ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

November 2023

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/11/2023	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	193.98	+2.2%	+1.0%	+1.0%	-0.8%	+8.5%
ARC Balanced	Medium Risk	237.78	+3.0%	+0.8%	+1.1%	+2.0%	+13.4%
ARC Steady Growth	Medium High Risk	283.84	+3.5%	+0.5%	+1.4%	+4.5%	+18.0%
ARC Equity Risk	High Risk	331.10	+4.0%	+0.3%	+1.5%	+6.3%	+22.8%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/11/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7453.75	1.8%	-0.3%	-1.6%	19.0%	6.8%
UK All Share	UK	4053.80	2.5%	-0.5%	-2.1%	14.4%	6.0%
Dow Jones Ind Avg	US	35950.89	8.8%	3.0%	3.9%	21.3%	40.8%
S&P 500 Index	US	4567.80	8.9%	1.2%	12.0%	26.1%	65.5%
Nikkei 225	Japan	33486.89	8.5%	3.6%	19.7%	26.7%	49.8%
MSCI Europe Ex UK	Europe	184.85	7.3%	0.7%	6.9%	18.2%	35.0%
MSCI Asia Ex Japan	Asia	620.76	6.9%	-0.7%	-0.1%	-21.5%	1.0%
MSCI Emg Mkts (£)	Emg Mkts	606.21	3.5%	0.8%	-2.0%	-6.8%	13.1%
MSCI World Index (£)	Global	3023.63	9.2%	1.1%	11.1%	17.1%	48.1%
UK Conventional	Gilts	2968.64	2.9%	2.1%	-5.7%	-27.8%	-16.0%
UK Index-linked	Gilts	3793.47	3.5%	-0.1%	-10.0%	-34.1%	-20.6%
FTSE All-Share Real Estate Investment Trust Index	Property	1970.24	11.8%	4.2%	-4.0%	-16.8%	-20.8%
WTI Crude ($/Barrel)	Oil	75.96	-6.2%	-6.9%	-5.7%	67.5%	49.1%
Gold Spot $/Oz	Commodities	2036.41	2.6%	4.8%	15.1%	14.6%	66.8%
£1 = US$	Currencies	1.2624	3.9%	-0.8%	4.7%	-5.2%	-1.0%
£1 = €	Currencies	1.1594	0.9%	-0.4%	0.1%	3.8%	2.9%
£1 = Yen	Currencies	187.08	1.5%	0.6%	12.4%	34.6%	29.2%

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

Index	Region / Asset Class	30/11/2023	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,120.04	6.7%	0.4%	-5.4%	-8.9%	11.8%
Latest Weighted Average Discount	-11.7%						
12 Month Weighted Average Discount	-12.7%						

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

General Comments

A positive month for pretty much all assets, apart from oil (and a fall in oil prices is arguably a positive thing for most people and indeed other asset classes). US stocks and bonds surged on interest rate expectations (more below), while perhaps the standout performer was property, with the FTSE All-Share REIT index up 11.8% and finally showing some signs of life.

Other international equities, such as those listed in Europe and Asia, also performed strongly. The UK was more muted as poor sentiment and negative flows (international investors continuing to withdraw money from the UK) continued to present headwinds. That said, the general improvement in sentiment did help modestly lift UK equities as well.

Investment company discounts narrowed slightly, while multi asset portfolios of all risk profiles performed well.

UK Commentary

Any argument that the UK is in recession was refuted by GDP data, which showed 0.2% month-on-month growth and a 0.6% expansion year-on-year. Meanwhile, The Bank of England opted to leave rates unchanged at 5.25% as inflation showed further signs of coming under control with no increase in consumer price levels over the month of October, while producer prices experienced deflation.

However, we are also very much aware that both inflation numbers and GDP numbers (which are adjusted for inflation) can be skewed and manipulated. One obvious way GDP data can be skewed is by immigration, which hit a record last year with a net influx of 745,000 people coming into the UK last year, according to the ONS official figures (which may well be significantly understated given illegal immigration). So, in reality, while headline GDP has proved more resilient than most have predicted, GDP per capita has fallen in the UK in recent times. In fact, research by the Resolution Foundation highlights how this parliament (i.e. since the 2019 election) will be the first which has overseen a fall in living standards with per capita real household disposable income falling. The UK is not alone in this among western nations, but it is a serious issue that we must all be aware of.

While this is perhaps a contributing factor to depressed valuations, the month of November provided several more examples of how UK equities are potentially significantly undervalued. Two such cases came on the same day as Hotel Chocolat and City Pub Group were both subject to takeover bids. The former received a bid from confectionary giant Mars at a 170% premium to their prior share price, while the latter received a 46% uplift from fellow pub-co Young & Co's offer. These are significant increases in value for shareholders, highlighting just how depressed UK stock market valuations are compared to what buyers are willing to pay.

North America Commentary

The Federal Reserve held interest rates at their 22-year high, the second meeting in a row where rates have been kept at the 5.25% to 5.5% mark. This drove US stocks to their best week in a year following this news, while US bonds had one of their best months on record (if not the best) as traders bet that rates would not go any higher from here, and indeed would fall in the not too distant future. This drove bond yields down and thus prices up.

Shortly after the Fed's decision it was reported that US inflation (CPI) fell more than expected to 3.2%. While still above the 2.0% target, this is very much in manageable territory, and the flat month-on-month rate implies we are not far away from seeing the annualised number move further towards target.

There was significant corporate drama with OpenAI (an Artificial Intelligence company backed by Microsoft) sacking their co-founder and CEO Sam Altman, only for him to return a few days later. The board ended up with their tail between their legs and Microsoft's grip on the company appears to have tightened with Altman initially appearing to take his team to Microsoft, and then the software giant gaining a board seat at OpenAI when he was reappointed as OpenAI CEO. Many commentators believe Microsoft are well placed in the AI race, partly because of this investment.

Europe Commentary

November saw mixed economic news for many European nations, with more countries slipping into recession (such as Sweden and Denmark) but many also experiencing significant reductions in inflation (such as Spain and, crucially, Germany). Eurozone inflation (CPI) fell more than expected to 2.4%, the slowest pace since July 2021 and is effectively now at target levels. This means that many traders now expect an interest rate cut from the European Central Bank in the first quarter of 2024. At the time of writing, traders appear to be pricing in up to a 90% chance of this happening. We will watch this closely as this action could well help lift equity and bond markets globally.

Elections in The Netherlands saw right-wing anti-establishment PVV (Party for Freedom) gain the most votes, meaning Geert Wilders will become Prime Minister. Interestingly, following a pattern of a few nations in Europe, young voters noticeably shifted to the right, with the PVV becoming the most popular party for voters between 18 and 34 years old. While this was marginal and the right-wing party earned more votes among other demographics, it is a significant change for typically left-leaning younger people.

Asia Pacific Commentary

China went back into deflation, with reports of consumer prices falling 0.2% last month. While readers may wish to see deflation themselves for their own Christmas shopping lists, it is an economist's worst nightmare as falling prices often lead to consumers putting off buying in anticipation of further price falls. This reduced demand can lead to further price falls and a viscous circle of collapsing prices, profits and incentives to do business. While this is a modest contraction and not something to worry too much about right now, it is important to be aware of.

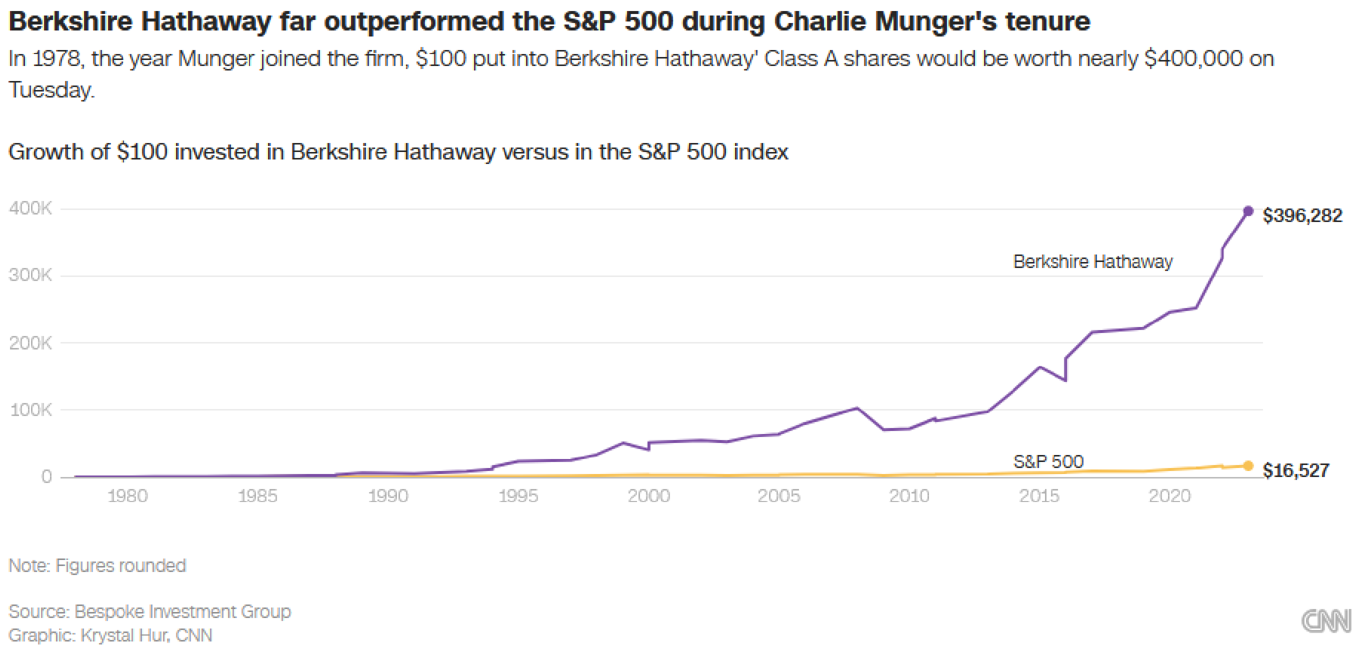
In contrast, the positive reports from the meeting of Xi Jinping and Joe Biden are certainly good news. There was reportedly progress made on climate goals, military communication and even on more pandas for US zoos. These are arguably the two most important nations for the global economy, so any positive talks between presidents is certainly welcome news, especially against the background of apparently worsening relations over the past few years.

Emerging Market Commentary

Argentina's presidential election saw Javier Milei elected to lead the financially troubled nation. He has pledged to swiftly reform the economy, slashing the size of the state. He has advocated for free markets, even stretching these to human organs and deregulation of firearms. Because of such controversial policies, many journalists have labelled him "far-right" or an "extremist". How true these labels are is not entirely certain to us. What is clear is that Argentina needs strong leadership and perhaps some radical thinking.

In India, Narendra Modi appears to be further tightening his grip on power with victories in key regional elections. In the coming months there are important national elections, so this is a significant signal that Modi will likely retain power in those.

Chart of the month – Berkshire Hathaway under Charlie Munger



The above chart from CNN (based on Bespoke Investment Group data) shows how $100 invested in Berkshire Hathaway shares when Charlie Munger joined in 1978 would have grown to the date of his death, the 28th of November 2023, compared to if this sum were invested in the S&P 500.

As this shows, $396,282 would be the resulting figure. This is a remarkable $379,755 more than an investor would have received from passively tracking the major US index (& doing so without any costs).

These numbers obviously speak for themselves, and many around the world will mourn Munger's passing as he helped educate great numbers about investing, as well as life generally. Warren Buffett, veteran investor and his partner at Berkshire, credits Munger with helping them focus the business on investing in the best companies, rather than those whose shares are the cheapest. This strategy is arguably responsible for much of the above outperformance.

Investment Profile – abrdn Asia Focus

This investment company focusses on investing in smaller companies in the Asia ex Japan region. While not explicitly a value-style strategy, the portfolio contains many very attractively valued companies, and the managers actively trim (sell down) positions in companies whose rating appreciates.

Manager Hugh Young recently announced his retirement, but the team he has been working with for years is still very much in place. Flavia Cheong has been in place since 2009, Gabriel Sacks since 2008, and Neil Sun is a more recent joiner from 2021. Xin-Yao Ng has also been appointed as a co-manager. Hugh has managed this strategy since its launch in 1995. Over this time, the fund has returned 2,134%, significantly more than the 507% the benchmark has done.

Currently trading on a ~15% discount to assets, the rating is much lower than the single-digit long term average. There have been long periods in the past few decades where this strategy has been the best performing among all investment companies, so a rating this low is likely undeserved, albeit a sign on the times. Hopefully investors buying in at these levels will experience some of the exceptional returns others have benefited from in the past, and they will be helped by this low starting valuation.

Investment Team's thoughts

While it has not always been the case in recent times, November was a month where positive economic data was matched with positive asset price returns.

In most western economies inflation is now back somewhere near target and heading in the right direction. As a result, most central banks appear to be done with interest rate rises, at least for now. In some cases, they also appear to be seriously contemplating cuts.

We do not invest hoping for one good month, but it is reassuring to see there are plenty of other positively minded investors out there who finally seem to see reasons to be buying again. It would be somewhat of a miracle if all major economies avoided any form of recession while inflation headed smoothly back towards target levels; there are almost certainly more ups and downs to come from here. However, this month did offer us plenty of reasons to continue to be optimistic about the future.