ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

February 2024

Published: 19/03/2024

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	29/02/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	197.58	+0.2%	+2.2%	+2.8%	+0.8%	+10.0%
ARC Balanced	Medium Risk	245.65	+0.7%	+3.9%	+4.6%	+5.0%	+17.2%
ARC Steady Growth	Medium High Risk	295.32	+1.2%	+5.0%	+5.9%	+8.2%	+23.4%
ARC Equity Risk	High Risk	346.96	+1.6%	+6.0%	+6.8%	+10.1%	+29.7%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	29/02/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7630.02	0.0%	2.4%	-3.1%	17.7%	7.8%
UK All Share	UK	4163.21	-0.2%	2.7%	-3.3%	12.4%	7.1%
Dow Jones Ind Avg	US	38996.39	2.2%	8.5%	19.4%	26.1%	50.5%
S&P 500 Index	US	5096.27	5.2%	11.6%	28.4%	33.7%	83.0%
Nikkei 225	Japan	39166.19	7.9%	17.0%	42.7%	35.2%	83.1%
MSCI Europe Ex UK	Europe	200.05	2.3%	8.2%	10.0%	24.1%	40.9%
MSCI Asia Ex Japan	Asia	639.78	5.5%	3.1%	2.5%	-27.9%	-2.0%
MSCI Emg Mkts (£)	Emg Mkts	629.73	5.5%	3.9%	4.1%	-9.1%	15.5%
MSCI World Index (£)	Global	3337.20	4.1%	10.4%	22.9%	22.4%	60.0%
UK Conventional	Gilts	3026.45	-1.1%	1.9%	1.1%	-21.9%	-16.3%
UK Index-linked	Gilts	3870.29	0.4%	2.0%	-1.5%	-27.3%	-20.8%
UK Real Estate Investment Trusts	Property	1940.89	-7.0%	-1.5%	-10.7%	-21.3%	-27.2%
WTI Crude ($/Barrel)	Oil	78.26	3.2%	3.0%	1.6%	27.3%	36.8%
Gold Spot $/Oz	Commodities	2044.30	0.2%	0.4%	11.9%	17.9%	55.7%
£1 = US$	Currencies	1.2625	-0.5%	0.0%	5.0%	-9.4%	-4.8%
£1 = €	Currencies	1.1683	-0.4%	0.8%	2.8%	1.2%	0.2%
£1 = Yen	Currencies	189.34	1.6%	1.2%	15.7%	27.6%	28.2%

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

Index	Region / Asset Class	29/02/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	11,699.00	0.7%	5.2%	-0.5%	-7.5%	15.9%
Latest Weighted Average Discount	-9.7%						
12 Month Weighted Average Discount	-12.0%						

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

General Comments

International equity markets had another buoyant month, with all the above indices (except for UK stocks, as has unfortunately been typical of late) showing strong returns. Japanese markets continued their strong run, as did the US, with both reaching new all-time highs. Perhaps more surprisingly, The German DAX index also hit record levels, despite troubles in the domestic economy there.

Oil and gold prices continued to tick up, but these were outliers amongst commodities, as the Bloomberg Commodity Index hit its lowest level since 2021. Hopefully this offers encouraging signs for future inflation levels as input prices should benefit.

Investment company discounts narrowed in the month and are now back into single digits. This no doubt contributed to the positive returns for the ARC private client indices.

UK Commentary

UK inflation undershot forecasts by staying flat at 4.0% year-on-year according to the Consumer Prices Index. Month-on-month figures showed a 0.6% decline in price level. Meanwhile, wage growth eased by less than was expected by economists, coming in at 5.8% annualised. Once again, these data offer mixed signals for the Bank of England, making predicting interest rates even more difficult. However, it is positive that consumer spending power is recovering. Retail sales figures also support this, with volumes up 3.4% in January, the biggest monthly increase since April 2021 (where COVID clearly played a part).

The UK entered a technical recession at the end of 2023, with a 0.3% decline in the last quarter of the year adding to the 0.1% decline in the third quarter. Having narrowly avoided this several times in recent years, the UK economy finally relented and followed European peers into recession. This is not unexpected by any means, but is disappointing. Nothing should sharpen policymakers minds than a recession officially being confirmed. It should also be noted that this is exactly what policy makers were trying to enact. The Bank of England raising rates as they have has been a deliberate attempt to crush demand and slow the economy. We hope now that this definition has finally been met we can move forward and back to growth.

February also saw multiple by-elections. The Conservatives lost what were previously considered two safe seats to Labour, with Wellingborough (Northamptonshire) and Kingswood (near Bristol) seeing huge swings from the previous vote. However, more headlines were written about the subsequent Rochdale by-election, which saw all mainstream parties essentially ignored by voters. This, however, was a highly unusual election which seemingly had more emphasis on Gaza than Rochdale, so arguably little about the next general election can be inferred from this.

North America Commentary

The S&P 500 touched 5,000 for the first time and moved ahead towards 5,100 pretty swiftly afterwards. Returns from this index of late, and indeed throughout history, have been exceptional. In sterling terms, the index has now returned over 47,200% since the start of 1971, around 12.28% per annum. Returns in recent years have been even stronger, with the index more than doubling over the past 5 years and returning nearly 16% per year.

Chip designer Nvidia contributed significantly to this. The behemoth predicts another astonishing set of numbers, suggesting revenue this quarter will be $24 billion, well above analyst's previous expectations of $21.9 billion.

Further good news came as the US jobs market remained robust and inflation fell to 2.4%, according to the Federal Reserve's most watched metric; US Personal Consumption Expenditures, or PCE. Core PCE, which excludes the typically more volatile categories of food and energy, came in flat at 2.8%.

Readers will not be shocked to note that Donald Trump has been in the headlines once again, this time as he, his eldest sons, and associates have been ordered to pay $350m having been found guilty of intentional financial fraud over a decade. However, he also continued to win primaries, even defeating Nikki Haley in her home state of South Carolina. February certainly saw the US move towards another Trump / Biden showdown in the 2024 presidential election.

Europe Commentary

The German stock market index, the DAX, also continued to mark new all-time highs this month, despite the many negative signs for the German economy. Once again, this serves as an excellent reminder that the stock market is not the economy and that one can perform well without the other. This came as German inflation fell to its lowest level since mid-2021, and real wage growth finally turned positive for the first time since the pandemic.

Sweden following in Finland's footsteps and finally becoming a Nato member was undeniably huge geopolitical news that came this month. Russia's invasion of Ukraine has seemingly strengthened Nato's resolve, which is perhaps the opposite of what was intended. Hungary finally dropping their veto was welcomed in Stockholm and in existing Nato countries alike. Sweden's position in (Gotland) and around the Baltic Sea makes this move particularly important.

In the corporate world, there were interesting rumours of what would previously have been considered highly improbable; Volkswagen, Renault, and Stellantis working together. With the newly crowned world's largest EV maker, BYD, based in China, and other Chinese firms also rising to prominence, European automakers are rapidly losing ground. This has reportedly led to considerations of tie-ups which would have been unimaginable just a few years ago.

Asia Pacific Commentary

While Chinese EV manufacturers are doing well, arguably their economy as a whole is not. Deflation in China continues, and at a rate which surprised economists (they had expected a less sharp fall in price levels) at the last release, with consumer prices falling 0.8% year-on-year. Perhaps in response to weak economic data, the People's Bank of China cut their five-year loan prime rate by a record amount. The rate is linked to mortgage lending, so impacts households significantly, and was reduced by 0.25 percentage points to 3.95%.

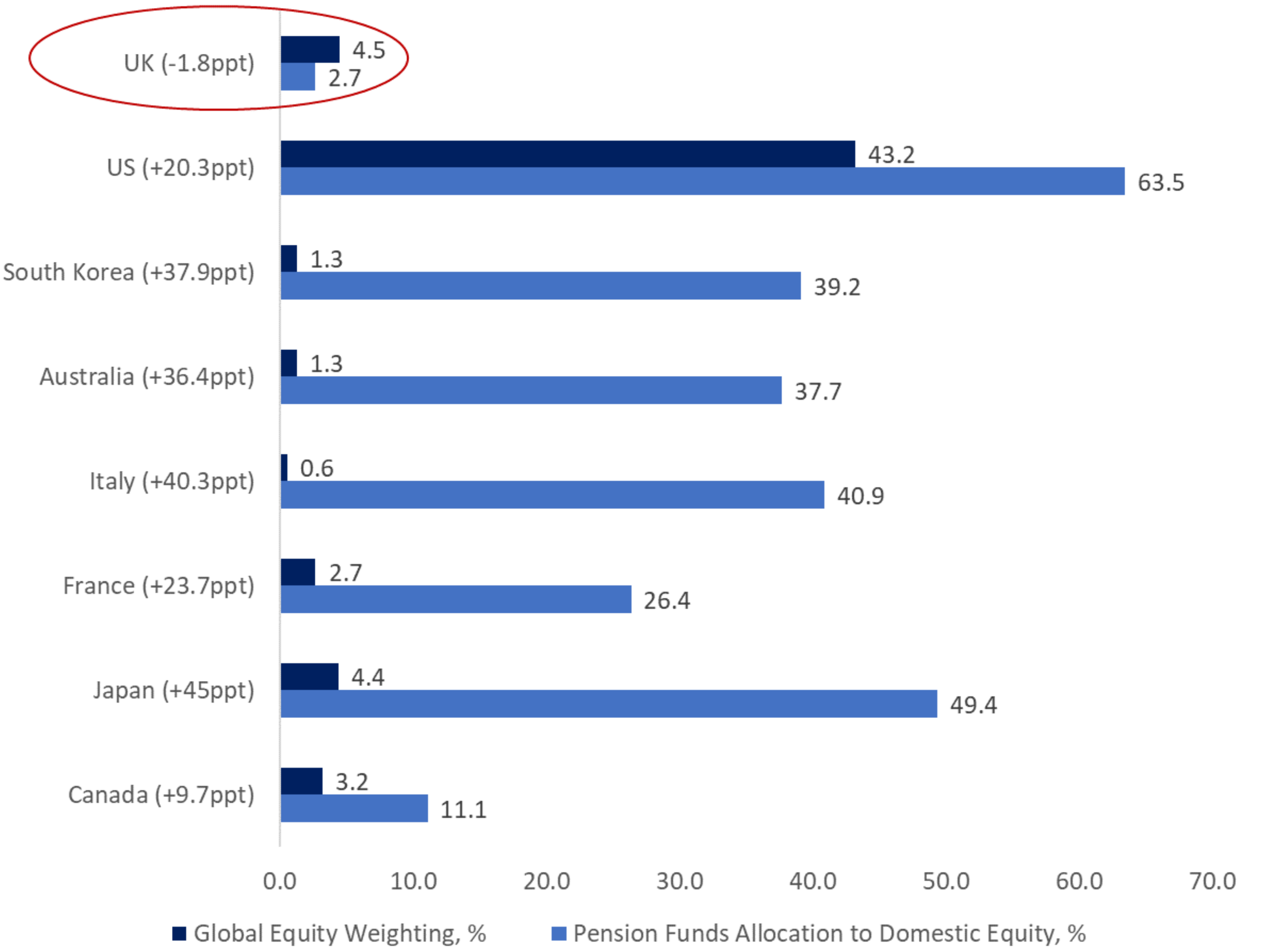
Meanwhile, the Indian economy continues to defy gravity, with recent GDP figures showing the economy to be 8.4% larger than a year ago. The Indian stock market remains a "hot" one, with undeniably expensive valuations. However, many justify this by pointing to the exceptional macroeconomic drivers for the economy. These credentials have been proven once again with this data release.

Emerging Market Commentary

Africa's largest country saw interest rates rise further, as Nigeria's central bank opted to increase base rates to 22.75%. The nation is reportedly in the midst of the toughest financial crisis of the last few decades thanks to rising fuel and food prices. The naira, the nation's currency, has devalued sharply in recent times, and February saw this happen once again in dramatic fashion. At the end of January, one US dollar could buy just under 900 naira. A month later, that same dollar could buy a little over 1,600 naira.

Elsewhere, Brazilian oil giant Petrobras outlined a $100bn (US dollar) investment plan. CEO Jean Paul Prates told investors they want to "be there at the very end of the fade-out of oil" implying that they wish to be among the final oil producers in the world while others move more towards renewables.

Chart of the month –



The above chart from Simon French (@Frenchonomics), Chief Economist & Head of Research at Panmure Gordon, highlights just how unusual our pension industry is in not backing our own companies. As he points out: "Every major pension industry in develop world is hugely overweight its domestic equity market - by an average of **2089%**. The UK is 41% *underweight* its own."

This is quite remarkable, and the UK is undeniably an outlier. Information from the Pension and Lifetime Savings Association (PLSA) corroborates this, showing that two decades ago UK defined benefit pension schemes held about half of their assets in UK equities, but that this had decreased to around 3% by 2023. The PLSA state the UK pension sector manage over £2 trillion of assets for over 30 million people. The UK equity market is also around £2 trillion in size. Very simple calculations suggest that the UK moving even modestly towards international norms could inject hundreds of billions of pounds into the UK equity market and fundamentally transform it for the better.

Whether this will happen or not is impossible to know, but we believe it is important to highlight just how unusual we are as a nation of pension investors, and the degree to which a modest change in allocation from these enormous funds could transform the UK equity market.

Investment Profile – Fidelity European Trust

This investment company has performed exceptionally well over the years, returning over 3,300% since the start of 1994. Recent years have been above average, compounding at 13.6% over the past 5 years.

Managers Sam Morse and marcel Stotzel have achieved this by focussing on investing in Europe's best companies, while still being mindful of the price they pay to do so. The top 10 holdings contain all the names one would expect to see from such a strategy, including lithography specialist ASML, new weight-loss drug producer Novo-Nordisk, and luxury goods giant LVMH.

While these are European-listed businesses, much of the portfolio is invested in global leaders which just happen to be quoted on European stock exchanges. Revenues for this portfolio are truly globally diversified and the state of the European domestic economy is often not overly relevant to the earnings power of these businesses.

Investment Team's thoughts

2024 has got off to an interesting start. The fortunes of the so-called "Magnificent 7" have been mixed so far, unlike 2023 when they all soared. Apple's share price is down 6% and Tesla's down 19% while Meta's is up 39% and Nvidia's up 60%. It would be unprecedented for all 7 of these stocks to perform anywhere near as well as they did in 2023, and it appears from the first two months of the year that the market may be more discerning this year, even if the abnormal returns are still present for a few.

Meanwhile, the long-term returns shown on the numbers at the top of this commentary once again look reasonable for many assets and markets. With many commodity prices now at multi-year lows and inflation numbers seemingly settling at more acceptable levels we are optimistic about the current environment and future long-term returns from here.