ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

April 2023

Published: 11/05/2023 (AM – pre-Bank of England announcement)

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/04/2023	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	193.33	+0.3%	-0.4%	-2.7%	+5.1%	+6.8%
ARC Balanced	Medium Risk	237.00	+0.4%	-0.6%	-2.4%	+11.4%	+11.5%
ARC Steady Growth	Medium High Risk	282.52	+0.5%	-0.6%	-1.9%	+17.0%	+16.5%
ARC Equity Risk	High Risk	329.53	+0.6%	-0.7%	-1.5%	+22.3%	+21.1%

Source: ARC. NB: Price returns only, excluding dividends. Figures based on ARC estimates.

Index	Region / Asset Class	30/04/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7870.57	3.1%	1.3%	4.3%	33.4%	4.8%
UK All Share	UK	4283.83	3.0%	0.7%	2.4%	31.3%	3.8%
Dow Jones Ind Avg	US	34098.16	2.5%	0.0%	3.4%	40.1%	41.1%
S&P 500 Index	US	4169.48	1.5%	2.3%	0.9%	43.2%	57.5%
Nikkei 225	Japan	28856.44	2.9%	5.6%	7.5%	42.9%	28.4%
MSCI Europe Ex UK	Europe	185.67	1.6%	3.5%	5.6%	39.3%	26.7%
MSCI Asia Ex Japan	Asia	630.41	-2.2%	-5.9%	-8.2%	3.3%	-12.5%
MSCI Emg Mkts (£)	Emg Mkts	593.72	-2.7%	-6.7%	-6.6%	13.9%	4.0%
MSCI World Index (£)	Global	2835.93	1.6%	1.8%	1.4%	38.1%	35.9%
UK Conventional	Gilts	3028.77	-1.7%	-2.1%	-15.3%	-28.3%	-15.0%
UK Index-linked	Gilts	4009.95	-3.9%	-2.8%	-24.8%	-27.8%	-16.2%
UK Real Estate Investment Trusts	Property	2108.86	6.1%	-3.5%	-28.1%	-6.8%	-26.0%
WTI Crude ($/Barrel)	Oil	76.78	1.5%	-2.6%	-26.7%	307.5%	12.0%
Gold Spot $/Oz	Commodities	1990.00	1.1%	3.2%	4.9%	18.0%	51.3%
£1 = US$	Currencies	1.2567	1.9%	2.0%	-0.1%	-0.2%	-8.7%
£1 = €	Currencies	1.1404	0.3%	0.5%	-4.4%	-0.8%	0.1%
£1 = Yen	Currencies	171.11	4.4%	6.8%	5.0%	26.7%	13.7%

Source: Bloomberg. NB: Price returns only, excluding dividends

Index	Region / Asset Class	30/04/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	11,384.25	0.3%	-4.5%	-9.1%	15.8%	14.3%
Latest Weighted Average Discount	-15.1%						
Previous Month Weighted Average Discount	-16.4%						
1yr Average Discount	-12.5%						

Source: Bloomberg, Refinitiv. NB: Price returns only, excluding dividends

General Comments

April was another strong month for UK equity markets, which outperformed most global peers, as did the nation’s currency, appreciating against all majors shown above. Sentiment around China arguably weighed on Asian and Emerging Market equities, while developed markets globally were modestly positive.

Oil is still trading around the lowest price it has been in the past year, while gold is trading towards the highest level it has been in the same period (and around all time highs). The above numbers now show gold to be one of the best performing assets of the group over five years, something those who claim it be an inflation hedge will certainly point towards as evidence.

For the first time in a while, real estate asset prices were buoyant. In the UK listed space, there have been some takeover approaches at significant uplifts to market prices, suggesting there is value in the sector.

UK Commentary

While the UK stock market had another good month, there continued to be many reminders of just how cheap it is with deals such as Deutsche Bank agreeing to buy UK broker Numis at a 72% (seventy-two percent!) premium to their prior market price. April fund flows showed investors keen to get back into the market with strong inflows. However, UK Equity strategies continued to leak funds despite the overall strength of investor appetite. People continue to eschew the UK, leaving bargains such as Numis on the table for buyers and indeed for investors such as ourselves, who seek to benefit from this valuation opportunity.

While banks overseas continued to make headlines, UK banks reported bumper profits. The likes of Natwest and HSBC comfortably surpassed analyst's expectations with their first quarter earnings. While not immune from issues in retail banking such as customer withdrawals, their strong levels of capitalisation leave them in a good position to hopefully be able to avoid problems seen with overseas peers.

North America Commentary

In terms of US banks, JPMorgan eventually acquired most of First Republic under the "supervision" of US regulators. First Republic shareholders were wiped out in what was the second-biggest bank failure in the country's history. Although, it is worth noting that the size of banks failing in a post-quantitative easing world is obviously going to be far larger than prior to the enormous amounts of monetary stimulus injected into the economy in the last fifteen years or so.

In politics, the already obviously aging Joe Biden announced he will seek a second term in the White House. Meanwhile, potential opponent Donald Trump pleaded not guilty to 34 charges following his indictment.

In the markets, first quarter earnings in the US began to be released, with consumer and major technology companies reporting upbeat figures. The likes of Microsoft, Alphabet (Google) and Amazon all notably reported better than expected figures. Overall, earnings are looking to be slightly lower than they were in the first quarter last year, but well above the seemingly overly negative estimates.

Europe Commentary

The Eurozone economy rebounded to growth in the first quarter of 2023 with output expanding a (very) modest 0.1%. Unusually, Germany seems to be dragging on performance of the group as a whole, with first quarter GDP coming in flat to avoid a recession by the barest of margins given the contraction in the final quarter of 2022. There are likely members of the bloc who would enjoy pointing to Germany's performance weighing on the whole, if only there was a German word for that…

In company specific news, French luxury group LVMH became the first European company to hit a $500bn market capitalisation. The luxury goods company is quite remarkable indeed and reported a 17% increase in first quarter sales. However, peer Hermes out did them by reporting 23% sales growth. Elsewhere, the world's biggest food company Nestlé rose prices at the fastest pace in over three decades, but only lost out on a modest amount of sales volume. Such companies are excellent examples of equities which offer inflation protection to investors thanks to their pricing power that results from (among other factors) their strong market positions, wide economic moats and loyal customer bases.

There was also a significant moment for embattled Ukraine as all NATO members voted to allows them to join the group once the war had ended, saying Kyiv must have "the deterrence to prevent new attacks". This follows Finland's membership becoming official at the start of the month.

Asia Pacific Commentary

Once again, Japan's monetary policy was in focus this month as their new central bank governor, Kazuo Ueda, led his first meeting in the role. While there were noises of a review of their policy and forward guidance was scrapped, traders ultimately seem to have seen this as a continuation of the ultra-loose monetary policy under the previous regime as the yen was sold off significantly following the meeting, contributing to the significant weakening shown in the above figures.

Sino-Russian relations were highlighted on European shores this month with a Chinese diplomat's statement causing leaders to distance themselves from their Ambassador to France after Lu Shaye questioned the independence of ex-Soviet states.

There was also a significant moment as the US surpassed China to become India's largest trading partner. Bilateral US-India trade rose 8% in 2022-23 to $128.6bn.

Emerging Market Commentary

In a move with potentially huge ramifications for the transition towards net zero and EV producers, Chile announced they will be nationalising their lithium production. The south American nation was the world's second largest producer of this vital metal in 2022, so this is something to keep an eye on. However, there are plenty of nations increasing production rapidly and some commentators believe this may be a case of Chile shooting themselves in the foot by discouraging further investment.

Ghana became the first country globally to approve Oxford's new malaria vaccine and was followed quickly by Nigeria in doing so. The shot can be used in children from five months to three years old to help control malaria-related child mortality. According to the WHO, around half a million children in Africa die each year from Malaria, which represents over 80% of the deaths from the disease on the continent.

Chart of the month – UK inflation & base rate (Yes, it's another inflation chart!)

The chart below shows UK CPI (black – 10.1% latest reading), UK core CPI (blue – 6.2%), UK RPI (Orange – 13.5%) and the Bank of England (BoE) base rate (pink – 4.25%), since the end of 2019. This month saw UK CPI come in above expectations once again and remain in double digits, so consumers are more than 10% worse off than they were a year ago (even more if you look at RPI). Core inflation, which strips out volatile items like food and energy, remained at 6.2%.

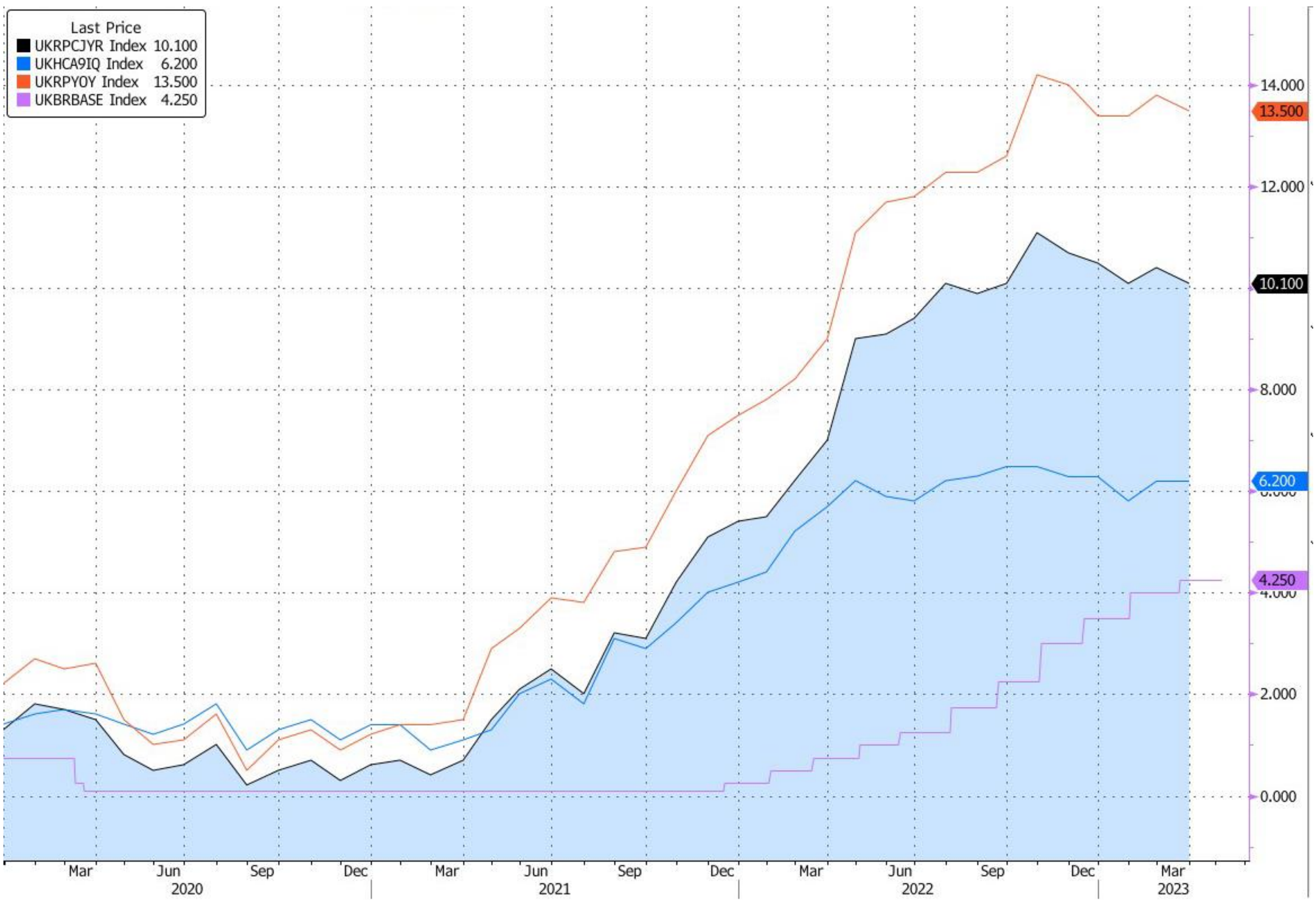
The reason for highlighting this graph is the question around the pink line & what the BoE and other central banks will do at their meetings next month. The British policy makers are expected to raise rates a further 25 basis points, which is another sign that the rate of increases has slowed compared to last year and that we may be nearing a peak. However, the question of whether they have gone far enough remains.

The Australian central bank (The Reserve Bank of Australia, or RBA) announced in April that they would keep rates at 3.6%, pausing their own year-long hiking cycle. US interest rates are very near peak expectations, while European rates may have further to go, albeit still not that far overall.

The key point to raise is that none of these central banks are operating in economies which have inflation below their base interest rates, and all have inflation above target. So, in theory, they are all failing on their mandates and not doing enough about it.

Whether you believe this or not, the point stands that with those inflation lines so far above the base interest rate line, there are some serious questions to be asked of central bankers. In early May, we will see some form of answers from Europe, the US and the UK. While we do not attempt to make macroeconomic predictions nor to invest by second guessing the wide range of possible actions of policy makers, we will watch these with great interest as they have wide ranging implications.

One thing that is worth remembering is that, with inflation elevated and central banks either pausing their rate rises or slowing the pace at which they are implementing them, investing in high quality assets has proved over history to be the best way of protecting wealth from inflation. While there are many ways to do this and many different assets to choose, some of the companies (such as Nestlé) mentioned above have clearly proved able to outperform inflation over time and both protect investors' wealth and grow it in real terms, as have equities as an asset class in general, meaning even average companies have achieved this.



Investment Profile – Ashoka WhiteOak Emerging Markets

April saw the above company become the first investment company IPO in around 18 months and the first "vanilla" equity strategy since 2018, raising just £30.5m (just £500k above their minimum). While it is encouraging to see any form of IPO in the investment company market, the small scale of this issue is a reminder of the difficult environment we are in.

The WhiteOak team also run Ashoka India Equity, which similarly launched at quite a small size back in 2018 but has performed very well since then and grown significantly in that time. We hope they will be able to do the same with this vehicle.

Some of our investment managers did participate in this IPO, having been impressed with the approach of the manager to emerging markets investing. In short, they have a quality style which leads them to focus on companies with superior operating metrics. They also have an interesting democratic theme to their portfolio, with a focus on economic exposure to a region, rather than country of listing. This ultimately means that the portfolio will include a small number of developed market stocks who rely heavily on emerging market consumers/clients for their revenues. For example, the aforementioned LVMH have a large portion of their customer base in China, while China is (at least in the managers' eyes) a less democratic country than other emerging market nations. Therefore, including LVMH in the portfolio makes a lot of sense to them as they can get exposure to China without the political risks that may come with investing directly. That said, they will also invest directly in some Chinese companies, this is just an example.

Overall, it is an interesting strategy and we are pleased that it managed to launch. Hopefully this is a signal of health for the investment company market and an indicator of general demand from investors.

Investment Team's thoughts

Many of our thoughts are summarised in the earlier commentary around the inflation chart and overall, April gave us many reasons to be positive with broadly positive returns across most asset classes and indices.

While this first quarter earnings season in the US has been far from impressive, producing a modest contraction in earnings on average for those companies who have released data thus far, results have been ahead of (likely overly negative) expectations and there have also been some exceptional results from various high quality companies.

As ever, it is easy to forget this and focus on negative headlines and loud voices of doom pointing to various crumbs of macroeconomic data that fit whatever their view is on that particular day. However, we continue to focus on what we believe matters most over the long-term for being able to protect and grow our client's wealth in real terms – selecting high quality assets to invest their capital in.