

## Gravity

"It has been said that arguing against globalization is like arguing against the laws of gravity."

- Kofi Annan

The Sun's gravity pulls the planets in orbit around it, and some planets attract moons in orbit around them. Even spacecraft are moving through the solar system, either in orbit around the Moon or Earth, or traveling to distant worlds, because of gravitational forces.

Lately two forces have been acting on emerging markets with power that seems as mighty as the Sun's gravity. The first is the gravitational pull of the U.S. economy and the U.S. Federal Reserve, which are both controlling and causing inflation with data and hence policy that seems what we believe to be always be looking too far back in the rearview mirror.

But the second and bigger force is the power of U.S.-based Nvidia's words and quarters to potentially influence stock prices around the world due to artificial intelligence themes (AI).

What has been evident for the last few years, particularly with China's fall from grace, is that the United States is central to the circulation of the global economy. Emerging market stocks were pulled along for the ride this quarter—for good (emerging markets have the leading semiconductor foundries that power AI) and for bad (the resurgence of inflation fears is pushing back some expectations for more rapid interest rate cuts and that is curtailing growth expectations for countries and stocks that depend on cyclically lower rates).

That was the story for much of the quarter—U.S. exceptionalism, particularly in technology spending and innovation, pushing and pulling on international markets.

### Rondure New World Strategy

We own what we believe is a diversified portfolio of high-quality companies trading at reasonable valuations, but this has been a liability in a market where concentration (in a narrow set of AI stocks, mainly semiconductors) is primarily working. Performance has been struggling for this reason since Nvidia started its run about a year ago.

An investor should consider investment objectives, risks, charges, and expenses carefully before investing. To obtain a Rondure Funds prospectus, containing this and other information, visit [www.rondureglobal.com](http://www.rondureglobal.com) or call 1.855.775.3337. Please read it carefully before investing.



Diversification is something we have long held as a principle for attempting to manage risk, but it works against you in markets that are extremely concentrated up capitalization (i.e., in bigger companies), in a few countries, in a few sectors or in a single theme (AI) driving country and stock moves.

According to Bloomberg attribution data from the end of the first quarter, four AI darlings (Taiwan Semiconductor, Hon Hai Precision Instruments, SK Hynix, and Mediatek) contributed 97% of all returns to the MSCI EM index. We hold three of them, but we don't hold them at the large index weight.

Looking at it another way, in the quarter, according to Bloomberg data, Taiwan Semiconductor was 82% of the contribution to return of the MSCI EM Index in the Information Technology Sector, and the Information Technology sector was 92% of the return of our index. That means that on a country basis, Taiwan, composed heavily of Taiwan Semiconductor, was 86% of the aggregate index return. Markets were heavily concentrated in a few companies this quarter.

Year to date, HDFC Bank Ltd has been a drag on our performance in India, a market that continues to do well. This is a self-inflicted but short-run issue specific to the interest rate cycle.

The Indian central bank has left rates high and unchanged and is unlikely to cut rates in the near-term, instead focusing on the last mile of disinflation. They are not promising cuts around the corner, either (like the U.S. central bank). This is having a cyclical impact on HDFC Bank, as lower margins (from higher borrowing costs) and slowing growth (from higher interest rates on loans) push back expectations for the bank's growth. Yet the long-term potential for the bank has not changed. In addition, the valuation is now at multi-year lows. We think when India cuts rates (or loosens liquidity, which could come sooner than rate cuts) the bank is spring-loaded to grow. We are holding our position but still waiting to add. We don't see any major long-term fundamental problems with the company.

We mainly believe our portfolios have suffered from their diversification in a concentrated market, and if you don't concentrate your portfolio in those few AI leaders, you end up with a lot of laggards. We don't see any of the losers in the quarter as broken companies. Most of what is holding them back is simply they aren't the right AI stocks.

Yet we believe we are getting to the point in the cycle where the broader portfolio is going to participate again. In fact, the United States—the country that tends to lead sector rotation trends, country performance, etc.—saw that very trend start to happen this quarter. The U.S. market broadened as not all of the so-called Magnificent Seven did well and other stocks started to participate in the rally.

In "Active Managers See Tailwind from Broadening Rally: Taking Stock," by Alexandra Semenova of Bloomberg, as of April 08, 2024, all but one sector in the US S&P 500 index was positive year-



to-date, with only real estate down. This more inclusive rally “also delivered the brightest quarter for active investors in more than a decade.” We believe active managers tend to have less concentrated, more diverse portfolios than their now-concentrated indices, so broadening matters.

In fact, Semenova notes that Information Technology is in 3<sup>rd</sup> place in the S&P 500 this year. This is very different than the dominance we see from IT in the EM index in the first quarter of this year.

We have believed for some time that the market is set to broaden within emerging markets as the year progresses, and we think there is a chance that emerging markets themselves stand a shot at outperforming the world based on our hypothesis.

Here is why we think stock performance could broaden to and within emerging markets:

1. Within emerging markets, there is a wide array of AI stocks that are still trading at reasonable valuations. According to Srinivasan Sivabalan of Bloomberg, despite the year-to-date rally in a few obvious big AI stocks, “most emerging-market AI stocks still offer far better value than their U.S. peers. While Nvidia trades at 35 times its projected earnings, Asian AI giants are typically valued between 12 and 19 times.” Value is there. We believe we are positioned well for this broadening to other AI themes.
2. We are bullish on AI in Emerging Markets (EM). We think the rally is narrow right now and will likely broaden. Breadth of choice is big in emerging markets AI outside of the well-known semiconductor stocks. We think many of the EM AI stocks have suffered from inventory issues in their segments outside of AI. Their auto, PC, smartphone businesses have been suffering from inventory bloat that is now largely corrected. As the year progresses, we believe the earnings momentum will shift to emerging markets.
3. Two big elections are over in EM. Taiwan’s election was as good as it gets for the United States and China, allowing both countries to progress beyond a potential conflict for now. In addition, Indonesia’s election was smooth. We believe these two events were non-events, removing some of the risk in the lagging EM asset class.
4. China is starting to play ball in an attempt to get its ailing market moving. Chinese leadership likely still needs to do more to push growth, but, in our opinion, they no longer seem to be tripping over their own feet, crushing their own economy. Results have not been bad for our stocks. We just need sentiment to keep turning positive. Stock price multiples are very depressed in the Chinese market.
5. India is still an expensive market on the surface, but it offers, in our opinion, the best structural growth in EM, so it is reasonable on a price-to-earnings-growth (PEG) basis over the long term. We don’t expect much noise from elections in India and Mexico. There could be noise for Mexico from US elections. We are monitoring this.



6. South Korea, a market we have struggled with for a long time on bad corporate governance, is starting on a path of emulating Japan's reforms. This is increasing the number of fresh ideas at bargain prices in EM. We think they are serious this time about reform, which is exciting.
7. Brazil is being held back by inflation expectations that are creeping up in the United States. Generally speaking, we believe if the United States cuts rates, the world can cut rates. Higher rates are holding back growth expectations in markets like Brazil that aggressively fought and are still fighting inflation with high rates.

In summary, there are plenty of bright lights in EM right now that are independent of U.S. rate cuts. For once, we believe emerging markets might be ready to break out on their own volition (mainly because we think earnings acceleration will improve for many great companies as the year progresses, driven by the end of inventory corrections post-Covid and easier earnings comparisons in the back half of the year).

All in all, we feel good about the quality of our companies and our mix of countries and sectors. We believe we have higher Return on Equity (ROE), higher Return on Assets (ROA), and better balance sheets than the index. In addition, we believe the growth rate of the portfolio is set to accelerate as the year advances, as the year-over-year earnings comparisons get easier in some of our biggest weights.

## Outlook

P.S. Jagadeesh Kumar said, "The apple does fall but the earth never falls, the beauty of gravity." In our opinion, Nvidia has been the gravity that has held up a very narrow set of stocks in emerging markets. We think this is going to start to broaden, including to EM's wide array of AI stocks (not just semiconductors). We are sitting patiently and even building some names that have weak short-term fundamentals, knowing that as the year progresses, momentum in earnings is likely to shift in their favor.

In our opinion, Nvidia is going to start to face an issue with the law-of-large numbers in their July quarter, and we think stocks have been trading on theme and fundamental momentum (earnings acceleration and deceleration). This could pose a risk for Nvidia stock (the business doesn't have to get worse, it is just simply a case of optical slowing as the delta in growth should decelerate against very difficult comparisons), but at the same time, the fundamental momentum should shift to a broader set of emerging markets AI stocks that are widely believed to be cheaper. As the year unfolds, many emerging markets companies, based on our analysis and recent results, should give us good alignment of quality, value, and growth (earnings momentum). It is a rare and powerful event for stocks—QVM alignment—like the recent solar eclipse. We think it is coming. If history holds, this will be a powerful driver of performance and broadening in emerging markets.



And, in fact, we question if this shift in relative earnings momentum, as the year progresses, to emerging markets, could shift performance overseas (not just a shift in EM but a shift to EM)? Momentum is a short-term driver, but according to Bloomberg, it has been the most powerful driver of late in U.S. stock market returns. We see earnings growth acceleration returning to many names in emerging markets as the year progresses. Is this finally the catalyst needed to get broad emerging markets out of their slump?

We often wonder why Taiwan Semiconductor (TSMC) doesn't squeeze the designers of chips (like Nvidia). There really are very few alternatives to Taiwan Semiconductor's foundry for AI in the short run (and in accordance with Moore's Law, it will be hard to catch Taiwan Semiconductor in the long run as well). Perhaps, it was simply Taiwan elections holding the stock back relative to Nvidia. Now TSMC's stock is off to the races following a benign election. It remains our largest position. It trades at a big discount to Nvidia, but we think it is one of the world's most important companies (yet for risk management we still won't hold it at the index weight, as a war with China would devastate the company). We get the upside. It is a tremendous company.

As for the long-term, we see many drivers.

China is more benign right now; in our opinion, it seems to have stopped sabotaging itself.

Taiwan and Indonesian elections were non-events (smooth).

India is humming, except they are fighting the last mile of inflation with more gusto than the U.S. central bank (which might be acting with too much of an eye on election outcomes and not enough of an eye on an economy that still seems hot). India's elections offer a more certain outcome, and dare I say it, a more independent and sensible central bank.

Emerging markets have many stocks that benefit from the emergence of AI (from power suppliers to semiconductor manufacturers and design companies).

We don't see a commercial real estate collapse coming for most emerging markets—higher rates simply slow growth in the short run in our opinion.

South Korea is starting to recognize (or envy) Japan's big stock market boom, leading it to start its own reforms. This market is cheap with good brands. Poor governance has held it back.

But there are a lot of drivers, and we've stopped getting so many questions about country risk lately.

There are risks to our broadening thesis: a hard landing in the United States would hurt earnings momentum for all the AI-themed stocks we mentioned above (power enablers in traditional utilities spaces, and power suppliers, and AI semiconductor stocks, and AI smartphone, tablet, PC creators etc.). They still need the U.S. consumer to show up. The next risk is inflation rearing its



head again, either through U.S. policy mistakes or a war in the Middle East or elsewhere that would elevate commodity prices. Elections in emerging markets are mainly in the rearview mirror, as most expect India and Mexico to unfold smoothly. The U.S. election remains a risk for the world, particularly Mexico and China. We are cognizant of this risk.

We believe another risk is that when Nvidia's numbers slow (from tough comparisons), it could take down all AI-related stocks and the market, instead of broadening the rally to the laggards with better momentum on the horizon.

But in general, assuming more of the same in the macro landscape, we think as the year progresses emerging markets have their own planetary drivers. Many of the worst-case scenarios (Taiwan and Indonesia elections) have gone off smoothly. China is behaving better, and we believe growth is set to shift abroad and expand from its narrow range of companies. What has happened in the United States, a broader market over the last month and quarter, has helped active management. We believe many of the same drivers could emerge overseas.

We think the catalysts are in place for broader emerging markets performance. We believe we are positioned to capture performance when it comes, but we also are starting to believe more assertively that EM itself is set up for its day in the sun, as the gravitational forces of quality, value, and growth (it is Q2/Q3 that the shift should be most pronounced) have been powerful forces in our long-term market experience. Let's hope that is true again today, as fundamentals seem to be aligning in a positive way.

Thank you for your continued support for Rondure Global Advisors and patience. We appreciate your partnership and trust!

- The Rondure team



## TOP TEN HOLDINGS | As of January 31, 2024

### Rondure New World Fund

COMPANY	% OF PORTFOLIO	COUNTRY	SECTOR
PT Bank Rakyat Indonesia	3.3%	Indonesia	Financials
Taiwan Semiconductor Manufacturing Co.	3.2%	Taiwan	Information Technology
HCL Technologies Ltd.	2.9%	India	Information Technology
Tata Consultancy Services Ltd.	2.7%	India	Information Technology
Petróleo Brasileiro S.A.	2.6%	Brazil	Energy
HDFC Bank Ltd.	2.5%	India	Financials
GMexico Transportes SAB de CV	2.3%	Mexico	Industrials
Heineken Malaysia Bhd	2.3%	Malaysia	Consumer Staples
Sinbon Electronics Co., Limited	2.2%	Taiwan	Information Technology
Bangkok Bank Public Company Limited	2.1%	Thailand	Financials

### % of Assets

Holdings are subject to change and do not constitute a recommendation or solicitation to buy or sell a particular security.



**FUND PERFORMANCE** | As of March 31, 2024

**Rondure New World Fund**

	QTR	YTD	1 Year*	3 Year*	5 Year*	Since Inception*
INSTITUTIONAL	-1.23%	-1.23%	-8.26%	-4.71%	1.88%	2.40%
INVESTOR	-1.33%	-1.33%	-8.52%	-4.94%	1.62%	2.15%
MSCI EMERGING MARKETS TR USD INDEX <sup>1</sup>	2.44%	2.44%	8.59%	-4.68%	2.61%	3.80%

\*Annualized

**The performance data quoted represents past performance. Current performance may be lower or higher than the performance data quoted above. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. For performance information current to the most recent month-end, please call toll-free 1.855.775.3337.**

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Rondure New World Fund (RNWOX/RNWIX) - Inception date of 05/01/2017.

Expense ratios as of prospectus dated 10/23/2023 are:

RNWOX: 1.35% Gross, RNWIX: 1.10% Gross

Data shows past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent performance data available, please visit [www.rondureglobal.com](http://www.rondureglobal.com). The Advisor may absorb certain Fund expenses, without which total return would have been lower. These expense agreements are in effect through October 20, 2024. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost.

See the prospectus for additional information regarding Fund expenses. Rondure Funds will deduct a 2.00% redemption proceeds fee on Fund shares held 60 days or less. Performance data does not reflect the deduction of this redemption fee or taxes, which if reflected, would reduce

<sup>1</sup> The MSCI Emerging Markets Total Return USD Index is an unmanaged total return index, reported in U.S. Dollars, based on share prices and reinvested dividends of approximately 1,383 companies from 26 emerging market countries. You cannot invest directly in an index.





*the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully.*

*The objective of all Rondure Funds is long-term growth of capital.*

### **Risk Considerations**

*In addition to the risks generally associated with investing in securities of foreign companies, countries with emerging markets also may have relatively unstable governments, social and legal systems that do not protect shareholders, economies based on only a few industries, and securities markets that trade a small number of issues.*

- *There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.*
- *Investing involves risk, including loss of principal. The value of the fund's shares, when redeemed, may be worth more or less than their original cost.*
- *Equity securities, such as common stocks, are subject to market, economic and business risks that may cause their prices to fluctuate.*

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There is no assurance that these opinions or forecasts will come to pass, and past performance is no assurance of future results.

Foreign common stocks and currency strategies will subject the Fund to currency trading risks that include market risk, credit risk and country risk.

The fund contains international securities that may provide the opportunity for greater return but also have special risks associated with foreign investing including fluctuations in currency, government regulation, differences in accounting standards and liquidity.

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### **Definitions :**

- S&P 500: The Standard & Poor's 500 Index (S&P 500) is a market-capitalization weighted index of 500 leading publicly traded companies in the United States.
- MSCI Index: The Morgan Stanley Capital International (MSCI) Index is a group of indexes that focus on different geographic areas and stock types. The collection of indices include All-Country World Index (ACWI), Frontier Markets, Emerging Markets and Europe, Australasia, and The Far East (EAFE). The indices were created and managed by Morgan Stanley Capital International, an investment research firm that provides indexes, portfolio risk and performance analytics.
- Emerging Market (EM) Index: The MSCI Emerging Market Index lists constituents from 24 emerging economies including China, Egypt, India, Korea, Thailand, Brazil, South Africa, and Mexico. It complies the market capitalization of all the companies that are listed on these countries' stock exchanges.
- Return on Assets (ROA): a financial ratio that indicates how profitable a company is in relation to its total assets.
- Return on Equity (ROE): a financial calculation that measures a company's profit as a percentage of the combined total work of all ownership interests in the company.
- Delta: a theoretical estimate of how much an option's value may change given a \$1 move up or down in the underlying security. It can also / sometimes be referred to as a hedge ration and is most often used when dealing with options.
- Moore's Law: Moore's law is the observation that the number of transistors in an integrated circuit doubles about every two years. It is an observation and projection of a historical trend, and an empirical relationship linked to gains from experience in production.

### **Acknowledgements :**

- Alexandra Semenova is a reporter at Yahoo Finance covering markets and Wall Street. There is no relationship with Ms. Semenova and Rondure Mutual Funds.
- Sirmivasa Sivabalan is a senior editor with Bloomberg. There is no relationship with Mr. Sivabalan and Rondure Mutual Funds.
- Jagadash Kumar is an Indian actor, screenwriter and television presenter. He is better known as Jagadish and has no relationship with Rondure Mutual Funds.

18035531-NLD-4/24/2024