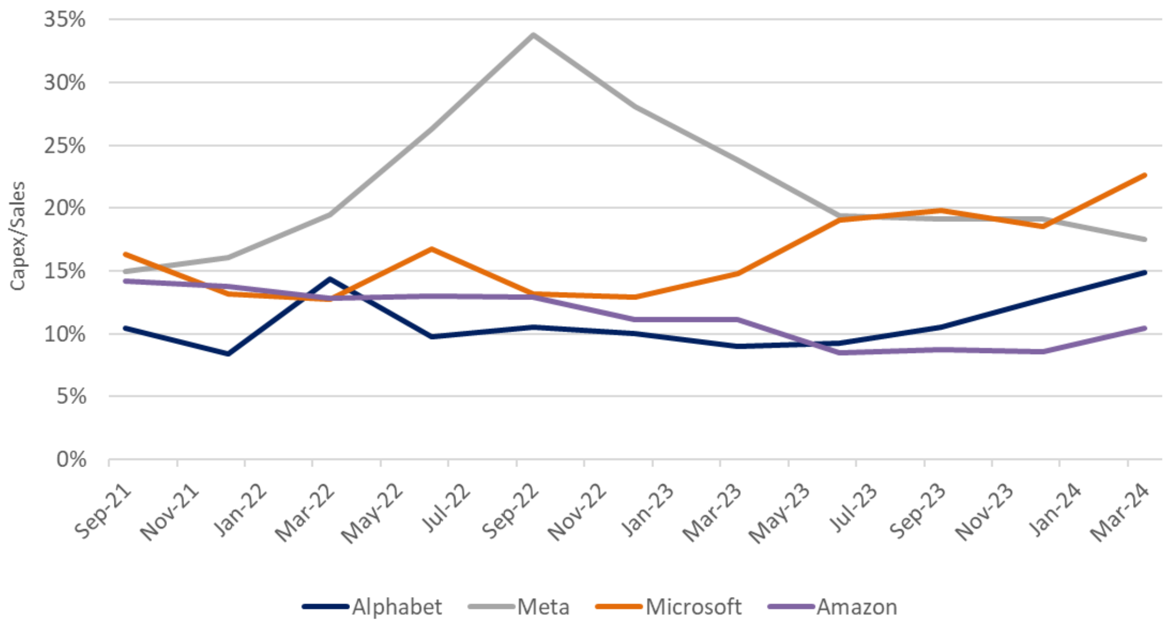
"If one does not know to which port one is sailing, no wind is favourable" – Lucius Annaeus Seneca

April saw markets finally pause for breath, after a very strong start to the year, that had been primarily driven by momentum investing. The reporting season that is currently underway is particularly interesting, especially for the Magnificent Seven who have ridden the AI wave over the past year. The first quarter of last year was the first time that most of them saw significant uplifts in their revenue growth as the AI demand gathered momentum.

Although revenues continue to grow, the market also looks at the rate of change in year-on-year growth, and the bar for most of the mega-caps is set high and continues to get higher as the year goes on. At the time of writing Alphabet, Amazon, and Microsoft managed to surpass expectations, however Meta disappointed, as investors questioned how they would manage to monetise their guided $35-40 billion uplift in spending on the metaverse. While Meta currently has a better capex/sales profile than Microsoft, Amazon, and Alphabet who spent $14bn, $14.9bn and $12bn respectively on capex in the last quarter, these three have tangible proof already on how they are monetising their investments; Microsoft how has over 65% of the Fortune 500 companies usings its Azure OpenAI services and Alphabet has 90% of generative AI unicorns within its stable. Unless Llama 3 8B MMLU (Massive Multitask Language Understanding) improves dramatically and sees enormous demand, this uplift Meta's profile will rapidly look much worse than that of the cloud players.

<u>The investments in AI are enormous and growing.</u>



Source: TIM/ Company reports

Apple will release their numbers later this week but thus has been very tight lipped about their AI aspirations, however, they have recently been in discussions with Open AI and Google about integrating their technology into is operating systems. Concerns remain over why they are so late to the game and why their own in-house efforts have led them to talking to third parties, which is an unusual move for Apple.

The issue with a market that goes up on momentum investing is that should sentiment turn the unwind can be particularly fast and acute, with the former winners being used as a source of funds, further souring investors' propensity to invest, and many other companies get caught up in the melee, regardless of their ongoing growth and profitability. As long-term investors this is a short-term headache that can cause much angst, but also is a long-term opportunity as valuations can get dislocated from reality.

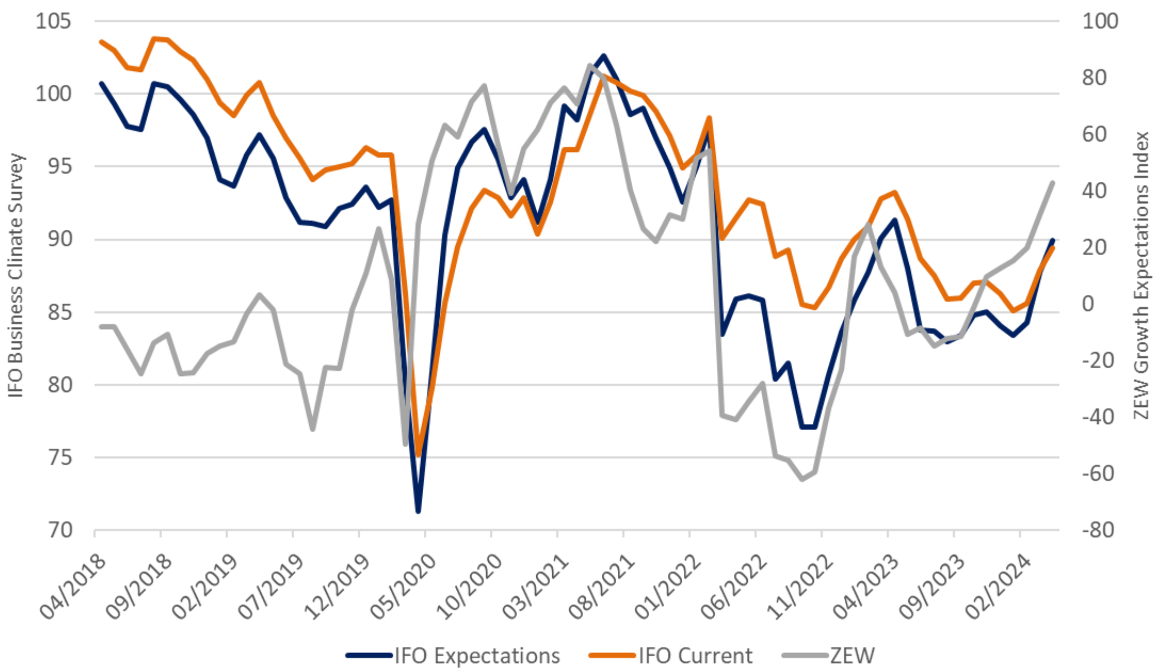
<u>Momentum dominates the global factors driving performance year-to-date.</u>

Negative Long-Short Return	Factor/Driver Name (8)	YTD Ret	Positive Long-Short Return
	Best Performing		
	1) Momentum	10.76%	
	2) Value	6.74%	
	3) Size	5.52%	
	4) Low Volatility	5.37%	
	Worst Performing		
	5) Quality	4.59%	
	6) Dividend Yield	3.67%	
	7) Liquidity	1.90%	
	8) Growth	-1.03%	

Source: Bloomberg

Most of the economic data released this month, continues to show that the corporate world in developed economies remains in robust shape, led by the United States. Importantly for Europe, Germany appears to be turning the corner after a difficult last year and is helping the region post positive numbers. China remains a missed picture, with wildly different reports of activity. These trends are backed up by the commentary coming from companies abut their current trading environment.

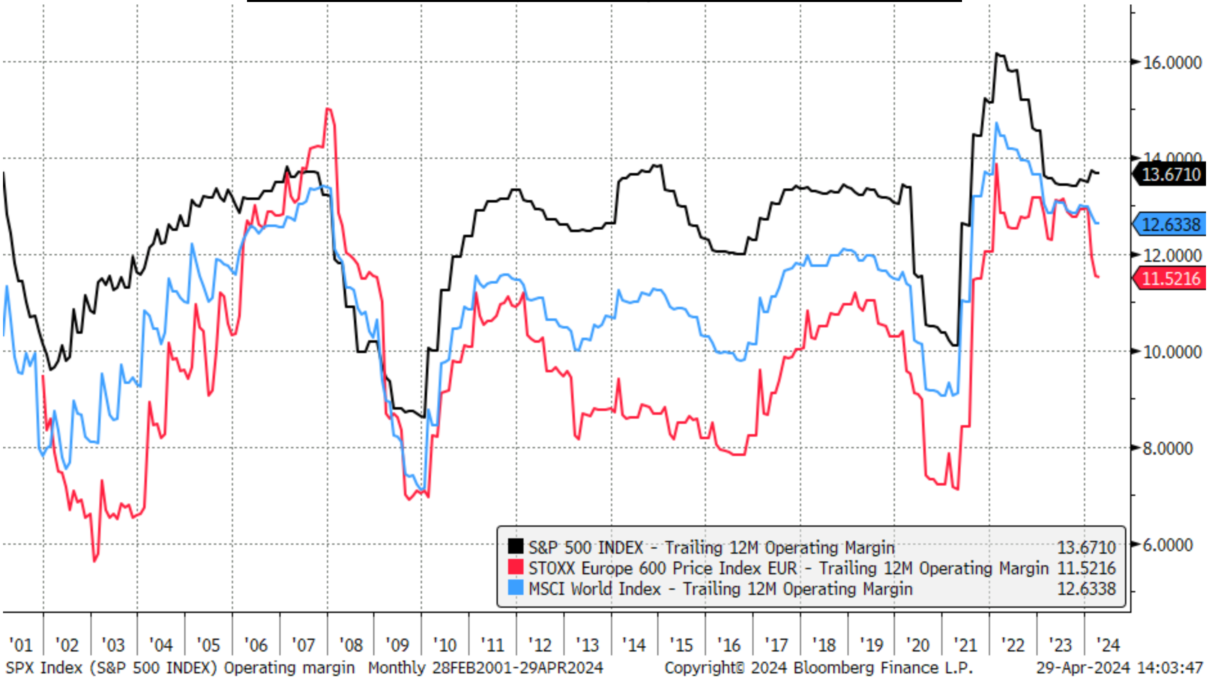
<u>Germany returning towards its former status within Europe.</u>



Source: TIM/Bloomberg

With the majority of the first quarter reporting season now behind us, it is noticeable how most companies remain relatively upbeat on the global outlook, and less concerned about the path of inflation or interest rates. Operating margins in US large caps remain elevated, despite signs of raw material inflation reappearing, can CEO confidence has returned to positive territory. Globally and in small caps the picture is less rosy, but margins currently remain above their long-term averages.

<u>The US shows how to pass through costs better than most.</u>



Source: Bloomberg

The VT Tyndall Global Select Fund B Acc (GBP) fell by 1.87%. Strong results during the month from a variety of holdings such as Canadian Natural Resources, AstraZeneca, Amphenol, American Express and Schneider Electric helped soften the blow from falling equity markets. Detracting from performance were Accenture, Advanced Micro Devices, DSV, Sherwin Williams and Home Depot, all of which failed to make gains over the month. The year-to-date return now stands at 4.53%.

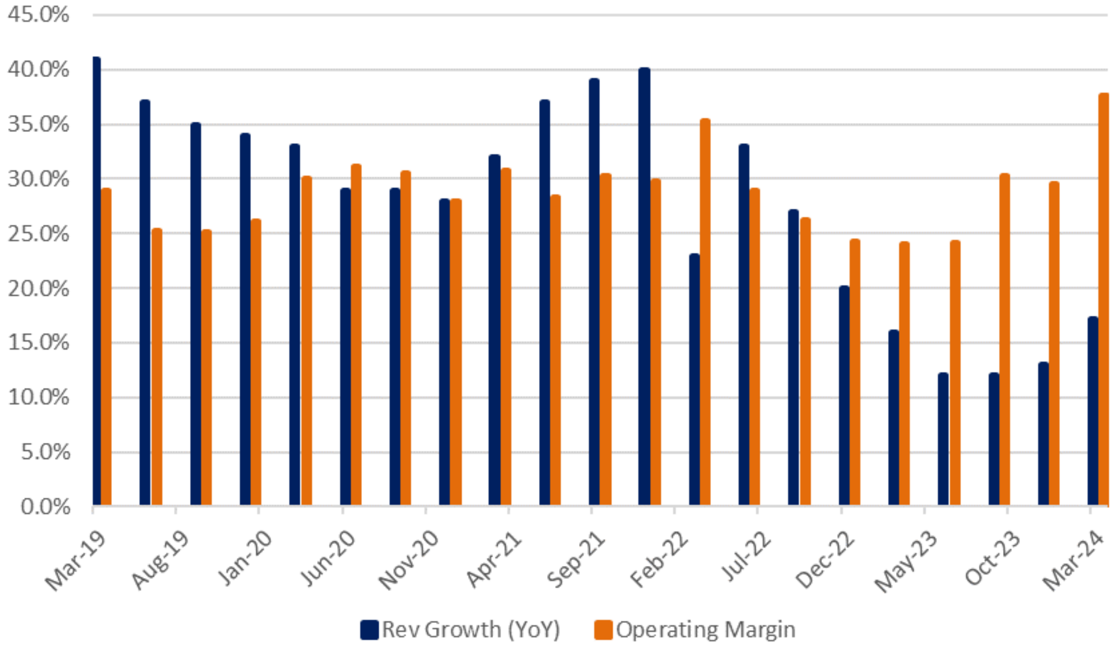
<u>Fund Activity and News</u>

During the month the Fund cut back the size of its position in American Express as it breached our self-imposed 5% maximum position size limit after reporting very strong quarterly numbers. This position size limit is part of our risk management strategy as we focus of a risk-adjusted return where performance comes from a basket of companies and is not beholden to the profitability of one or two large positions, with the rest of the portfolio being of little significance.

During the month took the opportunity of the market correction to add a position in Amazon, which is a company we have held in the past. With the marketplace businesses, the largest cloud provider (AWS), a fast-growing advertising business that now accounts for over 8.5% of group revenues, and a solid subscription base, Amazon has a wide portfolio of revenue drivers before one analyses the portfolio of ancillary services such as Amazon Fresh and Whole Foods.

Amazon Web Services remains the primary driver of company profitability and after multiple quarters of a declining growth rate, this trend appears to have bottomed and is increasing one more, and margins have also rebounded.

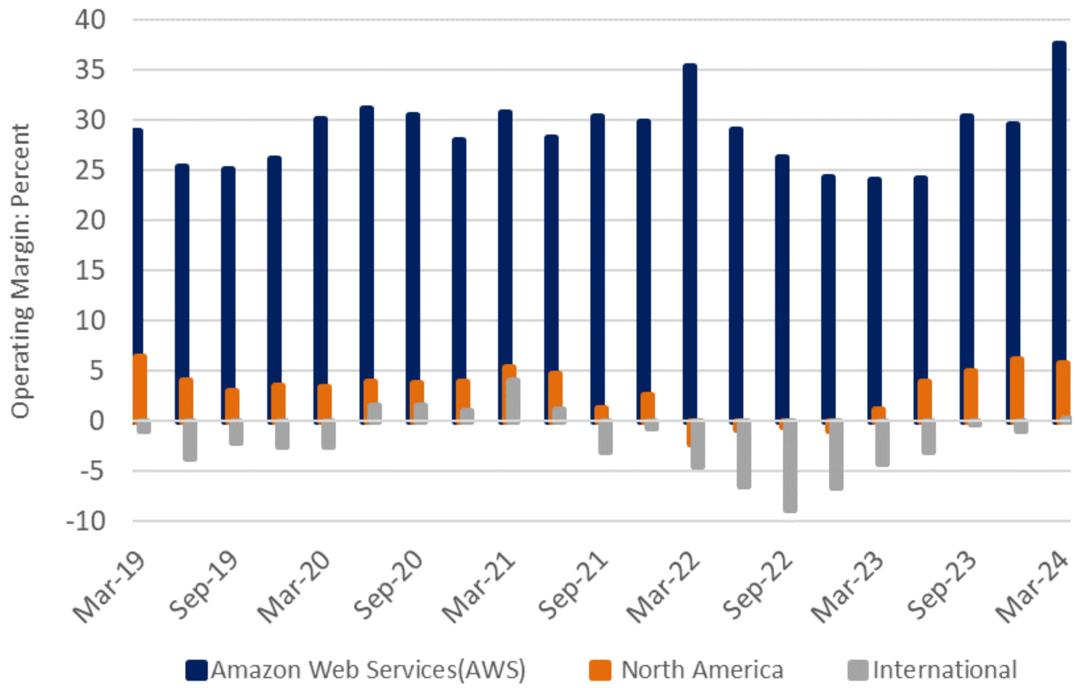
The perfect combination: Revenue acceleration and margins increasing.



Source: TIM/ Company Data

Andy Jassy, who replaced Jeff Bezos as CEO, previously ran AWS and turned it into the profitably, cash generative machine that it is today, and now has turned his attention to improving the profitability of retail. The headline international profitability masks the true story, as under the bonnet there are new markets that are loss making as they take time to gain scale, but the more established markets such as the UK and Germany have comparable margins to that of the US. As the new markets mature, so we should see the international segment operating income inflect to a positive contribution.

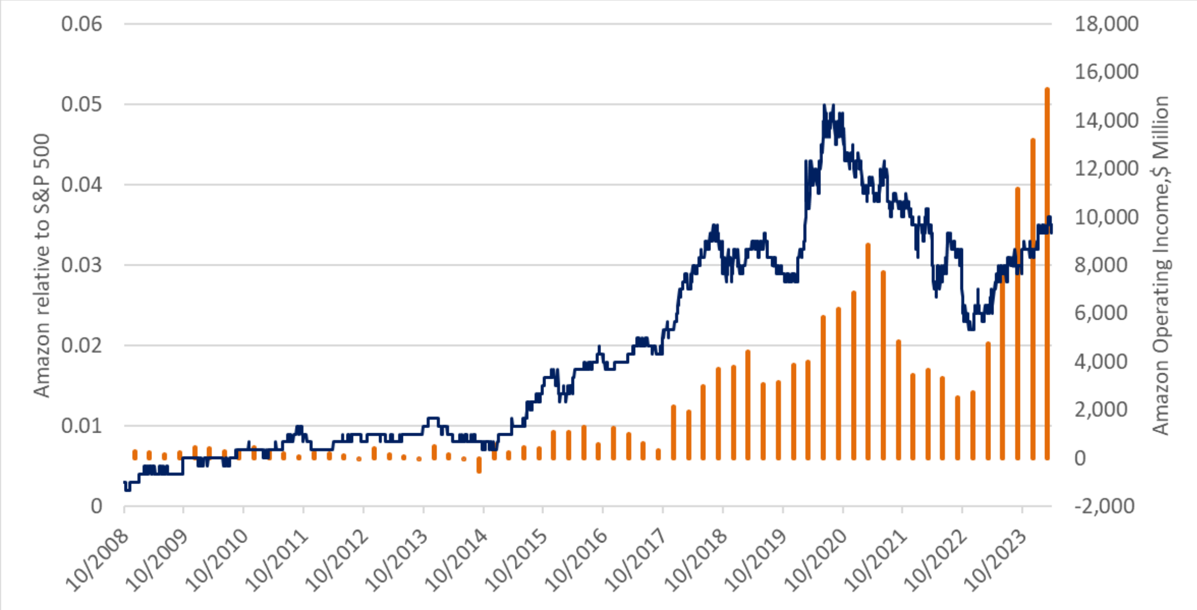
Operating income margins set to continue improvement.



Source: TIM/Company Data

While the shares may have bottomed in early 2023, the appreciation since that time still significantly understates the improvement in operating income, and our analysis suggests that this income will continue to improve for a significant period to come, and that the relative performance will continue to improve as the market comes to appreciate this deviation.

Amazon's share price underappreciates the improvement in operating income.



Source: TIM/ Bloomberg

Richard Scrope, Fund Manager, VT Global Select Fund, 30th April 2024
Data source (unless otherwise stated): Bloomberg.

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AAA Rated Fund Manager

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