ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

November 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/11/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	207.87	+1.1%	+1.5%	+7.3%	+1.2%	+10.2%
ARC Balanced	Medium Risk	264.22	+1.6%	+2.2%	+11.0%	+4.4%	+17.5%
ARC Steady Growth	Medium High Risk	322.00	+2.0%	+2.5%	+13.2%	+6.6%	+23.0%
ARC Equity Risk	High Risk	383.27	+2.5%	+3.0%	+15.3%	+8.1%	+28.8%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/11/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8287.30	2.2%	-1.1%	11.2%	17.4%	12.8%
UK All Share	UK	4524.88	2.1%	-1.1%	11.6%	12.4%	11.3%
Dow Jones Ind Avg	US	44910.65	7.5%	8.1%	24.9%	30.2%	60.1%
S&P 500 Index	US	6032.38	5.7%	6.8%	32.1%	32.1%	92.1%
Nikkei 225	Japan	38208.03	-2.2%	-1.1%	14.1%	37.3%	64.0%
MSCI Europe Ex UK	Europe	201.23	0.0%	-3.9%	8.9%	8.5%	27.9%
MSCI Asia Ex Japan	Asia	703.55	-3.4%	-0.2%	13.3%	-9.8%	8.8%
MSCI Emg Mkts (£)	Emg Mkts	675.39	-2.5%	1.6%	11.4%	0.2%	19.1%
MSCI World Index (£)	Global	3810.14	4.5%	4.1%	26.0%	22.8%	66.2%
UK Conventional	Gilts	3093.82	1.6%	-0.9%	4.2%	-24.0%	-20.9%
UK Index-linked	Gilts	3867.95	0.3%	-2.1%	2.0%	-39.3%	-27.0%
UK Real Estate Investment Trusts	Property	1954.16	-1.7%	-7.6%	-0.8%	-34.4%	-32.6%
WTI Crude ($/Barrel)	Oil	68.00	-1.8%	-7.5%	-10.5%	2.8%	23.3%
Gold Spot $/Oz	Commodities	2643.15	-3.7%	5.6%	29.8%	49.0%	80.5%
£1 = US$	Currencies	1.2735	-1.3%	-3.0%	0.9%	-4.2%	-1.5%
£1 = €	Currencies	1.2038	1.6%	1.3%	3.8%	2.6%	2.6%
£1 = Yen	Currencies	190.79	-2.7%	-0.6%	2.0%	26.8%	34.8%

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

Index	Region / Asset Class	30/11/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,420.45	2.8%	1.1%	11.7%	-11.9%	14.7%
Latest Weighted Average Discount	-14.6%						
12 Month Weighted Average Discount	-14.7%						

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

General Comments

The “Trump bounce” has happened again, with 2024 exhibiting shades of 2016 as American equities rallied and the US dollar strengthened following the election of Donald Trump. Not shown above is the even more dramatic move for US smaller companies, who many perceive to benefit most from the lower tax, lower regulation, and higher tariff environment proposed by the incoming administration. The Russell 2000, for example, offered a total return of 12.2% in sterling terms over the month. Please see more on this below.

As one might expect given these figures, the US dollar also appreciated over the month against most peers, including sterling. The pound did, however, fare much better than the euro which continues to suffer from worries around the EU’s financial position and political instability in major states such as France and Germany.

Overall, the ARC multi asset indices performed well, highlighting their significant exposure to US markets.

UK Commentary

As expected, the Bank of England announced a further 0.25 percentage point cut to the base interest rate, bringing this benchmark figure to 4.75%. This accompanied by comments from the monetary policy committee that seemed to intimate that further cuts are unlikely this year. This came as inflation increased sharply in the latest release to now once again stand above target at 2.3%. It seems that the general feeling amongst policy makers is that they are happy with the progress that has been made on inflation thus far, but that it is still too early to declare victory once and for all.

The remarkable rate of dealmaking for UK assets continued, as the last week of November alone saw four takeover offers for UK listed businesses, amounting to roughly £5.3 billion in aggregate value. The sheer volume of bidding for UK assets highlights just how depressed valuations have become here.

It was reported that the enormous oil discovery around the Falkland Islands is much larger than initially thought, and is perhaps capable of producing twice the annual output of the North Sea. The government of the archipelago have approved production, in contrast to the UK government’s apparent policies.

Lastly, there was a potentially highly significant moment in British politics as Prime Minister Kier Starmer accused his predecessors from the Conservative Party of running an “open-borders experiment”. In what appears to be a complete U-turn from his very recently held beliefs on the issue, Starmer appeared to rebuke the levels of immigration unleashed on the UK by the previous regime. This is a significant story in its own right, but is clearly politically minded as Labour continue to lose ground to Reform UK both in the polls and at local council by-elections. If Starmer can address his own rapidly falling popularity by tackling what many surveys suggest is a key issue for voters, then he may well buy himself some time and some wiggle room on other issues.

North America Commentary

The US elected Donald Trump as President once again, with a highly convincing margin by modern US political standards. The US electorate has handed the Republican party a significant mandate, giving them control of both the House and the Senate. In fact, it looks like the right-wing party earned a greater percentage of the vote share in every single state compared to 2020. There has been a considerable shift in US politics of late, of that there can be no doubt following this result.

A combination of the relief of the removal of any uncertainty given the decisive nature of the result and the perceived wisdom that Trump’s policies are broadly positive for markets helped lift both values and volumes of transactions in many markets related to the US.

The US also saw a 0.25 percentage point interest rate cut, as the Federal Reserve moved their target range to 4.5-4.75%. Fed chair Jerome Powell commented that he would not resign his position if incoming President Trump asked him to. Trump has been critical of chair Powell in the past, but lacks the legislative power to remove him from post directly.

In what is perhaps a sign of the times, Intel, one of America’s most well-known and oldest companies has been replaced in the Dow Jones industrial average index by Nvidia. The relatively new insurgent into the semiconductor market has usurped the older rival relatively quickly and now takes its place in the major stock basket.

Europe Commentary

Germany's coalition government collapsed, forcing Chancellor Olaf Scholz to call for a confidence vote in December and a potential snap election in February. This came as plans to breathe life back into the German economy proved unpopular with the left wing of the alliance, who preferred looser spending policies. Finance minister Christian Lindner disagreed, preferring a more conservative approach, and was consequently sacked. This created a greater rift in the coalition and has pushed Germany back towards political uncertainty.

Ahead of this, 113 German lawmakers have initiated legal proceedings attempting to ban the right-wing party, the AfD (Alternative for Germany), from standing in elections. This has been tried before but has not worked for various reasons including a lack of objective evidence for the case. This is now a major issue, as the AfD are seemingly in second place nationally for the upcoming vote according to several surveys.

France's borrowing costs briefly rose above Greece's for the first time in history as the former also suffered from political uncertainty. The French parliament, which was briefly led by former Brexit negotiator Michel Barnier (who has since been forced to step down from the role of Prime Minister), failed to approve a budget which contained more conservative economic policies. France's seeming unwillingness to tighten her belt is nothing new, but perhaps reality is now starting to set in, and the bond market is adjusting accordingly.

Asia Pacific Commentary

China announced a ten trillion renminbi (around $1.4 trillion US dollars) package to help boost its economy. In light of the US election result, this is especially important to many commentators and market participants as it appears Trump may be tougher on China and enact more protectionist policies to attempt to favour US businesses over Asian rivals. Despite the enormous scale of the package, the market was somewhat disappointed as many had hoped for more focus on supporting consumers. However, perhaps this will not be needed as it was reported that the rate of growth in Chinese retail spending increased to 4.8%, the highest rise in eight months.

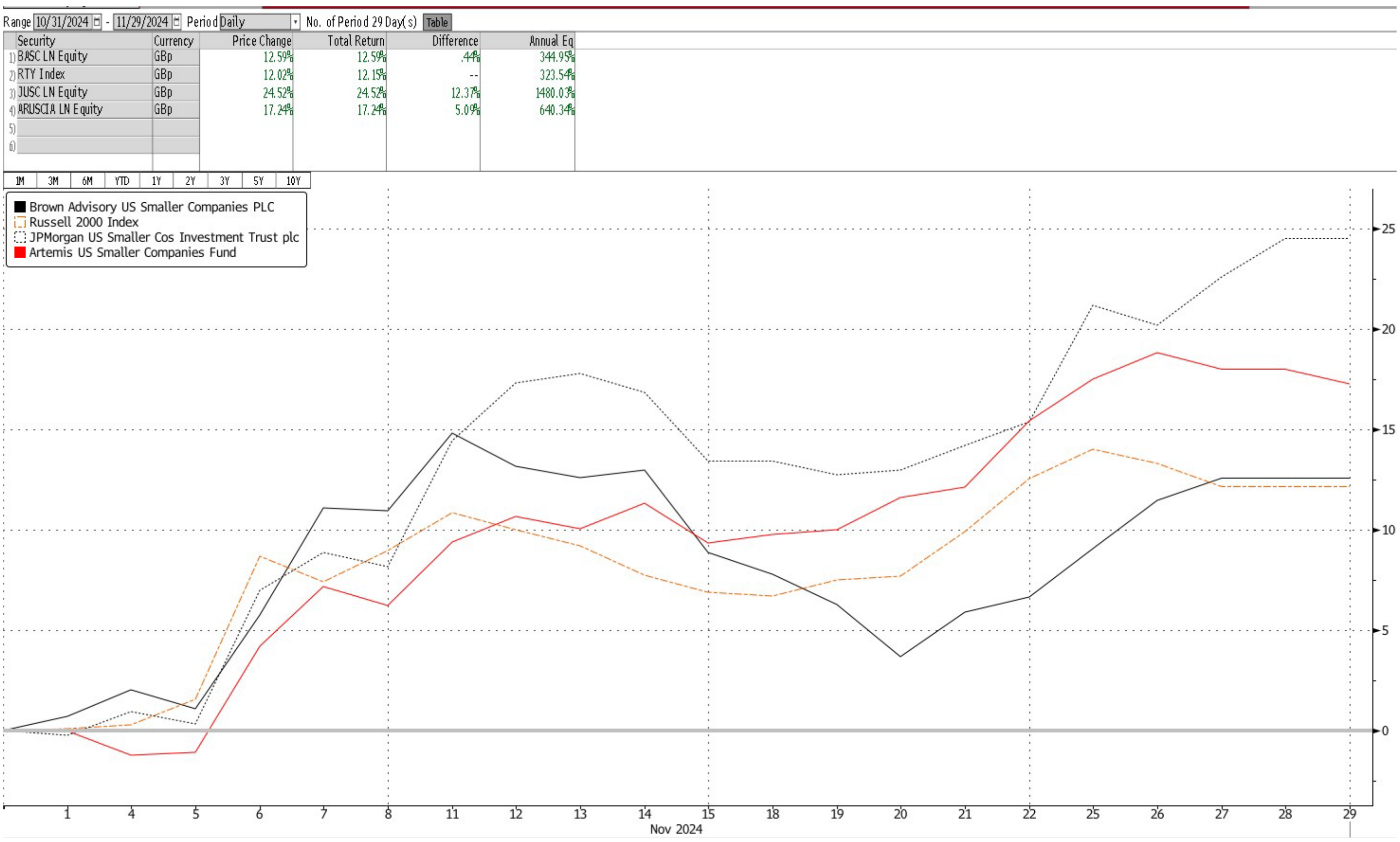
It emerged that Taiwan Semiconductor Manufacturing Company, the worlds largest chip producer, has notified Chinese chip design companies that they will no longer produce their most advanced AI chips. This comes as the US seeks to extend their control over semiconductors and has put rules in place to attempt to stifle China's influence in the market.

Emerging Market Commentary

The aforementioned US dollar's strength has naturally come at the expense of many emerging market currencies. A good example of this is the Brazilian real, which traded at worse than six real against one US dollar for the first time in history. The South American nation is also struggling with President Lula's attempts to balance their budget, as markets appear to be doubting the tax changes and spending constraints that have been put in place.

Elsewhere, South Korea's central bank unexpectedly cut interest rates once again. The Bank of Korea cut rates a further 0.25 percentage points to 3% with the aim of stimulating the economy.

Chart(s) of the month – US Smaller Companies



The above shows the performance of the Russell 2000 index, as well as some of our firm's largest holdings in the US smaller companies space over the month of November. JPMorgan US Smaller Companies notably added nearly a quarter to its value over the month. The above shows how almost all of this return came following the election result on the fifth.

We clearly do not expect such dramatic returns to continue over longer periods, but this does speak to just how bullish many market participants are on the US following the election of Donald Trump.

Trump's policies were popular with the markets last time around, and this spell has started in a similar vein. The general feelings behind this seem to be that Trump's lower business taxes will clearly be helpful to smaller companies, as will the reduction in regulatory burden, but also that his tariff policies will support more domestic US businesses. As smaller companies tend to have more focus on domestic markets, some believe they are set to benefit more than larger peers from the President-elect's approach.

Investment Profile – Bankers Investment Trust

Bankers has a rich history, boasting the investment trust sector's second longest record of consecutive dividend increases with 57 years of rising payouts, just behind stablemate City of London. As one might expect, the strategy has undergone several evolutionary changes throughout its 136-year history, and it is now doing so once again.

Current lead manager Alex Crooke has been in place since 2003, and he has recently been joined by Jamie Ross who will assist in the management of the whole portfolio. Jamie previously worked solely on the European stocks within the portfolio but will now be taking a larger role. The refreshed team are looking to concentrate more on their stock picker's best ideas and have decided to reduce the number of holdings by about 40% to leave around 100 stocks in the portfolio. The hope is that this greater focus will enhance long term returns as a result of having greater exposure to their top picks.

The motivating factor for these changes is perhaps that Bankers has not kept up with peers who have performed exceptionally well in recent years, although it has not done badly by any means. That said, the long-term record is very strong, having significantly outperformed the MSCI World Index by over 1,200% on a sterling total return basis since 1989 (as far back as these Bloomberg data go).

In terms of the current portfolio, as one would expect from a global equity strategy, US mega cap names such as Apple and Microsoft feature among the top holdings. However, there is also plenty of exposure to the cheaper Japanese market with names such as Toyota and Hitachi also being held.

Investment Team's thoughts

The performance of the above cited multi asset ARC indices highlight just how reliant on the US many of our peers have become. It is clear that the US drove most of these indices performance in November, and that these performed so well is almost exclusively down to this one nation. While it is indeed a brilliant country in which to invest and undeniably the major player in the global economy, we do still believe diversification is important, and likely believe this to a greater extent than many peers appear to.

In fact, markets all around the world seem to have been driven by the US this month for various reasons. Indeed, most stories mentioned above are related to the US in one way or another. While the US election is a major global event, we are minded to continue to think beyond the next four years of the incoming administration, even if we do acknowledge there are some potentially significant changes on the horizon.

We are both aware of how various policies may move in the coming years, and conscious that even major political changes tend not to be overly significant in terms of their long-term market impact when looking back over periods of decades. Investing in a diversified portfolio of good quality assets at reasonable valuations remains our focus, regardless of which administration sits in the White House.