



# ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

June 2024

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**Monthly returns and summary**

Index	Portfolio Benchmark Risk Level	30/06/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	202.64	+0.6%	+0.8%	+6.0%	-0.1%	+8.9%
ARC Balanced	Medium Risk	256.28	+0.8%	+1.3%	+9.2%	+3.3%	+16.1%
ARC Steady Growth	Medium High Risk	311.96	+0.9%	+1.6%	+10.9%	+5.7%	+21.9%
ARC Equity Risk	High Risk	370.40	+1.0%	+1.9%	+12.4%	+7.0%	+27.6%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/06/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8164.12	-1.3%	2.7%	8.4%	16.0%	9.9%
UK All Share	UK	4451.92	-1.4%	2.6%	8.7%	10.9%	9.7%
Dow Jones Ind Avg	US	39118.86	1.1%	-1.7%	13.7%	13.4%	47.1%
S&P 500 Index	US	5460.48	3.5%	3.9%	22.7%	27.1%	85.6%
Nikkei 225	Japan	39583.08	2.8%	-1.9%	19.3%	37.5%	86.0%
MSCI Europe Ex UK	Europe	204.69	-1.2%	-1.0%	10.9%	12.9%	38.3%
MSCI Asia Ex Japan	Asia	696.58	3.9%	6.4%	10.5%	-21.7%	6.7%
MSCI Emg Mkts (£)	Emg Mkts	678.05	4.7%	4.9%	13.2%	-6.5%	17.3%
MSCI World Index (£)	Global	3511.78	1.9%	2.2%	18.4%	16.4%	61.2%
UK Conventional	Gilts	3051.44	1.2%	-0.9%	4.8%	-22.6%	-19.3%
UK Index-linked	Gilts	3881.70	0.2%	-2.1%	-0.4%	-30.8%	-26.5%
UK Real Estate Investment Trusts	Property	2058.40	-3.1%	-1.2%	12.3%	-23.2%	-20.0%
WTI Crude (\$/Barrel)	Oil	81.54	5.9%	-2.0%	15.4%	11.0%	39.5%
Gold Spot \$/Oz	Commodities	2326.75	0.0%	4.3%	21.2%	31.4%	65.1%
£1 = US\$	Currencies	1.2645	-0.8%	0.2%	-0.5%	-8.6%	-0.4%
£1 = €	Currencies	1.1801	0.5%	0.9%	1.4%	1.1%	5.7%
£1 = Yen	Currencies	203.40	1.5%	6.5%	11.0%	32.4%	48.5%

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

Index	Region / Asset Class	30/06/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,311.86	0.5%	2.5%	10.8%	-9.8%	16.4%
Latest Weighted Average Discount			-14.2%				
12 Month Weighted Average Discount			-15.4%				

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

**General Comments**

June saw mixed returns for financial assets. European and UK stocks sold off, along with UK commercial property, while most other markets produced positive returns. US stocks once again produced positive returns, but emerging markets led the way by adding 4.7% over the month. Strong gains from Taiwanese and Indian equities (second and third largest exposures in the MSCI Emerging Markets Index respectively) were particularly impressive.

In currency markets, the Japanese yen showed continued weakness with markets remaining unconvinced regarding the nation's monetary policy and level of indebtedness. The yen moving past 160 per US dollar and to its weakest level since 1986, reflects Japan's current status in the eyes of investors.

Elsewhere, private client investors will be pleased to see that both the ARC Private Client Indices and UK Investment Companies once again made progress over the month.

## UK Commentary

Inflation hit the Bank of England's target level of 2.0% for the first time since July 2021. This is a significant development for asset values, and indeed for consumers. This makes the UK one of the first nations in the world to have inflation back under control and at the targeted level. There is, however, a reasonable argument that as our inflation level rose faster and harder than other nations in previous years that this is the inevitable result of the base effects of those price increases. On a forward-looking basis this is good news as it means policy makers are in a better position to consider more easy monetary policy moving forward, with potential for interest rate cuts in the near future.

In similar news, UK wage growth remains strong with 6% average annual wage growth being reported. There were also upward revisions to the previous release. Furthermore, the UK Asda Income Tracker, a widely trusted household income index, increased 15.1% annually to a 32-month high. While UK consumers were hit hard by rampant inflation in recent years, they are now experiencing significant real terms pay growth, which could well offer a boost to domestically focussed businesses. The UK's mid cap index is up by more than one third since the end of October, partly as a result of consumers in the UK having more firepower to go out and spend.

Significant political news came as Nigel Farage announced he would stand as an MP and become leader of Reform UK. A controversial figure, with a loyal following, this will be his 8<sup>th</sup> attempt at becoming an MP.

## North America Commentary

Once again, the S&P 500 hit new record levels, including the 25<sup>th</sup> new record high this year. Unsurprisingly, this was led by AI chip designer Nvidia, which reached a \$3 trillion market cap, overtaking Apple. The last time the iPhone maker was smaller than Nvidia was in 2002, five years before that iconic product was first released.

Meanwhile, US inflation showed further signs of improvement as the Federal Reserve's preferred measure, Core PCE inflation, eased to 2.6%. Personal income was up 0.5%, and personal spending up 0.2%, so consumers are saving more, thus improving household balance sheets. Employment data was mixed, but still on the positive side with jobs added. Putting all of this together with the above surging stock market, the US economy remains in a pretty rosy position.

In political news, following a poor showing in the first presidential debate, questions over President Biden's mental capacity were raised once more, with voices of dissent louder than ever. Many Democrats now appear concerned over Biden's age and seem to view this incident as the final straw. Betting markets swung markedly towards a Trump victory following the debate.

Further north, Canada's central bank cut interest rates, becoming the first G7 nation to do so. The cut to 4.75% is the first move since July last year. This came as headline inflation was reported to be 2.9% so still noticeably above their 2.0% target. Commentators who inferred that 3% is the new 2% could argue they have been proven correct in this instance.



## Europe Commentary

While Canada moved first, the European Central Bank were close behind as they cut rates for the first time in nearly five years, reducing their benchmark rate to 3.75%. The Eurozone headline inflation rate is also similar to Canada's, sitting at 2.6%, so this is another case of an interest rate cut coming while inflation is above target.

In France, President Macron called a surprise snap election following his party's humiliating defeat to Marine Le Pen's right-wing party in the European Parliamentary vote. This followed a pattern of right-wing parties gaining popularity in these elections, with them also performing well in the likes of Germany, Italy, and the Netherlands.

Brussels announced tariffs on Chinese electric vehicles (EVs). The top rate could reach up to 48%, in a sign that Europe is looking to protect its own auto industry from surging competition in the East. This came as Volkswagen announced a \$5bn partnership with US EV company Rivian. Volkswagen have reportedly been looking to improve their software and their EV offerings. This deal has potential to help with both, although Rivian's share price had been struggling before this as they have had little success in convincing investors in their product since IPO.

## Asia Pacific Commentary

The Bank of Japan announced it would be significantly reducing its monthly bond buying programme. Although, they once again delayed the release of any specific details, which contributed to the aforementioned weakening of the yen.

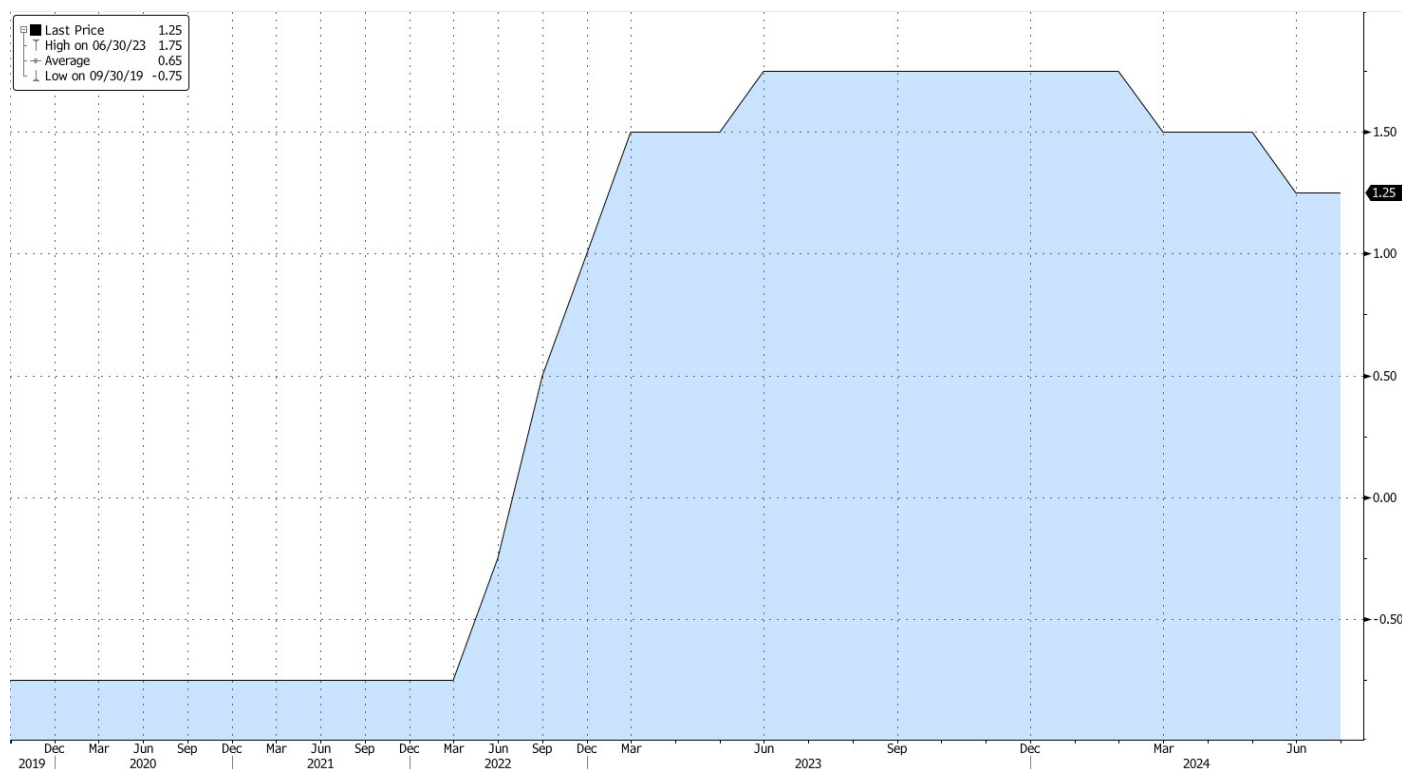
In a sign of improving relations, it was reported that trade between Australia and China reached record levels in 2023. COVID brought heightened tensions between the nations and the imposition of sanctions and tariffs. Trade in 2023 reached A\$219 billion, up more than 30% from A\$168bn in 2019, the last year before the pandemic.

## Emerging Market Commentary

In India, Narendra Modi's BJP lost their majority during national elections and were forced to form a coalition in order to govern. This surprised many commentators as Modi's grip on power had seemed tight for years, however, there is clearly some degree of growing disapproval within India towards his party and his leadership. That said, they remain in power and will continue many of the reforms which have contributed greatly to India's growth and their stock market's rally in recent years.

India's refreshed government may well benefit from a lower cost of funding as the long-awaited inclusion of Indian government bonds in the major JPMorgan emerging markets index finally went ahead.

Elsewhere, there was a historic meeting between Vladimir Putin and Kim Jong Un, as the respective dictators of Russia and North Korea met in the latter's capital of Pyongyang. Putin's two-day trip aimed to cement relations which have reportedly been improving since Russia's invasion of Ukraine. Russia have seemingly relied upon North Korea for military equipment and supplies, with oil flowing in the other direction. The two nations signed a strategic partnership to deepen military and trade ties.

**Chart of the month – Swiss National Bank Policy Rate**

Source: Bloomberg

The above chart from Bloomberg demonstrates how Switzerland's central bank cut rates for the second time in recent months. The move downwards to 1.25% was broadly unexpected by markets. Rates are just over 2/3rds of what they were at the start of the year, making Switzerland one of the earliest and most significant movers in the developed world.

What this does demonstrate is that a return to a period of rising rates is highly unlikely in the near future, with many other nations expected to follow Switzerland's lead. In many cases it is a matter of when, rather than if, interest rates will be cut, or cut further.

**Investment Profile – Alliance Witan / Alliance Trust / Witan Investment Trust**

News of a historic investment trust super-merger greeted investors this month, with Alliance Trust and Witan Investment Trust announcing a combination to form a £5bn, FTSE 100 eligible vehicle under the name Alliance Witan. These two companies, established in 1888 and 1909 respectively, are giants of the space already, so it is quite something to see them join forces to become one of the UK's largest listed companies.

The strategy will follow that which is currently employed by Alliance Trust, with 8-12 sub portfolio managers appointed based on their stock picking prowess. These managers are asked for their 20 best ideas, which are then included in the overall portfolio. The overall strategy manager, Willis Towers Watson, then adjusts the overall pot to ensure there are no major style biases expressed against their global index to ensure that the stock picking skill of these managers is what is driving the investment returns.

Ultimately though, this is two generalist global strategies coming together to offer a one-stop-shop for global equity investors. There are many advantages of the enlarged scale such as reduced fees, increased marketing budget, and greater liquidity in their shares. The new vehicle will also aim to continue Alliance Trust's impressive record of 57 consecutive years of dividend increases, while also increasing their dividend to a level which Witan shareholders had been accustomed to.

### ***Investment Team's thoughts***

Another broadly positive month for returns rounds off a strong first half of the year. Many of our commentaries towards the end of 2023 alluded to areas of underpriced assets, so we are pleased to see 2024 beginning with some positive corrective action on that front.

We expect some interest rate cuts, or further cuts, to be made by central banks in the second half of the year, which could prove supportive of both equity and bond prices. Although it should be noted that in most cases there have been far fewer cuts than markets initially expected at this stage.

While the UK's general election took place in July, not June, as we write this commentary we feel we should include some comments on the issue. Please see those below.

*As has been expected for some time now, we have a new Labour majority government in the UK. We do not envisage any significant changes, nor any significant impact on UK financial markets as a result of this.*

*While we do not expect a large lurch to the left, there could well be a few individual wealth redistribution policies to appease Labour's traditional supporter base, similar to the policy of imposing VAT on private schools. One area that has been rumoured to change is capital gains tax. If Labour do opt to cut allowances further (the Conservatives have recently cut these aggressively), and/or increase rates, it may encourage investors to crystallise gains in the near term in order to avoid more a more punitive regime in the future.*

*In terms of the effects on asset prices, we often talk of markets disliking one thing more than anything else: uncertainty. One thing that we do have now with a seemingly stable Labour majority for the next 5 years is a degree of certainty. Starmer appears to be in a stronger position than the likes of Sunak, Truss, and even Johnson in his latter months. This could mean markets have a degree of certainty they have not had in recent years, which could well prove to be a positive driver.*

*Ultimately, however, we remain apolitical. We are this way because we have closely watched markets for decades. We have seen governments of all political leanings with various amounts of power and wide ranging mandates given to them. Markets have adjusted to everything that has been thrown at them from any and all politicians, and over the long-term they have continued to provide investors with the ability to grow their wealth in real terms.*

*This is not to say that politics doesn't matter, nor that politicians have no impact. It is merely to state the fundamental truth that over the long-term markets have taken everything in their stride. The UK remains a capitalist democracy, and we believe it remains an excellent place to invest for long term investors.*