# ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

May 2024

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## *Monthly returns and summary*

| Index | Portfolio Benchmark Risk Level | 31/05/2024 | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|---|
| ARC Cautious | Low Risk | 201.43 | +1.0% | +1.5% | +5.1% | -0.0% | +10.0% |
| ARC Balanced | Medium Risk | 254.24 | +1.5% | +2.6% | +8.6% | +3.9% | +17.8% |
| ARC Steady Growth | Medium High Risk | 309.18 | +1.9% | +3.1% | +10.6% | +6.7% | +24.2% |
| ARC Equity Risk | High Risk | 366.73 | +2.2% | +3.6% | +12.4% | +8.1% | +30.6% |

Source: Figures based on ARC estimates.

| Index | Region / Asset Class | 31/05/2024 | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|---|
| UK 100 | UK | 8275.38 | 1.6% | 8.5% | 11.1% | 17.8% | 15.6% |
| UK All Share | UK | 4517.08 | 2.0% | 8.5% | 11.1% | 12.5% | 15.1% |
| Dow Jones Ind Avg | US | 38686.32 | 2.3% | -0.8% | 17.6% | 12.0% | 55.9% |
| S&P 500 Index | US | 5277.51 | 4.8% | 3.6% | 26.3% | 25.5% | 91.8% |
| Nikkei 225 | Japan | 38487.90 | 0.2% | -1.7% | 24.6% | 33.4% | 86.8% |
| MSCI Europe Ex UK | Europe | 207.22 | 2.9% | 3.6% | 15.1% | 16.5% | 46.9% |
| MSCI Asia Ex Japan | Asia | 670.63 | 1.3% | 4.8% | 8.7% | -24.9% | 9.0% |
| MSCI Emg Mkts (£) | Emg Mkts | 647.66 | -1.1% | 2.8% | 9.4% | -7.9% | 17.9% |
| MSCI World Index (£) | Global | 3445.17 | 4.2% | 3.2% | 23.0% | 15.8% | 68.4% |
| UK Conventional | Gilts | 3013.83 | 0.8% | -0.4% | 3.0% | -23.0% | -20.2% |
| UK Index-linked | Gilts | 3875.56 | 1.4% | 0.1% | 2.6% | -31.1% | -27.2% |
| UK Real Estate Investment Trusts | Property | 2123.38 | 5.6% | 9.4% | 7.1% | -21.6% | -17.5% |
| WTI Crude ($/Barrel) | Oil | 76.99 | -6.0% | -1.6% | 13.1% | 16.1% | 43.9% |
| Gold Spot $/Oz | Commodities | 2327.33 | 1.8% | 13.8% | 18.6% | 22.0% | 78.3% |
| £1 = US$ | Currencies | 1.2742 | 2.0% | 0.9% | 2.4% | -10.3% | 0.9% |
| £1 = € | Currencies | 1.1744 | 0.3% | 0.5% | 0.9% | 1.0% | 3.9% |
| £1 = Yen | Currencies | 200.45 | 1.7% | 5.9% | 15.6% | 28.7% | 46.5% |

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

| Index | Region / Asset Class | 31/05/2024 | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|---|
| UK Investment Companies | Diversified | 12,254.21 | 1.5% | 4.7% | 8.9% | -8.5% | 19.3% |
| Latest Weighted Average Discount | -14.8% | | | | | | |
| 12 Month Weighted Average Discount | -15.5% | | | | | | |

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

## General Comments

May was another decent month for markets, with US stocks once again leading the way. Sterling's strength continued to be a headwind for UK investors who own assets overseas, as shown by the MSCI Emerging Markets index having a modest positive return in US dollar terms, but a negative one in pounds.

There were continued signs of optimism in UK real estate with listed vehicles adding 5.6% over the month, showing signs that demand is stabilising while new supply remains constrained. This is likely related to UK interest rate expectations, which seem to have found some degree of stability in recent times, with gilt returns being pretty flat over one- and three-month periods.

Meanwhile, the oil price fell over the month offering encouraging signs for future inflation prints. Gold, and many other metals, however, continued to appreciate. All of this meant positive returns for diversified portfolios and investment companies in aggregate.

## UK Commentary

The FTSE 100 hit new record highs in the month, moving past 8,400 for the first time, peaking intraday at 8,474.71. This year appears to finally be seeing some signs of life for the UK stock market. We have hoped for this for some time now and firmly believe there is plenty of room to run as it remains well below historic valuation levels and at significant discounts to most international peers. Once more, this month saw a flurry of corporate activity with takeovers and bids for UK companies coming from all angles. We believe this is proof that there is plenty of smart money out there which agrees with the thesis that the UK market is undervaluing companies.

Rishi Sunak called a general election for July 4th. This came as somewhat of a surprise to commentators and members of the public alike. It seems that once again with this iteration of the conservative party that behind-the-scenes bartering and manoeuvring has led to a significant decision being made. This also followed several defections from the party in the preceding weeks. The fact is, however, their ratings in the polls have been dwindling for some time now, so perhaps the decision was taken to act now before things got any worse. We will see whether this strategy pays off for them.

It was reported the British economy appears to be in expansionary territory with the closely watched composite PMI (Purchasing Managers Index) reporting a rise to 54.1 from 52.8. A figure above 50 represents expansion. As expected, services led the way with a reading of 55.0 being the highest since May 2023.

This was also supported by GDP numbers, which showed faster than expected growth of 0.6% in the first quarter of the year. This means that the UK has, at the earliest opportunity, exited the modest recession it entered at the end of last year.

## North America Commentary

May began with the announcement that The Fed will be keeping interest rates at the 5.25% to 5.5% level. This is in clear contrast to where expectations were just a few months prior. However, expectations of cuts have diminished drastically, and investors are now only expecting one to two interest rate cuts before the end of the year, and for those to come in the final quarter of 2024. The Federal Open Market Committee, who make such decisions, stated there had been a “lack of further progress” regarding inflation returning towards their 2% target.

This came as US consumer inflation fell to 3.4% and US producer inflation rose to 2.2%. The picture continues to be mixed, but these numbers are at least closer to target than we have seen in recent months and years. Meanwhile, US GDP numbers showed the rate of expansion slowing in the world’s largest economy as first quarter growth was revised downwards to 1.3%. This is still pretty impressive, however, even if the rate is coming down. When considered alongside the falling inflation, there are plenty of reasons to still be optimistic about the prospects for the US economy.

In the stock market, the UK was not alone in hitting all time highs as the S&P 500, once again, broke new ground. The Dow Jones Industrial Average also went past 40,000 for the first time. Nvidia, a constituent of the former, but not the latter, reported a 262% increase in revenues as AI chip demand soared once more. As a result, shares in the company rose sharply. This means this company alone is now worth more than the entirety of the FTSE 100, a statistic which would have been inconceivable just a few years ago.

## Europe Commentary

While April's confirmed inflation numbers were encouraging for many nations (such as Spain and Germany), the expected data released by the European Central Bank (ECB) for May painted a different picture, showing inflation rising across the bloc for the first time this year. It was a modest increase from 2.4% to 2.6%, so perhaps not much to worry about, but it is a potential spanner in the works for the ECB who seem intent on cutting interest rates as soon as possible.

Meanwhile, German wages rose 6.4% in the first quarter. This means that workers in the principal economy in Europe are experiencing their largest real-terms pay rise since records began. There is an element of catching up given real terms contractions experienced when inflation skyrocketed in recent years, however, this is still an encouraging sign that German consumers may have more spending power moving forward.

Europe's biggest IPO of the year got off to a reasonable start as fragrance, fashion, and beauty group Puig raised €2.6bn in a deal that valued the company at €13.9bn. Shares were up 6% by the end of the month for the now Spanish-listed owner of Charlotte Tilbury, Rabanne, and Jean Paul Gaultier.

## Asia Pacific Commentary

Japan's economy shrank in the first quarter of the year, with GDP falling 2.0% year-on-year. Consumer spending has reportedly now been falling for its longest period since 2009, which certainly impacted this GDP data. This came as the nation's 10-year government bond yield exceeded 1% for the first time in 11 years. As a reminder, in March, the Bank of Japan moved interest rates positive for the first time in 8 years. They also recently reduced their own purchases of government debt. It seems investors are now betting on further interest rate increases in the coming months.

There was interesting corporate news with South Korean giant Samsung replacing the head of their semiconductor unit, in an effort to catch up with rivals in the sector. Domestic rival SK Hynix has reportedly surged ahead in high-bandwidth memory chips, and their share price has appreciated well so far this year, while Samsung's is flat.

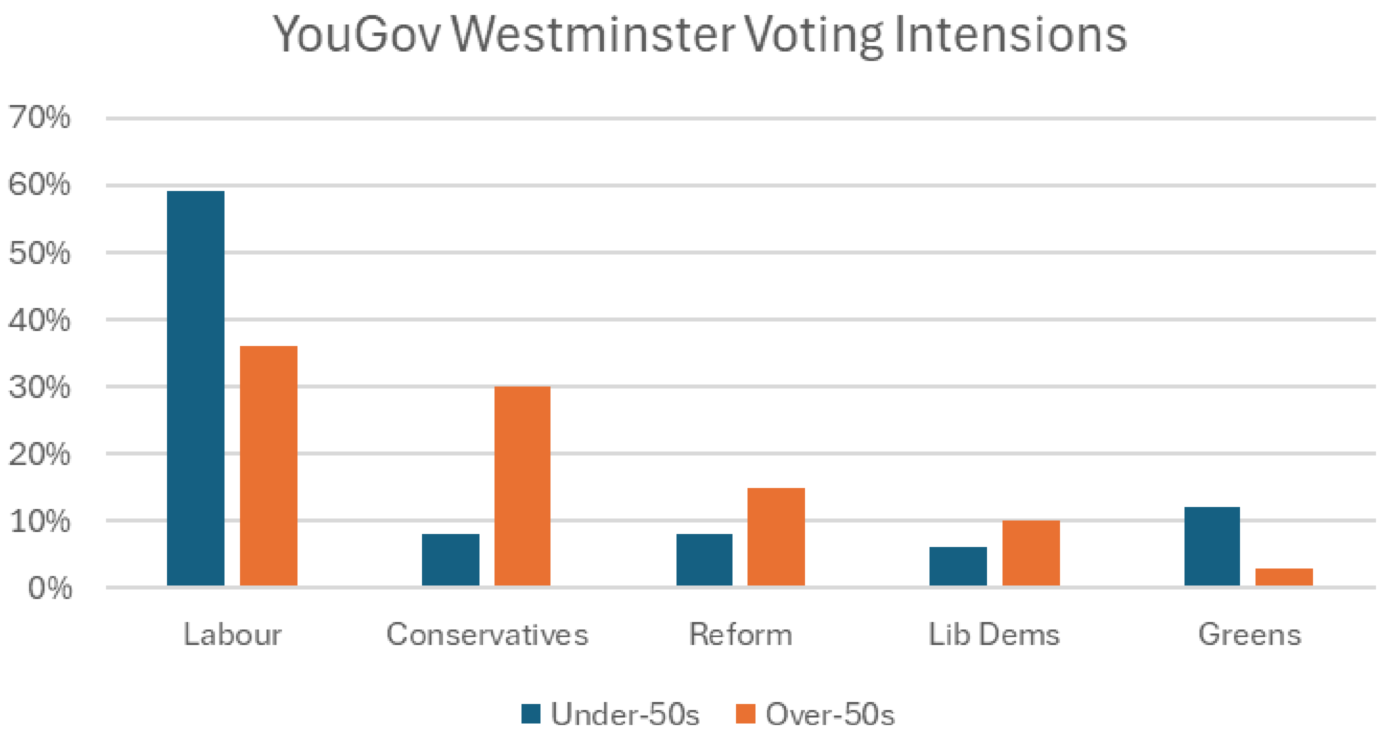
## Emerging Market Commentary

The Chinese government unveiled a major package attempting to drive a recovery in their struggling property sector. They are relaxing mortgage rules and encouraging local governments to purchase real estate (including 42 billion US dollars' worth of support packages for this), in an attempt to boost the demand for property around the nation.

Rumours of Chinese fast-fashion behemoth Shein listing in London continued this month. Politics made their plans for a US listing unworkable and threaten to do the same in the UK. While we would love to see a revival of the London IPO market, there are few market participants who are overly enthusiastic about this particular company potentially listing here.

South Africa's elections returned poor results for the ruling ANC party, who have lost their 30-year majority at the top of the nation's politics. They will be forced to form a coalition in order to command a majority in parliament.

***Chart of the month – YouGov Poll Voting Intentions***




*Source: YouGov / Sky Survey Result 27th/28th May 2024 / AES*

The above shows a recent YouGov poll which shows the Conservatives are in bad shape going into the election they have just called, particularly amongst the under-50s. Given this poll was in May, and before any impact from Nigel Farage, things could look even worse in the near future.

Polls must always be taken with a pinch of salt, and they have been wrong many times before. However, results similar to these in a general election would decimate the Conservative party. Furthermore, given the tiny vote share amongst younger voters, the future of the party would be in serious doubt.

This may perhaps seem alarmist to some Conservative supporters, but we must be aware that there is a very strong likelihood of a Labour majority at the next election. While some of their economic policies seem fairly centrist at present, there is certainly the possibility of some tax increases, and arguably little chance of many cuts. Given taxes are already at unusually high levels, it is disappointing to see little chance of this situation improving.

The upside is that the Labour lead in the polls has been there for a while and businesses have had plenty of chance to talk to Starmer's team and plan ahead. There will likely be many twists and turns before July 4th, and the manifestos are yet to be released, so there is little more we can comment on. We can say, however, that we are currently optimistic that a change of government would have little negative impact upon the UK stock market in and of itself.

### *Investment Profile – Aegon High Yield Bond Fund*

Managed by Mark Benbow & Thomas Hanson, this fund has consistently ranked at the top of its peer group over recent years. Focussing on developed market debt, there is a mix of geographies from the UK, to the US, Europe, and beyond. Ultimately though, the portfolio is full of the debt of companies which many will have heard of, and is managed to maximise both income and capital returns for investors.

Most of the debt is BB and B rated, so while it is a high yield fund they stick to the higher quality credit within their mandate. The duration of the portfolio is also kept short at around the three year mark, and is shorter than the benchmark. This helps reduce risk and ensures returns are driven more by stock selection than macroeconomic factors.

The duration of the portfolio has also been a significant reason for their strong performance, as they have benefitted from lower interest rate risk, while exploiting the high yields on offer within their sector, but without suffering many defaults. They have managed to find somewhat of a sweet spot in recent times.

### *Investment Team's thoughts*

Returns continue to be positive for most asset classes, while US stocks continue to lead the way. We are pleased, however, to see the market rally broadening out with the likes of European equities joining in.

While 2024 continues to be a year of elections, and there are plenty of political stories within this commentary, we would remind readers that markets have seen politics of all shapes and sizes in the past and will continue to do so into the future. For genuine long-term investors, much political news can ultimately be considered noise. While relevant, it is far less important for long-term performance than focussing on fundamentals and market valuations. This is where we endeavour to spend much of our time.