ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

April 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/04/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	199.43	-0.8%	+0.9%	+3.3%	-0.8%	+8.5%
ARC Balanced	Medium Risk	250.49	-1.0%	+2.1%	+5.9%	+2.4%	+14.9%
ARC Steady Growth	Medium High Risk	303.42	-1.2%	+2.9%	+7.5%	+4.5%	+20.1%
ARC Equity Risk	High Risk	358.83	-1.3%	+3.6%	+9.0%	+5.5%	+25.4%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/04/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8144.13	2.4%	6.7%	3.5%	16.8%	9.8%
UK All Share	UK	4430.25	2.1%	6.2%	3.4%	11.2%	8.9%
Dow Jones Ind Avg	US	37815.92	-5.0%	-0.9%	10.9%	11.6%	42.2%
S&P 500 Index	US	5035.69	-4.2%	3.9%	20.8%	20.4%	70.9%
Nikkei 225	Japan	38405.66	-4.9%	5.8%	33.1%	33.3%	72.5%
MSCI Europe Ex UK	Europe	201.40	-2.6%	3.0%	8.5%	15.6%	34.8%
MSCI Asia Ex Japan	Asia	662.11	1.1%	9.2%	5.0%	-25.1%	-2.0%
MSCI Emg Mkts (£)	Emg Mkts	654.85	1.3%	9.7%	10.3%	-7.2%	14.3%
MSCI World Index (£)	Global	3305.30	-3.9%	3.1%	16.6%	12.5%	51.7%
UK Conventional	Gilts	2989.29	-2.9%	-2.3%	-1.3%	-23.3%	-18.7%
UK Index-linked	Gilts	3820.57	-3.6%	-0.9%	-4.7%	-30.1%	-25.3%
UK Real Estate Investment Trusts	Property	2010.69	-3.5%	-3.7%	-4.7%	-24.5%	-24.6%
WTI Crude ($/Barrel)	Oil	81.93	-1.5%	8.0%	6.7%	28.9%	28.2%
Gold Spot $/Oz	Commodities	2286.25	2.5%	12.1%	14.9%	29.2%	78.1%
£1 = US$	Currencies	1.2492	-1.0%	-1.5%	-0.6%	-9.6%	-4.1%
£1 = €	Currencies	1.1712	0.1%	-0.1%	2.7%	1.9%	0.8%
£1 = Yen	Currencies	197.13	3.2%	5.7%	15.2%	30.5%	35.7%

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

Index	Region / Asset Class	30/04/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,067.20	0.5%	3.8%	6.0%	-10.9%	14.2%
Latest Weighted Average Discount	-7.1%						
12 Month Weighted Average Discount	-15.9%						

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

General Comments

UK equities broke new all-time highs in April, with the FTSE 100 index closing out the month at 8144.13. Mid cap performance was more muted, but still positive over the month. Asian and emerging market stocks joined the UK in offering positive returns, while Europe, the US and Japan pulled back.

Gold also hit new a new all-time high in the month on the back of elevated geopolitical tensions and bets that US interest rates will fall later this year. Other metals such as silver, nickel, aluminium, and copper also gained in value over the month, helping to nudge generalist commodity indices such as the Bloomberg Commodity Index higher once more.

Many of our competitors' modest exposure to UK stocks shone through in the performance of the ARC private client indices, which were down despite the good month for UK equities. Most firms these days have more exposure to US equities than UK stocks, so the sharp falls in value there will have been a headwind.

UK Commentary

It was announced the UK had become the world's fourth largest exporter. Data showed the UK moving up from seventh in 2021 to fourth in 2022. As one may expect, this was driven by strong performance in services rather than manufacturing, particularly financial services, for which the UK is reportedly the second largest exporter in the world (behind the US), and the largest on a net basis.

February's ONS employment data release showed a mixed picture with UK wage growth surprising to the upside (showing wages 5.6% higher than a year earlier) but unemployment rising faster than expected to 4.2%. The latter appeared to dominate traders' minds, at least initially, as expectations of a Bank of England rate cut in 2024 were reinforced.

The UK and US signed a landmark pact on AI. This makes them the first nations to formalise a framework for working together on assessing and monitoring the potential risks from AI. According to data released by Mirae Asset Management, the US and UK are first and third respectively in terms of the number of AI startups and the value of investment into those businesses. China is in second place, although given geopolitical tensions cooperation with them on AI is unlikely for Western nations, so this agreement very much appears to be between two major players in the space.

In less cooperative political news, Scotland lost yet another SNP First Minster as Humza Yousaf resigned, as a result of a seemingly self-engineered blunder which saw him tear up a coalition agreement made with the Green Party. Following this, other political parties launched no-confidence motions and Yousaf looks to have jumped before he was pushed.

Mining giant Anglo American rejected a £31.1 billion takeover offer from Australian peer BHP (who, until recently, were London-listed themselves). BHP's actions of de-listing themselves from London and then coming back to bid for a former exchange-mate indicate they certainly believe the UK stock market is undervaluing companies.

North America Commentary

The key US inflation figures made somewhat uncomfortable reading for the Fed, with the PCE inflation annualised rates reading above target levels over both one-, three-, six- and twelve-month durations, and trending upwards.

Similarly, strong March retail sales data impacted markets quite dramatically as investors saw them as another reason for the Fed being unable to cut rates as quickly as previously predicted. Retail sales rose 0.7% over the month according to the US Census Bureau.

Amusing news came as it emerged Amazon are phasing out their "Just Walk Out" stores. It reportedly turns out that rather than operating through a system of sensors, cameras, and AI, as Amazon led people to believe, it was actually operated by over 1,000 employees in India watching video feeds.

Meanwhile, Google-owner Alphabet was popular with investors as first quarter revenue increases 15% over the prior year and it announced a sizeable $70 billion stock buyback program and its first ever dividend.

Europe Commentary

Exceptional economic news came from Europe as it was revealed the four largest economies all grew faster than expected in the first quarter. Germany, France, Spain, and Italy all contributed to a stronger than expected start to the year for the Eurozone.

There was major political controversy in Germany as Green party ministers were accused of lying about the safety of nuclear power in order to force through restrictions on the industry. Germany's reliance on fossil fuels such as coal is partly a result of this action, so it is rather ironic to see the party who proport to be "green" ultimately responsible for more emissions. However, it is also a serious national security issue given the nation's recent reliance on cheap Russian energy.

Subdued Chinese demand and weak champagne sales hurt LVMH's performance, with the luxury group reporting their worst quarterly earnings since 2021. Performance was mirrored by many peers, who have all been hit by slowing Chinese demand as the East Asian economy has stuttered.

Asia Pacific Commentary

For the first time in over three decades the Japanese yen weakened past 155 per US dollar. In related news, Japan's National Consumer Price Index (CPI) increased 2.7% year-on-year. This means inflation remains above target, although this is a slight fall from the prior month's 2.8% reading. Japan has previously struggled with unusually low inflation, so some view this modest level as a positive, however, the effects of inflation and surrounding monetary policy are clearly being felt in the value of the yen.

Samsung reported strong first quarter earnings thanks to the AI boom improving results in their semiconductor arm. Profits were up more than four times versus a year prior, thanks to growing spending by tech giants on chips to facilitate AI expansion. The company also reclaimed their global lead in smartphone sales, jumping back ahead of Apple.

In related news, it was reported that Apple made $14 billion worth of iPhones in India in 2023, which would be around 14% of total production. This is a clear sign that the company's move to diversify production away from China is well under way.

Emerging Market Commentary

BYD reported a significant fall in EV deliveries, causing them to lose their top spot in the global EV market to Tesla. Deliveries fell 42% in the first quarter compared to a year earlier. This made Tesla's 8.5% drop looks small in comparison.

Meanwhile, Elon Musk visited China and announced that Tesla will be partnering with Baidu. The Chinese search giant, akin to their Google, will help Tesla with technology for mapping and navigation in the country. Not only did this lift Tesla's share price significantly upon the announcement, but also prompted warnings for Musk from many commentators who have seen Chinese companies "partner" with western ones in the past, only to later end the partnership and end up selling very similar products or services.

Chart of the month – US interest rate expectations

The above chart from the FT, using Bloomberg data, highlights how interest rate expectations have changed over recent months. In December 2023, for example, traders were pricing in US Fed funds rates of 3.5% in January 2025. However, the latest figures suggest this is now closer to 4.8%, a significant change indeed.

The aforementioned PCE inflation figures have something to do with this, as does continued growth being shown in employment and reasonable economic growth data.

The US tends to lead the world in terms of monetary policy, so the above chart is echoed elsewhere. The "higher for longer" narrative, which we have gone into in greater depth in previous commentaries, seems to have spread and is becoming reality.

The implications of this are far reaching, however, we believe rates are certainly not at abnormal levels. In fact, many would argue these to be fairly normal, and that debt is neither overly expensive nor overly cheap (as had arguably been the case in recent years). We believe well-run businesses can continue to thrive with rates at current levels, as many have done in the past. We do recognise, however, that many lower quality businesses may struggle in this environment. We continue to strive to invest in the former rather than the latter.

Investment Profile – Mid Wynd Investment Trust

Mid Wynd, now managed by a team at Lazard, aims to own a portfolio of high-quality companies from around the world. There is a mixture of large and mid-sized companies held within the strategy, but the bias is towards large companies in developed markets. This leads the portfolio to include significant positions in the likes of Microsoft and Alphabet (Google), while also owning lesser-known names such as Canadian recreational vehicle manufacturer BRP.

The mandate for this investment company was with Artemis until 2023, when the portfolio managers announced their retirement from the fund management company. This prompted Mid Wynd's board to review their management options. They subsequently decided to appoint Lazard thanks to their strong track record and similar focus on identifying high quality businesses.

Many of our investment managers held Mid Wynd for their clients before the change of manager last year. Having conducted a thorough review of the options and the new (albeit similar) strategy, many decided to stick with Mid Wynd. Like the board, they were impressed with the new portfolio managers and are optimistic about the future returns this portfolio of exceptional businesses may be able to generate.

Investment Team's thoughts

Investors finally seem to be waking up to the value on offer in the UK equity market, which is encouraging. We still believe there are plenty of opportunities here.

In contrast, markets which have had stronger runs in recent years had a bit of a pull back over the month. Perhaps we are finally seeing some reversion towards a mean and an unwinding of long-entrenched valuation discrepancies. Given the composition of their respective markets, it makes some sense for US equities to be more expensive than UK ones, for example, but there is no doubt the spread between those valuations has been wider than historic averages in recent years. Recent months seem to have made some attempt at addressing that.

Meanwhile, risk free rates seem to have stabilised somewhat in recent months and UK gilts are now offering over 4% returns at many different maturity levels. Therefore, investors should expect reasonable long-term returns moving forward from here. It seems much of the realignment from reasonably rapid rate increases has happened and markets have now steadied, with an eye to the future rather than the past.