STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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Can the MAGNIFICENT SEVEN ride higher again?

The 2024 prospects for **Meta, Apple, Alphabet, Nvidia, Microsoft, Amazon** and **Tesla**


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Contents

Three important things in this week's magazine

Magnificent Seven in focus

A look at the big tech stocks which drove market returns in 2023 – can they do the same in 2024?

Learn about the gaming sector

How Microsoft's takeover of Activision Blizzard affects the industry's dynamics and how these companies make money.

Fund managers' best opportunities

The stocks and sectors the professionals are most excited about for the year ahead.

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

These five shares are enjoying strong momentum heading into 2024

Recruitment stocks tumble after Hays posts dire trading update and profit warning

Why shares in Boots-owner Walgreens took a beating on Wall Street

Clarkson shares hit new year-high on raised profit guidance

US March rate cut bets pared back after stronger than expected December jobs report

What a higher-than-expected jobs build in the US means for interest rates.

Investors seem to have got too far over their skis in terms of pricing in aggressive US interest rate cuts starting in March 2024.

Minutes from December's FOMC (Federal Open Markets Committee) policy rate meeting showed participants wanted to keep rates higher for longer to see more evidence of inflation cooling down.

In addition, non-farm payrolls on 5 January came in higher than expected while wage growth was also stronger than forecast. The two positive pieces of data derailed the rate cut narrative and sent US 10-year bond yields back above 4%.

Investors reined-in their bets for a March rate cut with odds falling from 100% to around 60% according to CME Group's *Fed Watch* tool.

The US economy added 216,000 jobs last month which was more than November's 173,000 and above consensus expectations. US chief economist at Santander, Stephen Stanley, said the figures 'absolutely argue against early and aggressive rate cuts from the Fed this year'.

However, there was a 71,000 downward revision to the prior two months' data which means the economy added an average of 165,000 jobs in the last three months of the year.

This represents a slowdown from the 204,000 quarterly rolling average according to Dante DeAntonio of Moody's Analytics.

While investors may have tempered their views on when the first rate cut might happen there is still a wide margin between consensus expectations which call for six or seven rate cuts in 2024 and the central bank's view which sees three quarter-point cuts.

Key to the eventual outcome will be the strength of the economy and the trajectory of earnings. Here, the picture does not look quite as rosy with S&P 500 composite third quarter earnings per share coming in at $47.65 compared with the $50.88 expected in late September.

Fourth quarter earnings are expected to miss expectations by an even bigger margin of 8.5% according to senior index analyst Howard Silverblatt at S&P Dow Jones Indices.

The estimated year-on-year growth rate for the fourth quarter is 1.3% which is below the five-year average growth rate of 10.6% and the 10-year average earnings growth rate of 8.4% according to *FactSet*.

If delivered it will mark the second consecutive quarter of growth following the 4.9% recorded in the prior quarter. This means full-year earnings per share will finish 2023 around 0.8% ahead of 2022.

Looking out to 2024, consensus estimates imply 12% earnings growth, but bear in mind that typically analysts are too bullish in January and end up revising down through the course of the year. [MG]

Non-farm payrolls come in ahead of expectations for December

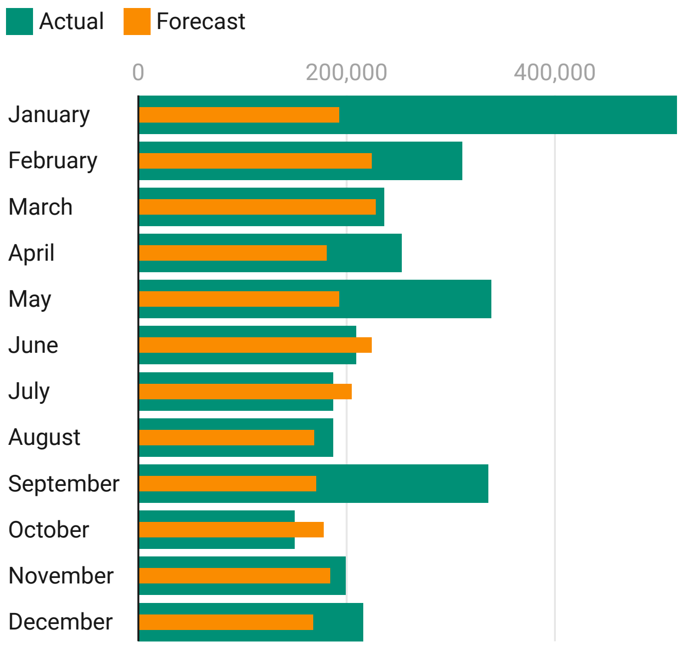


Chart: Shares magazine • Source: Forex Factory

What it might take to revive the UK IPO market as M&A frenzy continues

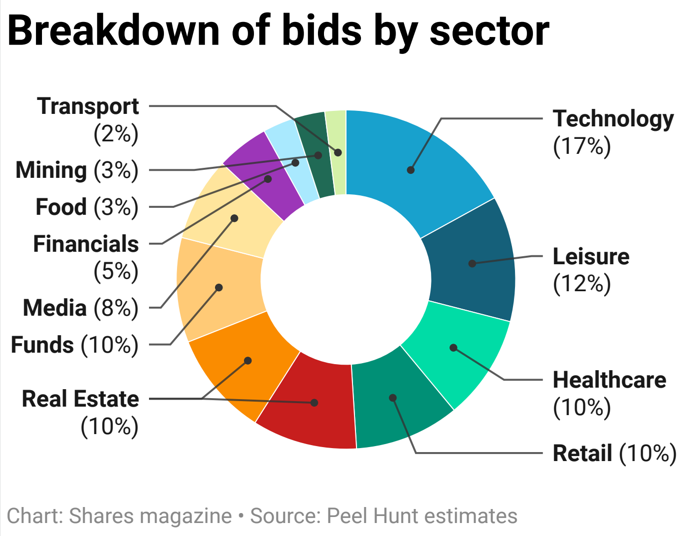
Not only has the pace of companies leaving the UK market accelerated, the hopper isn't being refilled

A respected analyst is warning the 'relentless' pace of de-equitisation driven by depressed UK stock market valuations will continue unless action is taken.

Low valuations are making the UK stock market an attractive hunting ground for acquirers and are a key factor behind the 'minimal' IPO (initial public offering) activity of the last two years which needs to be 'actively addressed' **Peel Hunt's (PEEL:AIM)** head of research Charles Hall warns.

Hall points out the pace of UK merger and acquisition (M&A) activity accelerated through 2023, a year in which 40 transactions worth more than £100 million were announced with takeover activity predominately targeted in the smaller company space.

The 12-month period saw greater activity from overseas acquirers eager to bag UK stock market bargains, with the technology and leisure sectors receiving the most bids, seven and five respectively. As the pie chart shows, healthcare companies were also high on bidders' shopping lists and should be again in 2024.



As Berenberg points out, M&A remains 'a key theme in the pharma sector' following a recent flurry of deals announced by **AbbVie (ABBV:NYSE)**, **Bristol-Myers (BMY:NYSE)**, **AstraZeneca (AZN)** and **GSK (GSK)**.

The first quarter is 'often a busy period for pharma M&A announcements, fuelled by industry conferences early in the new year', adds Berenberg.

Not only has the pace of companies leaving the UK market accelerated, but the hopper also isn't being refilled and more UK companies of scale are undertaking IPOs across the pond, says Hall, who believes concerted action is required to 'maintain the health of the UK equity market and ensure that it provides the necessary growth capital for companies'.

While there is no silver bullet, Hall says government and regulators have 'plenty of levers to ensure that London returns to a leading position for IPOs, which would not only stimulate greater activity in the UK, but also drive inward investment', and that 'concerted action would reverse the decline and return the UK to its previous standing as a leading destination for growth companies'.

Suggestions from Hall include reversing the 30 consecutive months of negative UK equity fund flows by boosting demand through 'encouragement of pensions, insurance companies and retail investors', as well as increasing the attraction of being listed by introducing corporation tax incentives and improving equity schemes.

Other solutions could include reducing the costs of preparing for an IPO, which could be made tax allowable, as well as improving the IPO after-market and encouraging active fund management, which is being squeezed out by the trend towards passive investment.

> **"maintain the health of the UK equity market and ensure that it provides the necessary growth capital for companies"**

Levelling the IPO information playing field for retail investors and making it mandatory for all companies undertaking an IPO to have a retail offer, as happens in Hong Kong, might also make IPOs more attractive, according to Peel Hunt. [JC]

What completion of game-changing YouGov GfK deal means for the business

Amid further anticipated takeover activity in the media sector, WPP could enjoy windfall

The completion of **YouGov's (YOU:AIM)** €315 million purchase of the consumer panel services of GfK (9 January) is a potential gamechanger for the business.

Analysts at Berenberg estimate the deal - which was first announced in July 2023 - will contribute £60 million of revenue and £12 million of adjusted EBIT (earnings before interest and tax) in the remainder of the current financial year running to 31 July 2024. In the 2025 financial year it expects a £121 million contribution to the top line and £26 million to EBIT. To place this in context the company reported £258 million of revenue in the 12 months to 31 July 2023.

The company had said it would update the growth targets from its third strategic growth plan in the wake of completing on this deal, financed through a £51 million fundraise and €280 million loan facility, and this could happen alongside its first-half results on 19 March.

Berenberg analyst Ciarán Donnelly says: 'YouGov is operating in a large fragmented market, it has invested in its platform and product set, and we think it one of the best growth stories in the UK-listed universe.'

> **YouGov is operating in a large fragmented market, it has invested in its platform and product set, and we think it one of the best growth stories in the UK-listed universe**

Whether it will remain a part of this universe indefinitely is open to question. On 8 January the company unveiled the acquisition of US based survey data management solution firm KnowledgeHound for an undisclosed sum to further orientate the business across the Atlantic.

In August 2023, YouGov group chair and co-founder Stephan Shakespeare hinted at a possible primary or secondary listing in the US in a story in the *Financial Times*.

Shakespeare has since stepped down as chair to be replaced by former **Meta Platforms (META:NASDAQ)** vice-president Steve Hatch and has become non-executive chair at the company.

Separately in the media space, advertising giant **WPP (WPP)** might be due a £400 million windfall from the sale of Kantar Media, a division of market research outfit Kantar.

Kantar Media manages the UK's television audience measurement system (as well as in 62 other countries including France, Spain, Norway, and Latin America) BARB. Its parent Kantar is 40% owned by WPP with the remainder held by private equity firm Bain Capital.

Bain bought its stake in Kantar in 2019 in a deal which valued the research and analytics group as a whole at approximately £3.2 billion.

Bain Capital will be putting Kantar Media up for sale in the coming months according to *Sky News,* with a price tag of £1 billion.

WPP shares have gained 2% since the announcement, however over the past year they are down 14% at 760p. The company reported disappointing third quarter results in October and lowered its full year 2023 guidance. [SG]

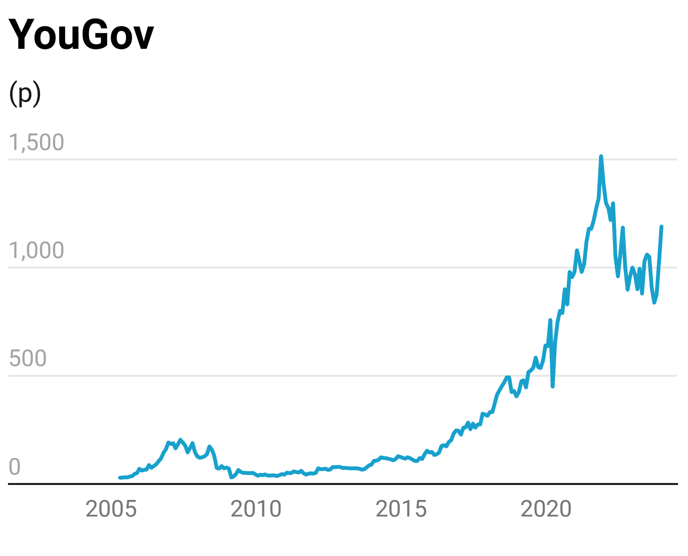


Chart: Shares magazine • Source: LSEG

Next raises guidance after strong Christmas sales

Consumers can't get enough of the UK high street retailer

Clothing and homewares giant **Next (NXT)** appears to be doing no wrong at the start of the year.

The retailer raised its pre-tax profit guidance for the year ending 27 January 2024 after benefiting from strong Christmas sales.

The FTSE 100 shares are testing all-time highs after bumping up its earning guidance by £20 million to £905 million against its most recent forecast of £885 million and from its original target of £795 million set at the start of this financial year.

This raised guidance spells good news for shareholders who regularly get rewarded with ordinary dividends and buybacks when the going is good.

Over the past year Next shares are up 31% to sit at the £84.84 mark.

'Next's core proposition is clearly resonating with the UK consumer and is being augmented by intelligent acquisitions of brands like Fat Face,' says Charlie Huggins, manager of the quality shares portfolio at the Wealth Club.

The only 'fly in the ointment' for Next could be supply chain issues stemming from difficulties in the Red Sea and the tricky economic backdrop in the UK.

But it is easy to see why Shore Capital analyst Clive Black would observe that: 'Next is widely regarded as a well-managed business.'

JD Sports Fashion shares take a bath as consumers feel the cost-of-living squeeze

Shares are nearly down 30% year-to-date

JD Sports Fashion (JD.) had an awful start to the year with shares falling over 20% following an unscheduled trading update at the beginning of January.

The sports fashion retail group reported disappointing results for the 22 weeks to 30 December 2023 falling short of company expectations.

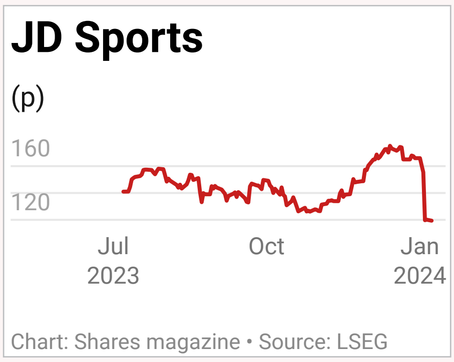
The company's outlook doesn't get any better.

The sports fashion retail group says full-year pre-tax profits will be up to 12% below the £1.04 billion guidance given last September.

The reason being is that consumers are just not buying non-essential items in a tough high interest rate environment, they are prioritising their spending on things they really need.

Plenty of other names in the retail sector have recently given similar messages about a slowdown in sales growth including Zara's owner Inditex, H&M and **ASOS (ASC)**.

Analysts at Shore Capital remain cautious about the sports fashion retail group even though the company enjoys a very strong balance sheet, growing market share, key brand relationships and quality stores.



Can Dunelm deliver investors some winter comfort and joy?

The cash-generative curtains-to-kitchenware seller should highlight the delivery of further market share gains over Christmas

Chart: Shares magazine • Source: LSEG

Homewares industry rival **Next (NXT)** set the bar high with its strong Christmas trading update and latest profit upgrade, so there is pressure on UK market leader **Dunelm (DNLM)** not to disappoint with its second quarter update on 18 January, which includes the festive selling period.

Another stand-out retail sector performer, Dunelm rarely disappoints and *Shares* suspects the FTSE 250 bedding, curtains and kitchenware seller may have benefited from value-focused consumers spending on Christmas bedding and decorations as well as festive lighting and from the demise of competitor Wilko, although the self-styled 'Home of Homes' may have found shifting big ticket categories such as furniture more challenging.

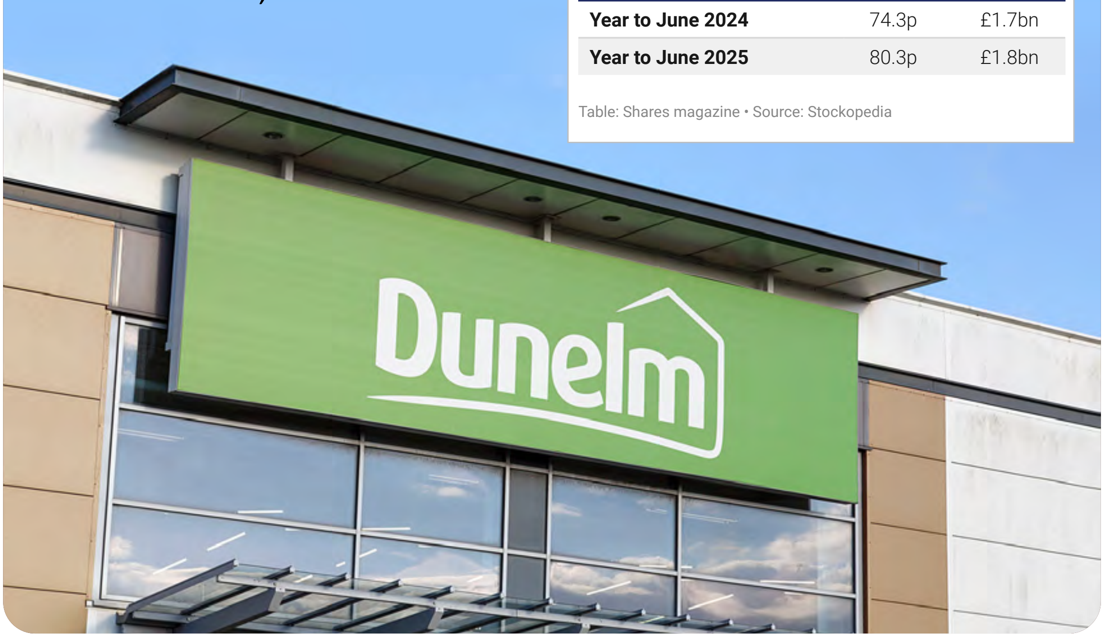
On 19 October, Leicester-headquartered Dunelm reported a robust first quarter performance with a 9% year-on-year increase in total sales to £390 million, ahead of the 8.2% called for by consensus, with both the brick-and-mortar and digital channels performing well.

The outlook for 2024 also looks more encouraging since inflation has fallen compared to last year and the UK consumer is now experiencing real wage growth again. Dunelm, which is aggressively rolling out new stores, should be among the key beneficiaries of any improvement in consumer confidence. [JC]

What the market expects of Dunelm

	EPS	Revenue
Year to June 2024	74.3p	£1.7bn
Year to June 2025	80.3p	£1.8bn

Table: Shares magazine • Source: Stockopedia



UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS
15 January:
Ramsdens
17 January:
Oxford Biodynamics, Safestore

TRADING ANNOUNCEMENTS
12 January:
Vistry, Wood Group
16 January:
Experian, Ocado
17 January:
Rathbones, Liontrust Asset Management
18 January:
Flutter Entertainment, Dunelm, AJ Bell, Hays, Elementis, Sage Group, Currys

The US's biggest bank needs to beat forecasts to sustain its rating

Analysts have set a low bar for the fourth quarter

With its shares trading close to all-time highs at $173, there is a lot riding on this week's fourth-quarter earnings update from **JPMorgan Chase (JPM:NYSE)**.

Over the past year, the Jamie Dimon-led bank has seen profits lifted by the acquisition of First Republic and by an influx of customers who have flocked to the larger established banks following the crisis in small regional lenders.

On top of its strong retail business, earnings are likely to have buoyed an upsurge in M&A deals towards the end of the year.

In December alone, pharmaceutical companies **Abbvie (ABBV:NYSE)**, **Bristol Myers Squibb (BMY:NYSE)** and **AstraZeneca (AZN)** announced around $25 billion worth of deals according to LSEG data.

Analysts are predicting earnings per share of $3.64, a decline from the previous quarter's $4.33 per share but a minor improvement on the $3.57 per share posted in the fourth quarter of 2022 suggesting a fairly low bar for the bank to beat.

Which, having beaten forecasts in each of the last four quarters by between 11% and 20%, it needs to do so again if it doesn't want to disappoint investors. [IC]

What the market expects of JP Morgan

	EPS	Revenue
Q4	$3.64	$39.79bn

Table: Shares magazine • Source: Yahoo Finance

JP Morgan

Chart: Shares magazine • Source: LSEG

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

12 January: UnitedHealth, JPMorgan, Bank of America, Wells Fargo, BlackRock, Citigroup, Bank of NY Mellon, Delta Airlines,

16 January: Morgan Stanley, Goldman Sachs, PNC Financial, Interactive Brokers, Pinnacle, Old National Bancorp, Hancock Whitney, Fulton, Mercantile, Bank First National

17 January: Prologis, Charles Schwab, US Bancorp, Kinder Morgan, Discover, Wintrust, Alcoa, BOK Financial, Plexus, Eagle, Community Trust

18 January: CSX M&T Bank, JB Hunt, Northern Trust, American Airlines, KeyCorp

Investors and analysts are banking on rate cuts this quarter

Benign UK and US inflation figures could trigger buying ahead of central bank meetings

In terms of short-term market direction, the next few days are likely to hinge on the latest inflation prints from the UK and the US.

Today (11 January) sees the release by the US Bureau of Labour Statistics of December's consumer price index.

After readings of 3.2% in October and 3.1% in November, investors will be hoping inflation continues to fall towards the Federal Reserve's 2% target so a December print starting with a two would be a good start.

So far, food prices and what is referred to as 'shelter' (housing costs) have been the main sticking points while energy costs have been trending negatively thanks to lower gasoline prices.

In the UK, the ONS (Office for National Statistics) releases the December consumer price index on 17 January, and again hopes and expectations are for a continued fall towards more 'normal' levels.

November marked a sharp slowdown in the annual rate of inflation to 3.9% against 4.6% in October, and for now the consensus is only expecting a small fall in December.

However, grocery market data published last week by marketing and analytics group Kantar showed food prices rose by just 6.7% in the four weeks to 24 December against a 9.6% increase in November.

That represents the sharpest one-month decrease since the firm began collecting till-roll data and suggests December's overall price index could surprise positively thanks to lower food and drink inflation.

Finally, market-watchers will be keeping an eye on the raft of US economic data due at the end of next week including retail sales, industrial production and housebuilding, before moving on to the first central bank meetings of the year. [IC]

The big economic announcements to watch

Date	Economic Event	Previous Month
11-Jan	US December CPI	3.1%
12-Jan	UK November GDP	0.3%
15-Jan	US Market Holiday	
16-Jan	German January ZEW Survey	12.8
17-Jan	UK December CPI	3.9%
17-Jan	US December Retail Sales	4.1%
17-Jan	US December Industrial Production	-0.4%
17-Jan	US January NAHB Housing Index	37
18-Jan	US December Housing Starts	1.56m
18-Jan	US January Philly Fed Manufacturing Index	-10.5

Table: Shares magazine • Source: Morningstar, central bank websites

Next Central Bank Meetings & Interest Rates

Date	Event	Previous
25-Jan	European Central Bank	4.5%
31-Jan	US Federal Reserve	5.5%
01-Feb	Bank of England	5.25%

Table: Shares magazine • Source: Morningstar, central bank websites

Fast-moving consumer goods giant Unilever looks unfairly undervalued

The Marmite-to-Hellmann's maker represents high-quality merchandise on sale

Unilever
(ULVR) £38.19

BUY

Market cap: £95.1 billion

Chart: Shares magazine • Source: LSEG

We believe bargain-hunters looking for a high-quality business should consider **Unilever (ULVR),** the consumer products group whose intrinsic strengths appear underappreciated by the market. Shares in the FTSE 100's fourth-biggest company by market cap are down around 10% over one year due to inflationary pressures and market share losses for some key brands amid cost-of-living squeeze-induced consumer downtrading.

An underwhelming reaction to new chief executive Hein Schumacher's plan to 'drive growth' and 'unlock potential' and allegations of greenwashing have also impacted sentiment towards the stock.

Nevertheless, the Marmite-to-Hellmann's maker's wonderful brands, pricing power and remarkably predictable earnings aren't reflected in a forward price to earnings ratio of 16.2 times, significantly below the high of 27.5 times reached in 2018. Neither are the firm's exciting long-run emerging markets growth potential or scope for strategic, operational and financial improvements priced in.

Unilever is the fast-moving consumer goods powerhouse behind an enviable collection of household, food and beauty brands used by 3.4 billion people each day and which underpins a highly predictable earnings stream. These brands include Dove soap and Domestos bleach, as well as Comfort fabric conditioner, Cornetto and Magnum ice creams and Hellmann's mayonnaise to name a few. Deep entrenchment in the supply chains of its retailers is the source of this cash-generative, progressive dividend payer's wide economic moat.

Following mixed third quarter results, which showed underlying sales growth of 5.2% thanks entirely to price rises, the Rexona-to-Sunsilk maker stuck with its full-year outlook for underlying sales growth above 5% and a modest improvement in underlying operating margin.

Encouragingly, emerging markets delivered both price and volume gains as underlying sales grew 8.3% and a full recovery of the Chinese market offers a potential growth catalyst for 2024 and beyond.

A key area of focus for new broom Schumacher is to arrest market share losses after the percentage of Unilever's business taking market share slipped to 38% from 41% at the half-year stage.

Schumacher concedes Unilever has not delivered to its full potential but has ruled out any dramatic acquisitions, focusing instead on the 30 'Power Brands' which account for over 70% of the group's turnover.

Names on the share register who won't put up with persistent underperformance include respected fund managers Terry Smith and Nick Train, as well as activist shareholder and non-executive director Nelson Peltz.

Given the focus on its biggest brands, recent months have seen Unilever sell off smaller brands including Timotei, Impulse and its ill-fated 2016 purchase Dollar Shave Club. Further disposals, potentially from the slow-growing foods business or a complete separation of the unit through a sale or spin-off, could help unlock value in the future. [JC]

Why investors should snap up shares in unloved portal firm Rightmove

The stock offers resilient growth and a bargain-basement valuation

Rightmove
(RMV) Price: 558p

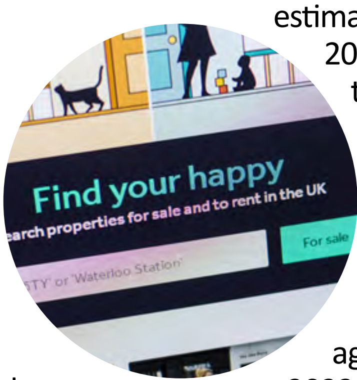
BUY

Market cap: £4.4 billion

Every now and then, even well-known FTSE 100 firms can find themselves unloved and unwanted by investors through no fault of their own.

One such company is the UK's biggest property portal **Rightmove (RMV),** whose shares have been out of favour since late 2022 despite the firm consistently beating market expectations.

Two months ago, the firm said since posting positive growth in the first half revenue had 'continued to track marginally ahead of consensus expectations' amidst an uncertain housing market due to better-than-expected ARPA (average revenue per advertiser).



'Our performance underscores the strength and resilience of the business, with both estate agent subscriptions and new homes development listings stable. Our share of consumer time in the second half to date remains unchanged - at c85% - demonstrating the strength of our brand, our position with consumers and the established network effect of our business model', the company noted.

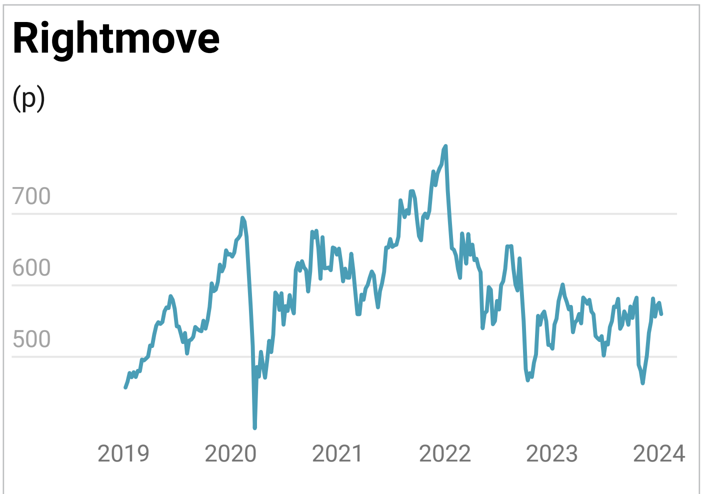


Chart: Shares magazine • Source: LSEG

It also raised its ARPA guidance for the full year to £112 to £116 from £103 to £105 thanks in part to developers using its advanced listing tools to sell new houses.

It is this entrenched position, not just with home buyers and estate agents, together with its unrivalled database on all aspects of the UK housing market, which make it such a resilient business.

While earnings per share dropped during the pandemic, they resumed their upward trend within about 18 months – a trend which we conservatively estimate at around 20% per year since 2006 – and are set to continue growing thanks not just to a recovery in housing activity but also new product areas, including charging mortgage brokers to offer advice through the website to customers applying for mortgages.

By 2028, the company expects annual revenue to exceed £600 million, against a consensus of £360 million for 2023, and sees operating profit topping £420 million against an estimated £250 million last year.

For this growth, investors are being asked to pay 22 times last year's earnings, which is roughly the same multiple as at the end of the great financial crisis, during which the firm was consistently profitable we should add.

So, why is the stock now unloved? News that US marketing firm **CoStar (CSGP:NASDAQ)** has acquired OnTheMarket, a much smaller UK property portal, and is throwing close to £50 million at it – three times Rightmove's annual media spend – has created a new 'narrative'.

CoStar is promising a 'multi-year investment programme totalling hundreds of millions of pounds' to grab market share, but with such a huge lead already we really cannot see Rightmove being overly troubled in the next five years. [IC]

Tribal takeover falls apart, so what should shareholders do now?

£172 million deal scuppered by rival on the share register

Tribal
(TRB:AIM) 51.2p

Loss to date: 20%

Trading a seeming arbitrage opportunity is always risky and this has blown up in our faces. Education software supplier **Tribal (TRB:AIM)** had a takeover offer from US peer Ellucian on the table worth £172 million on an enterprise value basis, or 74p per share. The deal had been recommended by the board and had a lot of early shareholder backing.

That the competition watchdog was sniffing around looked, to us, a limited threat, as we explained in the original article. With the stock at 64p, it looked like there was 15%-odd of upside there for the taking.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Then the bombshell landed. Another US-based education software player Jenzabar was in the frame. It had been quietly building a stake in Tribal, and its activity in Tribal shares accelerated meaningfully following Ellucian's offer.

Jenzabar did not want the deal to go through, and while its rationale has not been offered,

Chart: Shares magazine • Source: LSEG

it presumably didn't fancy the idea of Tribal bolstering a competitor. It would also not be making its own offer for Tribal.

On 21 November 2023, Jenzabar pushed its Tribal stake to 26.5%, large enough to scupper the deal, which would require a minimum of 75% shareholder approval. Tribal shares sank.

WHAT SHOULD INVESTORS DO NOW?

Shares did warn about the potential for the deal to fall apart, either because the CMA unearthed something that queered the pitch, or Ellucian simply walking away, and in either case, 'the share price would likely return to the pre-buyout 50p to 55p levels', as we wrote.

Still, this leaves investors in a tricky position - stick or twist.

What we have learned is the price most shareholders are willing to accept for any future deal, and one could yet emerge that Jenzabar does not oppose. Tribal is not stretched financially and analysts project a continued earnings recovery after 2022's losses. A 2024 PE of 16 is roughly in line with its sector.

But investors may believe a clean cut is best and that rationale is hard to argue with. [SF]

Can the MAGNIFICENT SEVEN ride higher again?

The 2024 prospects for **Meta, Apple, Alphabet, Nvidia, Microsoft, Amazon** and **Tesla**

Mega-cap tech stocks drove the bulk of US stock market gains in 2023, but can the so-called 'Magnificent Seven' repeat the trick in 2024?

While the odds seem stacked against a re-run of last year's blistering capital returns over the next 12 months, *Shares* believes that the 'Magnificent Seven' will continue to beat S&P 500 rivals and top index averages. If you want high-quality growth in your portfolio, you need look no further.

Tagged the 'Magnificent Seven' by a Bank of America analyst, the term has emerged as a byword for the world's biggest and most important tech stocks – **Alphabet (GOOG:NASDAQ)**, **Amazon**

(AMZN:NASDAQ), **Apple (AAPL:NASDAQ)**, **Meta Platforms (META:NASDAQ)**, **Microsoft (MSFT:NASDAQ)**, **Nvidia (NVDA:NASDAQ)** and **Tesla (TSLA:NASDAQ)** – in the same way we used to talk about 'FANGs', or Facebook, Amazon, Netflix and Google.

WHAT HAPPENED IN 2023?

AI was born as a mainstream investment theme in 2023. No longer the preserve of venture capital firms and hedge funds, last year saw millions of ordinary investors actively embrace the theme.

Given the sheer scale of the 'Magnificent Seven', with a combined market cap of about $11.6 trillion, it means even passive investors were on board with the AI boom, even if they didn't know it, through S&P 500, Nasdaq and All World ETFs, plus hundreds of other funds.

They'll be chuffed that they were. Shares of the 'Magnificent Seven' rallied between around 50% and 240% in 2023, making them among the market's most rewarding bets.

By the end of 2023, the valuations of the 'Magnificent Seven' had soared to roughly 28% of the total S&P 500 index. This lopsided dynamic meant the S&P 500's 24% rally last year was roughly double that of its equal-weight variant, the largest percentage-point difference since 1998, according to Dow Jones Market Data.

Data from Apollo showed 72% of the S&P 500's stocks underperformed the index this year, a record.

AREN'T THEY ALL REALLY EXPENSIVE?

That depends on your point of view. It is fair to say that some 'Magnificent Seven' valuations may look stretched, especially based on traditional valuation metrics, like 12-month price to earnings ratios, or PEs, for example. But you must balance this with their faster than average growth, higher profit margins and cleaner balance sheets bulging with more than $260 billion of net cash.

'On an earnings-weighted basis, the 'Magnificent Seven's' long-term expected earnings per share growth is eight percentage points faster than the median S&P 500 stock,' says Goldman Sachs' David Kostin, 17% versus 9%.

On a PEG ratio, or price to earnings growth basis, the relative valuations are in line with the 10-year averages, Kostin says.

'Analyst estimates show the mega-cap tech companies growing sales at a compound annual

S&P 500 & S&P 500 Equal Weighted

Rebased to 100

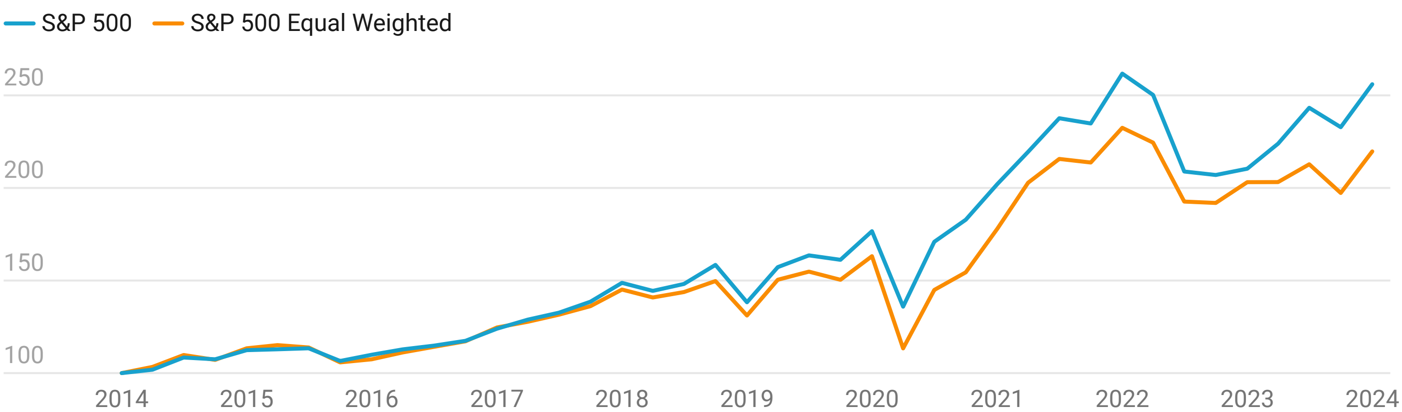


Chart: Shares magazine • Source: LSEG

The Magnificent Seven smashed the performance of the wider market in 2023

Rebased to 100

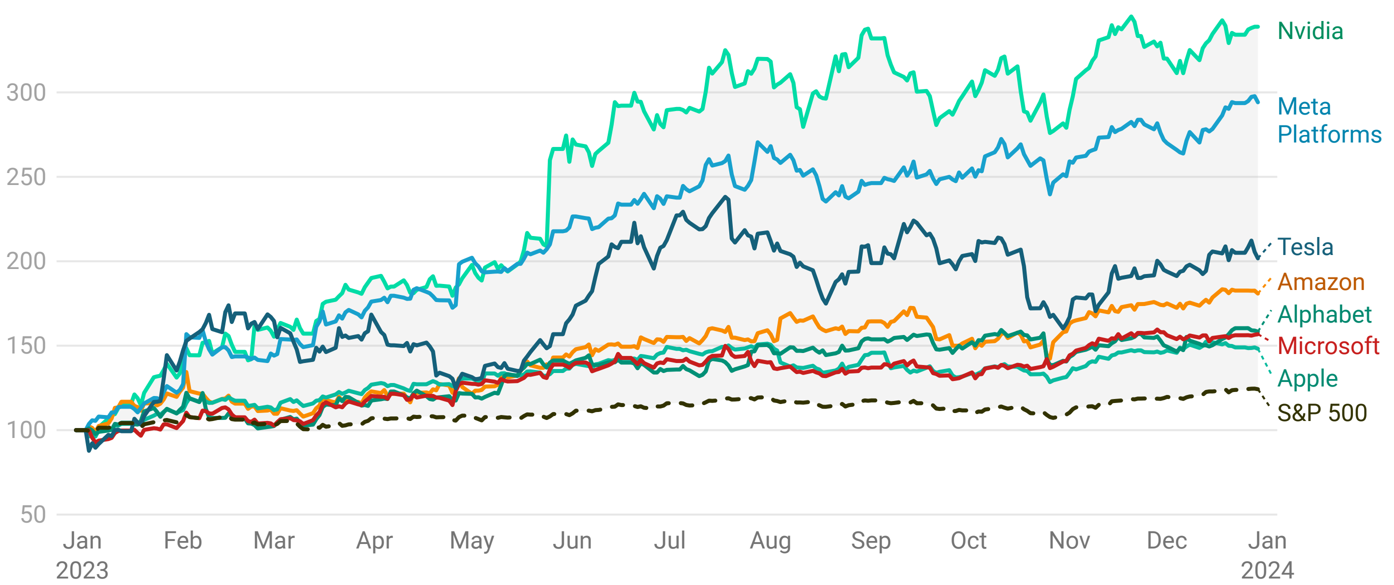


Chart: Shares magazine • Source: LSEG

growth rate (CAGR, for short) of 11% through 2025 compared with just 3% for the rest of the S&P 500,' said Goldman Sachs' David Kostin.

POWERFUL PROFIT MACHINES

'The net margins of the 'Magnificent Seven' are twice the margins of the rest of the index, and consensus expects this gap will persist through 2025,' Kostin said.

'Magnificent Seven' 12-month forecast valuations

	Price to earnings (x)	Price to sales (x)
Alphabet	27.0	7.4
Amazon	20.4	5.75
Apple	40.1	2.7
Meta Platforms	30.4	12.5
Microsoft	19.8	7.0
Nvidia	24.1	26.4
Tesla	62.8	7.9
S&P 500	17.7	2.55

Table: Shares magazine • Source: Stockopedia, GuruFocus

Not surprisingly, fund managers in Bank of America Global Research's most recent survey said owning the seven stocks was the market's 'most crowded' trade. This extreme concentration of the stock market rally last year should keep investors on high alert, but Goldman Sachs isn't concerned and expects the gains to continue in 2024.

A *Reuters* report has also flagged signs that the rally is broadening. The equal-weight S&P 500, a proxy for the average stock, climbed 6.7% in December 2023 against a 4.5% rise for the standard index, after lagging most of the year. Meanwhile, the previously sluggish small-cap Russell 2000 soared 12% in December, its biggest monthly gain in three years.

MEAN REVERSION

A rate hike cycle reversal will help – it was the main reason for the equity market sell-off in 2022, so it stands to reason that easing rates will provide a substantial boost to 'Magnificent Seven' stocks and share prices in general.

The sharp outperformance in the mega-cap tech stocks last year came after a brutal 2022 in which many stocks were severely punished by investors. That made 2023's performance trend reversal rather ordinary to Goldman Sachs' Kostin.

'From their peak, Meta fell more than 70%, Nvidia dropped more than 60%, and Amazon's share price was cut in half in 2022,' he says.

DRIVING THE MAGNIFICENT SEVEN IN 2024?

In short, more AI. But where 2023 was about laying foundations and working out corporate strategies, 2024 promises to see a rapid rise of use cases that should directly bolster profits.

'We believe AI is the biggest transformation in the tech sector in the last 30 years and is a "1995 Moment" not seen since the start of the internet in 1995,' says Dan Ives, the respected technology analyst at Wedbush. Ives calculates that AI could make up 8% to 10% of IT budgets in 2024, which would be up from less than 1% of budgets in 2023. The AI sector could see over $1 trillion in spending over the next decade.

UNIQUE PLAYS ON AI

UBS believes that the investment outlook for AI will not only persist but also strengthen in 2024. They say that the integral role of 'Magnificent Seven' stocks in the ongoing development and dissemination of AI positions them favourably to continue driving innovation, efficiency, and profitability in the evolving landscape of the tech sector.

'When we launched our AI industry revenue estimates last year, we expected growth from $28 billion in 2022 to $300 billion by 2027. That translated into a compounded annual growth rate of 61%,' said UBS Americas chief investment officer Solita Marcelli. But just days into the New Year and UBS analysts upgraded their estimate, with the greatest risk being that we are 'too conservative'.

UBS now forecasts AI industry revenues of $420 billion by 2027, a 40% hike to its projection that represents 72% annual growth and a 15-fold increase in just five years.

'While these numbers may appear ambitious, they align with historical trends seen in earlier phases of the computing cycle, including mainframe, PC, and smartphone shipments.'

WRAPPING UP

'We see a multi-country, multi-sector AI-centred investment cycle unfolding,' says BlackRock, throwing its hefty hat into the debate. While concerns may arise regarding potential headwinds, such as a slower practical implementation of AI or a strategic shift in investor portfolios away from the previous year's leaders, UBS believes that the investment outlook for AI will not only persist but also strengthen in 2024.

Phil Haworth, head of equities at Aegon Asset Management believes the 'Magnificent Seven' may continue to perform well, especially those like Nvidia and Microsoft, which are driving the development of AI, although he also thinks equity performance will expend in breadth in 2024.

Combined with the fact that the recessionary risk is not where it was, there are reasons to believe this new bull market is here to stay. Armed with tonnes of cash on the balance sheet, strong cash flows and excellent leadership, the 'Magnificent Seven' are well-positioned to continue leading their respective markets in 2024.

Wedbush's Ives reckons 'Magnificent Seven' stocks will have another 'robust year in 2024' and lead tech higher, and he would not be surprised to see these stocks clock up gains of 30% in 2024 with AI front and centre.

Alphabet
(GOOG;NASDAQ) **$138.04**

WHAT DOES IT DO?:

Its core subsidiary is Google which encompasses the eponymous search engine and YouTube video sharing platform which generate significant advertising revenue, as well as its artificial intelligence and cloud computing arms. It also has more nascent ventures in areas like self-driving cars and quantum computing.

WHAT TO WATCH IN 2024:

The internet search giant continues to fall under the watchful gaze of global regulators concerned about its market power and the impact on reasonable competition. There has been talk of slapping curbs on the company, although nothing likely to dent the share price very much. More meaningful is its emerging cloud computing business, and signs that growth here is being clipped could dampen investor enthusiasm, while if a recession does emerge, advertising usually gets it in the neck, so that would be bad news.

Consensus target price	Implied upside	Buys	Holds	Sells
$155.65	12.8%	35	10	0

Amazon
(AMZN:NASDAQ) **$144.57**

WHAT DOES IT DO?:

While its e-commerce arm is more prominent and longstanding, its Amazon Web Services cloud computing division is the more profitable part of the business. The company also has a strong position in TV, film and music streaming.

WHAT TO WATCH IN 2024:

Consumer spending and cloud computing will dominate Amazon's year, and recent speculation that TikTok is looking to steal online shopping market share has tainted the stock's start to 2024. Amazon has always had fierce competition to deal with, while dimming chances of recession are positive, and its distribution scale and consumer trust are great defensives qualities. Most investors would rather it focused increasingly on its real source of profit – cloud arm Amazon Web Services. This is an area that could really see AI pay-off this year.

Consensus target price	Implied upside	Buys	Holds	Sells
$179.50	24.2%	54	1	0

Apple
(AAPL:NASDAQ) **$181.91**

WHAT DOES IT DO?:

The company behind leading consumer electronics brands like iPhone and iPad has a burgeoning services division offering financial, entertainment and data management platforms and tools.

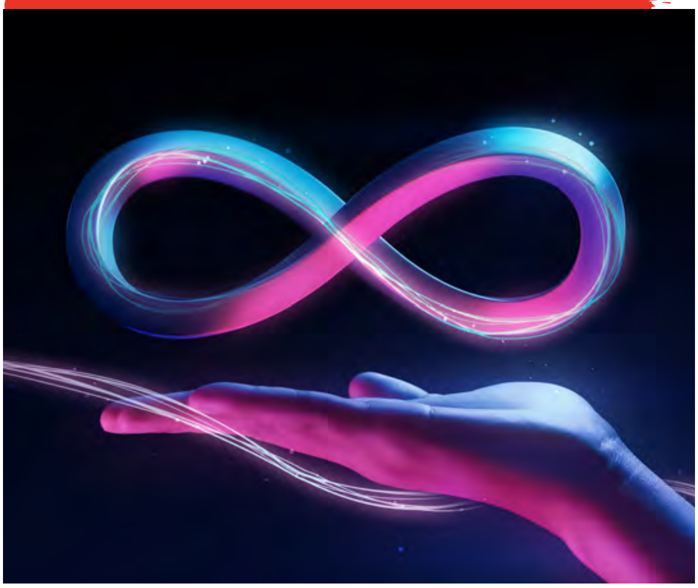
WHAT TO WATCH IN 2024:

Quite where AI fits in at Apple is a poser for investors, with chief executive Tim Cook cagey on details, a source of criticism from some quarters. That said, a rough billion iPhones worldwide ready to embrace whatever the company does is an exciting prospect. An AI-powered Siri is one obvious option, and speculation suggests Apple is deliberately taking its time to make sure it gets its AI projects right. Outside of that, eyes will fall on handset sales in China and high-margin services revenues growth, which have gone from a tiny to a multi-billion-dollar part of the operation in recent years. There was talk last year of Chinese government departments slapping bans on iPhones, although there's limited evidence of that to date.

Excitement is also building around the company's mixed reality Vision Pro headset which is set to launch on 2 February.

Consensus target price	Implied upside	Buys	Holds	Sells
$198.81	9.3%	27	14	1

Meta Platforms
(META:NASDAQ) **$347.12**



Consensus target price	Implied upside	Buys	Holds	Sells
$379.52	9.3%	50	6	0

WHAT DOES IT DO?:

For all the talk of the metaverse – Meta remains a social media business at heart with several of the world's leading platforms including Facebook, Instagram, WhatsApp and the recently launched Threads. Advertising accounts for a substantial proportion of revenue.

WHAT TO WATCH IN 2024:

The Facebook-owner has plenty of AI ideas – language translation, Instagram users reimagining their photos, for example – but many seem unlikely to generate meaningful revenue, so advertising will remain key, so as with Alphabet, a recession would be ugly. Longer term, Meta wants to make the world increasingly 'connected'. Meta's development on a product that integrates an AI assistant with augmented reality, allowing users to do things like learn how to cook, play tennis, or create pottery, could be extremely exciting for users and a potentially massive revenue driver.

Microsoft
(MSFT:NASDAQ) **$367.94**

WHAT DOES IT DO?:

Cloud computing has been a big driver for a business which at one time looked to have been left behind by its rivals. Microsoft has been remarkably successful at selling its main products – the Windows operating systems, Microsoft 365 suite of productivity applications, Azure big data analytics, etc – as cloud-hosted subscriptions rather than upfront licences. It has also taken a big step into AI through its partnership with Open AI – the developer of ChatGPT.

WHAT TO WATCH IN 2024:

Seen by most as *the* AI software play, its apps are already critical to millions of businesses so wrapping into Windows, Microsoft 365, Azure, and more, through its Copilot tools offers immense potential. As an upsell to existing subscriptions, it should seed the ground for what looks likely to reap big rewards, with revenues that should prove extremely sticky too. Another target for global

watchdogs, although as with most of the tech giants, analysts suggest there is little to fear beyond the few fines here or there. Investors should also look out for news on how Microsoft will harness its much bigger gaming footprint, after finally getting the green light to buy Activision Blizzard.

Consensus target price	Implied upside	Buys	Holds	Sells
$416.95	13.3%	50	5	0

Nvidia
(NVDA:NASDAQ) **$485.26**

Consensus target price	Implied upside	Buys	Holds	Sells
$658.08	35.5%	49	4	0

WHAT DOES IT DO?:

It designs microchips and hands over manufacturing to third parties. It was a specialist in the gaming market and designed advanced graphic processing units. These are better able than traditional computer processing units to handle the massive volumes of data involved in AI at speed and increasingly it is pivoting towards serving this fast-growing market.

WHAT TO WATCH IN 2024:

The AI hot stock of 2023, Nvidia's graphics processing units have emerged as the must-have bits of kit to power global AI initiatives. The scale of the AI opportunity is becoming increasingly forceful and accepted by market participants, and assuming they are right, the key for Nvidia is innovation, making sure its designs stay at the bleeding edge of AI development. Plenty think is can, and will, which is why the most bullish analysts think the stock could blast past $1,000 in time, perhaps even this year. The obvious risks are more competition, which it can do something about, and that future revenue growth from China may be hurt by Washington's advanced tech exports impasse with Beijing, which it can't.

Tesla

(TSLA:NASDAQ) $237.78

WHAT DOES IT DO?:

A leading manufacturer of electric vehicles which has a head-start on many traditional car makers, Tesla also has a footprint in battery and electric storage technology.

WHAT TO WATCH IN 2024:

A savage electric vehicles price war instigated by Elon Musk is starting to look like backfiring as Tesla's 20%-plus gross margins of the past slump. In theory, this should have shaken out many of the loss-making EV makers and led to a spike in demand, but neither seems to have happened, at least not to the extent Tesla might have hoped. Competition remains as fierce as ever, particularly from China's BYD, which overtook Tesla as the world's top EV seller in the fourth quarter of 2023. Perhaps it is still too early to come to conclusions, we'll know more as Tesla reports sales through this year, with the now launched Cybertruck an intriguing prospect. Plans to launch a sub-$30,000 EV and its fast-growing recharging network look like milestones if Tesla shares are to rally back to $400 peaks of the past, although many analysts are sceptical.

Consensus target price	Implied upside	Buys	Holds	Sells
$238.13	0.15%	16	21	6

Understand the gaming sector and how Microsoft's purchase of Activision Blizzard will change industry dynamics

After a pandemic boom, momentum has been difficult to maintain

There are lots of individual share options for investors interested in gaining exposure to the video gaming sector, from the game developers and publishers to the game console makers like **Sony (SONY:NYSE)** and the chip makers supplying components such as **Nvidia (NVDA:NASDAQ).**

In this article we will look in more detail at the investment options and discuss the dynamics and context around the industry.

Nvidia is a bit of an outlier with its shares surging 190% over the last year fuelled by demand for high end AI (artificial intelligence) chips following the rapid success of OpenAI's ChatGPT.

The company also makes superfast chips for the gaming industry and runs a gaming streaming service.

Investors can get indirect exposure via video gaming services providers such as **Keywords Studios (KWS:AIM)** and **Zoo Digital (ZOO:AIM).** These firms provide a range of services from localisation-based services such as dubbing and subtitling to game testing and design.

DOMINATED BY OVERSEAS STOCKS

Most of the big names are either listed on the US or Japanese stock markets so investors would need to be comfortable with investing in overseas markets and dealing with foreign currencies.

Examples of stocks you can buy include **Microsoft (MSFT:NASDAQ)** which makes the Xbox console and owns over 20 games studios. It recently closed the biggest ever deal in the sector after buying Call of Duty maker Activision Blizzard for $69 billion.

PlayStation console maker Sony is also on the stock market alongside Switch console manufacturer and Mario games publisher **Nintendo (7974:TYO).**

It is tricky to buy Nintendo shares directly but it is a top 10 holding in **Lindsell Train Investment Trust (LTI), T Rowe Price Japanese Equity (BD446L1)** and **Vaneck Video Game and eSports ETF (ESPO).**

Investors looking to buy shares in a gaming studio have multiple options including football sim and Medal of Honor group **Electronic Arts (EA:NASDAQ); Take-Two Interactive (TTWO:NASDAQ)** whose subsidiary Rockstar Games makes the Grand Theft Auto franchise; and the eponymous maker of gaming platform **Roblox (RBLX:NASDAQ)** which is popular with pre-teens children.

The UK stock market includes a few smaller games companies including **Frontier Developments (FDEV:AIM)** and **Team17 (TM17:AIM).**

An alternative is to invest in a fund which provides diversified exposure to the sector.

For example, **Global X Videogames & Esports ETF (HERU)** tracks a basket of shares that are relevant to the gaming sector. Its portfolio includes stakes in Nintendo, Electronic Arts, Take-Two Interactive and Roblox as well as Japanese games developers Konami and Capcom among others.

Gaming sector financials

Company	Forecast price to earnings ratio	Five-year average RoE (%)
Nintendo	4.7	20.8
Team17	8.4	20.1
Ubisoft	13.2	n/a
Keywords Studios	15.1	7.6
Electronic Arts	17.4	20.1
Sony	18.9	17.5
Take-Two Interactive	22.1	10.1
Microsoft	33.1	43.2

Forecast PE= 1 Year ahead. RoE= Return on Equity

Table: Shares magazine • Source: Stockopedia, Refinitiv

Not all the best-selling video games are publicly owned. For example, the hugely popular game *Fortnite* which, has sold more than 350 million copies is privately owned by Epic Games.

While founder and CEO Tim Sweeny holds 50% of the company, Sony owns around 5% and Chinese entertainment company **Tencent Holdings (0700:HKG)** owns around 40% of the company.

However, according to documents released by **Apple (APPL:NASDAQ)** relating to a legal battle to get *Fortnite* on its App Store, Epic Games is not yet profitable.

The company reportedly lost between $100 million and $200 million annually from 2019 through 2021. Epic Games is believed to be considering floating its shares on the US stock market, so it may yet become a public company in the future.

HOW HAS THE SECTOR PERFORMED?

It has been a rough year for UK listed video gaming companies, with share prices down 67% on average.

Over in Europe, shares in French video gaming company **Ubisoft (UBI:EPA)** are down 14% over the same period. In contrast US groups Take Two Interactive Software, Microsoft, Electronic Arts and Roblox are up by around a third on average. Meanwhile, the Japanese duo of Sony and Nintendo have averaged gains of 20%.

WHAT IS THE OUTLOOK FOR VIDEO GAMING?

An estimated 2.77 billion people will play video games next year, rising to 2.86 billion in 2025, according to figures from Statista. That compares with 1.72 billion in 2017, illustrating the rapid growth in the industry.

Consumers have been merrily spending for much of 2023 as they run down savings amassed during the various pandemic lockdowns. However, there are signs this spare cash is running out, particularly in the US where more people are now turning to 'buy now, pay later' and credit cards to fund spending.

Video games are not cheap, and several publishers have recently flagged disappointing sales of titles.

There is a lot of content available, and competition is fierce for gamers' money. That said, pockets of the sector could still do well as they are seen as 'must-have' products.

The sector's saving grace could come in the form of new hardware next year.

There are widespread rumours that Nintendo will release the Switch 2 in 2024 which could drive a new wave of consumer spending across the sector.

New hardware is typically a catalyst for gamers to upgrade their home systems. The original Switch console has been hugely successful, selling more than 132 million units since launch in 2017.

Technology has come a long way over the past six years and so gamers might be eager to buy the new model of Switch if it offers better graphics and performance than the original.

That said, historically launching new hardware has not always gone smoothly for Nintendo which might explain why the company has been slow to upgrade the console.

Lead manager James Harries of the **Trojan Global Equity Fund (FUND:B0ZJ5S4)** which owns shares in Nintendo, told *Shares* the company has had issues introducing newer but less popular upgrades in the past.

The other big catalyst for the gaming sector is the 2025 launch of *Grand Theft Auto 6*, which will arrive more than 10 years after the previous instalment of the successful franchise.

This could set new sales records for a game, particularly as it is expected to be launched across both the PlayStation and Xbox at launch, thus widening the net for potential customers.

ARE GAMIING SHARES A GOOD INVESTMENT?

Video games are a big business and there is serious money to be made for companies with blockbuster titles. Earnings growth is a long-term driver for share price growth and history has shown that many of the successful companies in the gaming sector have delivered strong share price gains.

However, it is important to consider that past performance for a stock is not a prediction of what will happen in the future. Creating and selling blockbuster games is just a small part of the overall strategy for the most successful gaming companies. Firms like Nintendo have shown the power of creating strong, timeless gaming brands by taking them into new areas such as merchandise and films.

Monetising IP (intellectual property) which protects brands from copycat competition is one

Gaming stocks share price performance

Company	One-year change (%)
Take-Two Interactive	52.6%
Microsoft	47.5%
Roblox	25.1%
Nintendo	22.1%
Sony	17.7%
Krafton	14.6%
Electronic Arts	11.6%
Tencent Holdings	2.9%
Bandai Namco	-7.1%
Ubisoft	-13.9%
CD Projekt	-17.3%
Keywords Studios	-42.7%
Team17	-64.8%
Zoo Digital	-65.5%
Devolver Digital	-70.2%
Frontier Developments	-89.9%
Tinybuild	-97.8%

Table: Shares magazine • Source: Google Finance, data to 3 January 2024 of the most important legs of the overall strategy. A good example is Nintendo's loveable Italian tradesman Mario who has featured in over 200 games since first appearing in 1981 as 'Jumpman' in the first *Donkey Kong* game.

The Super Mario Brothers movie is on course to be the second largest grossing film of 2023, generating $1.4 billion at the box office. The Japanese company financed half of the $100 million budget and is entitled to 50% of the profits after Universal Pictures recoups its costs.

More importantly, the movie's success has led to increasing sales of the Switch console. The firm sold 4.3 million copies of *Super Mario Bros. Wonder* within the first two weeks of launch in October 2023.

The launch marks the first entirely new instalment of the game in over 40-years and its robust performance is the best of any Super Mario game according to Nintendo, demonstrating the effectiveness of its strategy.

WHAT ARE THE RISKS OF INVESTING IN GAMING?

The key risks facing investors include affordability as games are expensive purchases; companies failing to meet deadlines for big title releases; heightened competition leading to poor sales of new and old titles; and coding errors which cause bugs in games and make them a poor experience for players.

A recent example of a firm failing to meet deadlines and suffering from coding bugs is fantasy games maker Frontier Developments. The once high-flying Cambridge-based video games group has been hit by a series of profit warnings, the last one causing its shares to slide over 20% in a single day.

The latest slump came after the firm cut its full-year sales guidance for 2024 following weaker-than-expected Black Friday sales of the Warhammer game *Age of Sigmar: Realms of Ruin*.

THE KEY METRICS FOR VIDEO GAMING

Being successful in video gaming is all about getting as many customers playing as possible for as long as possible. There are a few basic metrics which help investors understand the key trends and compare performance across companies.

Industry benchmarks will differ based on the type of game and how it is monetised. Examples include free to play, in-app purchase or subscription)

The number of daily or monthly active users (DAU and MAU) is useful for gauging the popularity of a game and revenue potential while average revenue per user (ARPU) gives an idea of how much revenue each customer is generating.

The revenue line usually includes direct games sales, streaming subscriptions, downloadable content, and royalties.

For example, a company generating £1 million in annual revenue from 100,000 active users would equate to an ARPU of £10.

User acquisition cost (UAC) refers to the cost of acquiring new customers which is useful for gauging how efficient a firm's marketing strategies might be and the return on investment.

For example, a company which spends £10,000 on marketing which generates 2,000 new active customers would equate to a UAC of £5.

Lifetime value is an estimate of the total sales value an average customer generates over the lifespan of playing a game.

For example, a mobile game which has an ARPU of 50p per month and average lifespan of eight months would equate to a lifetime value of £4.

Larger firms which have developed a diversified portfolio of games titles and enjoy strong sales from back catalogues are less vulnerable to the risk of single game hiccups impacting the overall business.

HOW WILL MICROSOFT'S ACTIVISION PURCHASE CHANGE THE INDUSTRY?

Microsoft's purchase of Activision Blizzard is a potential game changer for the industry. The deal boosts Microsoft to the number three spot by gaming revenues behind Sony and Tencent.

After months of investigations, regulatory pushback resulted in concessions whereby Microsoft has granted cloud streaming rights for all Activision Blizzard's current and future games outside the European Union over the next 15 years to Ubisoft.

Streaming games from the cloud works like **Netflix (NFLX:NASDAQ)** with users paying a subscription to access games instead of paying for a game outright.

The big players in video game streaming are Microsoft's Game Pass, Ubisoft +, Sony's Play Station Plus and Nvidia's GeForce NOW. Despite Ubisoft having streaming rights Microsoft stands to benefit from downloadable content, royalties, and in-game purchases.

According to Statista, Activision generated $5.9 billion from such transactions in 2022 which dwarfs the $1.6 billion it raked in from game sales. One of the obstacles to closing the Activision deal was a concern that Microsoft would make Call of Duty an exclusive franchise for its own Xbox console, but the company has made commitments to allow all gamers access.

The acquisition is expected to boost Microsoft's presence in mobile gaming with Activision enjoying 368 million monthly active users.

By **Martin Gamble** Education Editor

Which stocks are fund managers most excited about this year?

Technology doesn't dominate investors' thinking for 2024

In this third part of our investor survey, we asked some of the UK's leading fund managers which sectors or stocks they thought were the most promising for 2024.

The responses were as varied as they were thought-provoking, with only a couple of managers singling out technology stocks.

As before we would like to thank all those who took part for sharing their views, and we hope readers enjoy them.

WHERE ARE MANAGERS FINDING OPPORTUNITIES?

George Ensor

R&M UK Listed Smaller Companies Fund (B1DSZS0)

'In terms of 2024 picks, alongside e-commerce companies, early-stage enterprise software businesses have probably experienced the greatest change in how they are viewed and valued by investors over the last three years. We think they now represent some of the best opportunities.

'We have positions in **ActiveOps (AOM:AIM)**, **GetBusy (GETB:AIM)**, **1Spatial (SPA:AIM)** and **Kooth (KOO:AIM)**, and have recently initiated a position in **Windward (WNWD)**. These are all companies with a high proportion of high-quality recurring revenue, net revenue retention in excess of 100% and high gross margins. Each business has strong net cash on its balance sheet (on average 11% of market cap) and scope to deliver double-digit top line growth, margin expansion and improving return on capital. Yet on average they trade on a multiple of just 1.7 times 2024 sales.'

Jean Roche

Schroder UK Mid-Cap Fund (SCP)

'I think the consumer space is the one that catches people out because it feels as though the stocks are easy to understand. Therefore, the opportunities are enormous, particularly in general retail, because there is a tendency to 'averagise' and assume that weakening retail sales data applies to all parties.

'Although it's not a retailer, **Inchcape (INCH)** is an example of a stock which is often mistaken for a UK car retailer. In fact, it is a data-rich distribution partner for global car brands from Mercedes to Subaru, and is plugged into opportunities in Hong Kong, Singapore, Latin America and Australia.'

Julian Bishop

Brunner Investment Trust (BUT)

'Our newest holding is Spanish infrastructure company **Aena (AENA:BME)**. The firm owns 46 airports across the Spanish mainland and islands, giving them effective control over all air travel into, out of and within a country that relies on tourism for a substantial portion of its GDP.

'This is a regulated, partly state-owned asset where profits are capped via mechanisms which set the fee the company is allowed to charge airlines per passenger, for example. However, the company also has an unregulated commercial business which allows it to maximise rents from retailers and car hire companies who occupy airport space.'

James Henderson

Henderson Opportunities Trust (HOT), Law Debenture and Lowland

'That like asking me which is my favourite child. Hydrogen business **Ceres Power (CWR)** has had a torrid time but made real progress, licensing its technology to create hydrogen from steam and electricity from hydrogen and oxygen.

'Bigger companies like Bosch and South Korean company Doosan, who can afford the necessary capital spend, are building the plant. Doosan's plant gets commissioned next year and then royalties should start coming through. Ceres' technology addresses a vital and huge problem so it is very promising and I like their approach.'

Simon Barnard

Smithson (SSON)

'Due to poor market sentiment we have found a myriad of opportunities across the small- and mid-cap equities space, adding several new companies to the portfolio this year.

'This included high-quality companies where the stock market appears to have become overly concerned about the risk of recession, such as the US fluid control and dispensing company **Graco (GGG:NYSE)**, or those exposed to life sciences where the fallout from the Covid boom has caused heavy falls in share prices, such as the UK specialty chemicals company **Croda (CRDA)**.

'We have also bought high-quality fast-growing companies such as **Oddity (ODD:NASDAQ)**, which creates cosmetics and skin care products that it sells online directly to consumers.'

William Tamworth

Artemis UK Smaller Companies Fund (B2PLJL5)

'We're always looking for companies with strong market positions, strong cash flows and strong balance sheets. An example of a company that meets those criteria would be **Mears (MER)**. It's more than three times the size of its next biggest competitor in social housing maintenance. It's got a net cash position – and that's after returning £35m through buybacks announced over the course of this year. It generates more than 10% of its market cap each year in cash flow.

'There's a big opportunity for Mears over the next few years to benefit from the need to decarbonise the UK's housing stock, which is the biggest emitter of carbon in this country. Mears maintains 750,000 homes. It is ideally placed to help reduce the carbon emissions of those homes as and when funding becomes available. And that's the big question mark, it's not a 2024 issue, but over the next few years I think that's a huge opportunity.'

Guy Anderson

Mercantile Investment Trust (MRC)

'We're optimistic about certain domestic consumer facing sectors as sentiment is overly negative and valuations appear attractive. With inflation lower than a year ago and employment and wage growth still reasonable, in aggregate the UK consumer is now experiencing real wage growth again and we are seeing gradual improvements to consumer confidence. Within this area we prefer those companies that have more levers under their own control and can benefit from market share gains, such as **Dunelm (DNLM)**, **Jet2 (JET2)** and **WH Smith (SMWH)**.

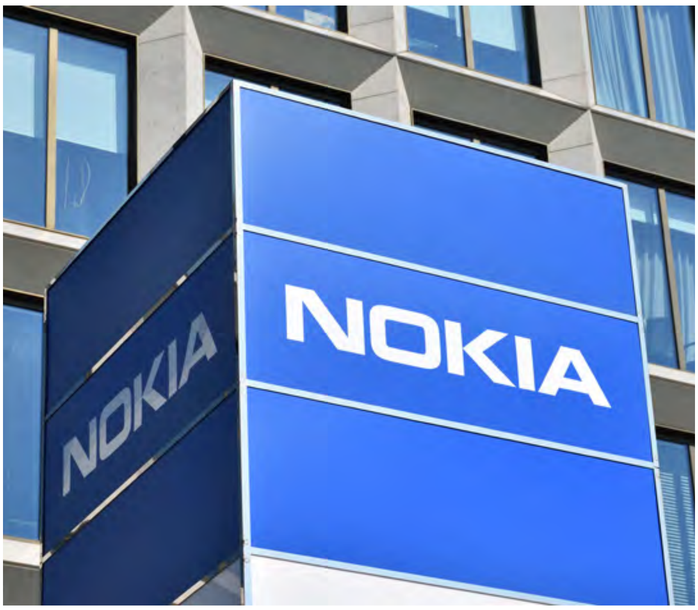
Stuart Gray

Alliance Trust (ATST)

'Given the focus on stock picking as opposed to investment themes, our managers are finding underappreciated opportunities in a wide variety of sectors. One recent purchase by Ben Whitmore at Jupiter is **Nokia (NOKIA:HEL)**, the Finnish telecom equipment manufacturer. 'Although Nokia has suffered from temporary weakness in spending by US carriers, Ben believes this is a short-term headwind and that when demand for its products normalises the company will benefit from its dominant market position, alongside **Ericsson (ERIC-B:STO)**.

'Sands Capital, one of our growth managers, sees an attractive opportunity in US-based **Roper Technologies (ROP:NASDAQ)**, a diversified industrial technology company that operates in over 40 businesses in more than 40 niche markets.

'The company is indiscriminate in the types of businesses it seeks to acquire, rather, it focuses exclusively on free cash generation and management quality. Each business is decentralised and operates autonomously, with a mandate to grow and generate cash.'



Charles Montanaro

Montanaro UK Smaller Companies (MTU)

'It is widely recognised the UK stock market is cheap especially relative to other global equity markets, and we believe there is a lot of value to be found in the UK small cap universe in particular.

'Housing-related companies have been derated to reflect investor concerns about a possible property collapse. Much of the bad news may be reflected already in the share prices of companies such as **Marshalls (MSLH)** and **Genuit (GEN)**, which are being valued as ex-growth in perpetuity, which strikes us as unlikely.

'Property development companies have fallen due to rising interest rates that led to net asset values being marked down. On the other hand, as interest rates fall – which appears increasingly likely next year – we expect a recovery. It generally pays to back the best management teams, such as Andew Jones, chief executive of **LondonMetric (LMP)**, and Nick Vetch, executive chairman of **Big Yellow (BYG)**.

'After more than 40 years as an investor, you learn a number of tried and tested maxims. "One profit warning leads to three – buy after the third": Marshalls had three profit warnings this year. "Follow the money": Big Yellow raised £110 million in October 2023 to invest in developing their property pipeline. Management made a substantial personal investment in the placing which we also supported.'

Simon Gergel

Merchants Trust (MRCH)

'In general we see the best opportunities in medium-sized companies, which have underperformed larger companies significantly. Particular areas of focus include building and construction, where we own shares in a diverse collection of businesses, many of which are trading on depressed valuations. These give the portfolio exposure to different parts of the building market, from heavy materials and lighter building products to ground engineering and house building, as well as a range of geographies, including the UK, Ireland and the US.

'We also have a large exposure to the reinsurance sector, where strong industry pricing is improving the outlook for profitability and there are several companies trading on modest valuations.'

Kartik Kumar

Artemis Alpha Trust (ATS)

'For the 4th year running it has to be **Frasers Group (FRAS)**, which has been our largest position since 2018. The company has a robust position in sporting and luxury goods in the UK. I think it's exceptionally well-run despite noise about its governance. Real wage growth is accelerating as inflation headwinds are easing. The stock trades at a discount to the sector and has a strong balance sheet, and business returns are compounded by share buybacks.'

Richard Penny

Crux UK Smaller Companies (BQV37J7)

'Our research has found that the best returns come from investing in long-term growth companies with high product margins at times of pessimism, as they often suffer most from economic headwinds. Whilst these shares are normally highly-valued, recessionary pressures can cause a triple negative: reduced revenues, big profit diminutions and a collapse of investor sentiment. This can cause shares to trade at significant discounts to tangible assets or invested capital.

'Such conditions can mark exceptional entry points for long term growth companies and when these companies recover, the upside is substantial.

'Our favoured contrarian growth companies include **FD Tech (FDP:AIM)**, **1Spatial (SPA:AIM)**, **AdvancedAdvT (ADVT)**, **Creo Medical (CREO:AIM)**, **Zegona (ZEG:AIM)**, **DP Poland (DPP:AIM)** and **IQE (IQE:AIM)**.

James Harries

STS Global Income & Growth Trust (STS)

'We are excited about the prospects for the industrials sector. The developed world is increasingly onshoring industrial capacity to reflect both geopolitical concerns as well as addressing the fragilities of global supply chains highlighted by Covid. This is leading to an onshore capital expenditure boom.

'We have a number of companies that are likely to benefit from this but are currently at valuations we deem to be too expensive. One company that did offer us an opportunity to invest and one of our most recent purchases is **Texas Instruments (TXN:NASDAQ)**.

'This is an exceptionally high quality and well-managed company engaged in the manufacturing of analogue semiconductors. These products tend to be embedded in other people's products and are essential to the functioning of the modern economy. The company enjoys impressive margins and returns. Concerns relating to the upcoming economic slowdown allowed us to establish an investment at an attractive valuation.'

By **Ian Conway**
Deputy Editor

Editor's View: Tom Sieber

Middle East drama is obscuring oil market realities

Slowing demand and ample production outside of producers' cartel OPEC are a difficult mix for crude

The recent action in oil prices could be painting a false picture. Several key markers look negative for demand yet, for now, tensions in the Middle East and the perceived threat to supplies from the region are preventing a big sell-off in crude.

When the war in Gaza first started there were doomsday predictions of prices in excess of $150 per barrel if the strategic Strait of Hormuz supply route was affected by the conflict.

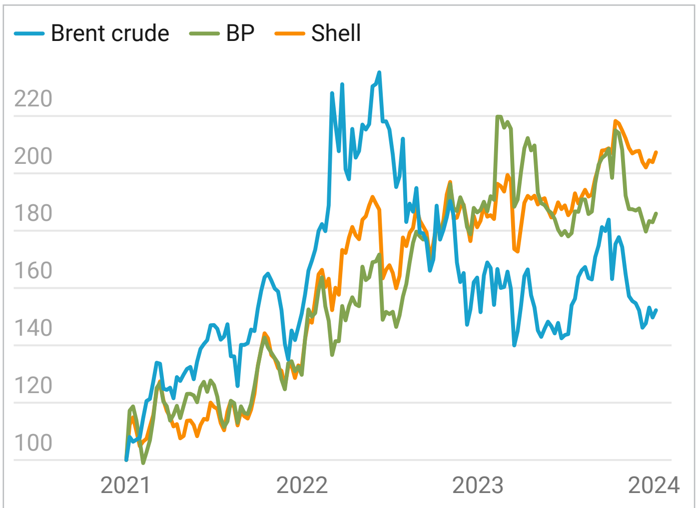
As it's turned out, routes through the Red Sea are proving the most difficult as Yemen-based, Iran-backed Houthi militants have launched attacks on commercial shipping. Even with these pressures, Brent crude is trading at less than $80 per barrel compared with nearly $100 back in September.

The reason is that, beyond these supply concerns, there are several bearish indicators for crude. Notably, Saudi state oil firm Saudi Aramco has started selling oil at discounted prices to Asia – with the official selling price of its Arab Light crude at its lowest level in more than two years. All the while inventories in the US have been going up.

Morgan Stanley observes: 'Demand growth is set to slow down as the post-Covid recovery tailwinds have largely run out of steam by now. Despite low investment in production capacity in recent years, the growth in non-OPEC supply is nevertheless set to remain strong in 2024 (and probably also 2025) – enough to meet all global demand growth.

'As a result, room in the oil market for OPEC+ oil declines – we estimate the call-on-OPEC to fall to around 600,000 barrels of oil per day in 2024. This puts downward pressure on OPEC's market share, and upward pressure on its spare capacity.

'History warns of such periods – on several occasions when non-OPEC supply growth outpaced global demand, a period of lower prices was eventually needed to reverse that balance.'



Rebased to 100

Chart: Shares magazine • Source: LSEG

As it turns out the investment bank doesn't expect a big reversal in crude – pointing to a likely extension of OPEC production cuts to come to the rescue and keep oil above $70 per barrel.

However, compliance with quotas among the cartel is often patchy at best and given 'it's different this time' are often the most dangerous words in investing, we think it is worth at least weighing the possibility of a downturn in energy prices. This could have wider implications for UK stocks given the heavy weighting afforded **BP (BP.)** and **Shell (SHEL)** in the flagship FTSE 100 index.

Since the period around the invasion of Ukraine in February 2022, both companies have been pulled higher by commodity prices. If the backdrop is less helpful their operational performance and a current identity crisis around their commitment to the energy transition may face greater scrutiny.

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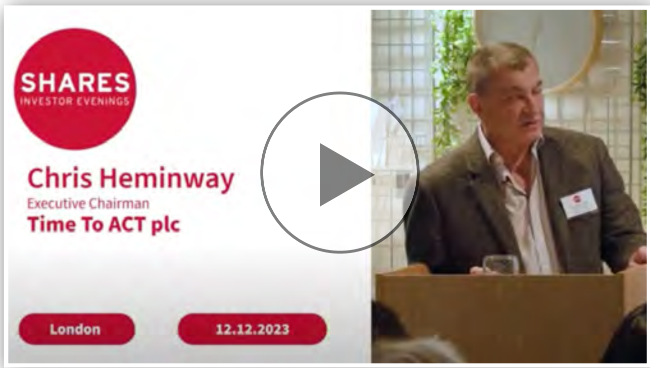

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Russ Mould: Insightful commentary on market issues

What investors should expect from the US in 2024

The Federal Reserve is likely to continue dominating proceedings this year

The US stock market represents almost two-thirds of total world stock market capitalisation, so it seems fair to assume that where America goes the world will follow, at least to some degree. Keeping an eye on the US political scene, US Federal Reserve policy and the American economy may therefore help investors judge what 2024 (and beyond) may hold for their portfolios.

By the same token, four sectors – technology, financials, healthcare and consumer discretionary – make up two thirds of the market value of the headline S&P 500 US equity index. Any investor who wants to cut down on the amount of research they wish to do can at least focus on those, in the knowledge they are looking at some of the most important companies and industries in the world, at least from the perspective of investment.

CENTRE STAGE

For better or worse, the US Federal Reserve will remain centre stage in 2024. Some will view this as a good thing, given the central bank's political independence, willingness to explain its thought processes to market participants and how easy it is to follow its eight scheduled meetings a year (and then read the subsequently published minutes).

Others will cringe, not least because the Fed has yet to correctly call a recession in its 111-year history, during which period the dollar has lost 97% of its purchasing power, a trend not helped by experiments such as quantitative easing and zero interest rate policies (ZIRP) since the Great Financial Crisis.

Markets' faith in a cooling in inflation, a soft economic landing and a pivot to interest rate cuts from the Fed underpinned the late-2023 rally in stock (and bond) markets but this has left the US central bank in a position whereby it needs to deliver or share prices may falter.

At the time of writing, the CME Fedwatch suggests that markets are pricing in six, one-quarter point rate cuts by year end, although last week's (3 Jan) minutes from the December meeting saw the probability of the first cut coming at the 20 March meeting cut to 66% from 73%. Perhaps the first doubts are creeping in, even if the Fed has done much more to stoke rate-cut expectations than either the Bank of England or the European Central Bank.

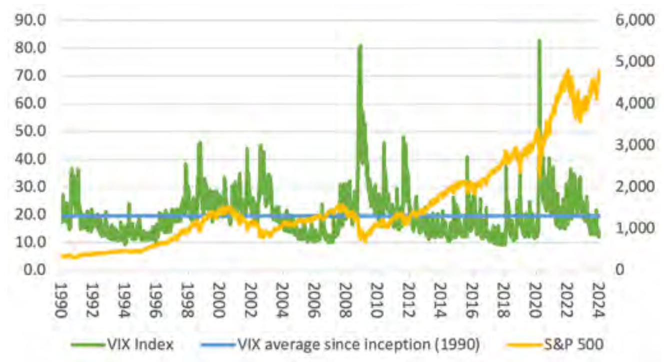
BIG FOUR

The near-one third weighting of the S&P 500 toward technology leaves this column feeling a little uncomfortable, although it does help

to explain why the index, at around 20 times earnings for 2024, trades above its long-term average of 18 times, according to research from S&P. Even more intriguing is that the Magnificent Seven of **Alphabet (GOOG:NASDAQ), Amazon (AMZN:NASDAQ), Apple (AAPL:NASDAQ), Meta (META:NASDAQ), Microsoft (MSFT:NASDAQ), Nvidia (NVDA;NASDAQ)** and **Tesla (TLSA:NASDAQ)** (not all of which are classified as tech stocks) represent 30% of the S&P 500. Such a reliance on so few names is not always a healthy thing and if anything goes wrong with them then other stocks and sectors will need to take up the slack – financials, healthcare and consumer discretionary in this case.

Two of those would presumably falter in the event of a nasty recession, even if lower interest rates could conceivably help the consumer-facing firms and the banks (which could also do with a steeper yield curve).

The VIX index is trading well below its historic average



Source: CBOE data, LSEG Datastream data

It bears repetition that markets are currently pricing in lower inflation, a soft landing (or even no landing at all) and rate cuts for 2024. Any developments that diverge from that – in the form of a hard landing or an inflationary, crack-up boom if central banks move too precipitately - might not mean the bull run in US equities ends, but they would surely portend greater share price volatility. The VIX – or fear – index is lurking at barely 13, well below its historic average of near 20, to suggest markets are at best complacent, at worst exuberant.

This, again, takes us back to interest rates and the Fed. A crack-up boom and rates may not come down as fast and as far as hoped. A sharper-than-expected slowdown may mean the rate cuts arrive but for the 'wrong' reason and investors with long memories will know that Fed intervention

The Magnificent Seven represent 30% of the S&P 500

Russ Mould: Insightful commentary on market issues

Fed rate cuts did not stop the US equity bear market of 2000-03...

Source: LSEG Datastream data

...or initially stem the downward slide of 2007-08

Source: LSEG Datastream data

did nothing to stop the bear markets of 2000-03 or 2007-09, at least initially. That was because earnings estimates were falling a lot faster than rates, as the US economy hit the buffers.

The dream middle path of cooler inflation, a soft landing and rate cuts may well transpire and in that case then all may be well and good. But if the Fed cuts interest rates because America's government debts and the interest burden are too high or the economy (and earnings) are hitting the buffers, then markets may need to be careful about what they are wishing for.

By **Russ Mould**
Investment Director at AJ Bell

Six financial resolutions worth making for 2024

These handy tips could save you lots of money in the year ahead

The start of a new year brings lots of plans to make resolutions, but making changes to your finances could have a lasting impact on the year and make you richer for the next 12 months. Here are six quick ways you can make some extra money – all of which will take less time to sort than you think.

1. SWITCH BANK ACCOUNTS

So many people have stayed with the same bank for years – but you win no points (or money) for loyalty. There's a war among banks for your custom, and that means you can be paid handsomely to move your current account to another bank. Currently the top payer is First Direct – who will give you £175 to move. Check out the small print of each offer: you'll usually need to be a new customer, move across some direct debits, pay in a certain amount each month and then wait for the bonus to land. But once you've received the money there's nothing to stop you moving to another bank to claim their new customer bonus.

2. MOVE YOUR SAVINGS TO A BETTER RATE

Savings rates have shot up but too many people have still got their money in old savings accounts paying little or no interest. You can now get more than 5% return on an easy-access savings account – so if you're getting less than this you should switch your money. If you have £15,000 in savings that's earning 2% interest at the moment, moving to the current top account paying 5.22% would generate almost £500 a year in extra interest. And lots of people will be earning far less than 2% interest and may have far more in savings – boosting the potential gains.

3. GET CASHBACK – FOR ALL YOUR SPENDING

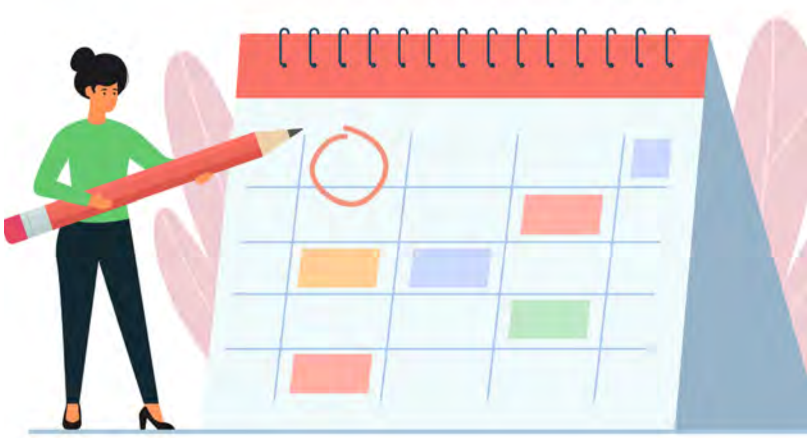
If you're not getting paid for your spending you're missing a trick. You can use cashback websites, like TopCashback or Quidco, where you earn a small amount for each item that you buy online or bigger amounts when you buy insurance, mobile phones or other contracts. You just need to register for an account and then remember to access the website through the cashback site. Alternatively, you can get a debit or credit card that gives you cashback for your spending. Some of these accounts come with a monthly charge, so you'll need to assess whether you'll make enough to cover the fees.

4. MAXIMISE YOUR PENSION MATCHING

This one will cost you a bit of money but will make you richer overall. Employers will offer matched contributions for your pension, up to certain limits. It means that you pay more into your pension but they match it – and effectively is like a pay rise, as your employer is paying you more money (albeit into your pension). Check your company rules and see if you're maximising your matching. Once you've added tax relief on top it means you could get a chunky contribution to your pension for a much smaller cost to yourself. For example, if you pay in an extra £50 a month but your employer matches this, after pension tax relief that will amount to a £112.50 contribution to your pension that cost you only £50.

5. CANCEL THOSE SUBSCRIPTIONS

We've all been guilty of signing up to a free trial and then forgetting to cancel it before we get charged. Or gradually adding more and more streaming services to our monthly costs without thinking about it. January is a good time to look back at all the subscriptions you paid for in 2023 and assess whether they are really worth it – and then cancel the ones that aren't. A more radical option is to cancel every subscription you have to see which ones you miss – before adding them back in. You might be surprised by the ones that you don't miss at all.

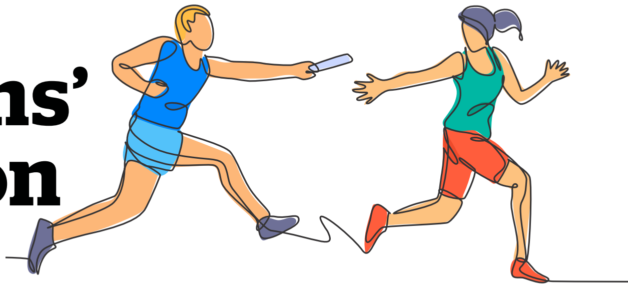


6. USE YOUR CALENDAR TO SAVE YOU MONEY

Your calendar (whether it's paper or digital) can really help you to save money. Go through and enter every renewal date for things like car insurance, home insurance, mobile phones, broadband, TV packages or breakdown cover and set a reminder for a few weeks ahead of the date. This means you'll be reminded ahead of time that the contract is coming to an end and it will avoid you falling onto an auto-renewal, which almost always costs far more than shopping around for a new deal. You can also use the calendar through the year to set reminders for when free trials are ending, initial offer periods are expiring or savings rates are due to drop. It is also handy for managing payments that aren't automatic – for example, set a reminder to pay your credit card bill every month so you never get hit with late fees again.

By **Laura Suter**
AJ Bell Head of Personal Finance

A big thank you to readers as our pensions' expert passes the baton



From next week there will be a new voice answering your retirement queries

Dear readers,
After six years answering your brilliant (and often challenging) questions, I have written my final Ask Tom. I will remain at AJ Bell as director of public policy but my fantastic colleague, head of policy Rachel Vahey, will now be the one responding in these pages.

When I first suggested creating a weekly pensions 'agony uncle' column in 2016, I'd be lying if I said I wasn't a little nervous our call for readers to tell us their financial problems would be met with the sound of crickets chirping.

Talking about our finances is often socially taboo and pensions can be horrendously complex. Why would anyone take the time to email their challenges to someone they had never met?

I needn't have worried. I have been privileged to receive and answer hundreds of reader questions during a period of huge uncertainty in the world of personal finance and beyond.

In pensions, dealing with change has been the big challenge, both for savers and experts alike. Automatic enrolment has brought millions of people into pension saving for the first time, but the challenge of building a fund big enough to last throughout your retirement is significant.

The 'pension freedoms' reforms introduced in 2015 have been a retirement income gamechanger, providing complete flexibility when you come to access your pension – but also demanding greater levels of engagement. The questions I've received around this subject show lots of readers are trying to make sensible decisions with their hard-earned savings, with a clear-eyed focus on the long term.

A new, simpler state pension became reality a year later, although there remains plenty of complexity to navigate. The triple-lock pledge to increase the state pension by the highest of average earnings, inflation or 2.5%, in particular, has often reared its head, with rumours constantly circulating about its future.

And then there are the pension tax rules, the topic which has generated by far the highest number of questions from readers. This is no surprise given the complexity of those rules and the propensity of governments to tinker with them when Budgets come round.

I will continue to campaign for simplification and stability in those rules – something I know many of you would dearly love to see. The decision by the Government to scrap the lifetime allowance is hopefully a step in the right direction on that front, although it may be for a Labour government to provide certainty for savers over the medium term.

Finally, a thank you to you, the readers of this column. I have been blown away by the volume and variety of questions we have received every week. Without you, this simply wouldn't work!

From next week, your agony uncle becomes an agony aunt, as Ask Tom is replaced by Ask Rachel. I have known Rachel for over a decade and worked with her for several years at AJ Bell. She is a fountain of knowledge on all things pensions and I have no doubt she will provide fantastic help and guidance.

Tom Selby, AJ Bell Head of Retirement Policy

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **askrachel@ajbell.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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