ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

November 2022

Published: 08/12/2022

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/11/2022	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	192.93	+1.9%	-0.6%	-6.1%	+2.3%	+6.4%
ARC Balanced	Medium Risk	236.74	+2.9%	-0.4%	-6.4%	+5.3%	+11.5%
ARC Steady Growth	Medium High Risk	281.73	+3.6%	-0.3%	-6.8%	+7.6%	+16.7%
ARC Equity Risk	High Risk	328.91	+4.3%	+0.2%	-7.2%	+10.5%	+22.0%

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

Index	Region / Asset Class	30/11/2022	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7573.05	6.7%	4.0%	7.3%	3.1%	3.4%
UK All Share	UK	4139.65	6.8%	3.3%	2.8%	1.8%	2.6%
Dow Jones Ind Avg	US	34589.77	5.7%	9.8%	0.3%	23.3%	42.5%
S&P 500 Index	US	4080.11	5.4%	3.2%	-10.7%	29.9%	54.1%
Nikkei 225	Japan	27968.99	1.4%	-0.4%	0.5%	20.1%	23.1%
MSCI Europe Ex UK	Europe	172.96	7.0%	6.8%	-6.8%	10.0%	16.3%
MSCI Asia Ex Japan	Asia	621.63	18.7%	-3.0%	-20.3%	-3.9%	-10.7%
MSCI Emg Mkts (£)	Emg Mkts	618.38	11.0%	-4.0%	-8.3%	9.1%	11.3%
MSCI World Index (£)	Global	2720.89	6.8%	3.6%	-12.3%	18.7%	31.0%
UK Conventional	Gilts	3146.79	2.8%	-2.5%	-22.7%	-19.5%	-11.1%
UK Index-linked	Gilts	4215.42	3.6%	-8.0%	-33.9%	-20.5%	-12.4%
AES Property Index	Property	115.29	-5.7%	-15.5%	-10.2%	-12.4%	-11.4%
FTSE All-Share Real Estate Investment Trust Index	Property	2052.45	1.3%	-14.2%	-31.1%	-29.2%	-22.7%
WTI Crude ($/Barrel)	Oil	80.55	-6.9%	-10.1%	21.7%	46.0%	40.3%
Gold Spot $/Oz	Commodities	1768.52	8.3%	3.4%	-0.3%	20.8%	38.7%
£1 = US$	Currencies	1.2058	5.1%	3.8%	-9.3%	-6.7%	-10.8%
£1 = €	Currencies	1.1587	-0.1%	0.2%	-1.2%	-1.3%	2.0%
£1 = Yen	Currencies	166.49	-2.4%	3.1%	10.6%	17.7%	9.4%

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

Index	Region / Asset Class	30/11/2022	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	11,750.76	4.6%	-1.9%	-16.7%	8.5%	18.7%
Latest Weighted Average Discount	-11.3%						
Previous Month Weighted Average Discount	-13.1%						
12 Month Weighted Average Discount	-5.5%						

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

General Comments

November was a broadly positive month across markets with bonds and equities offering positive returns. These returns helped the diversified indices such as the ARC private client indices and the investment company index also offer positive returns.

The oil price was a significant faller this month, which is positive for other asset classes as the cost of doing business is lower. In other commodity news, gold had a positive month, perhaps finally justifying the opinions of those who consider it an inflation hedge.

In currency markets, the US dollar has weakened somewhat in recent weeks, with major peers such as sterling and the euro clawing back ground lost over the last year.

In summary, November brought positive news from the markets and this is not irrational given many areas seem to be in a better position now than they were earlier this year. There are signs that inflation pressures are easing and that areas of stress are perhaps not as emphasised as previously with the US dollar weakening against many major currencies and sovereign debt markets seemingly behaving in a more orderly manner. We are also through a few important political matters with US midterm results now known and the UK now with a more stable leadership (relatively at least).

UK Commentary

Midway through the month we received the long-awaited budget from Chancellor of the Exchequer Jeremy Hunt. This saw various tax tweaks that will increase the burden on UK citizens. It also saw many changes that will affect investors, such as CGT and dividend allowances decreasing dramatically over the next two years. Tax efficient investment strategy is now even more important.

Across London, the Bank of England enacted its largest rate hike for 33 years, voting 7-2 to raise rates by 0.75% to 3.0%. Somewhat remarkably, however, the statements put out accompanying this announcement seemed to indicate quite a dovish approach hereon, as their projections see the economy slowing significantly and thus not requiring much more intervention from them in terms of further rate increases.

North America Commentary

On one day in November US stocks recorded their best day in over two years and the yields on two-year Treasury notes dropped the most since 2008 following the release of inflation data (further info below) which showed price growth to be well below expected levels.

The midterm elections saw the Democrats post reasonably good results for an incumbent party, losing the house but managing to retain control of the senate, both by a narrow margin. Interestingly, Republican candidates backed by Donald Trump performed poorly, which potentially strengthens Ron DeSantis' position as candidate for party leader.

Europe Commentary

Revised economic growth figures showed Germany's economy actually performed better than expected in the third quarter. The improved numbers showed GDP to have risen 0.4% between in the July-to-September period. This helped drive strong stock market returns for the month in Europe with the MSCI Europe ex UK index up 7.0%.

In the Nordics, Denmark's election saw a razor-thin win for the left-wing bloc led by Social Democrat Mette Drederiksen, who clung on to the position of prime minister. Also, Norway's Norges Bank raised interest rates by 0.25%, having previously increased at 0.50% increments, following a broader pattern of central banks globally easing off the rate hiking accelerator.

Asia Commentary

China saw some remarkable scenes (for China at least) of anti-lockdown protests, while various restrictions were tightened and loosened across the country. Overall, it seems there may be a gradual easing of restrictions from Chinse authorities. If the protests didn't spark this, perhaps actions from the likes of Apple who appear to be moving iPhone production away from China might have some impact on such decisions. It is likely that this drove some of the positive sentiment that took Asian stocks dramatically higher in the month, with the MSCI Asia ex Japan index up nearly 19%. There is still a long way to go to get back to positive levels on a longer-term view, but this month's move was significant.

Also in the region, key global chip supplier Taiwan Semiconductor was a darling for investors this month, returning nearly 35% as Berkshire Hathaway announced a $4.1bn stake in the company. However, Taiwan's midterm elections saw President Tsai Ing-wen step down as her party's leader following some disappointing results in mayoral races.

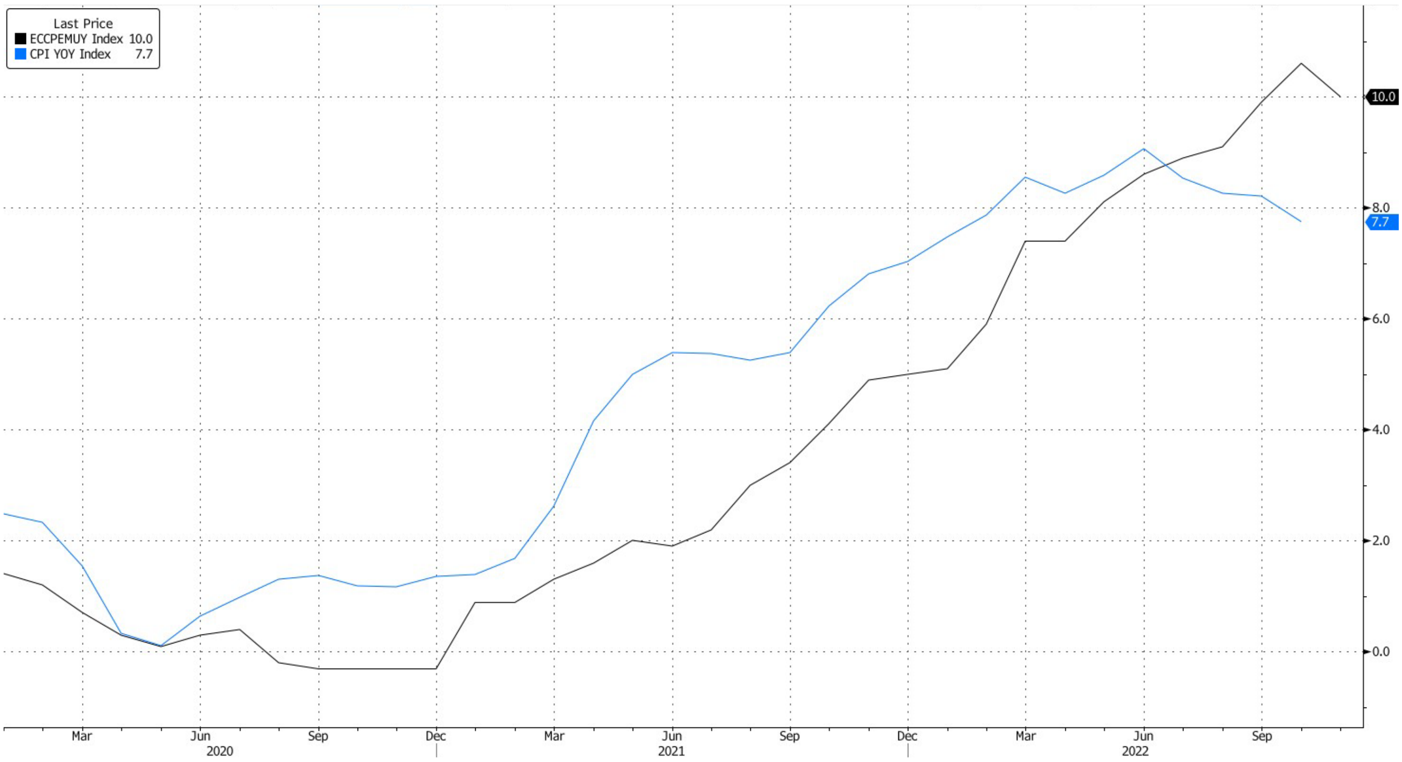
Emerging Market Commentary

While the focus of the footballing world has been on Qatar, they have been firmly focussed on making the most of any "soft power" that may have come from hosting the World Cup. During November, China signed a 27-year natural gas deal with Qatar and a few days later Germany followed suit with a 15-year deal. Any protests from Germany's footballers seem to have been ignored by their politicians, who are keen to make up a shortfall in supply from Russia.

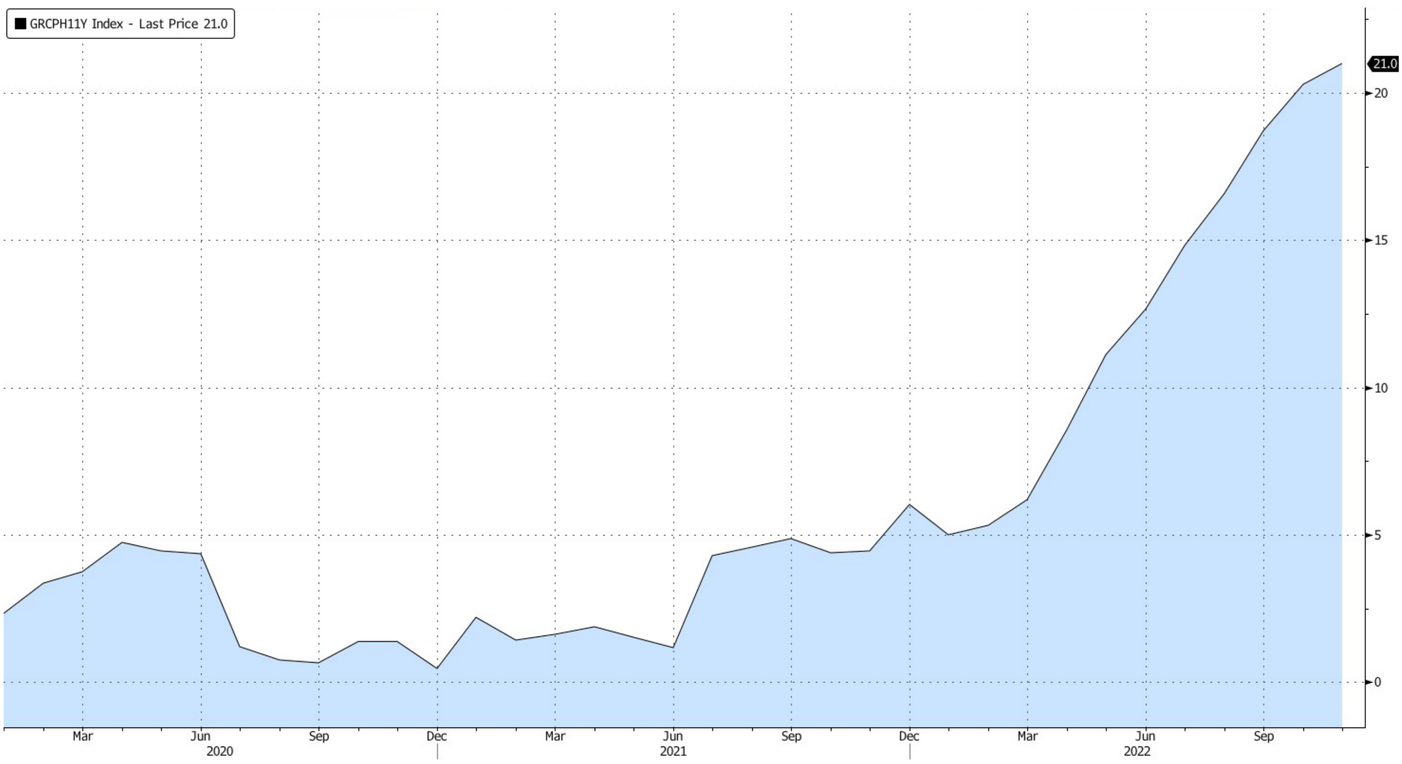
Elsewhere, Turkey announced the end to its monetary easing cycle, following another interest rate cut which brought the base rate to 9.0%.

Charts of the month - Inflation

The first of the below charts shows US (Blue) and Eurozone (Black) consumer price inflation numbers since the start of 2020. US inflation has now been falling since halfway through this year and Eurozone inflation may have finally begun catching up with this trend, with ECB estimates showing the first fall in inflation for 17 months. It should be noted that 10.0% inflation in the Eurozone is still high and 7.7% in the US is also well above where policy makers are aiming to be, despite reaching its lowest level since January. Ultimately though, there are at least some signs that we may be past the peak of inflation in these key markets.



However, it is also important to remember the scale of what is occurring at the moment. The below graph shows food price inflation in Germany, which rose to 21.0% in November. It is worth bearing in mind that even if inflation numbers come down, the elevated price levels that have become reality in recent months will likely become embedded. It is important for us to be aware of various differentials and quirks coming out of these data sets.



Investment Profile – Lindsell Train UK Equity / Finsbury Growth & Income

Managed by well-known fund manager Nick Train, who co-founded the fund management business Lindsell Train, this fund offers investors exposure to a concentrated portfolio of high-quality, primarily UK-listed businesses. The portfolio will never have more than thirty-five stocks and the top ten holdings account for 84.1% of assets. Since launch, the fund has managed annualised outperformance on a total return basis of the FTSE-All Share by 4.6% per annum.

The strategy is almost identical to the investment trust Finsbury Growth & Income, which is very much the closed-ended sister to this fund and is also managed by Nick Train. It focusses on beverage producers, financial services and personal goods with companies such as Diageo, Experian and Burberry representing those respective sectors in the portfolio.

Train's style is very much a quality one and has a focus on enduring brand strength. The investment trust recently benefitted from a slightly controversial investment in Manchester United, which is held as Train believes in the strength of the brand and the power that yields. The aforementioned Diageo is a prime example of this, with a stable of brands that includes Guinness, Johnnie Walker and Baileys.

Investment Team's thoughts

The recent positive weeks have pushed the long-term performance numbers back to reasonable levels, with global stocks (as represented by the MSCI World Index) now showing positive returns for all periods shown except for one-year. While a 5-year return of 31% for the index is far below what a reasonable 5-year return would have looked like a little-over a year ago, this is still a reasonable return. When one considers the events of the past five years, a 31% return certainly seems decent. From COVID to war in Europe and from high inflation to political turmoil, we have seen plenty of dramatic short term moves in markets over recent times. Despite this, markets have continued along their long-term upwards trends.

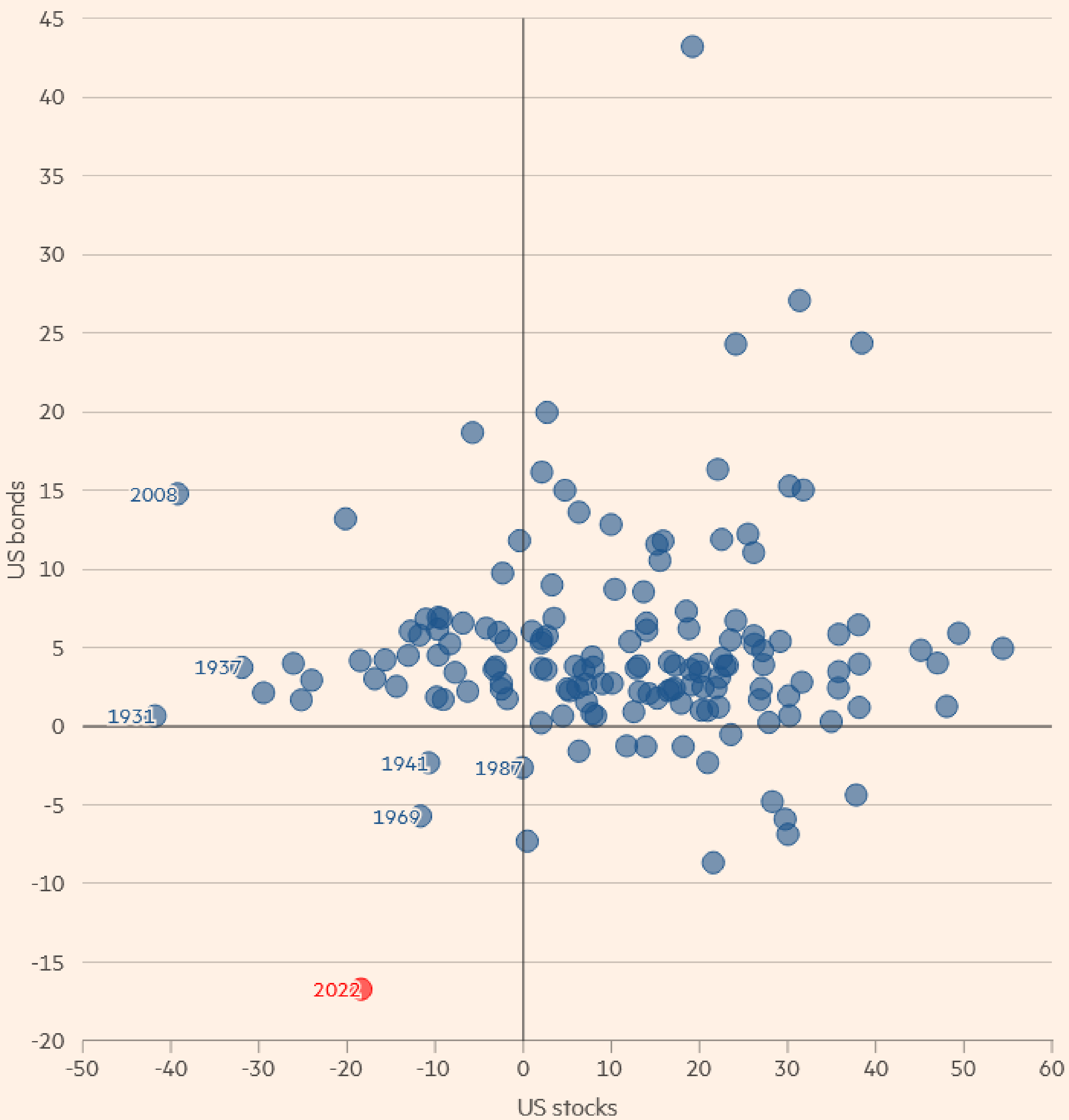
While we may be some way from central banks' peak interest rates, we are beginning to see signs of more gradual rate increases and the market now seems to have more certainty on where rates may end up over the medium term. Similar can be said of inflation, as we may well see sustained price level increases, but much data points to various peaks either having happened or being close. It is dangerous to speak with certainty on such things, but broad trends seem to indicate that these issues which have hurt markets this year may well be starting to improve in outlook. This is supported by the market movements in the last few weeks, as the markets are forward-looking and seem to be suggesting they believe this to be the case.

This year has been an unprecedented one in terms of producing significantly negative returns for both equities and bonds. To demonstrate this, we point readers to the below chart from the FT, highlighting just how much of an outlier 2022 has been in markets. Looking at historic data, this has truly been a once in a generation period with both equity and bond returns being so negative.

It feels like November may have been a month which saw some of this poor sentiment removed from investors minds. We look forward with cautious optimism and we are certainly hopeful that 2022 will remain an outlier on charts such as this one.

2022 has been an awful year for investors - in both stocks and bonds

Total nominal return in US stocks & bonds, for each year 1871 to 2022 (%)



FINANCIAL TIMES

Source: Robert J Shiller; TS Lombard; FT calculations