telix Pharmaceuticals ((TLX))
-WiseTech Global ((WTC))
-Xero ((XRO))

Wilsons' Model Portfolio has added some defensive exposure as volatility has picked up significantly for share markets. The decision was made to include Brambles ((BXB)) next to The Lottery Corp ((TLC)), ResMed ((RMD)) and CSL ((CSL)) already in the Portfolio.

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In past editions, we have reported on several small cap research teams lining up their most favoured smaller cap Top Picks. This week, the team of stock pickers at **Macquarie** has joined in, placing the focus on "quality" and "fundamental value" in Australia's **small and midcap space**.

Best Picks:

-Austal ((ASB))

-AUB Group ((AUB))
-a2 Milk Co ((A2M))
-Breville Group ((BRG))
-G8 Education ((GEM))
-GQG Partners ((GQG))
-Integral Diagnostics ((IDX))
-IPH Ltd ((IPH))
-JB Hi-Fi ((JBH))
-Lovisa Holdings ((LOV))
-Monadelphous ((MND))
-Megaport ((MP1))
-Monash IVF ((MVF))
-Nick Scali ((NCK))
-oOh!media ((OML))
-Propel Funeral Partners ((PFP))
-Pinnacle Investment Partners ((PNI))
-Qualitas ((QAL))
-Service Stream ((SSM))
-Reliance Worldwide ((RWC))
-Temple & Webster ((TPW))
-Universal Store Holdings ((UNI))
-Ventia Services ((VNT))

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Morgans' post-February update on local TMT stocks (**Technology, Media and Telcos**) has resulted in the following Key Picks:

-In Technology, WiseTech Global ((WTC)) is most preferred

-In Media, the new favourite is Car Group ((CAR)) following share price weakness and Airtasker ((ART)) among small caps

-Among Telcos, Superloop ((SLC)) is most preferred

-In Gaming, Morgans' favourite remains Light & Wonder ((LNW))

Same broker also updated on **Financial Services** (insurers, wealth managers, payment platforms, stock brokers, etc) and here its Key Picks are now (in order of preference) QBE Insurance ((QBE)), Suncorp Group ((SUN)), Generation Development ((GDG)), and MA Financial ((MAF)).

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AI isn't over and anxious investors are throwing out babies with the bathwater when it comes to **Technology and Telcos** listed on the ASX. Those are the two key themes from recent **Macquarie** research on both sectors.

The broker's key pick post broad based selling is accountancy software platform operator Xero ((XRO)) for which the analysts retain high expectations.

Other suggestions made are those with a longer-term horizon should consider adding WiseTech Global ((WTC)), while shares in Megaport ((MP1)), in Macquarie's opinion, have never looked this good (i.e. attractive).

Almost goes without saying; in a world anxious about tariffs and their potential impact, telcos as a defensive look even more appealing, the report posits.

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And finally, as promised last week, all **34 Best Ideas by stockbroker Morgans**, freshly updated and re-confirmed post the February results season:

-Acrow ((ACF))
-ALS Ltd ((ALQ))

-Amotiv ((AOV))
-Avita Medical ((AVH))
-BHP Group ((BHP))
-Collins Foods ((CKF))
-Corporate Travel Management ((CTD))
-CSL ((CSL))
-Dalrymple Bay Infrastructure ((DBI))
-DigiCo Infrastructure ((DGT))
-Elders ((ELD))
-Guzman y Gomez ((GYG))
-HomeCo Daily Needs REIT ((HDN))
-James Hardie ((JHX))
-Karoon Energy ((KAR))
-Light & Wonder ((LNW))
-Lovisa Holdings ((LOV))
-Maas Group ((MGH))
-MA Financial ((MAF))
-Megaport ((MP1))
-GQG Partners ((GQG))
-Orica ((ORI))
-ResMed ((RMD))
-Rio Tinto ((RIO))
-Qualitas ((QAL))
-QBE Insurance ((QBE))
-South32 ((S32))
-Treasury Wine Estates ((TWE))
-Universal Store Holdings ((UNI))
-Webjet Group ((WJL))
-WH Soul Pattinson ((SOL))
-Whitehaven Coal ((WHC))
-WiseTech Global ((WTC))
-Woodside Energy ((WDS))

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See also:

https://fnarena.com/index.php/2025/03/19/rudis-view-navigating-the-trump-slump/

https://fnarena.com/index.php/2025/03/13/rudis-view-post-february-conviction-calls/

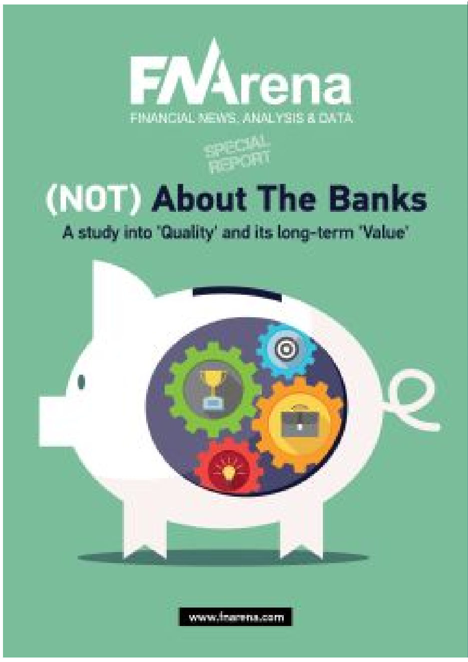
https://fnarena.com/index.php/2025/03/12/rudis-view-preparing-for-tougher-times-ahead/

https://fnarena.com/index.php/2025/03/06/rudis-view-to-sell-or-not-to-sell-2/

(Do note that, in line with all my analyses, appearances and presentations, all of the above names and calculations are provided for educational purposes only. Investors should always consult with their licensed investment advisor first, before making any decisions.)

P.S. I - All paying members at FNArena are being reminded they can set an email alert for my Rudi's View stories. Go to My Alerts (top bar of the website) and tick the box in front of 'Rudi's View'. You will receive an email alert every time a new Rudi's View story has been published on the website.

P.S. II - *If you are reading this story through a third party distribution channel and you cannot see charts included*, we apologise, but technical limitations are to blame.



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FNArena is proud about its track record and past achievements: Ten Years On

SMALL CAPS

Confident Qualitas Overlooked By Equity Investors

Alternative property fund manager Qualitas has no trouble attracting investors to its property funds, providing solid growth over the past three years, yet stock market investors appear oblivious.

-Qualitas books solid first half result
-Residential cycle ready to turn
-Fund raising efforts likely ahead
-Analysts see significant share price upside

By Greg Peel

Founded in 2008 and listed on the ASX in December 2021, Qualitas ((QAL)) describes itself as one of Australia's leading alternative real estate investment managers.

The fund manager divides its operations into four segments:

(1) Core, which focuses on inflation-hedging, resilient commercial real estate assets underpinned by strong fundamentals irrespective of market cycles;

(2) Private Credit, offering flexible financing provided to purchase, refinance and develop property;

(3) Opportunistic, involving equity investments, including joint ventures and distressed investing during market dislocation;

(4) Build-to-Rent Residential, providing perpetual capital with exposure to megatrends institutionalisation of large, resilient income streams with the growth of the sector underpinned by long-term housing supply shortage.

Late in February, Qualitas delivered a solid first half FY25 result, in line with or slightly ahead of expectations, and management reaffirmed full year guidance, representing 26-41% profit growth year on year. The first half saw record deployment of $2.4bn, up by 34% year on year, with both committed funds under management (FUM) and fee-earning FUM booking solid growth, Morgans noted.

Net funds management revenue, the highest multiple part of the business, registered 20% year on year growth, well ahead of expectations, having nearly doubled since the 2021 IPO.

Despite all of this, notes Morgans, the share price remains broadly in line with the issue price of $2.50 per share.

New Residential Cycle

Qualitas' strong set of results reflects growth, depth and maturity of platform, Macquarie suggested, despite a relatively challenging deployment environment over the past three years. Solid capital deployment momentum, including a record half-year of $2.4bn in private credit versus $4.2bn in FY24, is laying the foundation for strong earnings growth.

Macquarie forecasts a 20% compound annual earnings growth rate between FY24 and FY27.

The start of the next residential development cycle is expected to result in a highly conducive deployment environment, Macquarie believes, as economic indicators improve in anticipation of further RBA rate cuts. Qualitas noted quality, mid-market developers are ready to commence projects, with a lot of previously shelved projects hitting economic feasibility.

At end-February, Macquarie expected momentum to accelerate following February's RBA rate cut, with the potential for two more -25bp cuts in 2025.

Qualitas' near-term growth agenda includes organic growth through new strategic partnerships, expanding origination and distribution reach, as well as equity opportunities, and inorganic growth through asset adjacencies and geographic expansion.

Macquarie appreciates the desire to diversify across asset classes longer term, and the need to build a broader business, but suspects any inorganic opportunities will be relatively small and Qualitas will not take its eyes off organic growth opportunities, which are plentiful.

Qualitas is considered well placed to retain its share of the growing market for private credit funded multi-unit metro residential developments, as the big four banks retreat from this type of Commercial Real Estate (CRE) lending.

From a valuation perspective, the stock has an elevated multiple, however Morgans believes that recurring organic income growth more than supports this, especially in light of management's FY28 FUM target of $18bn, the reduced reliance on performance fees and a build-to-rent portfolio which remains a future growth driver.

Fund Raising

Early this month, the ASX-listed Qualitas Real Estate Income Fund ((QRI)) raised $218m via an offer and placement, which received strong investor support and was oversubscribed.

"Since QRI's inception over six years ago," noted head of income credit Mark Power, "the fund has consistently delivered on its investment objectives providing regular monthly income, portfolio diversification, and capital preservation, with no interest arrears or impairments on any loans.

"Underpinning this is our transparent and institutional approach to governance, conflicts and disciplined investment underwriting. As the market dynamics increasingly align for real estate private credit in Australia, we believe the fund is well positioned to continue to deliver attractive risk-adjusted returns for investors," he added.

Qualitas' "dry powder" cash balance was $1.05bn as at end-December, equivalent to some 11% of committed FUM. This represents the lowest relative level over FY22-24, Jarden notes, well below the average of around 24% over this period. Notably for Jarden, the prior lowest level of dry powder of 13% as at June 2023 was followed by the strongest half-year of fundraising, with Qualitas raising $2.04bn of capital in the first half FY24 and driving committed FUM up to $8.1bn as at December 2023 from $6.1bn in June.

Based on historical deployment levels, Jarden's analysis suggests Qualitas could deploy $1.69-2.40bn of capital in the second half FY25 which, coupled with repayments and disposals, could result in dry powder falling further to $0.10-1.00bn, or equivalent to 1-11% of opening committed FUM.

Thus, with dry powder likely to fall well below the 24% FY22-24 average and Qualitas likely to be hesitant to have minimal capital ready for deployment, particularly as "green shoots in the Australian residential sector" are appearing, as suggested by the fund manager, with "financiers typically the first to benefit", Jarden suspects Qualitas could pursue significant fundraising in the coming six months to rejuvenate the dry powder balance.

Jarden notes every $1bn of additional capital raised represents some $9.5m of management fees and 12-15% upside risk to consensus earnings forecasts.

Recommendations

In commenting (February 26) on the first half result, Macquarie suggested a solid result should help with market confidence. Qualitas continues to tick boxes which the market will not be able to ignore indefinitely, the broker believes, otherwise valuation starts to become even more attractive for its double-digit growth profile.

Macquarie retained an Outperform rating with a target of $3.10, up from $2.93.

As noted above, Morgans (February 28) considered Qualitas' PE multiple to be elevated but justifiable. Adopting a blended PE multiple and sum-of-the parts valuation model, Morgans retained an Add rating, raising its target to $3.35 from $3.20.

Jarden does not see Qualitas' PE as elevated, noting (March 11) the stock is trading at 19.7x 12-month forward earnings forecasts, implying a PE relative to the ASX200 of 1.16x, a -27% discount to the 1.47x three-year historical average.

Jarden's valuation reflects the average of discounted cash flow expectations and PE relative to the ASX200. This leads to a retained Overweight rating, and an unchanged target of $4.00.

SMALL CAPS

McMillan Shakespeare Under-Appreciated?

McMillan Shakespeare's latest earnings showed resilience, reaping benefits from investment in technology and services

-McMillan Shakespeare's share price got battered in March
-Recent results brought some optimism back for analysts
-Investing for future growth considered a winning strategy

By Danielle Ecuyer

Still growing three decades on

As a leader in salary packaging and novated leasing, McMillan Shakespeare ((MMS)) was founded in 1988, initially concentrating on salary packaging services. The company listed on the ASX in 2004 and expanded into novated leasing and fleet management with salary packaging solutions for both private and public sector employees in 2007.

In the 2010s, management acquired several companies for diversification, including fleet management and asset finance. In 2015, through its Plan Management and Support Services division, the company expanded into disability plan management, aligning with the National Disability Insurance Scheme (NDIS).

Smartgroup Corp ((SIQ)) and McMillan are the largest market players in Australia's salary packaging market and both competitors have a major business presence in the novated leasing market.

In terms of the company's salary packaging client base, government, healthcare, and not-for-profit industries represent around 97%, offering a more defensive tone to the customer base, with some holding more favourable fringe benefits tax exemptions, Morningstar observes.

McMillan's revenue is split as follows: around 55% is generated from Group Remuneration Services (GRS), with Asset Management Services (AMS) representing around 37%, and Plan and Support Services (PSS) accounting for circa 7.5%.

Morningstar explains McMillan has a more capital-intensive business model than Smartgroup. The company uses a mixture of debt financing and free cash flow to acquire fleet vehicles, with a securitisation program to assist in funding the growth of its novated leasing business.

McMillan generates a mix of recurring fees, commissions, and rebate income. Strategically, it cross-sells its services, and with investment in technological innovation, the company achieves better staff productivity while lowering customer costs. Management has also focused on increasing dealer relationships to offer more vehicle choices to customers.

Better than feared earnings results

Delving into the company's first-half results, analysts inferred a 'sigh of relief' about the earnings, given the challenging macro-economic conditions for new vehicle sales in Australia. Macquarie spoke loudest, saying McMillan achieved *"a high-quality beat given investment in growth and one-off costs"*.

Morgan Stanley, which has selected the stock as one of its six key small/mid-cap Conviction Buy ideas post-reporting season, points to robust underlying growth from the Group Remuneration Services business, with 1H25 "better than feared".

While novated orders for the period fell around -2%, Ord Minnett points to a strong December 2024 increase of 18%, with momentum sustained into January, growing 21% year-on-year. Electric vehicles, including plug-in hybrid EVs, expanded to circa 46% of novated sales (plug-ins at 33%), while yields slipped by -1% against the previous half-year.

Novated Leasing and Market Performance

Results for novated leases came in at 76.6k units, a rise of 0.1%. However, backing out last year's South Australian government contract, underlying growth stood at 7.8%, which pleased the Macquarie analyst. Ord Minnett views the launch of the small-to-medium-sized business-focused brand, Oly, as performing well, reaching 3% of all novated orders during the half.

McMillan achieved new car sales growth of 3% in the first half versus a year earlier, up 52% against 1H23. This compares to an overall market decline for new car sales of -3% over the half-year and growth of 15.1% versus 1H23. In other words, McMillan outperformed the market.

Expense Growth and EBITDA Impact

Ongoing growth in expenses for Group Remuneration Services resulted in earnings before interest, tax, depreciation, and amortisation (EBITDA) declining -13.8%, despite overall sales growth of 6.8%. Non-recurring costs of -$4.4m impacted the EBITDA margin, which fell -650bps to 38.5%. Excluding one-off costs, the decline stood at -340bps.

Looking to the second half of 2025, Bell Potter anticipates operating expenses to moderate, with management indicating business-as-usual expenses of -$3m for wage inflation and around -$2.5m for the delivery of Oly.

Asset Management and Plan Support Performance

Asset Management Services achieved revenue growth of 2.4% in the first half over the year, with customer fleet renewals assisted by written-down value up 8.8% and financed assets up 2.8%, Macquarie highlights. Bell Potter believes the division performed in line with expectations.

Plan and Support Services recognised revenue growth of 6% on last year, with earnings before interest, tax, depreciation and amortisation up 19.7%, and the margin reaching 29.2%, due to a 10.1% increase in customers and better operating leverage via platform automation on invoices. Bell Potter notes average revenue per user remained constant over the half.

Are investor concerns discounted in the share price?

Morningstar views McMillan's ongoing investment in new systems and customer acquisition as *"sensible"* to remain competitive and avoid contract losses.

Looking ahead, yields on novated leases may come under pressure as vehicle prices fall due to excess supply and competition. The change in favourable government policies for increased EV affordability is highlighted by Morningstar as a potential risk to the company's future novated lease volumes, due to the company's high exposure to EVs. Morningstar views the growth potential for Plan and Support Services as underappreciated by the market.

Morgan Stanley takes a counter position on the outlook for novated leasing, with McMillan exiting the first half with 19% growth in orders, despite the higher comps from the previous year, including the SA government contract. This analyst believes there is greater durability in earnings momentum than is currently reflected in the share price. The stock is rated Buy-equivalent, with a target price of $20.

As stated earlier, McMillan Shakespeare is one of Morgan Stanley's key post reporting season picks for small/mid-caps.

Bell Potter addresses the lack of quantitative guidance from management for 2H25, although net profit after tax is expected to be *"incrementally better"* than the first-half result. This analyst takes a *"wait and see"* approach on the stock, with the only Hold rating among daily monitored brokers, and an upgraded share price target of $16.30, up from $15.80.

Both Macquarie and Ord Minnett continue to ascribe Buy-equivalent ratings, with respective target prices of $18.74 and $19.00. Ord Minnett views the McMillan story through the lens of earnings *"gaining momentum,"* while Macquarie sees operational strength coming from retaining a simple business model.

Morningstar retains a fair value of $17 and views the share as *"moderately undervalued."* Potential concerns around volume growth and declining yields are viewed as already discounted in the share price.

The consensus FNArena share price target from highlighted daily monitored brokers is $18.388. Following share price weakness in March, that target is now more than 38% above where the shares are trading at. Consensus dividend yield has risen to 9.5%.

Apart from Smartgroup, other ASX-listed companies that compete are Fleetpartners Group ((FPR)) and SG Fleet Group ((SGF)).

WEEKLY REPORTS

Uranium Week: Tariff Paralysis

U308 market remains gripped by uncertainty around tariffs and the potential Russia/Ukraine ceasefire.

-U308, a moribund market with no buyers or sellers
-US Administration supports nuclear renaissance
-Citi remains structurally bullish on uranium
-Short sellers in Australia remain committed

By Danielle Ecuyer

Uncertainty underpins a lack of interest

Thus far, TradeTech's spot price indicator has declined -17.1% in 2025, pulling price weakness over the past twelve months down to -26.7%. Last week, the consultant's spot price indicator fell -US$0.25 to US$63/lb.

TradeTech's mid-term U3O8 price indicator came in at US$71/lb, and the long-term price indicator at US$80/lb.

Uranium markets are currently extremely quiet, with one single transaction reported on Friday for the purchase of 100,000 lbs U3O8 for delivery at Cameco's Canadian plant. Utilities have stepped away from making long-term purchases as more uncertainty emerges around the tariff and trade policies of the Trump Administration.

Sellers have equally withdrawn from the market, with no guarantees as to which party would be liable for any future tariffs or duties.

There were no transactions reported across the term U3O8, conversion, and enrichment markets.

TradeTech proposes a possible realignment of options for nuclear fuel buyers if the Russia-Ukraine war ends; however, this is viewed as an eventual rather than an immediate possibility.

CERAWeek confirms nuclear energy

The US Administration remains committed to re-industrialising the economy, including advancing the American nuclear renaissance, as described by US Energy Secretary Chris Wright at CERAWeek 2025.

At CERAWeek, Amazon, Google, and Meta re-affirmed their commitment to expanding nuclear energy, signing a pledge to support the tripling of global nuclear capacity by 2050 due to growing energy demand from data centres and AI.

Citi's Commodity Update and Uranium Price Forecast

Citi's latest commodity update assigns a 60% probability to a base case U3O8 price of US$77/lb in 2025, down from US$94/lb previously. A potential Russia-Ukraine ceasefire or peace deal could ease trade tensions between Russia and Western countries, reducing risk premia in U3O8 pricing.

The broker expects the current Russian ban to remain but sees scope for the waiver process to be eased, leading to a lower base case price forecast. Citi remains **"structurally bullish"** on uranium, expecting prices to rise to US$100/lb in 2026 and to US$115/lb in 2027.

US Nuclear Energy Momentum and Small Modular Reactors (SMRs)

Momentum in the US uranium and nuclear energy markets is unlikely to slow under the Trump Administration. Citi has a positive outlook for the global nuclear energy industry, driven by clean energy demand and the growing power needs of data centres.

Citi's base case assumes six small modular reactors (SMRs) will be commercialised in the US before 2035, with 23 projects globally. Citi analysis highlights the US lags behind Canada and Russia in SMR commercialisation. Depending on scalability, SMRs could account for 15%-20% of global uranium demand, with potential for further growth.

Outlook on Uranium Mine Output

Mine output is viewed as a key factor influencing uranium prices over the next two to three years. Citi forecasts supply from existing mines to increase by 13mlbs in 2025, mainly from Africa, the US, and Kazakhstan, bringing total annual uranium output to 165mlbs.

Total production from new and existing mines is expected to reach 170mlbs, surpassing the record mine output of 2007 by 3mlbs and reflecting annual growth of 16mlbs year-on-year.

Citi has a Buy rating on **Boss Energy** ((BOE)), with a target price of $3.60, as well as for **Paladin Energy** ((PDN)), with a target price of $13.30.

Weekly research updates on uranium companies

Boss Energy increased its shareholding in **Laramide Resources** ((LAM)), purchasing an additional 9% of issued capital for CA$0.6 per share, totaling $15.5m, bringing its stake to 18.4%.

Laramide also provided an updated mineral resource estimate for Westmoreland, reporting 49.1mlbs at an average U3O8 grade of 770ppm, using a break-even price of US$80/lb. UBS compares this to its long-term U3O8 price estimate of US$77/lb.

UBS views Westmoreland as a high-quality project relative to Paladin's Langer Heinrich, but notes it falls short of the standards of Canada's Athabasca Basin. UBS has a Buy rating with a $3.20 target price and concurs with Bell Potter and Morgan Stanley that Queensland's uranium mining ban remains an obstacle for the project.

The FNArena consensus target price for Boss Energy is $3.979, with six Buy-equivalent ratings and one Hold-equivalent rating from Morgan Stanley.

NexGen Energy ((NXG)) announced the Canadian Nuclear Safety Commission (CNSC) has scheduled hearings for the Rook project on November 19, 2025, and February 9-13, 2026.

Shaw and Partners previously expected a hearing in 1H 2025. Given the anticipated three-and-a-half-year construction schedule, this analyst now sees production as unlikely before 2030. Shaw reiterates a Buy, High risk rating, with a lower target price of $14.40 from $16.20.

Petra Capital believes its prior 2030 assumption for NexGen's first production is no longer conservative. The CNSC hearings are later than assumed, requiring approvals by mid-year to meet its original 2028 production timeline. Petra retains a Buy rating but lowers its target price to $14.10 from $14.33.

Canaccord Genuity revised its life-of-mine production forecast after **Lotus Resources** ((LOT)) updated its scoping study for the Letlhakane uranium project, reducing total production by -32%.

The new profile estimates 28.9mlbs over a 10-year life, compared to 42.3mlbs over a 15-year life prior. The broker left all other forecasts unchanged and continues to expect first production in 1H31. The target price was cut to 34c from 37c, maintaining a Speculative Buy rating.

Canaccord Genuity also updated its outlook on **Bannerman Energy** ((BMN)), noting the company remains financially flexible with $81.1m in cash and no debt. Bannerman is considered a highly leveraged play on uranium prices.

The company is targeting a final investment decision on the Etango-8 project in 2025, contingent on further strengthening in the uranium market. Canaccord retains a Speculative Buy rating with a $4.08 target price.

Short Interest in Uranium Stocks Remains High

Short interest in ASX-listed uranium stocks continues to rise, with Boss Energy carrying the highest short interest at 22.58% as of March 10, up from 21.02% the prior week.

Paladin Energy has the second-highest short interest at 17.95%, followed by Deep Yellow ((DYL)) at 12.16%. Lotus Resources' short interest has increased to 7.01% from 6.15%.

For more reading on uranium:

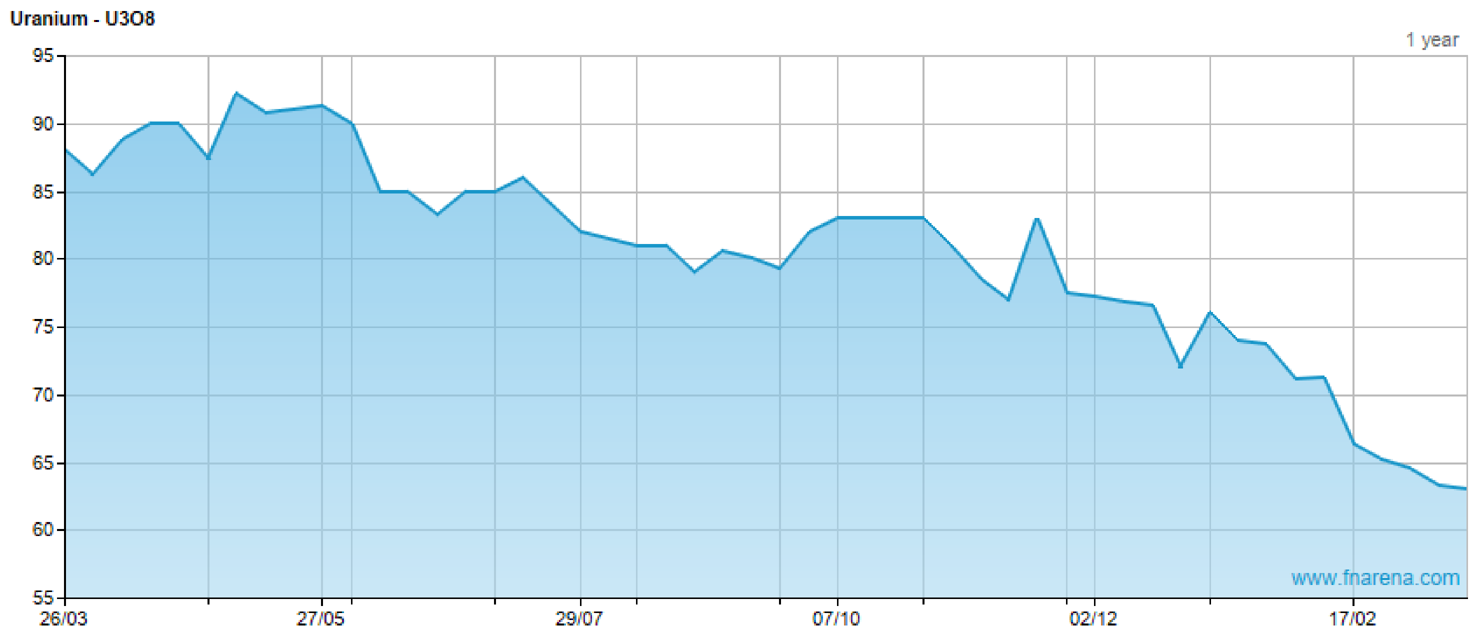
https://fnarena.com/index.php/2025/03/11/uranium-week-capitulation-near-the-bottom/

https://fnarena.com/index.php/2025/03/04/uranium-week-lets-wait-see-what-happens/

https://fnarena.com/index.php/2025/02/25/uranium-week-russia-come-back-uncertainty/

Uranium companies listed on the ASX:

ASX CODE	DATE	LAST PRICE	WEEKLY % MOVE	52WK HIGH	52WK LOW	P/E	CONSENSUS TARGET	UPSIDE/DOWNSIDE
1AE	14/03/2025	0.0400	0.00%	$0.12	$0.03			
AEE	14/03/2025	0.1200	▲ 4.55%	$0.20	$0.10			
AGE	14/03/2025	0.0300	▼- 7.14%	$0.07	$0.03		$0.100	▲233.3%
AKN	14/03/2025	0.0100	0.00%	$0.04	$0.01			
ASN	14/03/2025	0.0500	▼- 7.02%	$0.17	$0.05			
BKY	14/03/2025	0.4300	▲10.26%	$0.45	$0.27			
BMN	14/03/2025	2.0300	▼- 4.67%	$4.87	$1.90		$7.400	▲264.5%
BOE	14/03/2025	2.3400	▲ 4.52%	$5.99	$1.99	41.3	$3.979	▲70.0%
BSN	14/03/2025	0.0100	▼-11.76%	$0.14	$0.01			
C29	14/03/2025	0.0400	▼-20.00%	$0.13	$0.03			
CXO	14/03/2025	0.0800	▼- 5.00%	$0.18	$0.07		$0.090	▲12.5%
CXU	14/03/2025	0.0100	0.00%	$0.05	$0.01			
DEV	14/03/2025	0.0800	▲ 9.33%	$0.45	$0.07			
DYL	14/03/2025	0.9700	▲ 3.06%	$1.83	$0.91	-360.0	$1.810	▲86.6%
EL8	14/03/2025	0.2000	▼- 4.76%	$0.62	$0.19			
ERA	14/03/2025	0.0030	▲50.00%	$0.06	$0.00			
GLA	14/03/2025	0.0100	0.00%	$0.03	$0.01			
GTR	14/03/2025	0.0030	0.00%	$0.01	$0.00			
GUE	14/03/2025	0.0700	0.00%	$0.13	$0.05			
HAR	14/03/2025	0.0430	▼-14.00%	$0.14	$0.03			
I88	14/03/2025	0.2700	▼-12.50%	$1.03	$0.14			
KOB	14/03/2025	0.0600	0.00%	$0.18	$0.05			
LAM	14/03/2025	0.7000	▲12.90%	$1.04	$0.48			
LOT	14/03/2025	0.1700	0.00%	$0.49	$0.16		$0.488	▲186.8%
MEU	14/03/2025	0.0500	▲ 4.55%	$0.06	$0.04			
NXG	14/03/2025	7.4000	▼- 1.55%	$13.66	$7.16		$15.700	▲112.2%
ORP	14/03/2025	0.0300	0.00%	$0.12	$0.03			
PDN	14/03/2025	6.5400	▲ 0.31%	$17.98	$5.91	153.5	$11.171	▲70.8%
PEN	14/03/2025	0.6300	▼- 9.52%	$2.70	$0.63		$4.810	▲663.5%
SLX	14/03/2025	3.8900	0.00%	$6.74	$3.35		$6.900	▲77.4%
TOE	14/03/2025	0.1800	▲ 5.56%	$0.52	$0.17			
WCN	14/03/2025	0.0200	▼- 5.88%	$0.03	$0.01			



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WEEKLY REPORTS

The Short Report - 20 Mar 2025

See **Guide** further below (for readers with full access).

Summary:

Week Ending March 13th, 2025 (most recent data available through ASIC).

10%+

BOE	22.72%
PDN	17.63%
IEL	12.49%
PLS	12.11%
DYL	12.00%
DMP	11.68%
MIN	11.46%
LTR	10.67%
CTT	10.23%
LIC	10.13%
KAR	10.08%

In: LIC
Out: SYR

9.0-9.9%

SYR	9.82%
LYC	9.70%
SGR	9.21%

In: SYR
Out: LIC

8.0-8.9%

MP1	8.29%

Out: RIO

7.0-7.9%

SLX	7.87%
ADT	7.82%
RIO	7.78%
GMD	7.41%
LOT	7.12%
STX	7.02%

In: RIO, LOT

6.0-6.9%

PNV	6.91%
JLG	6.88%
TWE	6.79%
IGO	6.79%
CIA	6.72%
CTD	6.32%
DRO	6.31%
IMU	6.18%
GYG	6.06%
NHC	6.00%

In: CTD, GYG, NHC
Out: LOT

5.0-5.9%

WEB	5.91%
CHN	5.79%
NCK	5.76%
INR	5.73%
BGL	5.56%
FLT	5.40%
CUV	5.40%
PWH	5.26%
SFR	5.22%
BMN	5.22%
ARB	5.12%

In: ARB
Out: NHC, GYG, CTD, KLS

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
ALL	0.5	0.5	NAB	0.8	0.8
ANZ	0.5	0.5	QBE	0.3	0.2
BHP	0.5	0.5	RIO	7.8	8.0
CBA	1.1	1.2	STO	0.5	0.5
COL	0.5	0.5	TCL	0.8	0.8
CSL	0.5	0.5	TLS	0.3	0.2
FMG	1.2	1.3	WBC	0.8	0.7
GMG	0.6	0.6	WDS	2.5	2.6
JHX	0.9	0.8	WES	0.5	0.5
MQG	0.6	0.6	WOW	0.7	0.7

To see the full Short Report, please [go to this link]

Guide:

The Short Report draws upon data provided by the Australian Securities & Investment Commission (ASIC) to highlight significant weekly moves in short positions registered on stocks listed on the Australian Securities Exchange (ASX). Short positions in exchange-traded funds (ETF) and non-ordinary shares are not included. Short positions below 5% are not included in the table below but may be noted in the accompanying text if deemed significant.

Please take note of the Important Information provided at the end of this report. Percentage amounts in this report refer to percentage of ordinary shares on issue.

Stock codes highlighted in green have seen their short positions reduce in the week by an amount sufficient to move them into a lower percentage bracket. Stocks highlighted in red have seen their short positions increase in the week by an amount sufficient to move them into a higher percentage bracket. Moves in excess of one percentage point or more are discussed in the Movers & Shakers report below.

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position "naked" given offsetting positions held elsewhere. Whatever balance of percentages truly is a "short" position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, "short covering" may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to "strip out" the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option ("buy-write") position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a "long" position in that stock.

Another popular trading strategy is that of "pairs trading" in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a "net neutral" market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are "short". Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to *subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.*

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FNArena is proud about its track record and past achievements: Ten Years On

WEEKLY REPORTS

In Brief: Is The Aussie Market Misunderstood?

Weekly Broker Wrap: In a world of hyper changes UBS challenges the narrative around Australian equities, a pleasant surprise for some.

-Should investors re-adjust their perception of the Australian share market?
-Insurers poised for more resilience versus previous cycles
-Online classifieds, Gaming, Tech and Telcos; what's hot and what's not?

By Danielle Ecuyer

Quote of the week stems from one of my favourite market commentators, John Authers at Bloomberg:

"This is a disconnecting world.... with a move away from US exceptionalism, the popular name for the dominance of the dollar and the Magnificent Seven group of tech platforms that has been a feature of the last decade. But it goes further. Rather than the globalized free markets that have held sway since the end of the Cold War, the world is reallocating itself into independent groups or spheres of interest. This is a new form of mercantilism, or, autarky, the economic term for national self-sufficiency. If the US has turned away from globalization, some autarkic direction is inevitable. But there's still huge uncertainty over how the new economic power blocs will be configured."

The ASX has moved on, like the rest of the world

At a time when growth stocks are under the microscope and investors globally are rotating into cheaper-valued companies, UBS undertakes a bold consideration of the Australian share market, re-assessing how the market has shifted compositionally over time and arguing investors need to pay attention, and maybe change their ways.

As an Australian institutional equities broker back in the day in London, I can attest to UBS's comments that Australia had and largely has a reputation as a safe but boring market with a perception the local economy is heavily tilted to resources.

But is that perception and reputation by now out of date? Have the facts changed?

UBS answers in the affirmative, detailing how Australian companies have become more growth-oriented with global expansion intentions.

Like most change, this process has been in train for over two decades, but has only more recently reached a "tipping point".

Case in point is the shift in sector weightings from the early 1980s when mining and energy stocks represented around 80% of the Australian share market's capitalisation.

Anno 2025 that 80% from back then has turned into a mere 20%, as the likes of healthcare, technology, online classifieds, insurance, and wealth platforms have grown in size and importance.

Even the insurers and telco sectors' market cap weighting has shrunk.

Equities that are categorised as 'Growth' (as opposed to 'Value') now represent around one-third of the Australian market.

Correspondingly, the services sector domestically now represents 66% of Australia's GDP versus 69% for the OECD.

So much for riding on the sheep's back.

Investors have a propensity to highlight the Australian market's differences from its Asian neighbours, emphasising the ASX lacks the linkages and growth of sectors such as semiconductors for Japan, Taiwan, and Korea.

UBS argues this narrative belies the fact that underneath the surface, the composition of the Australian equities market has shifted, and improved understanding will increase overseas investors' interest.

Key to the argument is the market is now offering more capital-light and growth-oriented companies, such as traditional media losing business to online classifieds and general insurers losing out to insurance brokers and wealth platforms.

The same shift to capital-light models is replicated across more traditional sectors such as REITs, which are transitioning to an asset management model, and the Big-4 Banks moving away from branches to online banking. Even the miners are exhibiting better capital management, UBS research posits.

Aggregate balance sheets have also taken a leg up compared to one or two decades ago as the capital-heavy models have been replaced with capital-light ones.

Australian companies have also shown a propensity to grow overseas through M&A, which is not only increasing revenue sourced in countries such as the US, but also lowers the bias to domestic earnings while franking credit weights decline.

With growth equities now comprising one-third of the index and, as a group, trading on a forward price-to-earnings multiple of over 22x, the valuation ascribed should be retained assuming earnings growth momentum remains.

UBS believes the shift to more offshore earnings and growth-focused companies for the ASX should translate into higher returns for investors. As the domestic market becomes progressively "less boring" and more of a growth-tilted index, the historic "world-leading returns" over the longer term should continue for investors.

<u>Insurance cycle not over yet</u>

Post-reporting season, Citi updates its assessment of insurance companies, highlighting the outlook for general insurers remains positive, despite some signs of softness across specific lines. Claims inflation is also slowing as an offset.

Post strong share price performances, the broker doesn't envisage the tailwinds for the sector fading as quickly as in some previous market cycles.

Although anecdotal evidence from an insurance broker highlights commercial property rates are weakening at the upper end of the market, Citi notes Australia's three general insurers are more exposed to small and medium-sized businesses.

In the run-up to the Federal election, political and regulatory risks remain but are viewed as more rhetoric as opposed to real changes.

Citi has Buy ratings on all three of QBE Insurance ((QBE)), Insurance Australia Group ((IAG)), and Suncorp Group ((SUN)).

QBE is nominated as the sector top pick with a target price of $23.30 and is expected to report a better-than-expected core operating ratio, versus guidance for FY25 at 92.5%. The analyst stresses, with a few "big if" caveats, QBE could further outperform guidance subject to a turnaround in its crop insurance performance, achieving the planned improvement in North America with the exit from non-core businesses, and not exceeding its CAT allowance.

Both Insurance Australia Group and Suncorp have unchanged target prices of respectively $9.05 and $20. Citi anticipates slowing but solid growth in gross written premiums and margins for both. The broker believes both are trending to the upper end of FY25 earnings guidance and both are sufficiently provisioned with CAT allowance for Tropical Cyclone Alfred's impacts.

The preference is for Insurance Australia Group over Suncorp.

Regarding private health insurers, Medibank Private ((MPL)) and nib Holdings ((NHF)) are both rated Hold-equivalent, with unchanged target prices of $4.85 and $6.95, respectively.

The approved rate rises for the sector are better than anticipated, and claims inflation is considered broadly under control, although there might be emerging political risks around the latter.

Citi views Medibank as offering a robust outlook for profitability over the next year and a half if rate increases can remain above claims inflation to benefit margins in the residents' business, on top of further contributions from the higher-margin non-residents' business.

The outlook for njb looks more uncertain to the analyst post-FY25 due to the possibility of higher reserves and a robust rate rise offset by changes if claims inflation moves higher due to government pressures resulting in more tangible impacts.

Morgans' top picks across momentum sectors

Technology stocks had been the recipient of momentum chasers, underpinned by generally strong earnings growth, topped up with a major secular mega-trend, GenAI, for most of 2023 and 2024.

The past few weeks under the Trump Administration, including fiscal austerity, tariff impositions, and more, have led to a sharp spree of selling across both momentum stocks and technology, as valuations recalibrate lower to a changing global trade paradigm and a possibly slowing US economy.

Against this backdrop, Morgans has revisited the Tech, Media, Telco, and Gaming sectors post-results.

The broker retains an Overweight rating on Gaming, meaning the view is positive for the sector generally and investors can consider allocating more capital to it.

Light & Wonder ((LNW)) is the top pick in the sector. Post-earnings results, gaming sector revenue forecasts were lifted 2.5%, underlying earnings (EBITDA) by 0.3%, and EPS estimates by 8%.

Light & Wonder took out the best-performing stock mantle on a better-than-feared fourth-quarter result for 2024, and management also offered a more upbeat outlook for the first quarter of 2025 onwards. The share price responded with a 10% rally.

Morgans likes the Glover acquisition and views the land-based business as well-positioned to generate growth with hardware releases and strong content.

In the Technology sector, Megaport ((MP1)) is highlighted as the best-performing stock post-results, up around 20%, but like other technology companies, has since been subjected to risk-off sentiment sell-offs following Nasdaq weakness.

Tech is ascribed a Neutral rating.

Post-results, revenue, earnings (EBITDA), and EPS forecasts were lifted by 4%, 1%, and 1%, respectively.

Morgans explains investors are seeking more confirmation of demand for AI products, services, and infrastructure, as well as their applications and successful monetisation.

Despite the boardroom travails and governance question marks, WiseTech Global ((WTC)) is the top tech pick, with investors asked to look past these issues to what is believed to be an attractive valuation when measured against FY26 forecasts.

Megaport is the other top pick, with a re-acceleration in sales and potential upside guidance from both organic growth and forex translation on USD earnings exposure.

Post-results, the analyst's aggregate Media sector forecasts were lowered, with FY25 revenue, underlying earnings (EBITDA), and EPS down by -0.5%, -0.3%, and -3.5%, respectively. Volumes remained relatively stable, with pricing and yield offsetting volume pressures. This sector is assigned a Neutral rating.

REA Group ((REA)) was the best-performing stock, up 8%, but has since sold off. Car Group ((CAR)) is the top stock pick and was recently upgraded to a Buy-equivalent rating (Add) with a target price of $41.40.

The Telecommunications sector is rated Underweight, with Telstra ((TLS)) being the best-performing stock post-results, up around 5%, after maintaining FY25 guidance and announcing a $750m share buyback. Morgans has lowered aggregate revenue forecasts by -2%, while underlying earnings (EBITDA) rose 0.3%, and EPS increased 5%.

Superloop ((SLC)) is the top pick in the sector, with upside risks seen to earnings and optionality around M&A. The analyst expects ongoing intense competition in the fixed-line market, with mobile competition also set to increase as TPG Telecom ((TPG)) looks to expand market share. Optus and Telstra are considered most at risk from TPG's ambitions.

WEEKLY REPORTS

In Case You Missed It - BC Extra Upgrades & Downgrades - 21-03-25

Broker Rating Changes (Post Thursday Last Week)

Upgrade

CAR GROUP LIMITED ((CAR)) Upgrade to Neutral from Underweight by Jarden.B/H/S: 0/0/0

Jarden has lowered the forecast for CAR Group's 5-year compounded annual revenue growth rate to 9% from 10% to reflect the risks from a soft macro environment, particularly in the US.

Still, the broker sees downside risks to consensus and its FY26 forecasts.

Target price cut to $33.00 from $34.60. Rating upgraded to Neutral from Underweight after recent sell-off.

Downgrade

ENDEAVOUR GROUP LIMITED ((EDV)) Downgrade to Neutral from Buy by Goldman Sachs.B/H/S: 0/0/0

Goldman Sachs expects Endeavour Group's liquor business to remain under pressure due to a structural decline in per capita volume, and cyclical trade-down by consumers amid cost of living pressures.

The broker is positive about the Dan Murphy brand but thinks BWS is losing its convenience differentiator edge.

The broker lowered the group sales forecast by -1% across three years mainly due to the retail businesses losing market share. EBIT forecasts see deeper cuts with -4% for FY25 and -5% for FY26 on a lower margin forecast.

Target price drops to $4.50 from $5.10. Rating downgraded to Neutral from Buy.

JAMES HARDIE INDUSTRIES PLC ((JHX)) Downgrade to Neutral from Overweight by Jarden.B/H/S: 0/0/0

Near-term macro risks, including tariff uncertainties, makes Jarden cautious of James Hardie Industries, prompting a downgrade in rating to Neutral from Overweight.

The broker believes pulp cost inflation from higher tariffs is a key operational risk, along with the increasing risk of a US recession. The broker also sees M&A as a risk, noting the company's deal with Fermacel failed to achieve pre-acquisition forecasts.

The broker has lowered volume growth forecasts and raised input cost estimates, leading to a -2-3% decline in average earnings forecasts.

Target price lowered to $53.50 from $54.00.

NATIONAL AUSTRALIA BANK LIMITED ((NAB)) Downgrade to Underweight from Overweight by Jarden.B/H/S: 0/0/0

Jarden thinks there's more to it than meets the eye in Nathan Goonan's resignation as CFO at National Australia Bank to move to the same role at Westpac ((WBC)). The broker reckons it may be an indication of other pressures at NAB, likely in business banking.

The broker is also suspicious of NAB appointing an acting head of business and private banking given the transition period between the departee and the new joinee on July 1 is only 15 days.

In a previous report, the broker highlighted pressure on banks' CET1 from capital-intensive business/corporate lending and phasing out of hybrid capital in January 2027. This, in turn, would limit dividend payout, with the broker seeing current consensus expectations for NAB's dividend payout ratio as too high.

The broker's believes it may have to adjust down to the high-60s from 75%, 75% and 74% forecast for FY25/26/27 respectively.

In this report, the broker cut FY25 and FY26 EPS forecasts by -2.4% and -2.9% to reflect higher margin erosion and costs, and removed the estimated 1H25 buyback. Target price cut to $30 from $38.

Rating downgraded to Underweight from Overweight reflecting uncertainties around management change.

WESTPAC BANKING CORPORATION ((WBC)) Downgrade to Underweight from Neutral by Jarden.B/H/S: 0/0/0

Westpac's first quarter update was solid, Jarden suggests, featuring good volumes, slight margin compression and low bad debts, but weak capital generation. Looking forward, the bank has management change and a material IT transformation project to execute.

Jarden sees UNITE as an overdue but welcome comprehensive rewiring of Westpac architecture, likely involving significant execution risk and internal focus, but also sees risk of project creep, with much higher investment than has previously been indicated.

Therefore, this result, while operationally pleasing, is in Jarden's view somewhat redundant. The broker downgrades to Underweight from Neutral on valuation. Target unchanged at $31.20.

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CAR GROUP LIMITED	Neutral	Sell	Jarden
Downgrade				
2	ENDEAVOUR GROUP LIMITED	Neutral	Buy	Goldman Sachs
3	JAMES HARDIE INDUSTRIES PLC	Neutral	Buy	Jarden
4	NATIONAL AUSTRALIA BANK LIMITED	Sell	Buy	Jarden
5	WESTPAC BANKING CORPORATION	Sell	Neutral	Jarden

Price Target Changes (Post Thursday Last Week)

	Company	Last Price	Broker	New Target	Old Target	Change
ACE	Acusensus	$1.12	Wilsons	1.23	N/A	N/A
ASB	Austal	$4.10	Petra Capital	3.77	4.07	-7.37%
CAR	CAR Group	$33.68	Jarden	33.00	34.60	-4.62%
CKF	Collins Foods	$8.60	Goldman Sachs	8.25	10.00	-17.50%
CRD	Conrad Asia Energy	$0.76	Canaccord Genuity	1.80	2.17	-17.05%
EBR	EBR Systems	$1.89	Wilsons	3.50	1.62	116.05%
EDV	Endeavour Group	$3.94	Goldman Sachs	4.50	5.50	-18.18%
GDG	Generation Development	$4.86	Moelis	5.92	N/A	N/A
JHX	James Hardie Industries	$46.43	Jarden	53.50	54.00	-0.93%
LOT	Lotus Resources	$0.20	Canaccord Genuity	0.34	0.37	-8.11%
LTR	Liontown Resources	$0.70	Goldman Sachs	0.69	0.71	-2.82%
			Jarden	0.67	0.63	6.35%
NAB	National Australia Bank	$33.09	Jarden	30.00	38.00	-21.05%
NHC	New Hope	$4.20	Goldman Sachs	4.30	4.40	-2.27%
NXG	NexGen Energy	$8.00	Petra Capital	14.33	14.10	1.63%
ORG	Origin Energy	$10.61	Jarden	10.30	10.25	0.49%
ORI	Orica	$17.49	Goldman Sachs	21.50	21.40	0.47%
PMV	Premier Investments	$21.04	Goldman Sachs	22.00	27.85	-21.01%
PNR	Pantoro	$0.17	Canaccord Genuity	0.19	0.18	5.56%
PSC	Prospect Resources	$0.13	Canaccord Genuity	0.40	0.30	33.33%
SPZ	Smart Parking	$0.82	Canaccord Genuity	1.25	1.10	13.64%
SUN	Suncorp Group	$19.06	Goldman Sachs	22.00	24.67	-10.82%

WBC Westpac	$30.61	Jarden	31.20	30.00	4.00%
Company	Last Price	Broker	New Target	Old Target	Change

More Highlights

CTM CENTAURUS METALS LIMITED

Nickel Overnight Price: $0.38

Canaccord Genuity rates ((CTM)) as Speculative Buy (1)

Centaurus Metals has been granted the installation licence for Jaguar Nickel Sulphide Project in Brazil which will allow more site preparation while it awaits the mining lease, likely in the next few months.

Canaccord Genuity notes the company is in discussion for strategic partnerships and a -10% project sell-down at the final investment decision stage (later in 2025) would leave it with a -US$360m funding gap.

The broker expects this to be bridged with a mix of equity and debt.

Target price unchanged at 80c with a Speculative Buy rating.

This report was published on March 17, 2025.

Target price is **$0.80** Current Price is **$0.38** Difference: **$0.425**
If **CTM** meets the Canaccord Genuity target it will return approximately **113%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 0.80** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 46.88**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **minus 1.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 26.79**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three source

EBR EBR SYSTEMS INC

Medical Equipment & Devices Overnight Price: $1.73

Wilsons rates ((EBR)) as Overweight (1)

Wilsons raised both initial and long-term average selling price assumptions for EBR Systems' WiSE-CRT system.

The initial pricing estimate is US$45,000, up US$10,000 from the company's IPO estimate, and the long-term pricing forecast is doubled to US$30,000.

The broker's confidence comes from SOLVE-CRT (which evaluates WiSE's safety) clearing the FDA's trial and pre-approval inspections.

Target price is lifted to $3.50 from $1.62, reflecting an anticipation of FDA approval and a rise in selling price forecasts.

The broker estimates an un-risked price of up to $8.50. Overweight.

This report was published on March 18, 2025.

Target price is **$3.50** Current Price is **$1.73** Difference: **$1.775**
If **EBR** meets the Wilsons target it will return approximately **103%** (excluding dividends, fees and charges).
The company's fiscal year ends in December.

Forecast for FY25:

Wilsons forecasts a full year **FY25** dividend of **0.00** cents and EPS of **minus 18.83** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 9.16**.

Forecast for FY26:

Wilsons forecasts a full year **FY26** dividend of **0.00** cents and EPS of **minus 20.97** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **minus 8.22**.

This company reports in **USD**. All estimates have been converted into AUD by FNArena at present FX values.
Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

RMS RAMELIUS RESOURCES LIMITED

Gold & Silver Overnight Price: $2.19

Canaccord Genuity rates ((RMS)) as Buy (1)

Ramelius Resources and Spartan Resources ((SPR)) have entered into an agreement where Ramelius will take its stake to 100% (from 19.9%) via a combination of shares and cash.

Canaccord Genuity notes the deal is at 11% premium to Spartan's closing share price on March 14.

If unsuccessful, Ramelius will undertake a conditional off-market takeover offer, but three shareholders owning 18.9% of the target's equity are already favouring the scheme and the takeover offer.

The broker notes the deal would make Ramelius the largest mid-tier Australian gold producer with a market cap of $4.2bn.

The analyst's standalone valuation for Ramelius is $3.317bn and for Spartan is $2.667bn, and the proforma valuation for the combination is $5.372bn.

Target price for Ramelius is unchanged at $2.9 and the rating remains Buy.

This report was published on March 18, 2025.

Target price is **$2.90** Current Price is **$2.19** Difference: **$0.71**
If **RMS** meets the Canaccord Genuity target it will return approximately **32%** (excluding dividends, fees and charges).
Current consensus price target is **$2.45**, suggesting upside of **12.7%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **8.00** cents and EPS of **32.00** cents.
At the last closing share price the estimated dividend yield is **3.65%**.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **6.84**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **32.3**, implying annual growth of **65.4%**.
Current consensus DPS estimate is **9.6**, implying a prospective dividend yield of **4.4%**.
Current consensus EPS estimate suggests the PER is **6.7**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **6.00** cents and EPS of **21.00** cents.
At the last closing share price the estimated dividend yield is **2.74%**.

At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **10.43**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **21.1**, implying annual growth of **-34.7%**.
Current consensus DPS estimate is **4.7**, implying a prospective dividend yield of **2.2%**.
Current consensus EPS estimate suggests the PER is **10.3**.

Market Sentiment: **0.5**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

SPZ SMART PARKING LIMITED

Hardware & Equipment Overnight Price: $0.85

Canaccord Genuity rates ((SPZ)) as Buy (1)

Following Smart Parking's 1H25 result, Canaccord Genuity made minor changes to its core EBITDA forecasts but those increased after factoring in the acquisition of US-based Peak Parking.

The broker lifted EBITDA forecasts for FY25 and FY26 by 8% and 31% respectively, offset by share dilution. The analyst reckons the acquisition multiple was undemanding given Peak Parking's business quality and solid revenue growth.

The broker believes the share price weakness post-acquisition provides an entry point as it was driven by macro factors.

Target price rises to $1.25 from $1.10. Buy retained.

This report was published on March 18, 2025.

Target price is **$1.25** Current Price is **$0.85** Difference: **$0.4**
If **SPZ** meets the Canaccord Genuity target it will return approximately **47%** (excluding dividends, fees and charges).
The company's fiscal year ends in June.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **2.40** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **35.42**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **3.60** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **23.61**.

Market Sentiment: **1.0**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

TYR TYRO PAYMENTS LIMITED

Business & Consumer Credit Overnight Price: $0.76

Canaccord Genuity rates ((TYR)) as Buy (1)

Tyro Payments made a conditional takeover bid for Smartpay Holdings ((SMP)) but another global company speculated to be Shift4 Payments has also made an offer.

Smartpay has granted due diligence to both parties and has reciprocal due diligence with Tyro.

Canaccord Genuity considers the strategic rationale for the acquisition to be sound, but estimates cost synergies would need to be over $20m for the deal to be accretive as a full scrip merger at 73c Tyro share price.

The broker thinks the offer price of NZ$1.00 undervalues Smartpay and is unlikely to be accepted, but because of two offers the deal would get competitive.

Target price of $1.65 and Buy rating are unchanged.

This report was published on March 17, 2025.

Target price is **$1.65** Current Price is **$0.76** Difference: **$0.895**
If **TYR** meets the Canaccord Genuity target it will return approximately **119%** (excluding dividends, fees and charges).
Current consensus price target is **$1.23**, suggesting upside of **62.4%**(ex-dividends)
The company's fiscal year ends in June.

Forecast for FY25:

Canaccord Genuity forecasts a full year **FY25** dividend of **0.00** cents and EPS of **4.50** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **16.78**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **3.2**, implying annual growth of **-34.8%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **23.8**.

Forecast for FY26:

Canaccord Genuity forecasts a full year **FY26** dividend of **0.00** cents and EPS of **5.70** cents.
At the last closing share price the stock's estimated Price to Earnings Ratio (PER) is **13.25**.

How do these forecasts compare to market consensus projections?

Current consensus EPS estimate is **4.1**, implying annual growth of **28.1%**.
Current consensus DPS estimate is **N/A**, implying a prospective dividend yield of **N/A**.
Current consensus EPS estimate suggests the PER is **18.5**.

Market Sentiment: **0.4**
All consensus data are updated until yesterday. FNArena's consensus calculations require a minimum of three sources

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