ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

August 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/08/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	204.89	+0.3%	+1.8%	+6.7%	-0.4%	+8.8%
ARC Balanced	Medium Risk	258.82	+0.4%	+2.4%	+9.7%	+2.0%	+15.9%
ARC Steady Growth	Medium High Risk	315.47	+0.5%	+2.8%	+11.7%	+3.9%	+22.2%
ARC Equity Risk	High Risk	375.48	+0.6%	+3.1%	+13.7%	+5.1%	+28.8%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/08/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8376.63	0.1%	1.2%	12.6%	17.7%	16.2%
UK All Share	UK	4576.73	-0.3%	1.3%	12.7%	11.4%	15.8%
Dow Jones Ind Avg	US	41563.08	1.8%	7.4%	19.7%	17.5%	57.4%
S&P 500 Index	US	5648.40	2.3%	7.0%	25.3%	24.9%	93.0%
Nikkei 225	Japan	38647.75	-1.2%	0.4%	18.5%	37.6%	86.7%
MSCI Europe Ex UK	Europe	209.30	1.7%	1.0%	14.2%	10.7%	42.1%
MSCI Asia Ex Japan	Asia	704.62	1.8%	5.1%	13.2%	-15.9%	15.7%
MSCI Emg Mkts (£)	Emg Mkts	664.68	-0.7%	2.6%	10.9%	-4.6%	17.1%
MSCI World Index (£)	Global	3661.24	2.5%	6.3%	22.6%	16.5%	71.2%
UK Conventional	Gilts	3121.08	0.5%	3.6%	6.8%	-22.3%	-21.9%
UK Index-linked	Gilts	3948.94	-0.2%	1.9%	3.0%	-34.1%	-30.9%
UK Real Estate Investment Trusts	Property	2115.97	-0.5%	-0.3%	11.8%	-29.4%	-17.0%
WTI Crude ($/Barrel)	Oil	73.55	-5.6%	-4.5%	-12.1%	7.4%	33.5%
Gold Spot $/Oz	Commodities	2503.39	2.3%	7.6%	29.0%	38.0%	64.7%
£1 = US$	Currencies	1.3127	2.1%	3.0%	3.6%	-4.6%	8.0%
£1 = €	Currencies	1.1882	0.1%	1.2%	1.7%	2.0%	7.3%
£1 = Yen	Currencies	191.89	-0.5%	-4.3%	4.0%	26.8%	48.4%

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

Index	Region / Asset Class	31/08/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,281.11	-2.8%	0.2%	10.5%	-13.0%	16.6%
Latest Weighted Average Discount	-14.0%						
12 Month Weighted Average Discount	-14.9%						

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

General Comments

On the last day of the month the MSCI World index hit another all-time high. Naturally, this was driven by US stocks, although their European counterparts had a strong month as well. UK equities were more muted, experiencing mixed fortunes over the month with smaller and mid-sized UK companies faring poorly, while larger peers were modestly up.

Pound sterling had another strong month, appreciating once again against major peers the US dollar and the euro. However, the Japanese yen once again proved stronger than sterling and others. The initial signs are that the Bank of Japan may finally seem to be getting their currency situation under control.

In commodities, oil had another tough month with OPEC reportedly ramping up production. In contrast, gold continued its strong run with another positive month.

UK Commentary

There were significant upward revisions to UK GDP growth, with the ONS announcing growth in 2022 was actually 4.8%, rather than the previously reported 4.3%. Furthermore, in the second quarter GDP reportedly grew by 0.6%.

There was mixed, but broadly positive, news in the UK labour market. The unemployment rate came in well below expectations at 4.2% (versus 4.5% expected). Meanwhile, wage growth in the second quarter reportedly slowed to 5.4%. Overall, this means there are signs of falling unemployment and growing wages, which provide a good background for the UK consumer and companies sensitive to that theme.

Major UK investment platform Hargreaves Lansdown agreed to a £5.4bn takeover from a private equity syndicate which included the Abu Dhabi Investment Authority. This serves as another reminder of how the UK market is seemingly undervaluing businesses and how those on the outside appear to be willing to pay more for the UK's prize assets.

It would not be an unreasonable position to argue that the UK economy is proving resilient beyond many people's expectations while the UK stock market is failing to appreciate this. Despite new government ministers' warnings of "fiscal black holes" and "difficult decisions" there are plenty of reasons to be positive.

In addition to private equity and foreign buyers of UK companies, currency markets, for example, seem to be noticing this somewhat, with sterling gaining in value against the US dollar and the euro over the month. The pound has had a good run so far this year.

North America Commentary

Kamala Harris selected her running mate with Minnesota governor Tim Waltz receiving the call. This will reportedly appease the left of the Democratic party, as well as potentially help with Harris' chances of winning in the state which Waltz currently governs. This comes as reports of Harris raising $500 million in a month have shifted bookmakers odds for the presidential election towards her.

The US dollar hit its lowest level this year against a basket of major currency peers. This came as Federal Reserve chair Jerome Powell gave his strongest hint yet that rate cuts are imminent. He warned that they would be ready to support the labour market, which is now experiencing greater downside risk.

Part of this thinking is undoubtedly a result of the Bureau for Labour Statistics (BLS) releasing yet another downward revision to jobs numbers, with over eight hundred thousand less jobs created in the year to March 2024 than initially reported. The amended figures now show 2.1 million jobs created in that period, rather than the 2.9 million first announced.

Powell's comments also came with the context of core PCE remaining at 2.6%, below the forecast increase to 2.7%. This is the Federal Reserve's preferred inflation measure, so this reading likely also hints towards interest rate cuts in the near future.

In corporate news, confectionary giant Mars agreed to purchase Kellanova (Kellogs) for a sum amounting to $36 billion. This price equates to a premium of one third above the prior market price. Mars recently purchased UK-listed Hotel Chocolate and is clearly continuing with its expansion ambitions.

Europe Commentary

The Swedish Central bank (Riskbank) cut its key base interest rate once more by 25 basis points to 3.5%. Governor Erik Thedeen also muted the possibility of further rate cuts at subsequent meetings. Sweden has been an early mover on interest rates and seems to be continuing that trend.

Eurozone inflation fell to 2.2% in August, led by Germany and Spain. These vital two nations for the bloc both reported greater than expected falls in consumer price inflation. France's inflation also fell, but by less than expected. Overall, with the headline rate approaching target and registering its lowest level in three years, the ECB has far more room to move forward with their planned interest rate cuts.

The French economy is expected to expand by 0.5% in the third quarter according to Banque de France (the central bank). This follows growth of 0.3% in the second quarter. The bank estimate up to half of the third quarter growth to be as a result of the Olympic Games held in Paris over the period.

Asia Pacific Commentary

Japanese markets experienced a flash crash at the start of the month, with the yen appreciating sharply, leading to a drop in the value of stocks. This follows the Bank of Japan's decision a week earlier to increase the base rate 15 basis points to 0.25% and reduce their bond buying program. Without getting drawn too much into the detail, reportedly many investors were borrowing in yen to invest in other countries where rates of return on offer were higher (a so-called "carry trade"). The increase in the cost of borrowing and the yen also moving against these traders caused them to unwind these positions, perpetuating the movements in markets both in Japan and abroad. Plenty of pain was also seen in large US companies as a result, thanks to these stocks often being the chosen homes for the borrowed funds. As a result of this, Japan's Nikkei had its worst day in 37 years losing 13%, and then one of its best days ever shortly after adding 16%.

Elsewhere, the Reserve Bank of New Zealand cut their official interest rate by 25 basis points to 5.25%. They also downwardly revised their inflation expectations. Commentators broadly read these actions, and the accompanying comments, as a sign of slowing activity in the economy of the Pacific island nation.

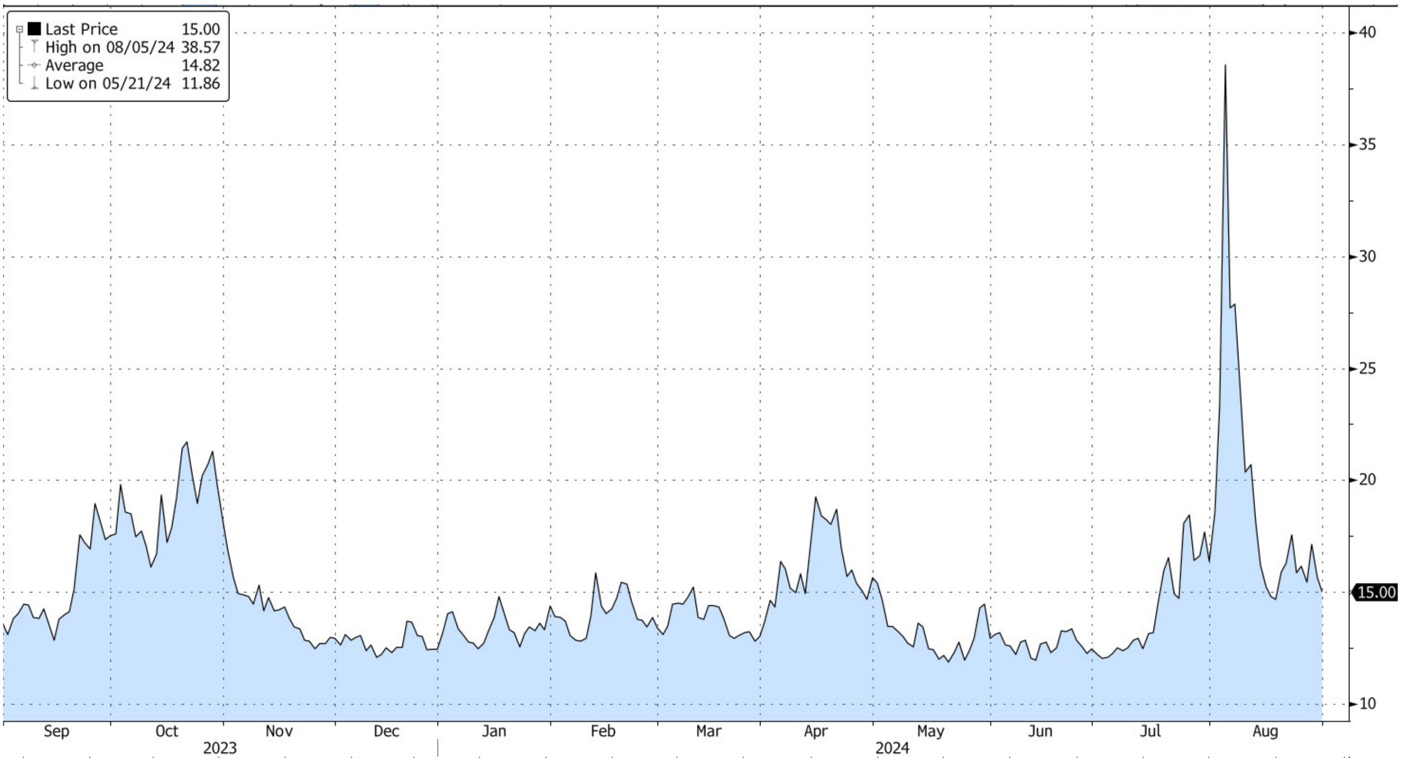
Emerging Market Commentary

Indian equities registered another positive month with inflation in the country registering its second lowest reading in the past five years at 3.65%. The economy has certainly been running hot of late, so this was a welcome moment for many investors and commentators alike.

Data from Brazil showed stronger than expected economic growth in the second quarter of the year, which also lifted their stock market over the month. Economic activity was reported to have expanded at nearly 3.2% on an annualised basis, comparing favourably to the 2.5% which was expected by economists. Brazil's growth has been supported by its services sector, which makes up around 70% of their economy, and hit an all-time high in June.

Nigeria also reported strong growth, with a second quarter expansion of 3.2% (on an annualised basis) reported, up from 2.5% in the first quarter of the year. Rising oil output certainly helped this, with the sector expanding 10.2% as a result.

Chart(s) of the month – Volatility Index (VIX)



The above charts from Bloomberg show the implied volatility experienced by the S&P 500 index over time. As can be seen, August 2024 saw a spike well above recent levels.

This was related to the comments made in the “Asia Pacific Commentary” section of this note with regards to Japanese carry trades. Many investors had been borrowing cheaply in yen to invest in the S&P 500 rally.

As borrowing in yen became more expensive and these trades unwound, US stock prices experienced some sharp moves.

While this is it important to note, and the first chart shows dramatically greater volatility at the start of August compared to any period in the past year, we believe wider context is required. This is why we include the second chart, which takes a step back and shows the same information for the preceding four years as well. This is a good reminder that dramatic events in the short term can seem much more dramatic than they may turn out to be when considered with greater context.

Investment Profile – BBGI Global Infrastructure

This global infrastructure strategy focusses on core infrastructure located in developed economies such as Canada, the United States and the United Kingdom. Core infrastructure is defined loosely as that which is used every day by normal people. This encompasses assets such as roads, schools, and bridges. In other words, these are assets which are essential to our society.

The company makes revenue from governments, or government-backed counterparties, who pay them a revenue stream for use of the assets. All the company's assets are availability-based, which means they get paid simply for having these assets available for use by the counterparties (as opposed to demand-based, which would see revenues vary depending on the use levels demanded by the counterparties). These factors ultimately ensure BBGI's revenues are predictable and stable.

The company has increased its dividend for ten consecutive years now, so is part of the AIC's Rising Dividend Hero list. They offer an attractive 6.2% income yield at the time of writing, as well as the opportunity for some capital growth on top of this. They are also able to capture some upside from inflation thanks to contractual terms with their counterparties. All of this means that if their current portfolio was left as it is today the company would still be able to increase their dividend for another 15 consecutive years.

Investment Team's thoughts

August proved to be a mixed month, as it often is with many market participants away on holiday. Overall though, markets on the whole were modestly up, and the ARC private client indices demonstrated this.

With the world index hitting an all time high it is worth reminding ourselves of the remarkable long-term returns that listed equities have managed to produce around the globe. Since mid-1971, the MSCI World Index has (in sterling terms) compounded at around 9.6% per annum on a total return basis. It has seen a return of nearly 13,800%, which would have turned a £10,000 investment into nearly £1.4 million.

It is often wise to remind ourselves of the power of the long-term compounding of returns. As we have frequently mentioned in these commentaries when markets appear volatile, or political noise rears its head, or so-called economists doom-monger; markets have been through plenty of rough times before (and will again). One imagines it would take more AI power than is currently available in the world to count the many bleak headlines that have been written around the world since 1971. Yet despite this, equity markets have ploughed on upwards over time.

Our prediction would be for similar events to transpire in the future, with plenty of reasons to be fearful, but ultimately the optimists prospering over time. The above comments on the Japanese market flash crash this month highlight this well. Movements of 13% down and 16% up in single days for whole market indices are highly unusual and may shock people to experience. However, a performance graph plotted from 1971 will simply not show these movements. Shocking events have ultimately proved irrelevant to long term investors with appropriate time horizons and enough resilience to ride out short term volatility. This is why we invest for the long-term and endeavour to look through short term noise, preferring to maintain a relatively balanced and sanguine attitude towards most events.