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INVESTMENTS

Equity Income Leaders | Fourth Quarter 2024

Leaders: AVGO, JPM, GS, WMT, BAM

Broadcom (AVGO) was the highest contributor to performance during the quarter. Despite overall weakness in semis during the quarter, Broadcom was a standout, reporting record revenue (+51% y/y), driven by AI initiatives (custom ASICs and networking) and VMware integration (signed up over 4,500 of its largest 10,000 customers). As a result, the stock jumped 43% during the month of December, and Broadcom joined the trillion-dollar club (market cap). And while some software deals were pushed out, Broadcom announced an 11% increase in its dividend moving into 2025, demonstrating management's confidence in the business.

JPMorgan Chase (JPM) was the second highest contributor during the quarter. Although the company beat the consensus estimates during the quarter, reported numbers reflected lower momentum in net interest income, deposit balances and softness in new loan demand. Looking forward, management is optimistic about a rebound in these metrics in 2025. JPMorgan remains a best-in-class bulge bracket bank with a 'fortress' of a balance sheet.

Goldman Sachs (GS) was the third highest contributor, as the company reported net revenues and profit well-ahead of analysts' expectations. Backlog rose again during the quarter, driven by a resurgence in its leading investment banking franchise. CEO David Soloman continues to believe that M&A is being hindered by the current regulatory environment. However, the bank is seeing increased client demand for acquisition financing, and as such, believes that secular trends around M&A and market cap should drive volumes higher over the next 6-24 months. Finally, Asset and Wealth Management continued to drive higher during the quarter, with +14% growth in revenues and margin expansion.

Walmart (WMT) was the fourth highest contributor during the quarter, as the retailer continued to benefit from high- and low-earners alike searching for bargains. In e-commerce, Walmart recorded +27% growth globally; its advertising business grew +28%; marketplace sales grew +42%; and 30% of delivery orders opted for premium expedited delivery under three hours. Finally, Walmart gained share among high-income households, even as its general merchandise prices deflated by -4%. Even with the stock up over +70% in 2024, Walmart is poised to continue winning.

Brookfield Asset Management (BAM) was the fifth highest contributor during the quarter, as it delivered strong results, driven by a +10% increase in fee-related earnings. Looking forward, management expects monetization activities to accelerate into 2025 (due to increased liquidity) and anticipates strong earnings growth will continue for the foreseeable future. Brookfield remains leveraged to several secular themes – renewable power & transition, infrastructure, and private credit.

Laggards: CARR, PLD, ABBV, NXPI, LHX

Carrier (CARR) was the worst contributor to performance during the quarter, as portfolio transformation continued, and the company closed its Commercial Refrigeration sale in October and completed the Fire & Security divestiture in December. The Viessmann integration is ongoing, and Carrier is targeting over $100 million in revenue synergies and $200 million in cost synergies by 2026. Finally, datacenter growth has exploded, and Carrier sees a 5-10x multiplier for aftermarket activity, leaving the company with ample runway to go.

Prologis (PLD) was the second worst contributor to performance during the quarter, as the company missed consensus estimates due to higher bad debt levels and lower occupancy rates. However, the occupancy rates at Prologis remained 300 bps above the market average. While occupancy rates continue to be stymied as customers delay decision making, management expects rents to bottom out in 2025 and is positive about a demand rebound with no new supply coming online. Finally, everyone, everywhere is looking to build datacenters, and Prologis has a solid pipeline for that business as well.

AbbVie (ABBV) was the third worst contributor to performance during the quarter, and the stock took a hit following disappointing results for Emraclidine phase 2 trials (data indicated the drug failed to show any benefits relative to a placebo). This raised questions about the drugmaker's pipeline, given Humira's patent expiration. However, despite these hiccups, sales ex-Humira came in ahead of expectations during the quarter, and Skyrizi and Rinvoq uptake looks promising. 2025 brings a new year with new products, and the company is still well-positioned to benefit from multiple expansion and organic growth.

NXP Semi (NXPI) was the fourth worst contributor to performance during the quarter, as total revenue declined -5% and the company experienced weaker than expected trends from its Industrial and IoT (Internet of Things) markets. Additionally, inventory digestion at its main Tier-1 customers in Automotive continued, with further pressure from slowing European and North American core OEM end demand (original equipment manufacturers). Guidance from management also reflects continued macro weakness in the Automotive, Industrial and IoT markets, particularly in Europe and North America.

L3Harris (LHX) was the fifth worst contributor during the quarter, as defense stocks felt pressure from uncertainty surrounding the election, the incoming administration, and scheduling pressure associated with certain programs. Despite these headwinds, the company secured several contracts during the quarter, including a $600 million next-gen jammer contract, a $1.2 billion U.S. Navy fleet support contract, and a $400 million contract with NATO for radios. Negative sentiment appears to have shaken out, and looking forward, L3Harris is on track to deliver on its overall 2026 plan ($23 billion in revenues, 16%+ margins, and $2.8 billion in free cash flow).

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