ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

February 2025

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	28/02/2025	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	210.54	-0.1%	+1.4%	+6.1%	+5.5%	+12.9%
ARC Balanced	Medium Risk	266.60	-0.5%	+0.9%	+7.6%	+10.1%	+22.6%
ARC Steady Growth	Medium High Risk	324.93	-0.8%	+0.8%	+8.4%	+13.7%	+30.4%
ARC Equity Risk	High Risk	285.62	-1.2%	+0.6%	+9.0%	+16.5%	+38.3%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	28/02/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8809.74	1.6%	6.3%	15.5%	18.1%	33.9%
UK All Share	UK	4754.32	0.9%	5.1%	14.2%	14.3%	29.4%
Dow Jones Ind Avg	US	43840.91	-1.6%	-2.4%	12.4%	29.4%	72.5%
S&P 500 Index	US	5954.50	-1.4%	-1.3%	16.8%	36.1%	101.6%
Nikkei 225	Japan	37155.50	-6.1%	-2.8%	-5.1%	40.1%	75.7%
MSCI Europe Ex UK	Europe	221.96	3.6%	10.3%	11.0%	24.5%	51.6%
MSCI Asia Ex Japan	Asia	715.24	1.0%	1.7%	11.8%	-4.2%	12.0%
MSCI Emg Mkts (£)	Emg Mkts	696.36	-0.8%	3.1%	10.6%	8.0%	25.0%
MSCI World Index (£)	Global	3805.33	-0.8%	-0.1%	14.0%	27.8%	77.7%
UK Conventional	Gilts	3073.10	0.8%	-0.7%	1.5%	-18.2%	-24.0%
UK Index-linked	Gilts	3729.05	-0.6%	-3.6%	-3.6%	-36.2%	-32.4%
UK Real Estate Investment Trusts	Property	1825.94	-1.7%	-6.6%	-5.9%	-37.0%	-31.7%
WTI Crude ($/Barrel)	Oil	69.76	-3.8%	2.6%	-10.9%	-27.1%	55.9%
Gold Spot $/Oz	Commodities	2857.83	2.1%	8.1%	39.8%	49.7%	80.2%
£1 = US$	Currencies	1.2577	1.5%	-1.2%	-0.4%	-6.3%	-1.9%
£1 = €	Currencies	1.2124	1.4%	0.7%	3.8%	1.4%	4.3%
£1 = Yen	Currencies	189.43	-1.5%	-0.7%	0.0%	22.8%	36.9%

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

Index	Region / Asset Class	28/02/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,582.92	-2.4%	1.3%	7.6%	-0.6%	23.2%
Latest Weighted Average Discount	-17.1%						
12 Month Weighted Average Discount	-15.0%						

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

General Comments

The month finished on a positive note with the FTSE 100 hitting an all-time high. Throughout February, however, markets were volatile with geopolitical tensions continuing to be at the forefront of investors' minds and valuations of US technology companies remaining under scrutiny. European plans to bolster defence spending helped buoy their markets, while US stocks sold off slightly. Japanese equities were perhaps the biggest losers, however, as a changing macroeconomic environment continued to raise doubts, despite a third consecutive quarter of economic growth being announced.

The pound experienced mixed performance against traditional safe-haven currencies, appreciating against the dollar and euro but declining against the yen. Commodities were as mixed as ever, with gold making even further gains and the oil price pulling back.

All of this led the multi-asset ARC benchmarks and UK investment companies lower. The latter are now in a particularly unusual situation with discounts of over 17% on average.

UK Commentary

The UK private sector continued its expansion, driven primarily by the resilient services sector, despite challenges in manufacturing. Interestingly, manufacturing exceeded expectations (while still being in contraction) and services disappointed (not expanding as much as economists expected).

The Bank of England reduced their base rate by a quarter-point to 4.5%, a decision which received unanimous support from the Monetary Policy Committee in a rare nine-nil vote. Further cuts remain uncertain due to some stronger-than-expected economic data, such as unemployment coming in lower than expected at 4.4%, annualised wage growth of 5.9%, and retail sales exceeding expectations markedly in showing 2.1% growth year on year.

It was reported by the ONS that UK GDP was modestly up, while GDP per capita continued its downward trend in the fourth quarter of 2024. Growth in services and construction drove the headline number higher, while migration caused population growth to outpace the growth of the economy.

The FTSE 100 saw further new highs over the month and managed to finish the period at a new all time high. It seems increased defence spending, the aforementioned interest rate reductions, and capital flows away from the US appear to have supported large UK companies recently.

Rolls Royce was once again a notable winner over the month, with shares rallying on the back of the announcement that they would meet their recently announced profit targets two years early. Rolls Royce has a large defence business but has also benefitted from a large order book relating to their commercial jet engines, which has benefitted from a recovery in travel following the COVID-19 pandemic.

North America Commentary

Various tariffs have been both announced and abandoned over the period. Ultimately though, President Trump has imposed some of his forecast protectionist measures. On one occasion, The White House halted wide-ranging tariffs on Mexico and Canada just hours before they were due to be implemented following bilateral calls with each of Canadian Prime Minister Justin Trudeau and Mexican President Claudia Sheinbaum. Some concessions from those leaders were made to avoid the imposition of these tariffs, with both offering to place 10,000 troops on their respective borders with the US in efforts to combat drug smuggling and illegal migration, Canada announcing a $1.3bn border plan, and Mexico swiftly capturing a major cartel leader. Supporters of Trump point to these concessions as proof of the policies working, while critics cite the diplomatically hostile and inflationary nature of the policies.

The so-called “hyperscalers” continued to commit to AI-related spending, with Amazon announcing $100bn of investment in the area, and Alphabet mooting $75bn. Many commentators believe China’s DeepSeek has further motivated these businesses to spend big in this nascent area. Meanwhile, Apple announced an enormous $500bn American-focussed investment plan and the creation of 20,000 jobs.

Microsoft announced they had successfully accessed a fourth state of matter that can form the building blocks of a quantum computer. The discovery, which was disputed by scientists and rivals alike, could allow them to build a quantum computer by the end of the decade if it proves to be as successful as they have initially led people to believe.

Europe Commentary

German elections yielded interesting results with the right-wing Alternative for Germany (AfD) coming in second with their highest ever vote share at around 21%. Despite this challenge, the result was a clear win for Friedrich Merz's Christian Democrats (CSU/CDU). This result allows an alliance between the CDU/CSU, the SPD, and the Greens which would command enough votes to shape policy in the Bundestag.
One interesting pattern that emerged from this election in Germany was the sharp move towards the political edges by the youngest cohort, with the two most popular parties in the 18-24 age range being The Left (Die Linke - who critics see as communists) and the AfD (who are anti-immigration and critics brand as "far-right"). This polarization came at the expense of more traditionally centrist parties. The once-dominant CDU/CSU and SPD struggled to gain support from young voters, securing only 25% of the under-25 vote combined. The Greens and FDP also lost support amongst the young.

France seems to have dealt with some of its drawn-out political malaise as Prime Minister François Bayrou survived a no-confidence vote. He was able to attract enough support to pass the much-delayed budget which aims to reign in the country's significant budget deficit.

European defence stocks were the major winners over the month, as rearmament became a hot topic across Europe. German giant Rheinmetall's shares were up by a third in February, with major gains following NATO Secretary General Mark Rutte urging European members to spend more on defence in a speech at the Munich Defence Conference.

Asia Pacific Commentary

It was revealed that nominal wages in Japan grew 4.8% from a year prior in what is the largest increase since 1997. There is arguably now plenty of evidence to support the Bank of Japan's path of increasing interest rates further away from historic lows.

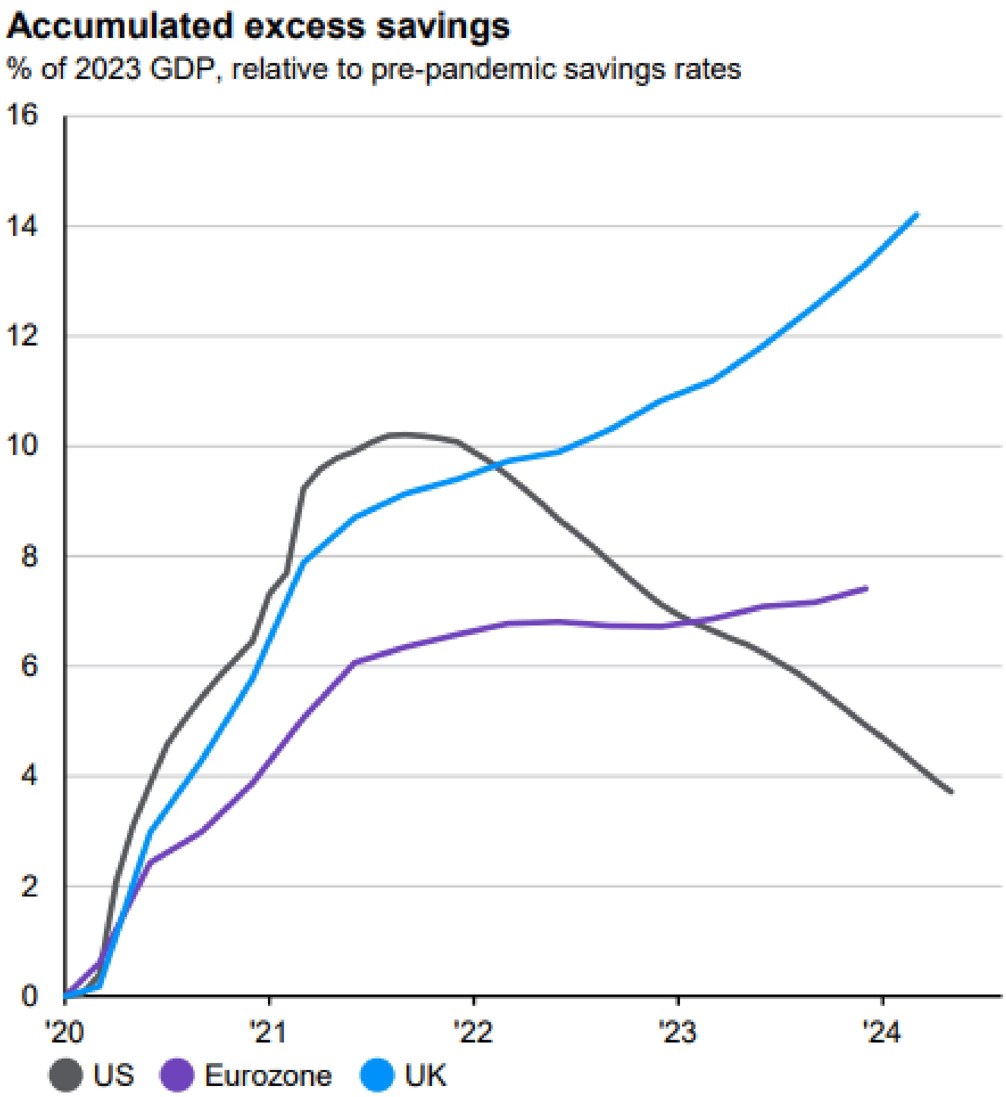
Nissan and Honda ended their combination talks. Meanwhile, major investment house KKR is reportedly considering investing in Nissan to provide them with the support they need. It seems Honda were pushing for Nissan to become a full subsidiary, in contrast to the partnership structure that the talks were apparently focussed on to begin with.

Emerging Market Commentary

China has retaliated to Trump's tariffs with levies of their own, and with the announcement of an antitrust probe into the likes of Google and Nvidia. This came as Chinese equities rallied 10.5% in sterling terms on the back of positivity around DeepSeek and the Cina AI story, as well as improving sentiment towards the economy as a whole as President Xi Jinping held high profile meetings with senior business leaders.

Ukrainian hopes for continued US support in the ongoing war against Russia were dealt a major blow when presidents Trump and Zlenensky met. In a (unusually) televised meeting, an argument ensued, leading to the meeting being adjourned and a proposed minerals deal being left unsigned. European leaders Starmer and Macron appeared to be more sympathetic to the Ukranian cause in subsequent meetings. It remains to be seen just how things will play out with the US clearly desiring their backing to be wound down.

Chart(s) of the month – Excess savings



The above chart from JPMorgan shows that while US households have been out spending the excess capital they built up during COVID lockdowns, European counterparts have continued to keep adding to their savings pile.

This may reflect cultural differences, relative economic confidence, or any manner of factors. It could also be noted that this US consumer spending will have contributed to their stronger economic growth of late.

However, it also means that there is a growing argument that UK and European households are in strong positions to increase their own spending and provide boosts to their own economies. These consumers saving rather than spending has been somewhat of a frustration for policy makers in these regions, and enticing some of this cash out into the economy could benefit their markets.

Investment Profile – BBGI Global Infrastructure

Our investment team had mixed feelings as a takeover bid came for BBGI Global Infrastructure. This is a strategy we like and will be sad to see it leave the market, but we also appreciate the offer price is by no means a bad one for investors.

BBGI received a £1.06 billion takeover offer from Boswell Holdings 3 S.C.Sp., a vehicle indirectly controlled by the British Columbia Investment Management Corporation (BCI), representing over two dozen Canadian pension funds. The offer values BBGI shares at 147.5 pence each, representing a 21.1% premium to its prior closing price, and a 3.4% premium to its estimated net asset value as of the end of 2024. BCI are one of Canada's largest institutional investors, managing substantial assets globally. They make sense as a potential acquirer given BBGIs significant presence in Canada.

Investment Team's thoughts

The FSTE 100 closed February at a record high. This milestone comes amid a backdrop of excess savings in the UK, which may provide support for consumer spending and investment. The UK investment company market also received a boost in the month with the takeover bid for BBGI. While we have mixed feelings about losing such a high-quality portfolio, we believe Canadian pension plan investors purchasing assets at a significant premium acts as a demonstration of the value that is on offer within the UK market at present.

Europe could also benefit from increasing excess savings, as well as the change in attitudes towards defence spending. This combination has invigorated stock markets across the continent, particularly in the defence sector, where significant gains have been observed. These factors have attracted the attention of investors worldwide who have increased their allocations to equities across Europe, offering further support to share prices.

Meanwhile, US equities continued to suffer from worries about the valuations of technology giants which have performed so well in recent years and who have committed to such major investment expenditure in coming years. More attractively valued sectors performed better, with the likes of energy and consumer staples stocks making gains.

We continue to believe in taking a disciplined and diversified approach, which offers much more balanced exposure to global markets than major global indices do these days given the dominance of US firms within those benchmarks.

There are plenty of reasons to continue to be positive about investing in the US, but we also believe many investors have forgotten many of the reasons to be positive about other regions as well.