Endeavour World Equity

Capital growth with less volatility

Q4 2024

Commentary

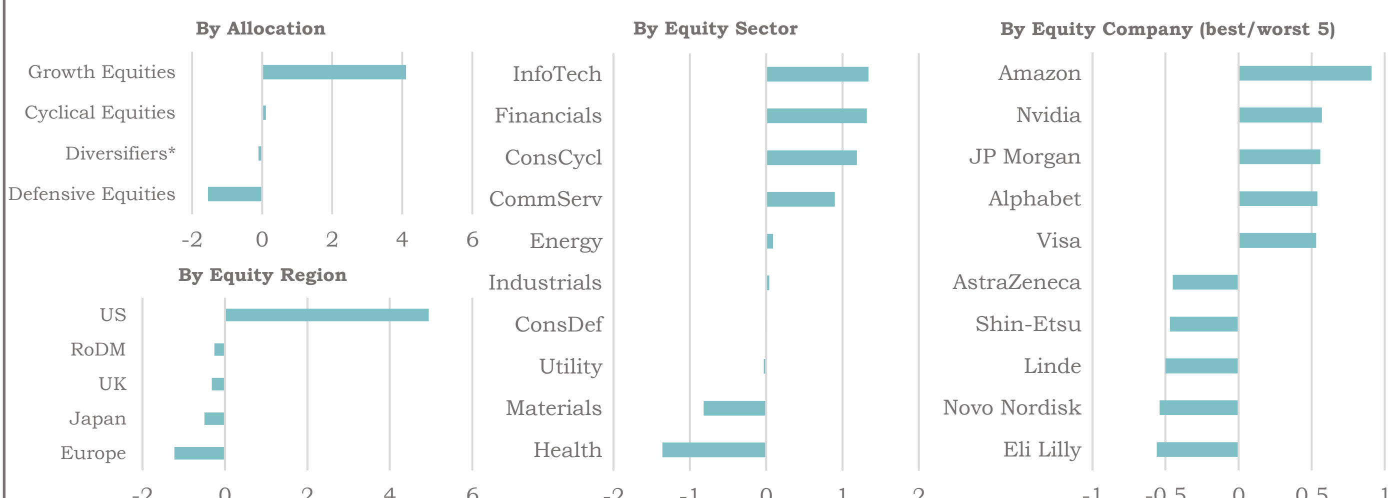
World markets across all asset classes swung between gains and losses during the final quarter. The Endeavour World Equity Fund outperformed its peer group. Inflation in the US proved stubbornly sticky above central bank target levels, leading to revised expectations for cuts to interest rates. The Republican victory in the US presidential election raised the prospect of inflationary tariff wars and higher federal deficits on tax cuts and under-funded spending commitments. Initially US markets responded positively and international markets suffered as the policy mix was seen to be growth-positive in the US and negative elsewhere. By year end much of this initial reaction had unwound in the US leaving markets on a more cautious footing in anticipation of exactly what policies materialise with the new administration.

Growth investments carried the quarter with a contribution of 4.1%. Strong contributions continued from the Fund's subset of holdings amongst the storied Magnificent Seven mega-cap companies dominating the US market. Amazon stock rose over 18% over the period making the single largest contribution to fund return, as earnings surprised positively with help from a solid market-leading performance at the AWS cloud business, better margins in e-commerce, and an acceleration in advertising revenues. This comes in spite of heavy investment in its cloud capacity and AI hardware and software capabilities. The managers of the Fund believe revenues across all business lines are set to continue to accelerate while high levels of investment may soon moderate, driving strong revenue growth and further improved profit margins in the quarters ahead. Nvidia also made another strong contribution from higher than expected revenue and modestly higher guidance for the quarter ahead when the new Blackwell range of chips ramps into full production. Alphabet's strong contribution during the quarter drove outperformance in the Communication Services sector. There is a growing sense that anti-trust investigations into Alphabet's Google Search dominance may lead to less punitive measures than worst feared. At the same time investors cheered the company's progress update on its Willow quantitative computing capabilities. Valuation relative to its 'magnificent' peers remains compelling.

Cyclical leadership investments in the Fund started the quarter strongly: JP Morgan and Allianz both made good contributions to Financial sector outperformance, assisted by Visa from the growth allocation. But as expectations for further rate cuts waned, at least in the US, that catalyst for a reacceleration to the business cycle appeared to slip back out of reach. Materials companies Shin-Etsu of Japan and Linde in the US detracted from fund returns. But it was Defensive investments which were the real underperformers during the period as bond yields rose, their steady and stable cashflows requiring a further discount to valuations. Healthcare investments in particular suffered from a mix of company specific problems. Novo Nordisk struggled to boost supply to meet high demand for its weight-loss treatment Wegovy, allowing other generic 'compounders' to enter the market to plug shortfalls under special regulatory provisions. The holding was reduced during the quarter, the Fund's managers favouring the outlook for Eli Lilly as the parameters for the growth of the weight-loss industry become clearer. The managers of the Fund have been reducing positions in LVMH and Synopsys in recent months and finally exited both investments on poor revenue and earnings outlooks. They were replaced by investments in ServiceNow, a leading US enterprise solutions software developer and Amphenol, a mid-sized US electrical and electronic components manufacturer where both companies have compelling roles to play in the continued roll-out of infrastructure and solutions in data centre and AI capabilities in the years ahead.

As the new year opens, markets will be likely watching for evidence of further declines in inflation, albeit slowly, maintaining the prospect of further interest rate cuts from central banks to support the steady re-acceleration of the economy. The growth and earnings outlook appears strongest for the US while tariffs will be something of a headwind elsewhere. Your managers believe there is significant upside potential for portfolio earnings growth of between 15 and 20% for 2025, continuing the steady run of upside surprises generated by portfolio holdings in recent quarters. Just what exactly the details turn out to be for policy initiatives in the US will be significant for economic and political developments everywhere and it seems likely to bring heightened levels of volatility.

QUARTERLY RETURN CONTRIBUTION % (GBP, gross of fees/costs)



Notes: Diversifiers*: Investments in government bond and precious metals ETFs.

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Tellsons Investors, January 2025