

GAMCO All Cap Value (ACV) – April 2024 - Commentary

	GAMCO ACV	R3000V	R3000
April 2024	-4.3%	-4.4%	-4.4%

Commentary:

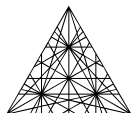
U.S. stocks were lower in April, with the S&P 500 (-4.1%) giving back some ground after hitting fresh record highs in March. Furthermore, April's declines halted the S&P 500's impressive streak of five consecutive monthly gains. Big tech was weaker, with Microsoft (MSFT) and Meta Platforms (META) emerging as the primary detractors from the S&P 500's performance for the month.

April's sell-off primarily stemmed from a hawkish reassessment regarding the Federal Reserve's anticipated rate cut timeline. Market sentiment shifted as confidence waned in the likelihood of three rate cuts occurring in 2024. Though inflation has significantly decreased from its peak, economic indicators point to persistent inflation, with levels still exceeding the Fed's 2% target.

On May 1, the Federal Reserve stood firm, keeping interest rates steady for the sixth consecutive meeting. With inflation showing more resilience than anticipated, the Fed may be forced to delay any plans for a rate cut soon. Federal Reserve Chair Jerome Powell did indicate that another rate hike in this cycle remains unlikely.

In April, the Russell 2000 Value underperformed the S&P 500, and now lags in year-to-date performance by over 900 bps. We anticipate a favorable environment for smaller companies in 2024 as post-peak rates and necessary consolidation in certain industries such as media, energy and banking should lead to a more robust year. M&A activity began the year strong, setting the stage for catalysts to emerge within our portfolio of companies.

We remain optimistic in our outlook for small to mid-cap stocks, as valuations have proven to be a good indicator of the potential for long-term outperformance. The valuation of the Russell 2000



Value remains compelling, which currently trades at ~12x estimated earnings for the next twelve months versus ~21x for the S&P 500.

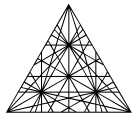
April 2024 Performance

<i>(April 30, 2024)</i>	<u>Growth</u>	<u>Core</u>	<u>Value</u>
Russell 1000 (Large Cap)	-4.2%	-4.3%	-4.3%
" 3000 (All Cap)	-4.4	-4.4	-4.4
" 2000 (Small Cap)	-7.7	-7.0	-6.4

As value oriented stock pickers, we find the current market conditions exceptionally favorable for our methodology. Our focus remains steadfast on identifying exceptional businesses trading at a discount to Private Market Value, with catalysts to surface value. We will continue to use the volatility provided by Mr. Market to increase our stakes in great companies at attractive prices.

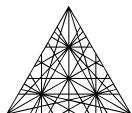
Portfolio Observations – April:

Alphabet Inc. (+8.1%), American Express Company (+3.1%), and NextEra Energy, Inc. (+4.8%) were the three primary contributors to performance. Shares of Alphabet Inc. (GOOG) were higher after the company reported stronger than expected earnings in the first quarter. The company's Search & YouTube businesses exceeded expectations on the top-line supported by the broad-based strength of GOOG's advertising ecosystem, and Cloud revenue continuing a pattern of strong performance and revenue reacceleration from last quarter. Additionally, GOOG has initiated a quarterly dividend program (will pay \$0.20/share starting in June) and authorized a new \$70 bn share repurchase authorization, demonstrating the company's continued commitment to capital returns. The business continues to benefit from its scale in digital advertising, and is driving further growth in mobile search, YouTube, and other ad-related areas. On the cost reduction side, Alphabet also continues to make progress, which should help improve margins moving forward. Shares of American Express Company (AXP) were higher as the company reported solid Q1 '24



results, led by solid spending trends and accelerating new customer acquisitions. AXP maintains its view of the ongoing normalization of credit conditions, highlighting a decline in the average loan size among the company's US customer base. While other financial services companies are facing some challenges with balance sheets, American Express stands out for its diversified funding base and conservative capital approach. The firm's spend-centric model is also unique with lower client credit risk and significant, predictable capital generation. Shares of NextEra Energy, Inc. (NEE) were higher as the company reported strong Q1 '24 results, coupled with reaffirmed 2024 guidance. Moreover, the company anticipates achieving growth at the high-end of the 6-8% range through 2026, further bolstering investor confidence. NextEra Energy should benefit from the market's recognition of a potential acceleration of US electric demand from data centers, AI data centers, and economic reshoring. We consider NEE to be one of the stronger electric utilities in the nation and the premier renewable player. The company will be a leading beneficiary of tighter power markets, renewable portfolio standards and growing demand specifically for clean power.

O'Reilly Automotive, Inc. (-10.2%), Sphere Entertainment Co. (-20.8%), and Comcast Corporation (-11.4%) were the three primary detractors from performance. Shares of O'Reilly Automotive, Inc. (ORLY) gave back a portion of gains from the start of the year after the company's Q1 '24 results highlighted pressures from delayed tax refunds and unfavorable weather trends. Going forward, we expect that ORLY will continue to take share in the fragmented DIFM market and volumes will remain solid as consumers feel some relief from moderating inflation levels. We continue to project that key drivers such as VIO, part complexity, and superior execution will support growth in 2024. ORLY is the best operator of its competitors and a high quality cash generating company that we anticipate will continue gaining market share. Shares of Sphere Entertainment Co. (SPHR) gave back a portion of gains as investors continue to balance risks associated with unknown timeline of future SPHR franchising opportunities and potential overhang related to MSG Network's \$1 bn in debt which will need to be refinanced in Q4 '24. While SPHR has been presented with recent near-term challenges, the company has executed well, underscored by a fully booked residency schedule for 2024, robust demand in ticket sales, and



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sustained discussions related to international Sphere expansion. With optimism behind positive results reflected in SPHR's first full quarter of operations, we view successful strategic execution of upcoming developments and the tailwind in strength of demand for residencies to be positive near-term catalysts for SPHR. Shares of Comcast Corporation (CMCSA) were lower after the company reported mixed Q1 '24 earnings results. The decline was attributed to several factors, including the conclusion of the Affordable Connectivity Program (ACP), heightened competition, and adverse seasonal trends, leading to a more substantial-than-anticipated loss in broadband subscribers. While CMCSA faces potential top-line dilution from these headwinds, we anticipate increasing focus and continued improvement of financial performance as management focuses on expanding account margins in the near-term. We maintain our positive view on CMCSA as the company trades at a discounted EV/EBITDA multiple relative to peers and is expected to continue returning capital to shareholders through dividends and share repurchases. We also view its consumer broadband business as an efficient inflation conduit.

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