ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

January 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/01/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	197.58	-0.2%	+3.9%	+1.8%	+0.1%	+10.3%
ARC Balanced	Medium Risk	245.65	-0.1%	+6.4%	+3.0%	+4.0%	+17.4%
ARC Steady Growth	Medium High Risk	295.32	+0.0%	+7.7%	+3.9%	+6.8%	+23.6%
ARC Equity Risk	High Risk	346.96	+0.1%	+9.0%	+4.5%	+8.5%	+29.8%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/01/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7630.57	-1.3%	4.2%	-1.8%	19.1%	9.5%
UK All Share	UK	4173.06	-1.4%	5.5%	-1.9%	14.6%	9.1%
Dow Jones Ind Avg	US	38150.30	1.2%	15.4%	11.9%	27.2%	52.6%
S&P 500 Index	US	4845.65	1.6%	15.5%	18.9%	30.5%	79.2%
Nikkei 225	Japan	36286.71	8.4%	17.6%	32.8%	31.2%	74.7%
MSCI Europe Ex UK	Europe	195.49	1.9%	13.5%	9.0%	23.8%	43.3%
MSCI Asia Ex Japan	Asia	606.33	-5.5%	4.4%	-9.5%	-30.8%	-5.3%
MSCI Emg Mkts (£)	Emg Mkts	597.12	-4.5%	2.0%	-6.2%	-14.7%	8.5%
MSCI World Index (£)	Global	3205.32	1.1%	15.8%	15.1%	20.4%	58.0%
UK Conventional	Gilts	3060.39	-2.2%	6.1%	-1.1%	-25.5%	-16.1%
UK Index-linked	Gilts	3856.06	-4.5%	5.2%	-6.6%	-31.2%	-21.7%
FTSE All-Share Real Estate Investment Trust Index	Property	2087.76	-3.4%	18.4%	-4.4%	-13.5%	-20.1%
WTI Crude ($/Barrel)	Oil	75.85	5.9%	-6.4%	-3.8%	45.3%	41.0%
Gold Spot $/Oz	Commodities	2039.52	-1.1%	2.8%	5.8%	10.4%	54.4%
£1 = US$	Currencies	1.2688	-0.3%	4.4%	3.0%	-7.4%	-3.2%
£1 = €	Currencies	1.1728	1.7%	2.1%	3.4%	3.9%	2.4%
£1 = Yen	Currencies	186.42	3.8%	1.1%	16.3%	29.9%	30.6%

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

Index	Region / Asset Class	31/01/2024	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,622.11	-1.6%	11.5%	-2.5%	-9.0%	17.1%
Latest Weighted Average Discount	-11.0%						
12 Month Weighted Average Discount	-12.2%						

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

General Comments

The year began with a tentative and uncertain month for markets. Japanese equities posted another strong month of returns, adding 8.4% to the Nikkei 225 index, while wider Asian stocks were dragged down by poor performance from China.

Bonds traded off with interest rate expectations shifting slightly with more emphasis on “higher for longer” predictions. This naturally impacted property and lower-risk multi-asset portfolios such as the ARC Cautious and ARC Balanced indices.

The oil price appreciated over the month, adding nearly 6%. Meanwhile, the pound grew in value against the Japanese yen and, to a lesser extent, the euro.

UK Commentary

The FTSE 100 celebrated its 40th birthday, although there wasn't much of a party as it was down on the day. Since inception, the index has returned over 1,600% on a total return basis, or just over 7.3% per annum. This means a £1,000 investment upon the launch of the index would now be worth around £17,000.

Just as UK GDP unexpectedly fell -0.3% in October, the data release for November saw an unexpected spike in growth of 0.3%. As we have cautioned previously, monthly GDP is volatile and somewhat meaningless, but we should highlight this growth as we mentioned the contraction previously.

The UK economy continued to show signs of outperforming European neighbours, with PMI (Purchasing Managers' Index) data firmly in expansionary territory reading 52.5 and exceeding economists' expectations. In contrast, the Eurozone economy as a whole reported a reading of 47.9. As a reminder, a reading above 50 indicates rising business activity, while one below 50 suggests the opposite. Both German and French readings were below the Eurozone as a whole, and are trending downwards, so there are concerns for these major European nations.

North America Commentary

The US economy continued its seemingly relentless march onwards and upwards with a slew of positive data released this month. The US economy grew 3.1% over 2023, with the final GDP quarterly reading of 3.3% being reported. The labour market continued to be remarkably strong, adding 216,000 jobs in December, and showing unemployment levels of just 3.7%. Despite this strength, the Fed's preferred inflation gauge dipped below 3% for the first time in 2021 as the headline PCE index reported inflation to be at just 2.6%.

Given the robustness of the economy, the messaging from policy makers at the Federal Reserve certainly seems to be trying to guide markets that there will be fewer rate cuts than markets currently expect in 2024. There has been a concerted effort to try to emphasise a "higher for longer" message, at least higher and longer than is expected by traders. Minutes from the Fed's December meeting highlighted this, and more recently Jay Powell effectively said as much himself, citing their dot plot which indicates 3 cuts in 2024. While they acknowledge clear progress, they seem to be trying to strike a more cautious and balanced tone, with markets perhaps being overly optimistic regarding rate cuts.

One large and controversial story in the US came with US regulators finally approving Bitcoin ETFs for the first time. While this is not something we wish to comment on in terms of investment merit (or lack thereof), it is an interesting development for a few reasons. Firstly, the price of Bitcoin actually fell following this, as inflows disappointed initially. Secondly, there may well be implications for other assets as ETFs enable Bitcoin to be accessed more easily, and thus potentially draw capital away from other securities. We recently met with Alex Crooke, manager of the Bankers Investment Trust, who suggested that even a tiny 1% allocation to Bitcoin within millions of retail investors pensions could significantly impact valuations of the "magnificent 7" stocks, as there is a good chance that this is where such an allocation would come from.

Europe Commentary

Eurozone inflation unexpectedly picked up to 2.9%, going against the previous 6 months which had seen falls in CPI. A significant part of this increase was down to the ending of various government subsidies across the bloc. However, core CPI (which excludes food and energy, where many of the subsidies were focussed) continued to fall and reached 3.4%.

Spain reportedly received the largest ever order book for a sovereign bond, attracting bids for €138bn of debt stock, while only attempting to sell €15bn. Traders are betting heavily that the ECB will cut interest rates soon, which would mean buying government bonds such as these would be a profitable trade. Hence, there has been huge demand of late for these securities.

Asia Pacific Commentary

Japan's Nikkei 225 hit a 33-year high in January. At this time in the late 1980s/early 1990s the Japanese stock market was the largest in the world. It has been a long road back since then, and some investors who bought at the top of the Japanese market could still be underwater over three decades later. This is a good reminder that the hottest markets may not always be the best to buy into, and perhaps something to bear in mind when considering the US stock market today, which is a far larger proportion of world indices than Japan ever was.

As ever with China, there have been plenty of stories around how exactly their authorities are interfering with markets in recent times. January saw reports that they were banning traders from selling stocks in an attempt to prop up their sliding market. Additionally, officials lowered the amount of money banks are required to keep in reserve (by 50bps) in an effort to boost lending and stimulate the economy. There are plenty of interpretations of these actions, many of which would not view them in a positive light, but at least those in power are trying to stimulate growth and are concerned about stock market returns.

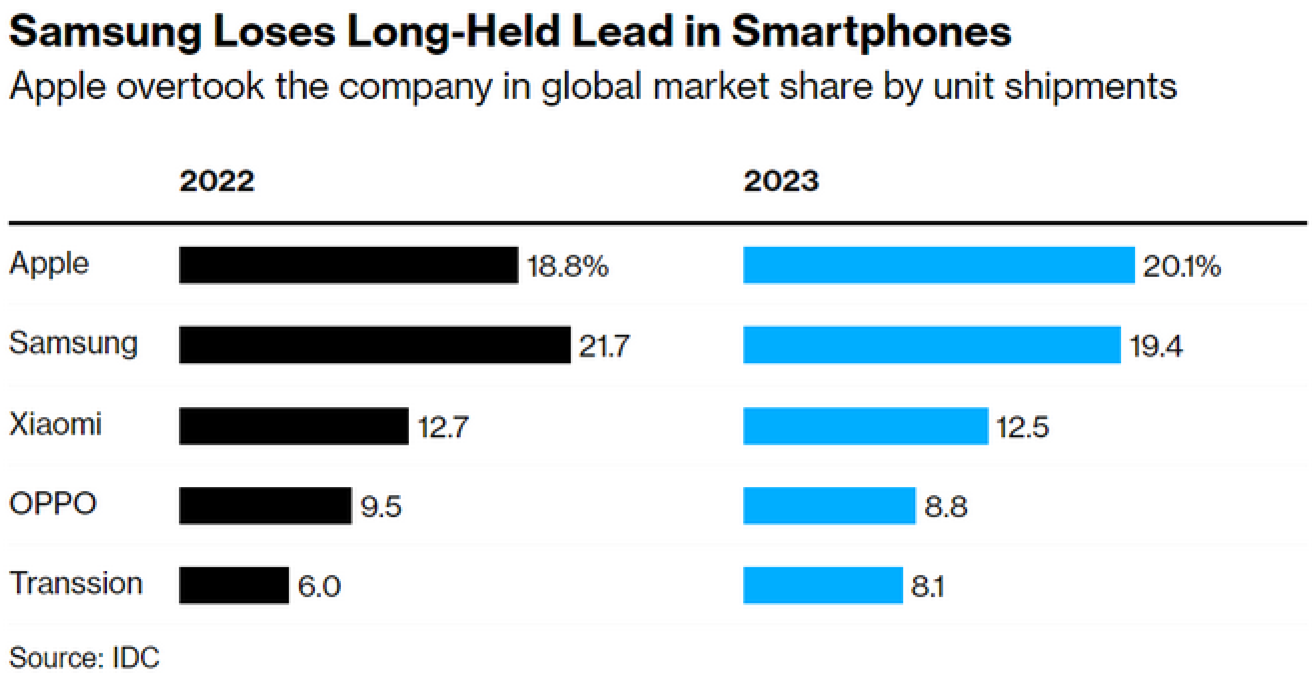
Chinese car manufacturer BYD officially overtook Tesla as the world's most popular EV manufacturer, having exceeded analyst expectations for production. Tesla also beat estimates for the quarter, but it wasn't enough to defend their position at the top of the EV market.

Emerging Market Commentary

Perhaps the biggest news globally in January came from Taiwan, where their ruling Democratic Progressive party won a third term in office, with voters defying China's warnings and rejecting the Kuomintang, the pro-Sino opposition party. That said, President-elect Lai lost around 17% of the vote compared to his predecessor's victory, so it was far closer than the last election. Taiwan is one of the most important nations in the world given its dominance in the semiconductor industry. Avoiding the election of a pro-China candidate was seen as key by many commentators in order to not disrupt global supply chains, and indeed global prosperity, so this is undoubtedly a significant a positive step if that line of thinking is to be believed.

Elsewhere, a $20bn mining project, the world's largest, is expected to finally commence in Africa this year after a 27-year wait. The project is to be run by Anglo-Australian Rio Tinto and is focussed on iron ore deposits in a remote location in south-eastern Guinea.

Chart of the month – Global Smartphone Sales



The above chart from Bloomberg, using IDC data, shows how Apple's smartphone market share grew in 2023, largely at the expense of Samsung. While this is somewhat a function of timing of new phone releases, it is a significant development that Apple has finally taken the lead over their South Korean rival, who held the top spot for over a decade.

Of course, the other takeaway from this graph is the major Chinese influence in this market, with the three other manufactures shown above being from the nation. Sales from these companies are also not confined to China, with Transsion being the largest player in the rapidly expanding African market under the Tecno, itel and Infinix brands.

Investment Profile – Royal London Short Term Money Market

With the increase in interest rates over the past year or so investors can now receive a decent return on cash/quasi-cash investments such as money market instruments. This fund offers investors exposure to a basket of such securities, and currently yields around 4.2% per annum from very short—duration, and high-quality notes.

Money market securities are typically paper issued by corporates for 3 months or less. Therefore, they carry a high certainty of repayment and virtually no interest rate risk. As a result, money market funds such as this have some of the smoothest return profiles of all assets, offering certainty to investors.

Managers Tony Cole and Craig Inches invest client's cash into these types of securities in the UK and other developed markets, to give a well-diversified portfolio of 80-90 positions, which is constantly refreshed as these by nature short-duration securities mature.

These characteristics make the fund suitable for use as a cash proxy, which is why our Model Portfolio Service team use it in their proposition to store their “dry powder”.

Investment Team’s thoughts

Our thoughts are much the same as in recent months. We believe global stock markets to be somewhat distorted by valuations of a small number of companies, and that this presents opportunities for us to find value elsewhere.

What some are dubbing “the year of democracy” got off to an encouraging start in Taiwan, with democratic candidates triumphing over the communist-sympathising candidate, and the people ignoring communist regime threats. This is a highly positive development given Taiwan’s importance in the global semiconductor market.

However, as ever, we are simply sticking to what we know and not making bets based upon any election or political developments. We remain firmly focussed on finding value across various markets around the world and believe now is a compelling time to be doing so.