ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

September 2023

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/09/2023	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	192.26	-0.4%	+0.6%	+2.7%	+0.4%	+5.3%
ARC Balanced	Medium Risk	235.46	-0.6%	+0.3%	+3.6%	+4.4%	+8.7%
ARC Steady Growth	Medium High Risk	281.29	-0.8%	+0.0%	+4.8%	+8.3%	+12.3%
ARC Equity Risk	High Risk	329.13	-0.9%	+0.1%	+5.9%	+12.1%	+16.1%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/09/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7608.08	2.3%	1.0%	10.4%	29.7%	1.3%
UK All Share	UK	4127.24	1.7%	0.8%	9.7%	25.7%	0.0%
Dow Jones Ind Avg	US	33507.50	-3.5%	-2.6%	16.6%	20.6%	26.6%
S&P 500 Index	US	4288.05	-4.9%	-3.6%	19.6%	27.5%	47.2%
Nikkei 225	Japan	31857.62	-2.3%	-4.0%	22.8%	37.4%	32.1%
MSCI Europe Ex UK	Europe	178.55	-2.6%	-3.3%	17.6%	23.3%	22.2%
MSCI Asia Ex Japan	Asia	604.52	-2.9%	-4.1%	8.3%	-15.2%	-7.8%
MSCI Emg Mkts (£)	Emg Mkts	605.70	1.1%	1.1%	2.2%	0.5%	9.8%
MSCI World Index (£)	Global	2853.24	-4.4%	-3.8%	20.0%	20.5%	30.6%
UK Conventional	Gilts	2894.59	-0.9%	-0.6%	-2.5%	-30.3%	-18.3%
UK Index-linked	Gilts	3713.79	-3.1%	-4.7%	-12.7%	-35.0%	-22.7%
UK Real Estate Investment Trusts	Property	1833.06	-3.1%	0.0%	-6.8%	-15.1%	-31.2%
WTI Crude ($/Barrel)	Oil	90.79	8.6%	28.5%	14.2%	125.7%	23.9%
Gold Spot $/Oz	Commodities	1848.63	-4.7%	-3.7%	11.3%	-2.0%	55.2%
£1 = US$	Currencies	1.2199	-3.7%	-4.0%	9.2%	-5.6%	-6.4%
£1 = €	Currencies	1.1538	-1.3%	-0.9%	1.3%	4.7%	2.8%
£1 = Yen	Currencies	182.22	-1.2%	-0.5%	12.8%	33.7%	23.0%

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

Index	Region / Asset Class	30/09/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	10,989.78	-1.1%	-1.1%	-1.9%	-1.7%	5.1%
Latest Weighted Average Discount	-16.0%						
12 Month Weighted Average Discount	-13.9%						

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

General Comments

September was another mixed month for markets, with the UK posting positive returns while the major US index lost nearly five percent. In contrast, the US dollar performed better than sterling over the month, as the pound weakened further against the greenback.

As ever, much of the movement in currency markets seems to have been driven by changes in the government bond markets, with US treasury prices falling, increasing yields, and thus looking relatively more attractive than UK government bonds to some international investors (despite UK yields also going up).

In the commodity markets, the oil price continues to creep up, now over the $90 per barrel mark. This remains a key issue for inflation and interest rates. Meanwhile, gold drifted further from its highs.

Overall, it was a modestly negative month for multi asset portfolios with the ARC indices down across the board, and investment company discounts widening even more.

UK Commentary

UK wages made further headlines this month as they continued to grow at the fastest rate on record, despite a weaker jobs market with slowing hiring and unemployment ticking up modestly. Total pay grew 8.5% year-on-year according to the ONS, although this was boosted modestly by one-off payments to NHS workers offered in the deal to end strike action. We are now in a situation where wages are outpacing inflation. While this is obviously good for consumers and the strength of the economy, it does make the Bank of England's job far more difficult when it comes to bringing inflation down. In short, if people can afford to pay higher prices, prices will continue to increase.

Despite this situation, the Bank of England narrowly opted to hold rates constant at 5.25%. The Monetary Policy Committee was as split as it could be, with the 5-4 vote ultimately being decided by Governor Andrew Bailey, who had voted to increase rates at the previous meeting.

It was interesting to note the latest UK offshore wind auction failed to attract any bids at all. The economics of wind power has always been in question and has relied heavily on government support. Potential bidders this time stated that the government support was too low to make projects viable. This will obviously have significant impacts on government policy moving forward, as well as issues such as power prices for consumers and businesses alike. It is very much a situation to keep an eye on with the energy transition in mind.

In other government-related news, the IFS released figures showing that UK taxes will rise more over this parliament than any other since World War 2, up from around 33% of GDP to 37%. They also indicated they will likely stay around this level, according to their predictions. It is perhaps stating the obvious, but if high taxes are not accompanied by high government spending, particularly investment in productive projects, they will likely be a drag on the economy. We hope these issues will be seriously looked at by politicians in the coming years.

North America Commentary

Various data points indicated the US economy remains resilient. Retail sales growth topped forecasts, rising 0.6% from the previous month, although this was mostly driven by spending on fuel as the oil price rose. This 'strength' was, however, also somewhat reiterated in the inflation numbers which reported consumer prices to be 3.7% higher year-on-year, up from 3.2% in July.

The Federal Reserve has increased rates eleven times since March 2022, but decided to hold rates constant at the most recent meeting. The accompanying commentary was very much insistent that there will likely need to be a further rate increase in the near future, however, they opted to pause for now.

In company news, Meta announced the next generation of smart glasses in partnership with EssilorLuxottica. These Ray-Ban glasses will now feature Meta's AI technology to help with voice control, location & object identification, and live language translation. It is interesting to see serious AI integration into a consumer product and the performance of these glasses will be something to watch for Meta shareholders and wider tech investors alike.

Europe Commentary

The European Commission lowered their growth forecasts, predicting the Eurozone economy will expand just 0.8% in 2023, and 1.4% in 2024. Despite this, the European Central Bank raised interest rates to an all-time high in a bid to tame inflation. This marks ten consecutive rate rises, taking the base rate up to 4%.

The good news is that these actions seem to be working, as inflation looks to be moving in the right direction across Europe, with harmonised consumer inflation showing improvement. Spanish inflation came in below forecast at 3.2%, German inflation hit a two-year low of 4.3% and a flash report from the Netherlands suggested inflation was just 0.2%, well below target. Overall, this means Eurozone inflation fell to its lowest level in two years of 4.3%, down significantly from 5.3% in August. We are not out of any woods yet, but these readings were very positive signs in terms of normalising economic conditions.

Asia Pacific Commentary

There were concerning diplomatic issues between India and Canada, with the latter accusing the former of being responsible for the assassination of a Canadian Sikh leader. This comes shortly after the G20 summit was held in India, reportedly where Trudeau and Modi exchanged some choice words regarding the nations' relations. While India, the world's most populous nation, is a trading partner of growing importance for pretty much all western nations, there are genuine concerns around corruption and Modi's regime. This is another reminder of the difficult line western leaders will have to tread.

Elsewhere, China's Huawei launched their Mate 60 Pro+ smartphone. This is significant as it contains Chinese-made semiconductor chips and reveals the level of success China have had in beating western (particularly U.S.) sanctions. Semiconductors are incredibly difficult to make, in particular to make well and at scale. The excellent book "Chip War" by Chris Miller highlights the importance of these technologies in international economics and geopolitics. While the technology in the key chip for this phone was produced over five years ago in Taiwan, the fact that China has managed to produce a smartphone effectively on their own is a significant milestone for them.

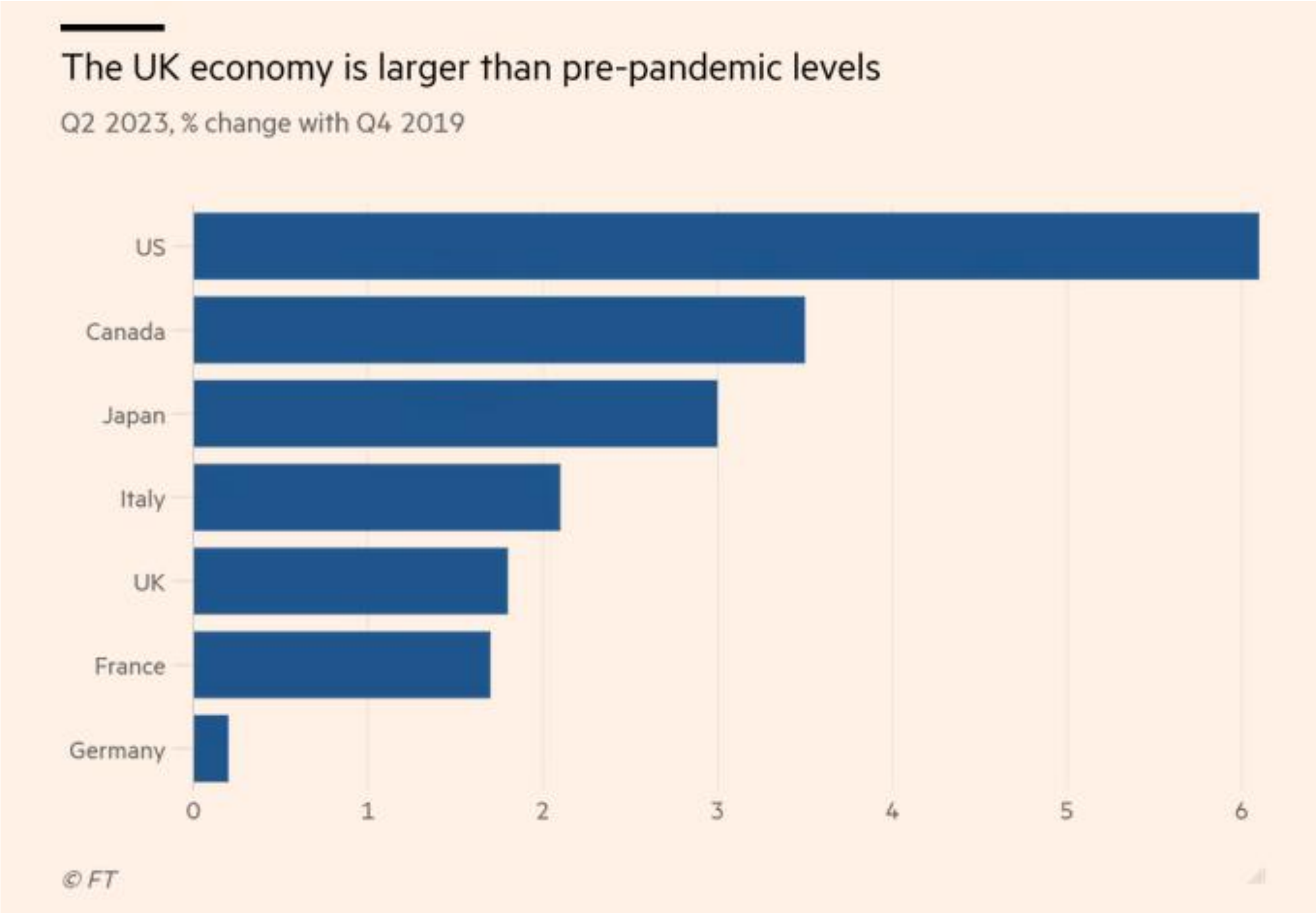
Emerging Market Commentary

Brazil announced they are seeking to raise around $2bn (USD) from an inaugural sustainable bond sale. While green bonds have become popular in western countries, it would be an interesting step for Brazil, who are one of the most watched nation for green objectives given worries around deforestation of the Amazon. Fellow South American nation Chile has already issued $30bn of sustainability-linked bonds, and even went as far as becoming the first nation to link interest rates directly to meeting climate goals.

JPMorgan announced they will finally add India to their benchmark emerging markets bond indices. This is expected to help Indian government debt to attract billions of US dollars' worth of inflows, potentially making it easier for them to borrow funds. The change is not expected to take effect until June 2024.

In geopolitical news, an armoured train carried North Korean leader Kim Jong Un to Russia for a summit with President Putin. Kim took this opportunity to pledge "full and unconditional support" for Russia's invasion of Ukraine.

Chart of the month – UK GDP Revisions



The ONS has revised up its UK GDP predictions signficantly, proving many overly negative headlines wrong. The UK economy is in fact larger than pre-pandemic and is far from the worst performing G7 economy, in contrast to what was previously reported.

GDP was calculated to be 1.8% above its pre-pandemic level in the three months to June. The above chart from the FT highlights how we compare to the other G7 nations. It was previously reported (based on ONS estimates) that the UK was the only economy in this group to be below pre-COVID levels. These new figures refute that emphatically.

We recently had a meeting with the managers of the Herald Invetsment Trust. This is a strategy with a global mandate but which invests typically 40-50% of their assets in the UK. When quizzed on this allocation, the response was “We speak to managers all around the world, and everyone thinks their problems are the worst”. We think this nicely sums up the frequent differences between perception and reality, and speaks to the fact that while things may not be perfect here in the UK, there are plenty of reasons to be optimistic.

Investment Profile – Pantheon International

Another meeting we had this month was with the Pantheon International team, discussing topics from private equity valuations to the prospect of them buying back their own shares to enhance shareholder value. In fact, a few days afterwards they announced a £150m tender offer, which is a substantial statement that they firmly believe their own shares are undervalued.

Pantheon International invests in hundreds of private companies around the world. A little over half of this is done directly, while the rest of the portfolio is invested via private equity funds, adding diversification. Often the best companies from the funds are purchased directly later down the line.

Pantheon International Investment Trust has produced exceptional returns over the long term, returning over 176% in the decade to the end of September. Shares currently trade on a 35-40% discount to asset value, far wider than the average over this period.

Investment Team's thoughts

Interest rates were held flat by the Bank of England and the Federal Reserve in September, while a slew of European inflation data pointed towards the ECB likely taking the same action at their next meeting (26th of October). We cannot say what direction interest rates will take from here, but we can observe that the facts have changed when it comes to this topic, and that we are no longer in a perennially rising interest rate environment. As a result, there is now a greater degree of certainty around central bank policy. While current rates may not be a hard ceiling, they represent a level at which central bankers are, at least for now, satisfied. We hope this will bring more certainty and stability to asset prices as a result.

Investment company discounts widened yet further in September, to remarkably cheap levels not seen in recent history. We are seeing infrastructure investment companies yielding returns never seen before, while many straightforward equity strategies are trading on mid-teen discounts. This is even affecting the technology sector. Despite the exceptional performance of tech stocks this year, the investment companies specialising in these stocks are trading in the region of 15-25% discounts to assets. These trusts are up 20-30% this year, yet even their discounts have widened! These are fairly unprecedented times, and we continue to see extraordinary value in the investment company sector on a long term view.

Ultimately, markets remain undecided on which direction to move. We are seeing days and weeks of dramatic moves, often followed by similar days and weeks of opposite moves. 2023 has, so far, been a year of indecision on investors' parts. We continue to believe that true long-term investors will be able to look through the noise and will not change their mind day-to-day or week-to-week. With this in mind, we are seeing some highly attractive investments on a long-term view and are genuinely excited about the performance our clients could be able to benefit from over this period, thanks in no small part to the short-termism and indecision of others.