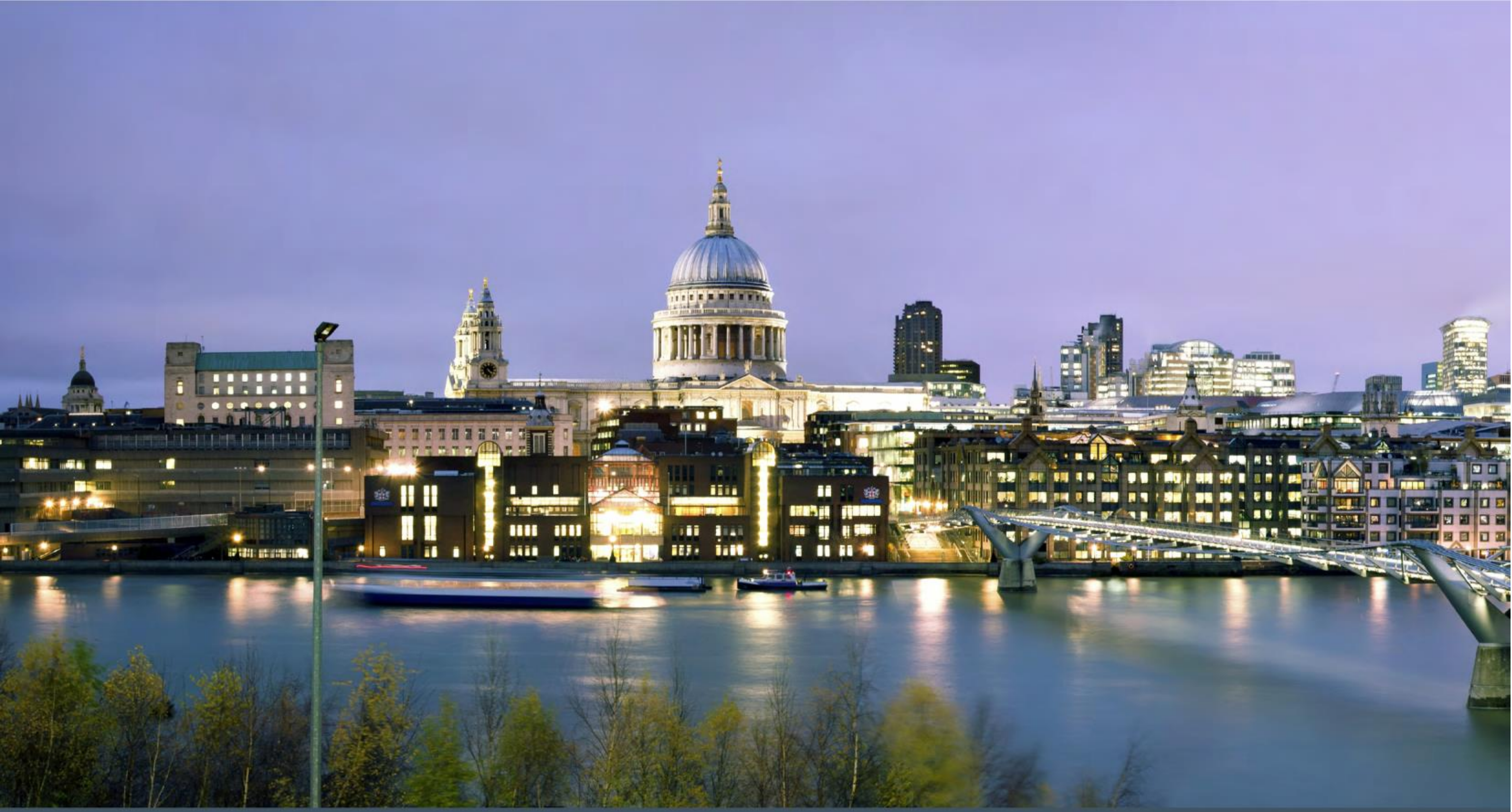

ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

January 2025

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Monthly Commentary

January 2025

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/01/2025	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	210.75	+1.8%	+2.6%	+6.6%	+4.4%	+10.5%
ARC Balanced	Medium Risk	267.94	+2.4%	+3.4%	+9.2%	+8.6%	+18.0%
ARC Steady Growth	Medium High Risk	327.55	+2.8%	+4.2%	+11.1%	+11.8%	+23.7%
ARC Equity Risk	High Risk	390.30	+3.0%	+4.9%	+12.7%	+14.2%	+29.5%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/01/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8673.96	6.1%	7.0%	13.7%	16.2%	19.0%
UK All Share	UK	4710.58	5.4%	6.3%	12.9%	12.4%	16.1%
Dow Jones Ind Avg	US	44544.66	4.7%	6.7%	16.8%	26.8%	57.6%
S&P 500 Index	US	6040.53	2.7%	5.9%	24.7%	33.8%	87.3%
Nikkei 225	Japan	39572.49	-0.8%	1.3%	9.1%	46.6%	70.5%
MSCI Europe Ex UK	Europe	214.23	6.9%	6.5%	9.6%	15.2%	35.2%
MSCI Asia Ex Japan	Asia	708.44	0.6%	-2.7%	16.8%	-7.4%	7.7%
MSCI Emg Mkts (£)	Emg Mkts	702.26	2.6%	1.4%	17.6%	5.7%	23.2%
MSCI World Index (£)	Global	3836.58	3.5%	5.2%	19.7%	25.4%	63.8%
UK Conventional	Gilts	3049.77	0.8%	0.2%	-0.3%	-20.0%	-23.7%
UK Index-linked	Gilts	3751.26	1.3%	-2.7%	-2.7%	-36.0%	-30.8%
UK Real Estate Investment Trusts	Property	1857.39	2.2%	-6.5%	-11.0%	-37.6%	-36.6%
WTI Crude ($/Barrel)	Oil	72.53	1.1%	4.7%	-4.4%	-17.7%	40.7%
Gold Spot $/Oz	Commodities	2798.41	6.6%	2.0%	37.2%	55.7%	76.1%
£1 = US$	Currencies	1.2395	-1.0%	-3.9%	-2.3%	-7.8%	-6.1%
£1 = €	Currencies	1.1960	-1.0%	0.9%	2.0%	-0.1%	0.5%
£1 = Yen	Currencies	192.38	-2.2%	-1.9%	3.2%	24.3%	34.4%

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

Index	Region / Asset Class	31/01/2025	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,892.16	3.3%	6.7%	10.9%	-1.9%	17.0%
Latest Weighted Average Discount	-16.0%						
12 Month Weighted Average Discount	-14.8%						

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

General Comments

2025 began with some of 2024's less popular assets outperforming, namely UK and European equites. In contrast to the previous year, US equities lagged their more affordable peers (while still producing strong absolute returns for the month).

Pound sterling had a difficult month, weakening against most major peers. This came as various data and news releases prompted market participants to reduce their estimates for year-end UK interest rates by about 20 basis points over the course of the month, thus reducing demand for the currency.

Gold continued to surge with central bank buying and perhaps some increased demand driven by uncertainty around White House policy. All of this meant that multi asset portfolios had a strong start to the year, as shown by the ARC indices above.

UK Commentary

The pound had a poor month, selling off against all major peers except for the Canadian dollar. This came as markets seemed to cast doubt on the Labour party's fiscal plans, and interest rate expectations now indicate lower rates than previously implied. This likely contributed to the FTSE 100's rise over the month, as companies listed in this major index make around three quarters of their revenues overseas, so a weaker pound results in foreign exchange gains when repatriating earnings.

There was, however, some positive news for Chancellor Rachel Reeves as it was revealed that consumer price inflation slowed to 2.5% and came in below expectations. This leaves some headroom for potential interest rate cuts by the Bank of England and potentially creates some borrowing headroom for Reeves.

Engineering giant Rolls Royce won its largest ever contract with the Ministry of Defence (MoD). A £9bn agreement, spanning eight years, will involve the construction of nuclear submarine reactors for the Royal Navy. Rolls Royce's capabilities in the nuclear reactor market continues to impress. This has been appreciated by the stock market, as shareholders have benefited from returns in excess of 550% from the start of 2023 to the end of January this year.

North America Commentary

The US labour market continues to flex its muscles, with the announcement that there were 256,000 jobs created in December. This was nearly 100,000 above expectations. As a result, long term government debt yields rose to the highest level since 2023, with investors expecting interest rates to remain higher for longer because of the strength of the US economy. As a reminder, a strong economy can lead to inflation, and a strong labour market putting cash in workers' pockets could contribute to this. In turn, central banks may be wary of inflation and be reluctant to reduce interest rates.

This hiring wave came as confidence in the US economy rose. Many of the businesses increasing hiring cited the incoming Trump administration's perceived business-friendly policies as a factor behind their improving sentiment. In fact, the NFIB Small Business Optimism Index surged to its highest reading since 2018, reinforcing the narrative that small, domestically focussed US businesses like this administration.

Trump and his major appointees were sworn in, and markets reacted in a volatile manner. There were significant intraday moves, many of which were undone in the same or the following trading session. There are certainly mixed feelings amongst market participants around the effects of policies such as tariffs which the new leadership seem to be leaning on. However, US stock markets were still up over the month, despite the softening appetite amongst investors for big technology companies. The worst performing stocks in the US were 2024 darlings such as Nvidia and Apple. Please see more on this below.

Canadian Prime Minister Justin Trudeau announced his resignation after nearly a decade in the role. Trudeau's popularity has been waning for a while, but it took a major hit recently, so this is very much a case of jumping before he is pushed. This leaves a gap for none other than former Governor of the Bank of England Mark Carney, who is one of the candidates vying to replace the long-serving prime minister. The winner of this vote may not be leading the nation for long, however, as Pierre Poilievre's Conservative Party are ahead by some margin in the federal election polls, with the vote scheduled for later this year.

Europe Commentary

Political tribulations continued in Germany with the frontrunner to become the next chancellor, Friedrich Merz, submitting controversial anti-immigration bills which were supported by the right-wing AfD. Merz leads the CDU, the party of former chancellor Angela Merkel, who less than a decade ago opened the borders to over a million refugees in one swoop. This dramatic change of heart from Germany's leading party speaks volumes to the ongoing rightward shift of politics across Europe, and indeed across the world.

The European Central Bank cut base interest rates once again as it turns its sights from inflation, which has abated, towards the strength of the economy. The base rate now sits at 2.75%, quite a way below peers such as the UK and US.

Europe's luxury sector was handed a boost when behemoth LVMH (Moët Hennessy Louis Vuitton SE) reported better than expected results on the back of resilient European and strong US demand. This followed further positive surprises from the likes of Richemont and Cartier. A slump in Chinese demand has hurt these businesses over recent years, but these numbers may be a sign of a new leaf being turned. This came as Bain released a report suggesting the Chinese luxury market had shrunk by 20% in 2024, so it is no surprise that LVMH's performance was driven by other regions.

Asia Pacific Commentary

As expected by economists and market participants, the Bank of Japan raised the nation's key interest rate by 25 basis points to 0.5%. This came in response to consumer price inflation in the country reading 3.6% higher in December than a year earlier. Japan has for years seen below target inflation, but is now dealing with the opposite issue, as imported inflation and wage growth are both contributing to increasing price levels in the country.

Taiwan Semiconductor notched record profits as their fourth quarter earnings exceeded forecasts. The company announced booming sales of artificial intelligence related chips, but also mentioned increased costs, as construction of new fabrication plants in Japan and the US is weighing on margins slightly. Currently, over 90% of the world's most advanced chips are manufactured in Taiwan. The modest impact on margins, however, was far outweighed by the near 34% growth in revenues seen in the past year.

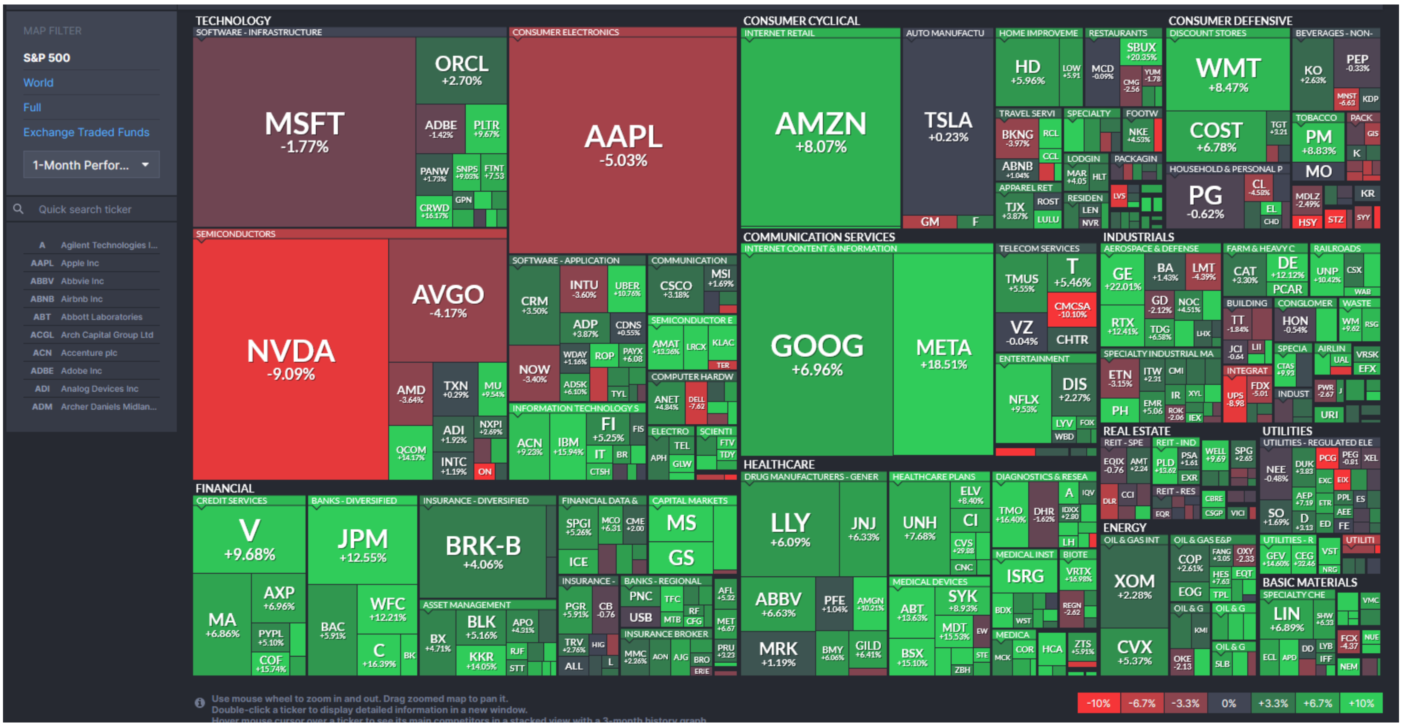
Emerging Market Commentary

China announced economic growth of 5% for the previous year, hitting their target precisely. As with all nation's GDP statistics, there can be errors, omissions, and even some fabrications. However, it is worth noting that this figure is below the 5.2% growth recorded the previous year.

It was reported that smartphone makers Huawei and Vivo both overtook Apple in the Chinese market last year. The native companies have seen surging demand, while Apple lost four percentage points of market share and slipped to 15% of the market.

There seems to finally be some firm and positive news regarding the ongoing Israel-Palestine war, with a ceasefire and hostage/prisoner exchanges taking place. The initial agreement came just days before Trump's inauguration, and this is perhaps no coincidence given his hardline stance on the need to end the conflict.

Chart(s) of the month – S&P 500 Treemap



The above treemap from FinViz.com shows the performance of the S&P 500 over the month of January. The companies are grouped by sector, and the larger area highlights their relative market capitalisations.

This shows that the likes of Nvidia and Apple (NVDA & AAPL respectively), who saw such meteoric share price rises in 2024, struggled over the month. In fact, it was the technology sector which weighed on the index somewhat. This has certainly not been the case in recent years as these have been the companies driving the index to new highs time and again.

In fact, in one trading day alone Nvidia lost more in total market value than the entire stock market of Mexico is worth. This speaks to the enormous size some of these businesses have grown to. This move was sparked by the announcement by Chinese start-up / hobby-project DeepSeek claiming to have created a very low cost AI model akin to ChatGPT, which threw into doubt how many of Nvidia's chips may be required in the future for such technologies.

Many of us at Albert E Sharp remain cautious on the degree of market concentration and the valuations of some of these mega cap companies. January was therefore an interesting month to watch from this perspective.

Investment Profile – Lindsell Train UK Equity / Finsbury Growth & Income

Managed by well-known fund manager Nick Train, who co-founded the fund management business Lindsell Train, this fund offers investors exposure to a concentrated portfolio of high-quality, primarily UK-listed businesses. The portfolio will never have more than thirty-five stocks and the top ten holdings account for 86.6% of assets. Since launch, the fund has managed annualised outperformance on a total return basis of the FTSE-All Share by 3.6% per annum.

The strategy is almost identical to the investment trust Finsbury Growth & Income, which is very much the closed-ended sister to this fund and is also managed by Nick Train. It focusses on beverage producers, financial services and personal goods with companies such as Diageo, Experian and Burberry representing those respective sectors in the portfolio.

Interestingly, Train has recently tilted these portfolios even more towards the UK, and away from overseas holdings such as Heineken and Rémy Cointreau. While the strategy has always had a UK-focus, there has been times when around 20% of assets were held in overseas stocks. That is certainly no longer the case as Train sees compelling value in the UK market at present.

Investment Team's thoughts

Interestingly, 2025 has started in the exact fashion we mooted in previous commentaries, with the winners of recent years out of favour, and recent laggards proving more popular. European equities in particular highlight this, as they have been very much ignored by investors in recent years, yet bolted out of the gates in 2025. These assets have a long, long way to go to catch up with the meteoric rises seen with many US stocks of late, but European investors will hope to see January's patterns continue into the future.

We remain optimistic about the prospects for most asset classes. While we may be cautious on pockets of markets where valuations may be stretched, we can also see the other side of the argument that many highly valued US companies deserve higher ratings than some peers around the world. Ultimately, risk free rates on offer from government bonds remain attractive enough, and we hope to benefit from higher returns from other asset classes as well.