ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

August 2023

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/08/2023	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	193.03	-0.1%	+0.7%	-0.6%	+0.8%	+5.6%
ARC Balanced	Medium Risk	236.88	-0.6%	+1.2%	-0.4%	+5.1%	+9.1%
ARC Steady Growth	Medium High Risk	283.56	-0.9%	+1.5%	+0.4%	+9.2%	+12.9%
ARC Equity Risk	High Risk	332.12	-1.2%	+1.8%	+1.1%	+13.0%	+16.9%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/08/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7439.13	-3.4%	-0.1%	2.1%	24.7%	0.1%
UK All Share	UK	4059.53	-3.3%	-0.2%	1.3%	21.5%	-1.1%
Dow Jones Ind Avg	US	34721.91	-2.4%	5.5%	10.2%	22.1%	33.7%
S&P 500 Index	US	4507.66	-1.8%	7.8%	14.0%	28.8%	55.4%
Nikkei 225	Japan	32619.34	-1.7%	5.6%	16.1%	41.0%	42.7%
MSCI Europe Ex UK	Europe	183.23	-2.5%	1.8%	13.1%	25.2%	25.4%
MSCI Asia Ex Japan	Asia	622.34	-6.6%	0.8%	-2.9%	-14.1%	-6.6%
MSCI Emg Mkts (£)	Emg Mkts	599.09	-4.7%	1.2%	-7.0%	1.3%	7.7%
MSCI World Index (£)	Global	2986.02	-2.6%	6.6%	13.7%	21.6%	37.3%
UK Conventional	Gilts	2922.22	-0.4%	-0.1%	-9.5%	-28.6%	-18.8%
UK Index-linked	Gilts	3833.18	-1.2%	1.5%	-16.3%	-31.8%	-21.1%
FTSE All-Share Real Estate Investment Trust Index	Property	1892.63	-3.3%	-4.5%	-20.9%	-17.5%	-31.1%
WTI Crude ($/Barrel)	Oil	83.63	2.2%	22.8%	-6.6%	96.3%	19.8%
Gold Spot $/Oz	Commodities	1940.19	-1.3%	-1.1%	13.4%	-1.4%	61.5%
£1 = US$	Currencies	1.2673	-1.3%	1.9%	9.0%	-5.2%	-2.2%
£1 = €	Currencies	1.1688	0.1%	0.4%	1.1%	4.3%	4.6%
£1 = Yen	Currencies	184.45	1.0%	6.4%	14.2%	30.3%	28.2%

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

Index	Region / Asset Class	31/08/2023	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,116.76	-2.8%	-1.2%	-7.2%	-0.6%	5.6%
Latest Weighted Average Discount	-13.9%						
12 Month Weighted Average Discount	-12.7%						

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

General Comments

The last month of summer in the UK produced poor returns across many asset classes. Asia and emerging market equities were hit by poor sentiment around their largest economy, with many international sellers of Chinese assets driving down prices. Real Estate also had another tough month, perhaps in sympathy with Chinese troubles in that sector.

The US dollar was strong over the month and sterling was not alone in weakening against it. The pound did fare better against other peers, appreciating slightly against the euro and the yen. The price of oil also continued upwards, despite the more expensive dollar.

All of this meant that the diversified ARC Private Client Indices sold off over the month, and UK-listed investment company discounts widened further.

UK Commentary

While not all positive, we saw plenty of strong economic news from the UK, with GDP data coming in well above expectations (0.5% month-on-month growth probably the highlight, against 0.2% expected by economists), along with other measures such as industrial production, construction output and business investment also reading very well. Another strong piece of data came from the quarterly private consumption release, which was clearly supported by the fact that wages in the UK grew more than expected in the three months to June, with annual wage growth (excluding bonuses) hitting 7.8%. This is the highest level since records began in 2001 (ONS).

While it is obviously positive for individuals' spending power (and hopefully therefore GDP) that wages are growing, it is also potentially a piece of evidence which will point the Bank of England towards further interest rate rises, which is arguably why the stock market did not receive these positive data with open arms.

North America Commentary

Jay Powell's much anticipated Jackson Hole speech managed to tread a fine line of neither being too hawkish or too dovish. As ever, commentators took different things from the Fed chair's words, but overall it seems to have been a fairly neutral speech which didn't move markets much. This came on the back of a modest rise in US inflation (CPI), from 3.0% to 3.2%. While the US seems to have benefited from more active central bank actions than other regions, they are still not out of the inflation woods yet with core inflation still at 4.7%, despite edging down from the previous level of 4.8%.

The Biden administration continued their anti-China policies, with a ban on some US investment into Chinese quantum computing, AI sensors and advanced computer chips, apparently in an effort to reduce Chinese military access to US technology.

Meanwhile, Biden's predecessor Donald Trump was charged and arrested in relation to accusations of meddling with the 2020 presidential elections. The former president wasted no time in using the mugshot as a campaigning tool, reportedly raising many millions of dollars off the back of the incident.

Europe Commentary

European PMIs (Purchasing Managers Indices) were weak this month, with France, Germany and the Eurozone (it was a similar story in the UK, although the numbers there were slightly better) as a whole reporting worse than expected numbers, and numbers below 50, indicating a recessionary trend. This is a key economic indicator for central bankers, so will likely influence ECB policy and will perhaps encourage them to not increase rates as far or as quickly as previously expected.

The Italian government spooked markets for a few hours when they announced a surprise 40% "windfall" tax on bank profits. However, they swiftly back-tracked later the same day, setting a cap of 0.1% of total bank assets for the value of the tax.

In other financial sector news, Swiss lender UBS booked the largest ever quarterly profit for a bank, thanks to its takeover of Credit Suisse. They reported a $29billion profit for the second quarter of 2023, compared with $2.1bn a year earlier. We said at the time that issues like these often see the strong get stronger. While it is clearly too early to say this in relation to this specific situation, this is a small example which points towards how this can be the case.

Shares in Danish pharmaceutical giant Novo Nordisk continued to surge, with the company now on the verge of being the largest in Europe. This month's rise came on the back of its obesity drug Wegovy being found to significantly reduce the risk of heart attacks and strokes. The drug, which has become a weight loss staple in certain circles (e.g., Hollywood actors), now has proof of tangible medical benefits as well.

Asia Pacific Commentary

Embattled Chinese property developer Country Garden recorded a record £5.3bn loss in the first half of the year. Given the struggles in this sector and the wider economy (the nation recently slid into deflation for the first time since 2020), China's central bank opted to unexpectedly cut base interest rates on its medium-term lending facility to 2.5% (from 2.65%).

However, there was some modestly positive news from China as the outlook for their manufacturing sector improved somewhat, with the contraction slowing markedly. China is a (arguably 'the') key manufacturing centre for the world, so these are very important data to keep an eye on.

Elsewhere, India became the first nation to land a spacecraft near the south pole of the moon, following Russia's failed attempt a few days prior.

Emerging Market Commentary

The five BRICS nations (Brazil, Russia, India, China & South Africa) invited Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates to join their emerging markets group. Geopolitical commentators have mixed opinions on the significance of this move, however, there is no doubt this group of nations are trying very hard to become larger players on the global stage.

Elsewhere, in perhaps the least surprising news story of the year, Wagner chief and leader of brief Russian coup attempt Yevgeny Prigozhin reportedly died in a private jet "crash". There may be significant geopolitical implications from this, as Wagner troops are believed to currently be deployed widely around the world.

This came soon after the Russian ruble falling to its lowest point in a year and even dipping below 100 per US dollar, which prompted an emergency central bank meeting and a subsequent interest rate hike of 3.5% to 12%.

Chart of the month – Nvidia Share Price (Black, RHS) and Price to Sales Ratio (Gold, LHS)

Semiconductor company Nvidia produces specialised chips for graphics, AI and data centre uses, among others. These have been three significant growth markets in recent years and Nvidia has benefitted hugely. The above share price performance highlights this, as Nvidia's strong share price performance has helped it rocket up the ranks to become one of the largest companies in the world.

However, as investors, we are always conscious of the valuation we pay for the assets we own. On the left-hand side of the above chart, shown in gold, is the Price-to-Sales ratio of Nvidia. This shows that for every $1 of revenue the company generates, investors have to pay $23.13, which is a very high price. This is also the revenue figure, which takes no account of the costs required to generate these sales. Taking the Price-to-Earnings ratio, which compares a company's earnings after costs against price, investors are having to pay nearly $120 for each $1 of earnings. The average S&P 500 company rating based on this metric is around six times lower at 22 to 1, while the average FTSE 100 company is roughly eleven times lower at 11 to 1.

Nvidia is clearly an exceptional company that has delivered extraordinary returns to its shareholders. They also recently announced elevated sales targets, with €16bn of sales expected in the three months to the end of October. However, investors must always consider the price they are paying when acquiring an asset, and there is no doubt that Nvidia's share price requires further exceptional growth levels from here in order for it to be justified.

Investment Profile – JPMorgan American Investment Trust

A stellar performer this year and over recent history, JPMorgan American has (at time of writing) managed to noticeably outperform the surging S&P500 in 2023, and over the past 5 years on a total return basis, which is no mean feat. It also leads its investment company sector over these periods.

This trust takes an interesting approach by employing a roughly 50:50 split of the majority of the portfolio between large cap growth and value managers, with a small allocation to small cap companies as well. This balance has helped them both capture the excellent returns from some of the biggest and best growth companies in the US (such as Tesla, Alphabet and the aforementioned Nvidia) and to exploit underpriced opportunities in sectors such as financials. It has also brought excellent diversification to their strategy and helped smooth these returns somewhat.

Growth manager Timothy Parton is retiring soon and leaves on a high. Colleague Felise Agranoff, who has worked at JPMorgan for nearly two decades and alongside Timothy for a long time as well, will take on his role when this happens. We are confident that the incredibly well-resourced team at JPMorgan will continue to do good work on this strategy.

Investment Team's thoughts

We continue to see data which point to the UK economy being stronger and more resilient than many pockets of the press would have anyone believe. We see plenty of value in many UK assets, and indeed in other regions as well. While other market participants are uncertain, it is often the best time to buy, and valuations currently suggest to us that this is the case.

Interest rates continue to dominate thoughts, prompting uncertainty and inaction on the part of investors. We have been saying for some time that there cannot be much further to go for interest rates, and hopefully we are now approaching a more stable period offering certainty to investors, encouraging them to get off the sidelines and providing markets with a steadier base to move upwards from.

Ultimately, our thoughts mirror those of previous months, but are strengthened by various improved economic data and reduced asset prices. We are highly optimistic of strong long-term returns from here.

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