



# ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

July 2024

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**Monthly returns and summary**

Index	Portfolio						
	Benchmark Risk Level	31/07/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	204.28	+0.7%	+2.1%	+6.0%	+0.3%	+8.3%
ARC Balanced	Medium Risk	257.79	+0.8%	+2.8%	+8.5%	+3.3%	+14.5%
ARC Steady Growth	Medium High Risk	313.90	+0.9%	+3.3%	+10.0%	+5.7%	+19.6%
ARC Equity Risk	High Risk	373.24	+1.0%	+3.9%	+11.3%	+7.3%	+25.1%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/07/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8367.98	2.5%	2.7%	8.7%	19.0%	10.3%
UK All Share	UK	4588.31	3.1%	3.6%	9.3%	13.8%	11.0%
Dow Jones Ind Avg	US	40842.79	4.4%	8.0%	14.9%	16.9%	52.0%
S&P 500 Index	US	5522.30	1.1%	9.7%	20.3%	25.6%	85.3%
Nikkei 225	Japan	39101.82	-1.2%	1.8%	17.9%	43.3%	81.7%
MSCI Europe Ex UK	Europe	205.72	0.5%	2.1%	9.5%	11.2%	38.7%
MSCI Asia Ex Japan	Asia	692.49	-0.6%	4.6%	3.9%	-15.6%	8.5%
MSCI Emg Mkts (£)	Emg Mkts	669.30	-1.3%	2.2%	6.5%	-0.4%	12.7%
MSCI World Index (£)	Global	3571.58	1.7%	8.1%	16.6%	16.4%	63.3%
UK Conventional	Gilts	3104.80	1.7%	3.9%	5.8%	-23.3%	-19.5%
UK Index-linked	Gilts	3957.16	1.9%	3.6%	2.0%	-33.7%	-27.7%
UK Real Estate Investment Trusts	Property	2126.98	3.3%	5.8%	8.7%	-26.2%	-15.0%
WTI Crude (\$/Barrel)	Oil	77.91	-4.5%	-4.9%	-4.8%	5.4%	33.0%
Gold Spot \$/Oz	Commodities	2447.60	5.2%	7.1%	24.6%	34.9%	73.1%
£1 = US\$	Currencies	1.2856	1.7%	2.9%	0.2%	-7.5%	5.7%
£1 = €	Currencies	1.1875	0.6%	1.4%	1.7%	1.4%	8.2%
£1 = Yen	Currencies	192.82	-5.2%	-2.2%	5.6%	26.4%	45.8%

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

Index	Region / Asset Class	31/07/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,630.02	2.6%	4.7%	10.4%	-7.6%	16.5%
Latest Weighted Average Discount			-12.0%				
12 Month Weighted Average Discount			-15.1%				

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

**General Comments**

July saw somewhat of a market rotation, albeit a modest one, with value stocks and smaller companies benefitting while the previous market leaders (large, more expensive, technology-focussed) companies had a more muted month. This benefitted the UK, and UK smaller companies, but was perhaps most notable in the US where the Russell 2000 (a major smaller company index) surged 11.5% in the space of a week.

The Japanese yen bucked its recent trend of losing value, appreciating sharply against major peers such as the US dollar and the British pound. Having started the month weaker than the 160 per dollar mark, the yen climbed to finish the month just on the strong side of the significant 150 mark. This, however, was not a positive sign for Japanese stocks (partly because it makes them more expensive to foreign buyers), hence the slight sell off seen in the Pacific nation's equity market over the month.

It is also worth noting that gold had another strong month and continued to test new highs in the month. Albeit with a lag, gold bugs who espoused the values of the metal as an inflation hedge may feel vindicated.

## UK Commentary

UK listed companies (excluding investment companies) paid out a record £36.7bn in dividends in the second quarter according to the Dividend Monitor run by Computershare. This represents an 11.2% increase on the prior year thanks mostly to the banking and healthcare sectors.

It was announced the UK economy had grown twice as fast as expected in May, with a 0.4% expansion reported. As ever, we must caution on the use of monthly GDP numbers, but this is a positive sign nonetheless.

In political news, we have a new government with the election going somewhat as expected. Labour won a huge majority, while the Conservatives lost a lot of seats but won more than enough to become the official opposition. We also saw a significant vote share for new party Reform UK on the political right, as well as a few Islamic sectarian candidates winning seats for the first time.

It appears that new Labour chancellor Rachel Reeves is intent on raising taxes as she delivered a speech blaming the prior government for spending more than they reported they were, and said that this has left a £20bn “black hole” in the public finances that she believes will need to be filled. This speech was delivered on the same day as the government announced a deal with junior doctors to end the strikes as part of a £9bn public sector pay rise. These early indications of policy indicate this government may seek to follow traditional Labour party policies.

## North America Commentary

The US economy continued its strong run with GDP growing at an annualised rate of 2.8% in the second quarter. While the rate of growth has slowed from the end of the previous year, it is still encouraging to see reasonably robust expansionary numbers being reported by the world’s largest economy.

In political news, Joe Biden is out of the running for US president and has been replaced by current Vice President Kamala Harris as the Democratic nominee. The series of incidents demonstrating Biden’s age clearly finally became too much for party insiders, who seem to have moved to oust him and install their preferred candidate. Harris received a record \$81m of campaign contributions within 24 hours and continued to attract vast amounts in the following days.

On the other side of the political divide Donald Trump chose JD Vance as his running mate. Vance is a reasonably young senator from Ohio who has authored a best-selling memoir based on his own experiences with rural poverty. It is believed this appointment aims to win working class voters in key swing states.

All this political news, however, clearly pales in comparison to the assassination attempt on Donald Trump. It appears a lucky turn of the head is all that separated life and death for the former President.

Major technology/technology adjacent companies announced mixed results for the previous quarter. For example, Google-owner Alphabet reported a 14% increase in revenue and 28% increase in profits, while Tesla profits slumped 45%, with revenues only modestly up on the prior year.

Perhaps the most significant technology news came as a botched update from US company CrowdStrike led to one of the biggest-ever global IT outages. Thanks to the wide reach of their products, and their linkage to

Microsoft's product suite, this had incredibly wide-reaching consequences and even affected stock exchanges and market participants around the world.

## Europe Commentary

The Eurozone economy appears to be in better shape than expected, with growth outstripping forecasts in the second quarter, showing the economy to have expanded 0.3%. The French economy helped drive this, expanding by the same amount, while Germany continued to be a laggard with output unexpectedly shrinking 0.1%.

In the French elections, Marine Le Pen's National Rally won the popular vote with 37.05% of votes cast but came third in terms of total seats with the centrist/left-wing alliance's tactics to limit the influence of the right working well.

## Asia Pacific Commentary

Contributing to/driving the volatility seen in Japanese markets was the Bank of Japan's decision at the end of the month to raise interest rates to their highest level in 15 years. While rates remain ultra-low at an incredibly miserly 0.1% to 0.25% range, this is a significant move and in relative terms it represents a large shift of policy.

Meanwhile Australian CPI undershot estimates to show inflation at 3.8%. This effectively saw expectations of an August rate increase entirely eliminated.

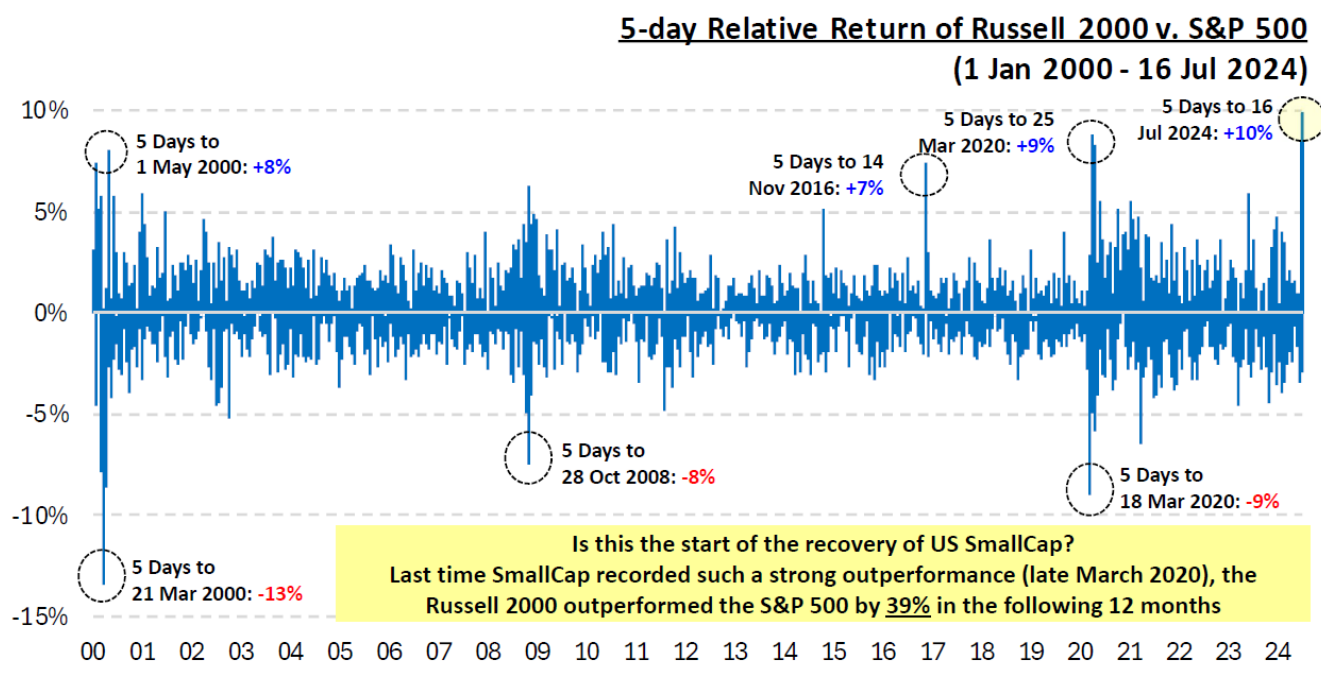
In corporate news, Samsung posted strong results for the second quarter, thanks in large to soaring demand for AI chips around the world. They saw operating profit increase around 1,500% from the previous year (admittedly against weak comparisons) as a result of these tailwinds.

## Emerging Market Commentary

India's government announced a series of job creation and upskilling schemes, as well as billions of dollars of infrastructure investment and agriculture. The newly formed coalition government appears to be attempting to keep India's strong economic growth going, as well as trying to appease various voting blocs, such as farmers, with targeted policies.

China's government likewise announced sweeping reforms in an attempt to improve the finances of the nation's indebted local governments. The plans involve allowing more consumption tax revenues to pass to local governments.

Apple reportedly lost ground in China's smartphone market with sales falling 3.1%. In contrast, sales from local competitors powered by the android system gained 11% market share according to IDC, a major market analyst.

*Chart of the month – Small Cap Rally***MONTANARO****US SmallCap just recorded its best 5-day streak v. the S&P 500 this century**

The above chart from Montanaro Asset Management (who are small cap specialists) highlights the scale of the mini market rotation we saw this briefly month. As highlighted above, it was the biggest one-week outperformance of US small cap versus large cap this century.

We do not know if this is just a blip, or the start of something major. However, we do know that large cap has been outperforming small cap to a historically unusual degree in recent years, so a reversal of this trend is arguably likely at some point. Small cap believers such as Montanaro may well point to this as a turning point.

**Investment Profile – JPMorgan Japanese IT**

With Japanese economic policy and asset returns very much in focus there is arguably a need for an experienced active manager in this space, which JPMorgan Japanese IT certainly offers in the form of Nicholas Weindling, who has been running the strategy since 2007.

The portfolio holds companies of all shapes and sizes, with large, mid, and small cap included in this unconstrained approach. This makes the trust a useful one-stop-shop for investing in Japan. Ultimately, what all portfolio constituents have in common is quality, as the focus is on finding companies with sustainable earnings and strong balance sheets. The managers are willing to pay a premium for companies with superior operating metrics, believing that this will allow them to outperform over the long term.

It was also announced this month that the trust may be merging with stablemate JPMorgan Japan Small Cap Growth & Income (but will continue to follow JPMorgan Japanese's investment style). This will make the FTSE 250 listed investment trust company even larger, which will help to reduce fees and increase marketability.

### *Investment Team's thoughts*

July saw yet another broadly positive month for global markets. We are closely monitoring patterns from the month such as the small cap rally mentioned above and are intrigued as to where things will go from here.

As ever, there has been plenty of political news in the month, and we would seek to remind readers that while we are aware of various regime and policy changes that we prefer to take a long-term view, and indeed a longer-term view than most politicians in the western world who are subject to limited parliamentary terms. We believe this helps us look through the noise and focus on what really matters, as this is ultimately what markets have done for decades to generate positive returns to investors through governments of all shapes and sizes.