



Quarterly Strategy

1Q 2024

The markets began 2024 on a strong note, as strong economic data helped rally equities, amid a dovish tone from the US Fed which increased the likelihood of rate cuts this year. The MSCI World index was up 8.47% over the quarter, while the MSCI Asia ex Japan index was up 2.04%.

The fixed income market, however, was plagued by sticky inflation, resilient economic activity, and the Fed's dovish tone which led to negative returns for the bond market. US 10 year Treasury bond yields moved from 3.88% to 4.20%. The World government bond index was down 2.42% over the quarter.

As mentioned in our last newsletter, we have conviction towards our core holdings in the memory sector. We continue to like this area, especially stocks such as Samsung Electronics, Hynix, and Micron.

Another tech related company we continue to like is Nvidia, a leading global GPU chip design company with dominant market share in graphic processors. The company has reported better than expected results last quarter. Revenue is expected to grow another 9% QoQ and 234% YoY due to strong demand for its GPU chips, and the company expects easing in supply constraints due to increasing capacity from TSMC. In their GPU Technology Conference last month, the company introduced its latest Blackwell GB200 AI platform, which eased investor worries over their tech leadership against competitors, and earnings growth visibility in 2025. Jensen Huang, President of Nvidia, also shared his thoughts on the importance of total cost of ownership (TCO), which includes the purchase cost of its AI servers, and the associated operating costs over the asset's life span, one of the key advantages of their products. Training a large AI language model would consume a lot of power and he stated that the TCO for having a non-Nvidia AI server would be much higher than having their own servers, due to the high power consumption. This is despite using their own more expensive Nvidia chips. We believe the company business is sustainable and will continue to grow well in 2024 and 2025. The stock is trading at 30x forward P/E with almost 100% earnings growth. However, the stock has risen a lot in the last six months, but after a decent correction, we see room for the share price to move up again.

We also like Brilliance China, and initiated a position in this company over the quarter. Brilliance is an auto company that has a joint venture (JV) with BMW to manufacture BMW-branded vehicles in China. We like this company as they have more than HK\$8 per share net cash on hand, while trading at HK\$5.4 at the end of March. We believe the management is committed to paying out a special dividend in the next 18 months, due to financial need of a major shareholder, and also following a similar payout in 2023. The company has also announced a HK\$1.5 special dividend, and may have a dividend policy for regular dividend distribution going forward. With its solid business model and special dividend payout, alongside a very cheap valuation of 5x forward P/E, we believe the share price will perform well and feel confident towards the company.

Looking ahead, while we are positive on the outlook for global markets, including Japan and the US, we may see volatility in the short term after the markets have rallied for so long and sticky US inflation. We continue to hold a more neutral view on HK/China and Asia at the moment.

We continue to be positive towards the tech sector, especially in AI-related names, as we strongly believe the trend of AI will continue into the foreseeable future. However, we expect a correction after the recent strong rallies. We focus on companies from all parts of the AI chain: from hardware tech, to applications (eg. software), to commodities (eg. copper parts for the hardware used for AI and upgrade for the power grid), to power companies.



HAMON INVESTMENT

Quarterly Strategy (cont'd.)

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Our portfolio strategy for 2024 is to focus on:

- 1) Quality growth stocks, such as Microsoft and Alphabet
- 2) Global semiconductor and hardware tech stocks, such as TSMC and NVIDIA
- 3) Japanese financials and consumers, such as Mizuho Financial and Asics
- 4) High dividend yield stocks in China, such as CNOOC and Brilliance China
- 5) Cash rich companies

Important Information

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Changes in the rates of exchange may affect the value of investments. Certain portfolios can invest in overseas securities which may also generate profits overseas and pay dividends in foreign currencies, which means that they may be exposed to changes in currency rates.