ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

August 2022

Published: 09/09/2022

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/08/2022	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	191.68	-2.5%	-2.8%	-6.9%	+1.7%	+5.4%
ARC Balanced	Medium Risk	234.55	-2.2%	-2.5%	-7.6%	+5.0%	+10.8%
ARC Steady Growth	Medium High Risk	278.69	-1.8%	-2.1%	-8.2%	+7.9%	+15.9%
ARC Equity Risk	High Risk	323.58	-1.7%	-2.1%	-9.4%	+11.0%	+20.3%

Source: ARC. NB: Price returns only, excluding dividends. Figures based on ARC estimates.

Index	Region / Asset Class	31/08/2022	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7284.15	-1.9%	-4.3%	2.3%	1.1%	-2.0%
UK All Share	UK	4007.46	-2.4%	-4.6%	-2.5%	1.4%	-1.6%
Dow Jones Ind Avg	US	31510.43	-4.1%	-4.5%	-10.9%	19.3%	43.6%
S&P 500 Index	US	3955.00	-4.2%	-4.3%	-12.6%	35.1%	60.0%
Nikkei 225	Japan	28091.53	1.0%	3.0%	0.0%	35.7%	43.0%
MSCI Europe Ex UK	Europe	161.97	-5.2%	-6.1%	-14.3%	10.0%	12.8%
MSCI Asia Ex Japan	Asia	640.87	-0.2%	-6.8%	-23.5%	5.2%	-3.3%
MSCI Emg Mkts (£)	Emg Mkts	644.34	5.0%	1.3%	-7.5%	13.5%	14.1%
MSCI World Index (£)	Global	2627.32	-4.3%	-5.9%	-16.4%	22.9%	34.1%
UK Conventional	Gilts	3227.40	-7.6%	-6.9%	-19.7%	-19.2%	-10.7%
UK Index-linked	Gilts	4581.76	-7.3%	-6.9%	-23.5%	-19.8%	-7.2%
AES Property Index	Property	136.27	-1.1%	-0.5%	8.8%	1.0%	6.6%
FTSE All-Share Real Estate Investment Trust Index	Property	2392.43	-10.6%	-13.3%	-20.2%	-6.2%	-12.0%
WTI Crude ($/Barrel)	Oil	89.55	-9.2%	-21.9%	30.7%	62.5%	89.6%
Gold Spot $/Oz	Commodities	1711.04	-3.1%	-6.9%	-5.7%	12.5%	29.5%
£1 = US$	Currencies	1.1622	-4.5%	-7.8%	-15.5%	-4.4%	-10.1%
£1 = €	Currencies	1.1561	-3.0%	-1.5%	-0.8%	4.4%	6.5%
£1 = Yen	Currencies	161.51	-0.4%	-0.4%	6.7%	24.9%	13.6%

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

Index	Region / Asset Class	31/08/2022	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,973.46	-1.7%	-1.0%	-15.1%	13.7%	21.8%
Latest Weighted Average Discount	-10.1%						
Previous Month Weighted Average Discount	-9.8%						
12 Month Weighted Average Discount	-4.8%						

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

General Comments

Following on from a strong July, August was a broadly negative month for markets, although not as bad as some months we have seen this year. Asia and emerging markets offered some positive news with positive index returns. Sterling returns in these regions were helped further by currencies such as the Indian rupee and the Indonesian rupiah strengthening against the pound.

It is worth noting that the ARC private client indices returns over one and three months are almost inverted in terms of what one might expect to see in a down market, with the lower risk indices showing greater losses. This is due to the greater allocation to bonds which they contain. As the above numbers show, bonds had a poor month with the gilt indices losing more than seven percent of their value as expectations of further interest rate increases caused bond prices to fall, in order to adjust market rates to these expectations.

UK Commentary

One notable story in the UK in recent times seems to have been the disconnect with consumer behaviour and economic data. For example, UK retail sales grew 2.3% in July compared with the previous year. However, UK GDP contracted 0.1% in the second quarter of this year.

Small quirks like this are not rare in the economy, but they are interesting to see. Meanwhile the UK stocks were marginally negative in August but managed to outperform most developed market peers.

North America Commentary

The US is one country which seems to have positive news to report on the inflation front, as data showed CPI actually fell from 8.7% to 8.5% in June. The US labour market also remains strong with 528,000 jobs added in July, more than double what was expected by analysts.

While US stock markets had a poor month, there is plenty of data suggesting the US economy is in good shape.

Europe Commentary

As highlighted below, one key story from this month was how the euro traded against the US dollar, as the latter being worth more than the former seems to now be becoming a regular occurrence.

Although a small issue in the grand scheme of things, there was some positive news when Russia agreed to end the blockade on the port of Odessa, allowing the first grain ship to leave Ukraine since Russia invaded.

Markets were negative pretty much across the continent in August.

Asia Commentary

Japan posted another good month of stock market returns and inflation, as measured by CPI, edged up to 2.9% in July. Japan is a country which has historically struggled with low inflation (believe it or not, this can be an issue, or at least a symptom of other issues) so not everywhere is suffering as a result of price rises.

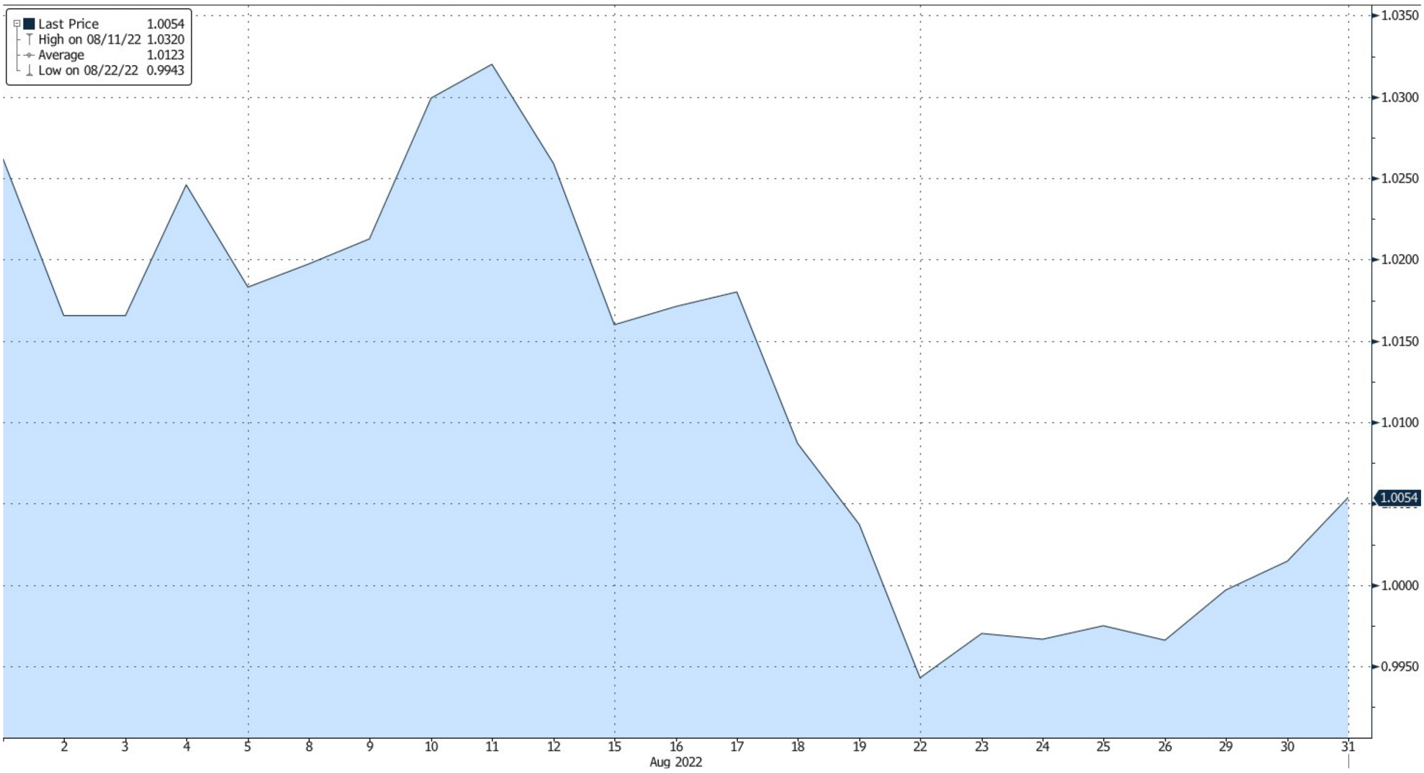
Elsewhere, India marked 75 years of independence from Britain in August and celebrated with a 3.7% increase in their Nifty 50 index in rupee terms.

Emerging Market Commentary

Independence is a word uttered less often in relation to China, especially given ongoing lockdowns, but despite these, stock market returns were still positive in sterling terms for China in August. While obviously situated in Asia, China makes up around 1/3rd of the MSCI Emerging Markets Index.

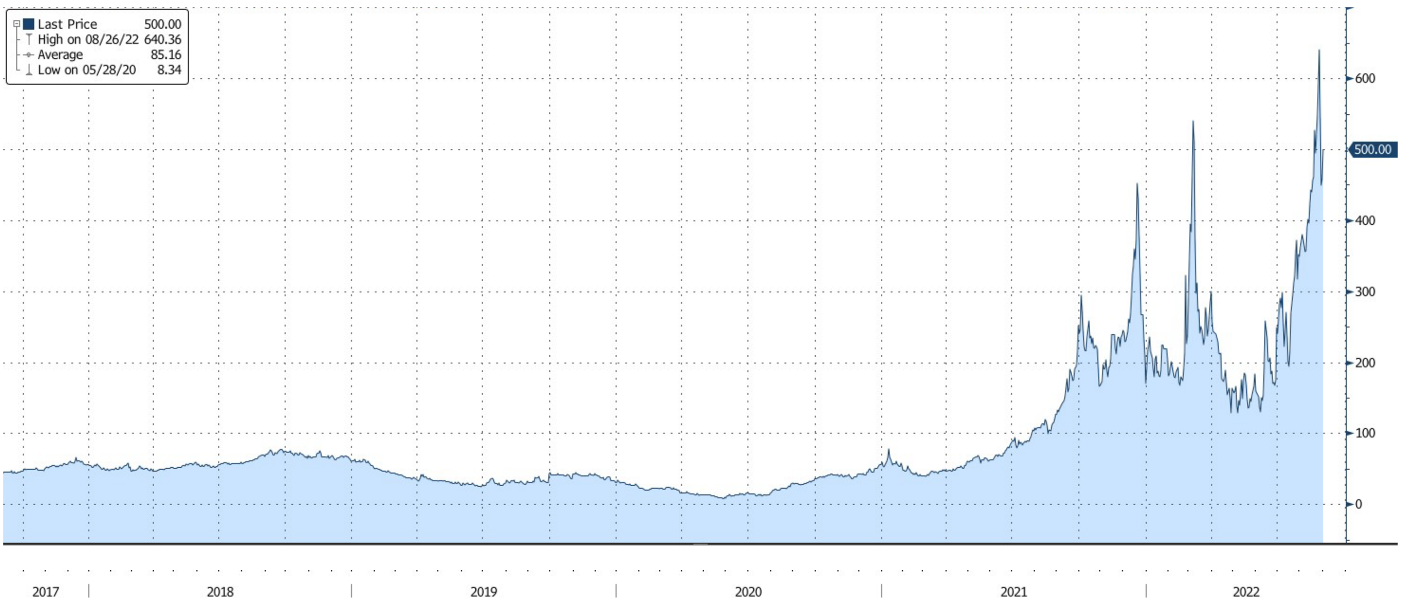
Charts of the month

Euro vs US Dollar



The euro has previously dipped below parity (€1 = $1) this year, but in the last few days of this month the situation persisted for over a week. We could well be seeing a new normal and we would not be surprised to see the US dollar strengthen further against the euro and indeed against other currencies over the medium term.

Gas prices



The above shows natural gas prices over the last 5 years. These have obviously risen sharply in recent times. While we can take some solace in the slight fall in recent days as Germany has reportedly acquired much of what they need for the upcoming winter, prices are still at extremely expensive levels against recent history.

What we must consider here is the degree to which economies are reliant on gas. In Europe (including the UK) they are highly reliant and will bear the brunt of these elevated prices. However, elsewhere in the world this will have less of an effect on economic conditions. Furthermore, while the UK economy may not welcome gas price rises, the UK stock market (FTSE 100) contains a disproportionately high weight of oil and gas firms who benefit from elevated energy prices.

Investment Profile – Henderson Smaller Companies

Henderson Smaller Companies investment trust has been managed by Neil Hermon and his team at Janus Henderson since 2002 and specialises in finding high quality UK smaller companies that offer opportunities for growth. Following a GARP discipline (‘Growth At a Reasonable Price’), this investment company is classified as an ‘upcoming dividend hero’ as the dividend paid to shareholders has risen consecutively for the last 18 years.

The portfolio is well diversified as it currently contains just over one hundred companies and has around one third of its assets invested in industrials, an area which has always been a focus for this strategy. Notable holdings include specialist asset manager Impax, housebuilder Bellway and luxury watch retailer Watches of Switzerland Group.

At time of writing, Henderson Smaller Companies is available at a 14.0% discount to asset value, with a 3.0% yield. The trust has generated a 10-year total return of +221.7%, which represents substantial outperformance of over 116% against the Numis Smaller Companies (Excluding Investment Trusts) Index.

Investment Team’s thoughts

As ever, there are many reasons to be concerned, but there are also many reasons to be optimistic. There is plenty of noise coming from many sources at the minute. We believe it is our job to look through the noise and focus on what is actually happening in markets.

We are of the belief that, as proven time and time again over history, investing money into a diversified portfolio of high-quality assets is the best way to generate long term wealth. It is also therefore the best way to protect this wealth against the threat of inflation. In looking through the noise, we are seeing many opportunities with which to do this.

Lastly, we will leave you with a quote from the interim report of JPMorgan US Smaller Companies Trust, which echoes much of our own thinking in terms of many areas, not just US small caps.

“We expect rising recession fears to continue to pose a challenging backdrop for US small cap stocks in the near term. However, with US small caps currently in a bear market, investor sentiment near all-time lows and valuations relative to large caps at historically attractive levels, we believe the longer term prospects for US small caps have become more compelling”

The managers of this particular strategy closed their remarks by saying they have begun positioning their portfolio for a market recovery.