Top Equity Picks for 2024

Calamatta Cuschieri | moneybase

Overview

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Prospects for 2024, notwithstanding the uncertainties that do remain, are indeed benevolent. Central bankers now have a material scope for nearing a victory over inflation. However, this should not be misconstrued as an expectation for immediate action on their part, as historical trends indicate a cautious approach by central banks in responding to economic cycles.

Factually speaking, rising interest rates which kicked-off in 2022 have constrained equities, with returns wavering due to the remarkable volatility experienced until October this year in a fat and flat range. Bar few large companies, namely US technology, and specifically names which operate with the artificial intelligence theme, most equity markets were hindered since the tightening cycle began (2022), particularly in real terms.

Heading into 2024, the good news is that inflation and interest rates are approaching or actually are at their peaks. The recent inflation readings continue to witness a downward trending inflation path, and the assumption of a soft landing has become more plausible over the past days on expectations that central banks are done with hiking rates.

Another possible catalyst, which seem that markets have undermined so far is the possible recovery in China. Its the world's second largest economy and despite that its unpredictability has triggered volatility, China should not be written off, in terms of its impact towards global economic growth. Undoubtedly, a change in sentiment in terms of domestic demand is a constructive proposition which cannot be ignored. Indeed recent economy indicators have exceeded expectations with retail sales accelerating through the third quarter, a positive as said the overall economy. Thus, the backdrop is benign for equity markets, reducing the downside risks for investors.

However, the legitimate concern that recessionary fears may still in place is plausible, nonetheless we believe that investors can still achieve good returns by being more active. Undoubtedly, by adopting a bottom-up approach, value can still be uncovered with attractive expected potential gains.

Heading into 2024, the following are the top 10 equity trade ideas we believe can add value to your portfolios.

Amazon (AMZN)

Amazon is a global e-commerce and technology giant, known for its online retail platform, cloud computing services (Amazon Web Services), and digital streaming. The company has transformed the retail landscape and expanded its reach into various sectors, becoming a dominant player in the tech industry. Amazon's business model emphasizes customer convenience, innovation, and a diversified range of products and services.

The company's e-commerce dominance, cloud computing leadership, and expansion into new markets position it as a long-term growth opportunity. Recent strategic acquisitions and investments in automation highlight Amazon's commitment to maintaining its competitive edge. We believe that Amazon's dominance in the cloud space will be a strong driver going forward especially since secular shifts into this sector remain early. Online shopping will also continue to be integral to modern business and so Amazon represents a solid investment choice for those seeking exposure to the technology and retail sectors. Despite 2023's volatile stock price, Amazon surpassed analyst expectations in Q3 earnings, driven by robust AWS cloud revenue. Their $10 billion share buyback program signifies future growth confidence that they can deliver. A benign global economy for 2024 will aid AMZN to deliver towards its shareholders.

Google
(GOOGL)

Alphabet is the parent company of Google and a global technology conglomerate. Google is renowned for its search engine, but Alphabet's business extends beyond search to include advertising, cloud computing, software development, and hardware products. The company is a major player in the tech industry, known for its innovation, market dominance, and diverse portfolio of products and services.

Google's advertising dominance and the growth of its cloud services contribute significantly to Alphabet's success. The company's commitment to innovation and expansion into emerging technologies positions it for continued growth. With a solid balance sheet and a strong competitive position in the tech industry, Alphabet presents an appealing investment opportunity for those looking to invest in a diversified and well-established technology company. Despite concerns about a potential advertising slowdown, they beat analyst expectations in Q3 earnings, with strong growth in Google Cloud and YouTube segments as TV dollars shift to online segments. Their $70 billion share buyback program shows commitment to future growth. We also believe that Google other bets segments which includes companies such as Waymo may provide a strong further growth proposition.

Bank of America
(BAC)

Bank of America (BAC) is one of the largest financial institutions in the United States, providing a comprehensive range of banking and financial services. As a major player in the industry, BAC offers services such as consumer and commercial banking, wealth management, and investment banking. The bank has a widespread presence with a focus on delivering innovative financial solutions to individuals, businesses, and institutions globally.

Bank of America has demonstrated solid financial performance in recent quarters, reporting robust earnings and maintaining a strong balance sheet. The bank's diversified business model, coupled with its commitment to technological innovation, positions it well for sustained growth. The current elevated interest rate environment has improved net interest margins for the bank. We expect BAC to continue to benefit from the higher interest rates when compared to the past years, coupled with no expected spike in non-performing loans, on the assumption of a soft-landing scenario. More importantly the banking sector in 2023 experienced the SVB bank and Credit Suisse trauma, an unprecedent event which triggered volatility, but also opportunities. Indeed, we believe that the market fear of deposit erosion from big banks was overdone, and actually big banks should be more seen as a safer harbour, a rationale which eventually materialised in the following quarters. Looking into 2024 we believe the Bank is well positioned to navigate the economic scenario.

Taiwan Semiconductors (TSM)

TSMC is a global leader in semiconductor manufacturing, playing a pivotal role in the production of advanced chips for various electronic devices. The company's cutting-edge technology and manufacturing capabilities make it a key player in the semiconductor industry, supplying components to a diverse range of clients. TSMC's success is closely tied to the growing demand for semiconductor solutions in areas such as smartphones, automotive electronics, and emerging technologies like artificial intelligence.

TSMC has consistently delivered strong financial results, showcasing revenue growth and profitability. The global semiconductor shortage has increased demand for TSMC's services, and the company's strategic investments in research and development ensure it stays ahead of technological advancements. As the demand for semiconductors continues to rise, TSMC is well-positioned for future growth. While year-over-year comparisons show declines, the latest Q3 results represent a quarter-on-quarter rebound for TSMC after facing macroeconomic headwinds and inventory adjustments earlier in the year. The performance was driven by increased demand for advanced chips used in smartphones, high-performance computing, and artificial intelligence. Management also remains optimistic about the long-term growth potential of the semiconductor industry and expects its 5nm and 3nm technologies to drive future revenue growth. An indeed compelling story.

Conoco Phillips (COP)

A global energy giant, ConocoPhillips stands as one of the world's largest independent exploration and production companies. Headquartered in Houston, Texas, ConocoPhillips' operations span across 15 countries, encompassing a diverse portfolio of assets in Alaska, the Lower 48 states, Canada, Europe, Asia Pacific, and Other International regions. The company's primary focus lies in exploring, producing, transporting, and marketing crude oil, bitumen, natural gas, natural gas liquids, and liquefied natural gas. With a commitment to innovation, ConocoPhillips strives to deliver energy solutions that meet the world's growing demand.

ConocoPhillips has been generating strong financial results in recent years. In the first half of 2023, the company reported net income of $5.2 billion, whilst in 2022 this came in at 10.9 billion on the back of higher oil and natural gas prices triggered by the geopolitical tensions in Ukraine. ConocoPhillips also has a strong balance sheet, with low debt levels and ample liquidity. This gives the company the financial flexibility to invest in growth opportunities and return cash to shareholders. It also has a strong commitment to returning capital to shareholders through dividends and share buybacks. In 2022, the company returned $10 billion to shareholders through dividends and share buybacks. ConocoPhillips is investing in new technologies to improve its operational efficiency and reduce its environmental impact. For example, the company is investing in carbon capture and storage technology. It also has a geographically diversified asset base with operations in North America, South America, Europe, and Africa. This diversification helps to reduce the company's risk exposure. We believe that at these levels of energy prices the company will continue to deliver shareholders return.

RioTinto

Rio Tinto
(RIO)

Rio Tinto, a British-Australian multinational corporation, is one of the world's leading mining and metals companies, renowned for its vast reserves of essential minerals that power industries and shape modern life. With a rich history tracing back to 1873, Rio Tinto has consistently evolved, adapting to the changing demands of the global economy while maintaining its commitment to responsible mining practices. Today, the company operates in over 35 countries, producing iron ore, copper, aluminium, diamonds, and other critical minerals that are crucial for building infrastructure, manufacturing products, and advancing innovation. Rio Tinto's core values of safety and community engagement guide its operations, ensuring that its mining activities contribute to the well-being of local communities.

Rio Tinto's diversified portfolio of commodities helps to reduce its risk exposure to any one particular commodity market which is beneficial to Rio Tinto as commodity prices can be very volatile. Rio Tinto offers a generous dividend yield to its shareholders. The company's current dividend yield is over 5% and is based on profitability which makes it more sustainable. Rio Tinto is well-positioned to benefit from long-term growth trends in the global economy, such as urbanization, industrialization, and the transition to clean energy. The company is also investing heavily in copper and lithium, two commodities that are essential for the transition to clean energy. Apart from already existing projects, the company is also developing new iron ore projects in Guinea and Canada. RIO has a best-in-class balance sheet with minimal debt and substantial capital headroom. We are of the view that if the China recovery kicks-off in 2024, Rio Tinto will be one of the main beneficiaries.

Mercedes-Benz
(MBG)

Mercedes-Benz (MBG) is a renowned luxury automobile brand and a division of the German company Daimler AG. Known for its commitment to quality, innovation, and cutting-edge automotive technology, Mercedes-Benz produces a wide range of vehicles, including luxury cars, SUVs, and commercial vehicles. The brand is synonymous with luxury, performance, and a strong emphasis on safety and advanced driving features.

Despite a challenging auto market, Mercedes Benz delivered strong Q3 earnings, exceeding analyst expectations. Their focus on luxury and high-margin vehicles provides some insulation from economic downturns. Additionally, their commitment to electric vehicle development aligns with market trends. Looking ahead, Mercedes-Benz is confident that it will continue to grow and prosper. The company is targeting EBIT of €25 billion and sales of €225 billion in 2023. The company is also aiming to achieve a 25% mix of electric vehicles in its sales by 2030.

Vinci
(DG)

Vinci is a global player in concessions and construction, operating in the infrastructure and energy sectors. The company is involved in the design, financing, construction, and operation of various infrastructure projects, including airports, highways, and energy facilities. Vinci's business model emphasizes long-term partnerships and sustainability, making it a key player in shaping and maintaining critical infrastructure worldwide.

Vinci has shown resilience and stability in the infrastructure and construction sectors, with recent financial results reflecting consistent revenue growth and profitability. The company's strategic focus on innovation positions it well for future infrastructure projects. As governments worldwide invest in infrastructure to stimulate economic growth, Vinci stands to benefit from increased demand for its services. It will also benefit from the recovery of airport traffic which hasn't yet reached pre-pandemic levels. Vinci's stock price has remained stable in 2023 and also enjoyed a steady upward trend recently, benefiting from its status as a safe haven in uncertain economic times. They delivered solid first-half earnings in line with analyst expectations and reaffirmed their full-year guidance, whilst revising upwards their free cash flow guidance for the year. Additionally, their diverse geographical footprint and focus on essential infrastructure projects offer stability.

Walt Disney
(DIS)

Disney is a global entertainment conglomerate renowned for its contributions to the entertainment industry. Founded by Walt Disney and Roy O. Disney in 1923, the company has grown to become a household name, synonymous with beloved characters, iconic animation, and enchanting theme parks. Disney's diverse portfolio includes animated and live-action films, television networks, media networks, and a vast array of consumer products. The company's commitment to storytelling, innovation, and imagination has solidified its enduring influence on popular culture across the globe.

Disney was one of the companies that suffered the most from the COVID 19 pandemic. Better times seem to finally be on the horizon now though with attendance up, and the company reporting strong revenue growth from its parks, experiences, and products segment. Disney has a strong presence in both developed and emerging markets, with theme parks, resorts, and streaming services around the world. This gives the company a broad base of customers and helps to insulate it from economic downturns in any particular region. Disney's DTC business, which includes Disney+, Hulu, and ESPN+, is growing rapidly. The company's streaming services offer a wide variety of content, including original programming, library titles, and sports broadcasts. Its subscription model is generating predictable and recurring revenue. This growth should drive significant revenue and profit growth in the years to come. In its most recent quarterly report management stated that Disney+ subscribers have now topped 150m with streaming losses narrowing to $387m. Disney has also been implementing a number of cost-saving initiatives, which are helping to improve profitability and free up cash for investments in growth initiatives. These initiatives include reducing overhead, streamlining operations, and renegotiating contracts. Their most recent quarterly earnings showed an extra $2bn in savings compared to forecasts. We are constructive on the name given the recent public pressures by one of its hedge fund investors to restructure and grow shareholders wealth.

Visa
(V)

Visa is a global leader in digital payments. It operates a vast network of digital and physical payment solutions, enabling consumers, businesses, and institutions to transact seamlessly and securely across the world. The company provides a comprehensive range of payment products and services, including credit cards, debit cards, prepaid cards, commercial cards, and mobile payments. With over 1.6 billion cards in circulation and 60 million merchants accepting Visa payments, Visa's network spans over 190 countries, enabling users to make secure payments wherever they go. Visa is committed to innovation and security, constantly developing new technologies to enhance the payment experience for its customers.

Visa's business model is deeply entrenched in the global economy, with its payment network facilitating a vast majority of consumer transactions. As the world continues its transition towards a cashless society, Visa's underlying business is well-positioned for long-term growth. Visa boasts a solid financial foundation, evidenced by its consistent profitability, impressive free cash flow generation, and healthy balance sheet. This financial strength enables the company to invest in growth initiatives, return value to shareholders through dividends and buybacks, and weather economic downturns. Visa is also actively expanding its payment network into new geographies and adopting emerging technologies to stay ahead of the curve. Additionally, the company has diversified its revenue streams beyond traditional transaction fees, with new sources of income from data analytics, loyalty programs, and cross-border payments. The structural shift of payments from cash to mobile and its potential going forward augurs well for the foreseeable future.