ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

February 2023

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	28/02/2023	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	192.93	-1.2%	+1.5%	-3.3%	+4.6%	+8.0%
ARC Balanced	Medium Risk	236.74	-1.2%	+1.9%	-2.5%	+9.5%	+13.2%
ARC Steady Growth	Medium High Risk	281.73	-1.3%	+2.0%	-1.9%	+13.5%	+18.7%
ARC Equity Risk	High Risk	328.91	-1.3%	+2.0%	-1.7%	+17.8%	+23.9%

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

Index	Region / Asset Class	28/02/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7876.28	1.3%	4.0%	5.6%	19.7%	8.9%
UK All Share	UK	4304.48	1.1%	4.0%	3.5%	17.2%	8.1%
Dow Jones Ind Avg	US	32656.70	-4.2%	-5.6%	-3.6%	28.5%	30.5%
S&P 500 Index	US	3970.15	-2.6%	-2.7%	-9.2%	34.4%	46.3%
Nikkei 225	Japan	27445.56	0.4%	-1.9%	3.5%	29.8%	24.4%
MSCI Europe Ex UK	Europe	181.94	1.5%	5.2%	2.1%	24.3%	24.7%
MSCI Asia Ex Japan	Asia	623.98	-6.9%	0.4%	-16.4%	-2.3%	-14.3%
MSCI Emg Mkts (£)	Emg Mkts	605.13	-4.9%	-2.1%	-6.1%	8.6%	3.6%
MSCI World Index (£)	Global	2714.57	-2.5%	-0.2%	-8.8%	26.8%	28.2%
UK Conventional	Gilts	2994.34	-3.3%	-4.8%	-20.3%	-26.0%	-15.1%
UK Index-linked	Gilts	3929.43	-4.8%	-6.8%	-32.8%	-28.8%	-18.1%
AES Property Index	Property	112.89	0.4%	-2.1%	-15.5%	-13.8%	-15.3%
FTSE All-Share Real Estate Investment Trust Index	Property	2174.35	-0.5%	5.9%	-24.9%	-18.7%	-17.4%
WTI Crude ($/Barrel)	Oil	77.05	-2.3%	-4.3%	-19.5%	72.1%	25.0%
Gold Spot $/Oz	Commodities	1826.92	-5.3%	3.3%	-4.3%	15.2%	38.6%
£1 = US$	Currencies	1.2022	-2.4%	-0.3%	-10.4%	-6.2%	-12.6%
£1 = €	Currencies	1.1369	0.2%	-1.9%	-4.9%	-2.2%	0.8%
£1 = Yen	Currencies	163.71	2.1%	-1.7%	6.1%	18.3%	11.5%

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

Index	Region / Asset Class	28/02/2023	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,752.68	-1.4%	0.0%	-7.2%	15.0%	18.9%
Latest Weighted Average Discount	-14.4%						
Previous Month Weighted Average Discount	-13.1%						
12 Month Weighted Average Discount	-6.1%						

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

General Comments

February started with the much-anticipated round of central bank announcements, which saw rate rises from the Fed of 0.25%, the Bank of England 0.5%, and the European Central Bank similarly hiking 0.5%. The Bank of England also increased their UK GDP estimates for 2023 from -1.5% to -0.5%, a significant upgrade.

The UK and US are now increasing interest rates at a slower pace, and speculation is rife as to when they may pause and indeed then reverse these hikes. The truth is nobody, least of all ourselves, know when such actions may be taken. There is also little point speculating as we invest for the long term and do not make strategic decisions based upon what we guess might happen to interest rates in the coming months.

These rate rises had an impact on fixed income markets. Bonds had started off 2023 in a bullish mood, with many betting on rates, and thus yields, perhaps falling in the not too distant future. However, February saw this trend reverse and fixed income securities are now back roughly to where they started the year in many cases. We believe this highlights the folly in trying to invest based upon short term predictions.

The response from equity markets was mixed. There seemed to be a more negative reaction in the US than in European markets and, as below, the UK in particular had another good month.

Elsewhere, investment company discounts widened again in February to now stand at a 14.4% discount. This is well beyond historic levels, and we believe represents excellent value for investors.

UK Commentary

The UK's premier equity index, the FTSE 100, hit a new all time high this month, with a closing price above 8,000 registered on three consecutive days. Bumper results from energy giants certainly contributed to this.

UK consumer confidence rebounded in February to the highest level in around a year. Researchers GfK saw confidence rise seven points to -38. While this is a positive move, it is still a deeply negative reading, meaning most respondents reported a decline in confidence.

This improvement may be related in some degree to UK workers' pay, which rose faster than expected in the final quarter of 2022, up 6.7% compared to the previous year. However, data now shows strikes in the UK also hit a 30-year high, with an estimated 2.5 million working days lost in the second half of 2022.

Both of these points demonstrate the difficulty that inflation brings, and why it often takes longer than expected to come down. This is what economists mean when they refer to inflation as "sticky". However, UK CPI did fall to 10.1%, below expectations, as was the month-on-month decline in the inflation level which came in at -0.6%. While prices still being 10.1% higher than a year earlier is significant, it is encouraging to see inflation come in below economists' expectations, rather than above, as was the case last year.

North America Commentary

The inflation story in the US is slightly different, with prices according to CPI 6.4% higher than a year ago and a monthly price level increase of 0.5%, both numbers matching expectations. Equity markets were cautious this month with participants once again trying to second-guess the Fed's reaction to this data with regards to interest rate policy.

Companies affected by factors other than interest rates include Alphabet (Google), which lost 8% (roughly $100bn in market value) on a single day this month following an AI glitch during a presentation. Artificial Intelligence has become a key focus for investors in technology companies, and Microsoft seem to be more in favour with the market at the minute following their integration of ChatGPT with search engine Bing.

There was also a seminal moment in the automobile/electric vehicle (EV) market, as Chevrolet producer General Motors invested $650m in Lithium America to gain exclusive rights to the output of a Nevada mine.

Lithium is a key component of EV batteries and there has been much speculation as to the degree to which car manufacturers will have to "become miners" in order to fulfil EV targets/demand. The investment is certainly a sign that this is somewhat the case and that securing key material supplies is high on the agenda for these firms.

Europe Commentary

The Eurozone economy grew 0.1% unexpectedly in the final quarter of 2022. Economists were predicting a contraction, but milder weather helped reduce energy costs. January also saw positive data from the S&P Purchasing Manager's Index survey, which showed an expansion of business activity that was well above expectations.

However, in contrast to the UK, Germany's economy shrank more than expected in the fourth quarter with high inflation sparking contractions in consumer spending and investment. The economy shrank 0.4%, which is expected by economists to have an impact on Eurozone GDP as a whole, perhaps revising the aforementioned modest growth to a contraction.

For the first time in 15 years, the European Central Bank made no profits after suffering write-downs on its bond investments. Ultimately, 2022 brought sharp increases bond yields (decreases in bond prices), so the lack of profit is no surprise. However, dividends have amounted to €5.8bn since 2018, so national central banks and governments will certainly notice the lack of these payments.

The EU's carbon market also saw a landmark moment this month with prices hitting a record €100, making the cost of polluting greater than ever. This comes as the EU approved a ban on selling new fossil fuel cars by 2035 and announced their own Green Deal Industrial Plan in response to the US's version, which European politicians accused of being protectionist.

Asia Pacific Commentary

India's GDP growth slowed for a second consecutive quarter, registering 4.4% for the October to December period. This does mean though that India's economy outpaced China's last year for the first time since 2016. The "China Plus One" strategy is widely cited by the Asia-focussed fund managers we meet with, so it is interesting to see which of these enormous nations is performing better. However, arguably China's underperformance is a result of since-unwound COVID policies, so 2023 may be a fairer competition.

India's ambition was very much on show with reportedly the largest deal in commercial aviation history. In a deal totalling an estimated $85bn, Air India ordered 470 planes from Boeing and Airbus.

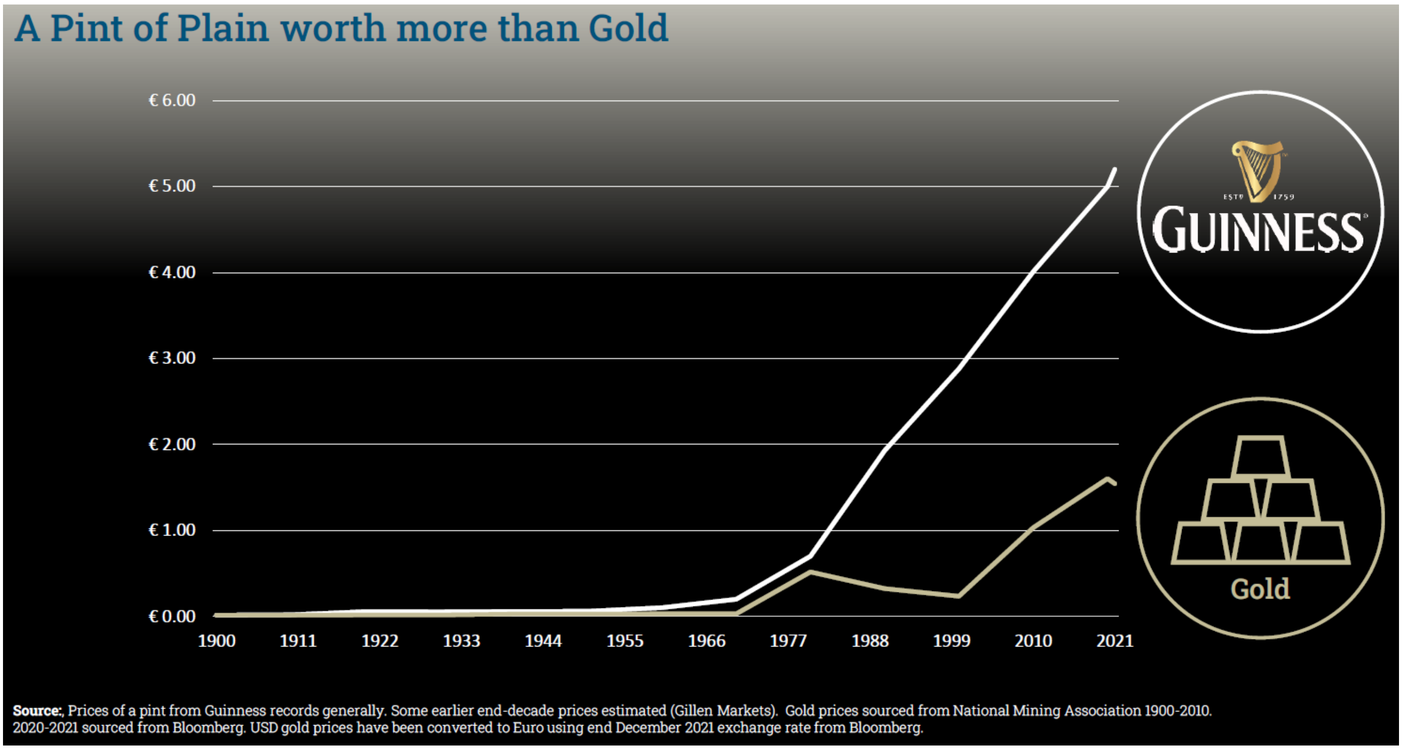
Meanwhile, China's reopening was highlighted with Foxconn recording record sales, as the world's largest iPhone maker received $22bn in January, thanks in part output from to its flagship Zhengzhou factory recovering from previous COVID-related restrictions. This is a good example of Sino-US trade, which hit a record $690.6bn in 2022, despite any diplomatic tensions. Once again, business proves its desire to look beyond political bluster.

Emerging Market Commentary

Africa's most populous country headed to the polls to elect a new president, with Bola Tinubu coming out on top amid calls for the election to be re-held from the three opposition parties and criticisms from independent observers. This was widely touted as Nigeria's tightest election since the end of military rule in 1999 and it did indeed turn out to be closely contested. With around 90 million eligible voters, Tinubu received votes amounting to less than 10% of that figure.

Elsewhere, the tragic earthquake in Turkey saw an outpouring of compassion and international aid. Turkey's stock market has since recovered most of the ground lost following an initial shock. While the foreign exchange markets did not hit the Lira in the same way, the currency remains weak and its trend towards a lower value remains.

Chart of the month – Guinness vs Gold



The above is a slide taken from Nick Train's Finsbury Growth and Income presentation, showing the value of Diageo's Guinness brand. The growth in the price of a pint of Guinness has outstripped both inflation and the price of gold quite significantly since the turn of the previous century. Guinness is a prime example of the type of high-quality asset which investors would be wise to maintain ownership of.

Train also quoted data that showed £1 invested in the UK stock market in 1900 would have been worth £30,000 in 2015. However, if that same £1 was invested in the best performing sector over that time, alcoholic beverages, it would be worth over £240,000. The power of quality brands (along with people's demand for alcohol during that time) is clear to see.

Investment Profile – F&C Investment Trust

F&C (formerly Foreign & Colonial) was the first investment trust, and indeed the first collective investment vehicle ever created. A Victorian invention, the company was formed in 1868, coming into existence a few weeks before public executions were abolished in the UK and just thirteen years after the concept of limited liability to investors came into being. The company was formed to help smaller investors access the same opportunities as larger players, and that purpose remains the same today.

While originally concentrating on government debt, the company now focusses on global equities. Managed by Paul Niven at BMO since 2014, the company has returned around 190% since his tenure began by focussing on investments in the world's biggest and best companies with the likes of Apple and Microsoft featuring among the largest holdings. The trust also benefits from a modest allocation to private equity strategies. The closed-ended structure allows this, and performance has benefitted as a result.

With a market cap approaching £5bn, F&C is a FTSE 100 listed company and one of the premier investment companies in the world. It pays a 1.4% dividend yield and is an AIC Dividend Hero, having increased their dividend for 51 consecutive years.

Investment Team's thoughts

While equity markets continue to move with various signals from central bankers regarding interest rates and inflation, there remain many reasons to be positive on the asset class. With the FTSE 100 hitting an all time high this month, perhaps investors will begin to appreciate the UK market a bit more, as it continues to be much cheaper than some international peers.

With fixed income markets broadly back to where they were at the start of the year following a bullish initial few weeks of 2023, inflation worries are clearly still very much on investors' minds. We remain of the view that investing in high quality assets for the long term is the ultimate inflation hedge.