ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

October 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/10/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	205.60	+0.0%	+0.7%	+8.2%	+0.4%	+9.8%
ARC Balanced	Medium Risk	260.06	+0.1%	+0.9%	+12.6%	+3.0%	+17.2%
ARC Steady Growth	Medium High Risk	315.68	+0.2%	+0.8%	+15.1%	+4.5%	+22.9%
ARC Equity Risk	High Risk	373.92	+0.3%	+0.5%	+17.5%	+5.2%	+28.7%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/10/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8110.10	-1.5%	-3.1%	10.8%	12.1%	11.9%
UK All Share	UK	4431.83	-1.8%	-3.4%	12.1%	7.3%	11.0%
Dow Jones Ind Avg	US	41763.46	-1.3%	2.3%	26.4%	16.6%	54.4%
S&P 500 Index	US	5705.45	-1.0%	3.3%	36.0%	23.9%	87.8%
Nikkei 225	Japan	39081.25	3.1%	-0.1%	26.6%	35.3%	70.5%
MSCI Europe Ex UK	Europe	201.14	-3.5%	-2.2%	16.7%	5.7%	31.2%
MSCI Asia Ex Japan	Asia	728.00	-4.5%	5.1%	25.3%	-10.3%	12.8%
MSCI Emg Mkts (£)	Emg Mkts	692.60	-0.3%	3.5%	18.3%	2.1%	22.0%
MSCI World Index (£)	Global	3647.14	-2.0%	2.1%	31.7%	14.9%	63.3%
UK Conventional	Gilts	3044.57	-2.5%	-1.9%	5.6%	-23.0%	-22.8%
UK Index-linked	Gilts	3856.40	-2.0%	-2.5%	5.2%	-35.8%	-28.5%
UK Real Estate Investment Trusts	Property	1987.14	-7.9%	-6.6%	12.7%	-31.1%	-30.1%
WTI Crude ($/Barrel)	Oil	69.26	1.6%	-11.1%	-14.5%	-17.1%	27.8%
Gold Spot $/Oz	Commodities	2743.97	4.2%	12.1%	38.3%	53.9%	81.4%
£1 = US$	Currencies	1.2899	-3.6%	0.3%	6.1%	-5.7%	-0.3%
£1 = €	Currencies	1.1852	-1.3%	-0.2%	3.2%	0.1%	2.1%
£1 = Yen	Currencies	196.12	2.1%	1.7%	6.4%	25.7%	40.3%

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

Index	Region / Asset Class	31/10/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,082.25	-1.7%	-4.3%	16.0%	-14.7%	15.0%
Latest Weighted Average Discount	-14.3%						
12 Month Weighted Average Discount	-14.5%						

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

General Comments

As we have often opined in these commentaries, uncertainty is perhaps what financial markets dislike the most. It seems to us that October was a month where uncertainties dominated in the run up to the UK budget (at the end of the month) and, crucially, the US presidential election (in early November).

Barring Japan, equity markets sold off around the world. The yen strengthened once again as investors appreciated this relative outperformance. Meanwhile, commodities had a reasonable month, with both gold and oil posting positive returns.

Despite most indices shown above offering negative price returns, the multi asset ARC portfolios showed modest gains across the board. This is yet another reminder of the benefits of a diversified approach to portfolio construction.

UK Commentary

The highly anticipated first budget from the new government seemed to confirm that the Labour administration are very much ideologically left wing and will aim to move billions of pounds from the private sector to the public sector. The market reaction to these policies was certainly not positive, but arguably was not too bad either. Equity markets broadly shrugged off the news, although gilt yields did tick up and now sit higher than they were following Liz Truss' so-called "mini-budget" which shocked markets a little over two years ago.

The UK continues to undergo rapid and dramatic change, with immigration causing the fastest population growth in over half a century. The demographics of the existing population continue to show sings of aging, with deaths exceeding births in 2023. This means that this rapid population growth last year was entirely attributable to immigration. The impacts of this were clear in the GDP per capita numbers, which showed declining living standards in the nation as real GDP per head in the second quarter came in 0.3% below the previous year's figure, as population growth outstripped economic growth over the past year.

Despite this, British consumers showed resilience as retail sales unexpectedly expanded by 0.3% on the back of the highest sales volume growth since July 2022. This marks three consecutive months of growth, making the third quarter a strong one for consumer spending.

Perhaps consumers have been buoyed by inflation falling below the Bank of England's target level for the first time in three years. Consumer prices rose by 1.7% in the year to September, below the central bank's 2.0% target. This came as UK wage growth also fell, but fell to 4.9%, suggesting UK consumers' firepower is increasing significantly in real terms.

North America Commentary

There was yet more positive data released for the US labour market, with the ADP employment survey upwardly revising previous estimates and exceeding expectations for the more recent releases as well. Unemployment also fell to 4.1%, coming in below economists' expectations. This was accompanied with wage growth ticking up to 4.0%. Overall, the US economy appears to be continuing its strong run.

The popularity of nuclear power with US corporates continued to grow, as the likes of Alphabet and Amazon joined peers in signing agreements for Small Modular Reactors. These businesses in particular have significant and growing demand for energy, and for that power to be highly dependable, as a result of their expansion into AI and the enormous data centre capacity required for such.

These commentaries have contained many mentions of US markets hitting all-time highs in recent times, so it should also be noted that Canada's index marked new ground this month as well. This market is very different from their southern neighbours', being far more reliant on financials rather than the technology businesses which have driven US markets.

It should also be noted that Canada's central bank, The Bank of Canada, reduced interest rates by half a percentage point to 3.75% this month. This was towards the larger end of the rate cut expectations and shows the degree to which the nation is struggling to generate any meaningful economic growth, with its economy in fact contracting significantly in per capita terms in recent times.

Europe Commentary

It was revealed that Eurozone inflation dropped below the ECB's target to 1.7%. This is the first time in three years that annual consumer inflation has been below the 2.0% level policy makers aim for, having peaked at 10.6% two years ago in October 2022. Major contributors to this were the likes of Italy and France, whose HICP figures came in at 0.7% and 1.5% respectively.

This helped the ECB justify pressing on with their interest rate cutting plans, reducing their benchmark rate by a quarter of a percentage point to 3.25%. This is the lowest rate since May 2023. Comments made by policy makers alongside this announcement seemed to suggest that the pace of cutting may be slower in the future.

There was also a welcome positive data release from the German economy, which somewhat echoed the aforementioned figures from the UK, as retail sales exceeded expectations, rising by 2.4% on an annualised basis. It is encouraging to see the major European economy showing some signs of life.

Asia Pacific Commentary

The calling of a snap election by new Prime Minister Shigeru Ishiba did not go well for the incumbent Liberal Democratic party, whose parliamentary majority (including their coalition partner) was removed from them. The LDP have not been so rejected by voters since 2009, so this is a significant moment in Japanese politics.

Australia's inflation continued to move in the right direction, falling to 2.8% year-on-year from the 3.8% announced in the prior quarter. This is now the lowest inflation has been in three and a half years. The Reserve Bank of Australia's base rate has been at 4.35% since July 2023. With this rate now firmly above the rate of inflation many see a path to interest rates coming down and monetary conditions easing, with cuts expected in 2025.

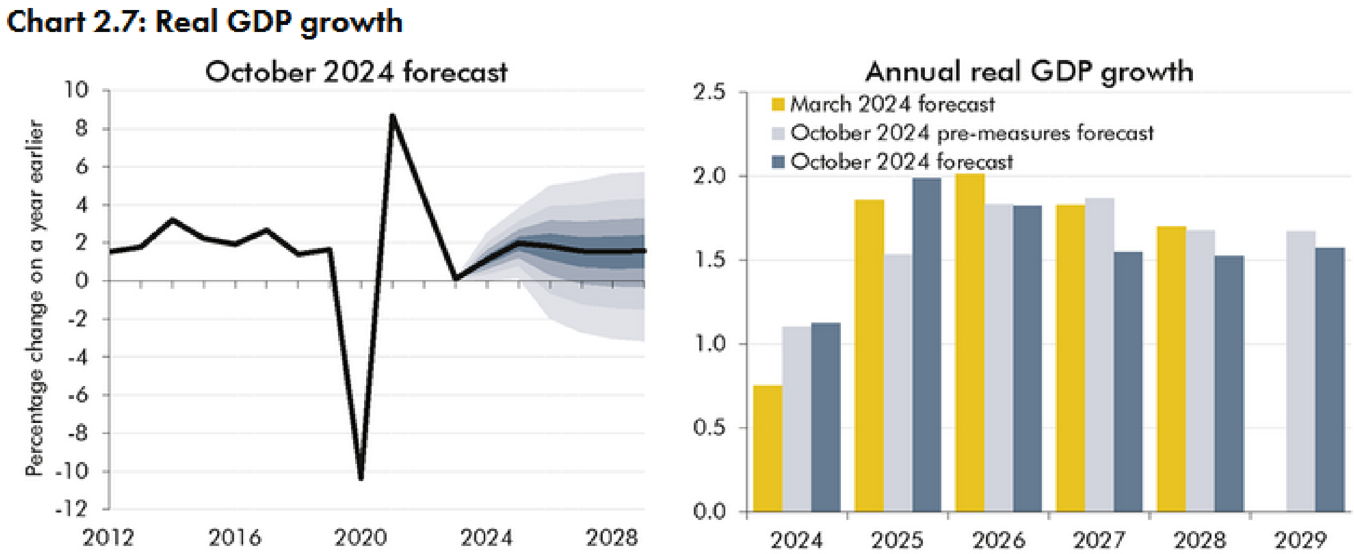
The world's largest semiconductor chip manufacturer Taiwan Semiconductor Manufacturing Company (TSMC) announced an improved set of guidance. The company expects 30% revenue growth this year as they continue to experience "robust AI-related demand".

Emerging Market Commentary

China reported that their economy grew by 4.6% year-on-year in the third quarter. This represents a slowdown compared to the previous quarter, and perhaps influences policy makers with regards to the vast stimulus packages announced, as well as the decision to cut base interest rates by a quarter of a percentage point. Market participants widely expect further stimulus packages to be announced, and more details to be divulged in the coming months.

India saw what was reportedly the world's second largest IPO of the year, and the largest in Asia, with Hyundai Motor India attempting to sell $3.3 billion of stock at a valuation of $19 billion (US dollars). However, investors did not receive this offering warmly as concerns around the valuation and slowing demand for vehicles in the south Asian nation. There was also a view among investors that this was a cynical attempt to exploit the "hot" Indian stock market, as the Korean parent company was simply selling some of their equity, not raising new capital for investment.

Chart(s) of the month – OBR Budget Predictions



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.
Source: ONS, OBR

The above charts from the Office for Budget Responsibility (OBR) were released alongside details of the Budget as laid out by new Chancellor of the Exchequer Rachel Reeves.

Ultimately, the Treasury announced there would be £41 billion of tax rises as a result of this budget. These funds appear to be earmarked for on ongoing spending (for example with wage rises for public sector employees) rather than investment spending. The effects of this can be shown above, with the significant increase in the 2025 GDP forecast (a result of this immediate spending), but then after that GDP growth is actually expected to be lower than before the measures taken at the budget (likely a result of the increased costs for the private sector and increased taxes on private households).

In fact, the OBR estimate that real household disposable income will be around 1.25% lower by 2029 than they predicted with comparable numbers in March. Crucially, they believe around 85% of this differential to be “explained by policies announced in this Budget”. The following sentence in the report then reads: “This implies shifting real resources out of private households’ incomes in order to devote more resources to public service provision.”

Regrettably, according to the OBR at least, this is quite the opposite of a budget for growth. Public spending has been prioritised over the private sector, to the detriment of the economy as a whole.

We will always caution that such predictions are difficult to make and that the OBR has been wrong many times before. However, we do understand why they have come to these conclusions.

We obviously hope to see some more pro-growth policies announced soon. Meanwhile, we continue to believe in international diversification as a source of both risk mitigation and potentially enhanced returns for clients’ portfolios. There are also still many high-quality investment opportunities within the UK, despite these policy tweaks.

Investment Profile – Invesco Bond Income Plus

Managed by a team led by Rhys Davies at Invesco, this strategy focusses on high yield public credit. This leads them to owning debt of companies many readers will have heard of, such as Barclays, Aviva, and The Co-Operative Bank.

The investment company has offered investors total returns of around 24% over the past two years, highlighting the attractive returns that can be achieved within the high yield asset class. Roughly one third of this gain came from capital appreciation, with the majority being down to the attractive level of income the trust pays out.

The approach taken here often leads them to focus on so-called "fallen angels", or debt of companies which used to be classed as investment grade but has since been downgraded to high yield. This can be shown by the fact that the largest credit exposure of the fund is within the BB segment.

Investment Team's thoughts

While the new Chancellor Rachel Reeves' first budget may not have been particularly impressive, we are at least relieved to be past this without anything too damaging to financial markets occurring. Hopefully those who were waiting on the sidelines with cash may come back to the market now this uncertainty has cleared.

We note many clients will be impacted by issues such as changes to CGT rates and inheritance tax reforms such as regarding pension pots. We will continue to work with clients to help to mitigate the impacts of these measures.

With regards to markets, we hope to see further clarity offered by the US presidential election. We also wish to re-iterate the benefits of diversified portfolios for navigating uncertain times, as proved this month with negative returns in many markets but multi-asset portfolios offering modestly positive returns.