ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

January 2023

Published: 07/02/2023

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MONTHLY COMMENTARY

JANUARY 2023

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/01/2023	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	192.93	+2.4%	+3.6%	-2.7%	+2.5%	+7.2%
ARC Balanced	Medium Risk	236.74	+3.0%	+4.7%	-1.9%	+5.3%	+11.7%
ARC Steady Growth	Medium High Risk	281.73	+3.4%	+5.5%	-1.4%	+7.1%	+16.5%
ARC Equity Risk	High Risk	328.91	+3.7%	+6.2%	-2.0%	+9.6%	+21.2%

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

Index	Region / Asset Class	31/01/2023	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7771.70	4.3%	9.5%	4.1%	6.7%	3.2%
UK All Share	UK	4255.72	4.4%	9.8%	1.5%	4.9%	2.9%
Dow Jones Ind Avg	US	34086.04	2.8%	4.1%	-3.0%	20.6%	30.4%
S&P 500 Index	US	4076.60	6.2%	5.3%	-9.7%	26.4%	44.4%
Nikkei 225	Japan	27327.11	4.7%	-0.9%	1.2%	17.8%	18.3%
MSCI Europe Ex UK	Europe	179.33	7.4%	10.9%	-3.5%	13.2%	18.3%
MSCI Asia Ex Japan	Asia	669.91	8.2%	27.9%	-12.4%	1.9%	-12.7%
MSCI Emg Mkts (£)	Emg Mkts	636.34	5.4%	14.2%	-4.2%	11.6%	7.2%
MSCI World Index (£)	Global	2785.00	7.0%	9.3%	-9.0%	18.9%	25.8%
UK Conventional	Gilts	3095.29	2.6%	1.1%	-18.8%	-22.5%	-12.0%
UK Index-linked	Gilts	4126.71	3.2%	1.4%	-29.6%	-23.9%	-13.7%
AES Property Index	Property	112.43	-0.2%	-6.9%	-15.4%	-14.1%	-16.1%
FTSE All-Share Real Estate Investment Trust Index	Property	2184.29	7.4%	7.8%	-26.7%	-25.5%	-21.2%
WTI Crude ($/Barrel)	Oil	78.87	-1.7%	-8.9%	-10.5%	53.0%	21.8%
Gold Spot $/Oz	Commodities	1928.36	5.7%	18.0%	7.3%	21.3%	43.4%
£1 = US$	Currencies	1.2320	2.0%	7.4%	-8.4%	-6.7%	-13.2%
£1 = €	Currencies	1.1344	0.4%	-2.2%	-5.2%	-4.7%	-0.8%
£1 = Yen	Currencies	160.29	1.1%	-6.0%	3.5%	12.0%	3.4%

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

Index	Region / Asset Class	31/01/2023	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,918.97	2.8%	6.1%	-9.3%	8.2%	17.9%
Latest Weighted Average Discount	-13.1%						
Previous Month Weighted Average Discount	-13.8%						
12 Month Weighted Average Discount	-5.9%						

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

General Comments

Stock market participants often have sayings and ‘old wives’ tales’ which they lean on. While we try to focus on rationality rather than superstition, we hope the aphorisms relating to the first few days’ trading setting the tone for the rest of the year hold true this time around, as 2023 got off to a promising start in January.

As shown above, all asset classes seemed to be lifted by the rising tide the new year brought. Equity markets were particularly buoyant, with Asia leading the way thanks in part to China’s reopening. Looking at the longer-term numbers, equity, investment company, commodity and multi-asset portfolio returns are back to reasonable levels. While 2022 may have left scars, long-term investors seem to still be in a reasonable position today.

UK Commentary

The ONS estimates the UK economy grew by 0.1% in November. While this would normally not be worth writing home about, given the doom mongering predictions from many (namely within the UK's major institutions such as The Bank of England) a positive number is certainly well received.

On the political front, it seems the Sunak government is more inclined to work with European counterparts than previous regimes. Many reports emerged of progress being made on long-running disputes over trade arrangements concerning Northern Ireland. An agreement being signed on real time trade data may be a small step, but hopefully this is a move towards giving businesses and customers alike greater certainty and resolving an issue that has dragged on for a while now.

British businesses had a reasonable January on aggregate, with high street stalwart Marks and Spencer being one of the UK-listed companies to report a better-than-expected festive trading period. They also announced plans to create around 3,400 jobs and open 20 new stores as part of a £480 million investment strategy.

North America Commentary

The US had an interesting start to the year politically as Republican leader Kevin McCarthy repeatedly failed in his bid to be elected Speaker of the US House of Representatives. He was finally elected at the 15th attempt, many days after voting began. While this may not be the most serious of issues, it did highlight the waning power of the right of the Republican party and indeed of former President Trump as McCarthy struggled to convince moderates within his party to back his bid.

It was reported US economic growth and US employment growth slowed in December. While these are still positive numbers, there are certainly signs that The Federal Reserve's aggressive rate raising is starting to have an impact.

Large US tech companies were certainly contributing to the slowdown of jobs growth and layoffs continued in January with the likes of Amazon contributing to more job losses this month with a further 18,000 announced.

Europe Commentary

The small coastal town of Wilhelmshaven received the first full cargo of Liquified Natural Gas (LNG) in Germany's history. The nation had never received a shipment of LNG, previously relying on pipelines, but the desire to move away from reliance on Russia has brought about this shift in model.

Elsewhere in Europe, over a million people in France protested a proposed raising of the retirement age. The truth is, as with many developed economies around the world, slowing population growth and aging populace is creating difficulties for politicians who attempt to fund state pension deficits. President Macron has certainly not made himself popular in this case though, however necessary such a change may seem.

In company news, LVMH (Louis Vuitton Moët Hennessy) posted yet another set of impressive results. The luxury brand house announced a 20% increase to their dividend after delivering a second consecutive year of record sales and profits. Sales of core brands Louis Vuitton and Dior helped drive this exceptional performance. Some commentators saw CEO Bernard Arnault's appointment of his daughter to take the helm of Christian Dior as a sign of poor management and, well, nepotism. Only time will tell if this is a good move, however, Delphine Arnault certainly knows the business inside out and in luxury businesses traits such as history and prestige are valued far more than most other areas. If 'nepotism' works anywhere, its likely at a company where brand heritage is paramount, such as LVMH.

Asia Pacific Commentary

China reopened in many respects in the month. The opening of the Hong Kong border for the first time in over three years was a significant part of this. There were also reports of considerable festivities surrounding Chinese New Year and plenty of tourism surrounding this.

China also made headlines this month as it was announced their population fell in 2022. This is the first time in 60 years this has happened. On a similar note, Japan is now paying families to move out of Tokyo in an effort to address population decline in other regions.

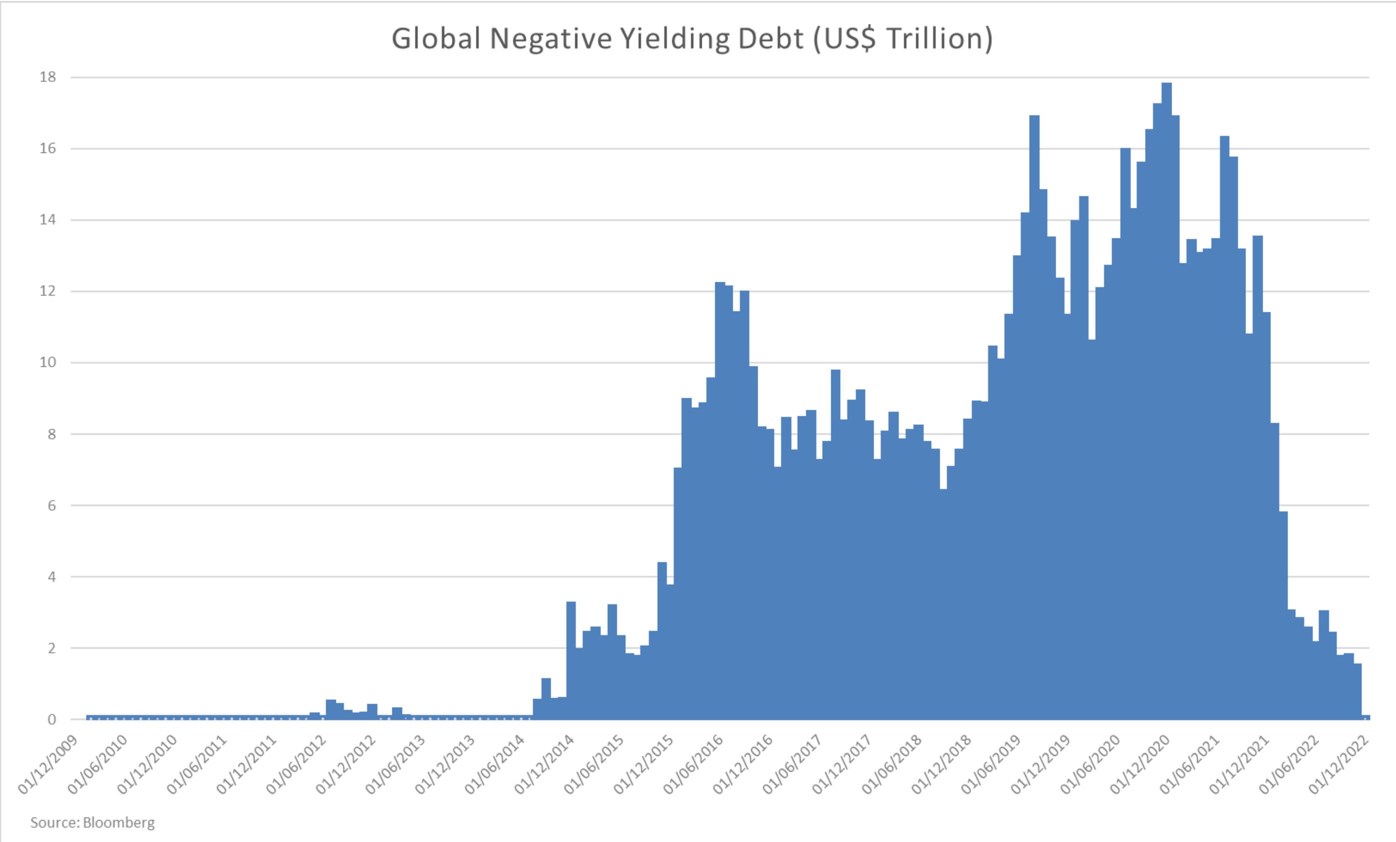
Perhaps larger news in Japan, however, is their seemingly unique approach to monetary policy at the minute. Their central bank remains without a successor for the governor position and, as highlighted below, they continue to pursue policies of easy monetary policy. This is despite their inflation picking up to 4.4%, ahead of the 4.0% expected by economists.

Emerging Market Commentary

China also had a significant influence elsewhere this month as a $1.5 billion (US) seaport opened in Nigeria's largest city Lagos. This is part of China's Belt and Road initiative and is expected to generate $360 billion (US) over the next 45 years.

In other news, short-seller Hindenberg Research released a report on what they called "the largest corporate fraud in history" as they attacked Indian Billionaire Gautam Adani's empire. As a result of related companies' shares falling in price in response to the report, Adani can no longer claim to be Asia's richest man.

Chart of the month – Global Negative Yielding Debt



Looking at the amount of negatively yielding debt outstanding globally, until late 2014 there was almost none. At some point following the global financial crisis of 2008/09, however, this changed, and investors were now willing (forced?) to pay for the 'privilege' of lending their money out, a negative yield. By the end of 2020 this phenomenon reached a peak with around $17.8 trillion US dollars of negative yielding debt globally. At the end of 2021 this was $11.3 trillion. Then, following a sharp change in 2022, we ended the year with essentially none (bar around $25 billion in Japan).

In fact, Japan spent the equivalent of 6% of GDP in December alone on buying their own government bonds. The attempt to keep their yield curve under control to such a degree sets them apart on the world stage.

Investment Profile – Man GLG Continental Europe

The fund takes a concentrated approach to investing in primarily large cap European equities. The focus is on consumer and household goods, with high quality brands a feature of the strategy.

This leads to an emphasis on companies listed in France and Switzerland. However, this is ultimately a portfolio of exceptional global companies which just happen to be listed in Europe. They are not reliant on the success of domestic European economies, but rather lead the way on the global stage. Healthcare giant Novo Nordisk, consumer goods brand house Nestlé and cosmetics company L'Oréal feature among the top holdings, as well as the aforementioned LVHM, to create a portfolio that could easily be classed as a global equity strategy.

The impressive Rory Powe has managed this fund since 2014 and the fund has returned around 172% since the start of that year, outperforming the FTSE World Europe (ex UK) by approximately 68%.

Investment Team's thoughts

While we are not able to wash our hands of all the issues that caused 2022 to be a difficult year for markets, the picture is looking rosier at present than it has in previous commentaries, and not just in terms of positive numbers being shown above.

In the coming weeks we have major announcements from central banks around the world, with expectations that their stances regarding aggressive rate increases may be beginning to soften. We cannot and will not attempt to predict exactly what they might do and when they might do it. However, it is reasonable to assume that the pace and degree of rate rises will be slower over the next few announcements than those from the latter half of the previous year.

Ultimately though, we aim to invest with a long-term view. Short-term adjustments to base rates are not what drive returns over such periods. Perhaps more significant for generating growth are broad themes such as luxury consumption and changing demographics touched upon above. We continue to stick to what we know and aim to invest in a way to allow our clients to benefit from such long-term trends. We look forward with optimism and are encouraged by the positive start to this year.