ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

September 2024

Published: 18/10/2024

ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Monthly Commentary

September 2024

Monthly returns and summary

Index	Portfolio Benchmark Risk Level	30/09/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	206.74	+0.9%	+1.9%	+7.8%	+1.5%	+9.6%
ARC Balanced	Medium Risk	260.37	+0.6%	+1.8%	+10.9%	+4.1%	+16.1%
ARC Steady Growth	Medium High Risk	316.73	+0.4%	+1.8%	+12.8%	+6.0%	+21.8%
ARC Equity Risk	High Risk	375.85	+0.1%	+1.7%	+14.6%	+7.2%	+27.7%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	30/09/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	8236.95	-1.7%	0.9%	8.3%	16.2%	11.2%
UK All Share	UK	4511.00	-1.4%	1.3%	9.3%	11.1%	11.1%
Dow Jones Ind Avg	US	42330.15	1.8%	8.2%	26.3%	25.1%	57.3%
S&P 500 Index	US	5762.48	2.0%	5.5%	34.4%	33.8%	93.6%
Nikkei 225	Japan	37919.55	-1.9%	-4.2%	19.0%	28.7%	74.3%
MSCI Europe Ex UK	Europe	208.36	-0.4%	1.8%	16.7%	14.6%	37.1%
MSCI Asia Ex Japan	Asia	762.36	8.2%	9.4%	26.1%	-4.8%	23.4%
MSCI Emg Mkts (£)	Emg Mkts	694.74	4.5%	2.5%	14.7%	1.7%	21.5%
MSCI World Index (£)	Global	3723.03	1.7%	6.0%	30.5%	23.8%	70.8%
UK Conventional	Gilts	3122.13	0.0%	2.3%	7.9%	-19.3%	-22.2%
UK Index-linked	Gilts	3936.93	-0.3%	1.4%	6.0%	-31.4%	-30.8%
UK Real Estate Investment Trusts	Property	2157.64	2.0%	4.8%	17.7%	-22.4%	-20.4%
WTI Crude ($/Barrel)	Oil	68.17	-7.3%	-16.4%	-24.9%	-9.1%	26.1%
Gold Spot $/Oz	Commodities	2634.58	5.2%	13.2%	42.5%	50.0%	78.9%
£1 = US$	Currencies	1.3375	1.9%	5.8%	9.6%	-0.7%	8.8%
£1 = €	Currencies	1.2012	1.1%	1.8%	4.1%	3.2%	6.5%
£1 = Yen	Currencies	192.11	0.1%	-5.5%	5.4%	28.1%	44.6%

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

Index	Region / Asset Class	30/09/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK Investment Companies	Diversified	12,296.90	0.1%	-0.1%	11.9%	-11.1%	16.1%
Latest Weighted Average Discount	-14.4%						
12 Month Weighted Average Discount	-14.8%						

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

General Comments

September was a month which mostly favoured non-equity assets, with commodities, real estate, and risk reducing alternatives offering positive returns. This led to the more cautious multi asset benchmarks performing better than their more adventurous peers.

Once again, gold appreciated in value while the US dollar (which gold is priced in) weakened. Meanwhile, the price of oil fell dramatically as worries over slowing demand, particularly in China where imports remain below last year's levels, remained at the forefront of traders' minds.

Chinese equity markets, however, showed a stark contrast with prices rising rapidly and the final day of the month seeing stocks listed in Shanghai and Shenzhen have their best day since 2008 (please see more on this below). UK and European equity markets were modestly down, while US stocks appreciated once more. This time, however, the US markets seem to have been led by companies in the energy and industrials sectors, as opposed to the technology sector which has driven so much of the rally to this point.

UK Commentary

Inflation remained at the 2.2% level, according to CPI. This means that it is effectively running at the Bank of England's target level. This makes the central bank's Monetary Policy Committee's decision to hold rates at 5% interesting. Given inflation seems steady and around target, there is an argument that the current level of interest rates is the correct level. However, some commentators argue that a 5% interest rate is far above the 2.2% inflation rate, and that these two must converge or there is a risk of inducing a recession. The market expects cuts to come in the near future, but for now there is at least some relief that price stability seems to have returned in recent times.

New Prime Minister Kier Starmer has apparently had one of the shortest honeymoon periods in political history, with a new opinion poll showing his approval rating collapsing by 45 points from +19 to -26 in just two months. The poll from Opinium suggests his popularity is now even lower than predecessor Rishi Sunak's was. Recent reports of bribery and corruption have seemingly pushed the British people's opinion of him even lower in recent weeks.

Online property portal Rightmove has become the latest major UK company to be the subject of a takeover bid, with REA (Australian peer, owned by Rupert Murdoch) making several offers for the company. REA have reportedly abandoned their attempts after their final £6.2 billion bid was rejected by Rightmove's board, who believe the offer significantly undervalues their business.

North America Commentary

The Federal Reserve delivered a significant half a percentage point cut to interest rates. This was the first rate cut since March 2020 and the global coronavirus pandemic. The new range of interest rates is now set at 4.75% to 5.0%. A few months ago a cut larger than 25 basis points was not seen to be on the cards. However, in the run up to the decision more and more traders placed bets that this larger 50 basis point move would be the outcome, which proved correct in the end. The chairman of the Federal Reserve Jerome Powell commented that "The US economy is in a good place and our decision today is designed to keep it there". Investors seemed to believe chair Powell, as the S&P 500 hit yet another all-time high shortly after.

A key sign watched by many market participants changed briefly this month, with the US treasury yield curve "uninverting" between the key two- and ten-year marks. Many people see inversion as a predictor of a recession, with the opposite indicating a more positive and normal environment. This was led by falls in yield at the shorter end of the curve, driven by rising expectations of rate cuts.

In the first week of the month companies issued record volumes of US debt. Reportedly, 60 investment grade issuers went to market in the week alone, the highest number since London Stock Exchange Group records began over 20 years ago. It is not unusual to see high levels of issuance in September, but it seems that there is an element of wanting to raise debt before the US election in November, which could bring volatility to markets.

Interesting news came as Microsoft is reportedly planning to reopen the nuclear reactor on Three Mile Island in Pennsylvania. The tech giant requires vast amounts of energy to power their AI plans (as do many peers) and it seems they recognise the value of nuclear in being able to help achieve their goals.

Europe Commentary

The European Central Bank (ECB) joined their American counterparts in cutting rates, reducing their benchmark levels by a quarter point to 3.5%. Falling Eurozone inflation has allowed monetary policy to ease slightly, with the committee reaching a rare unanimous decision.

This came as there was some unfortunately bleak news from the Purchasing Manager's Index survey for the Eurozone, with major nations, and the bloc as a whole, coming in below expectations and in contractionary territory. There is little doubt that the rate cuts are aimed at stimulating the lagging Eurozone economy. How effective this will be remains to be seen, but it is encouraging to see some action being taken.

European politics continued to shift rightwards, with Austria's Freedom Party winning a national poll for the first time in their history. Austria has experienced record immigration in recent years, which has no doubt influenced voters' behaviour in voting for a staunchly anti-immigration party. They must now enter into coalition talks, so it will be interesting to see if they are excluded by other parties in a similar manner to in French politics, or whether politicians of other political leanings will attempt to engage with them and listen to the voters' concerns.

Asia Pacific Commentary

Japan will have a general election at the end of October. Shigeru Ishiba won a very close Liberal Democratic Party leadership race, and will therefore become Prime Minister. He swiftly called for an election to decide which party will control parliament's lower house.

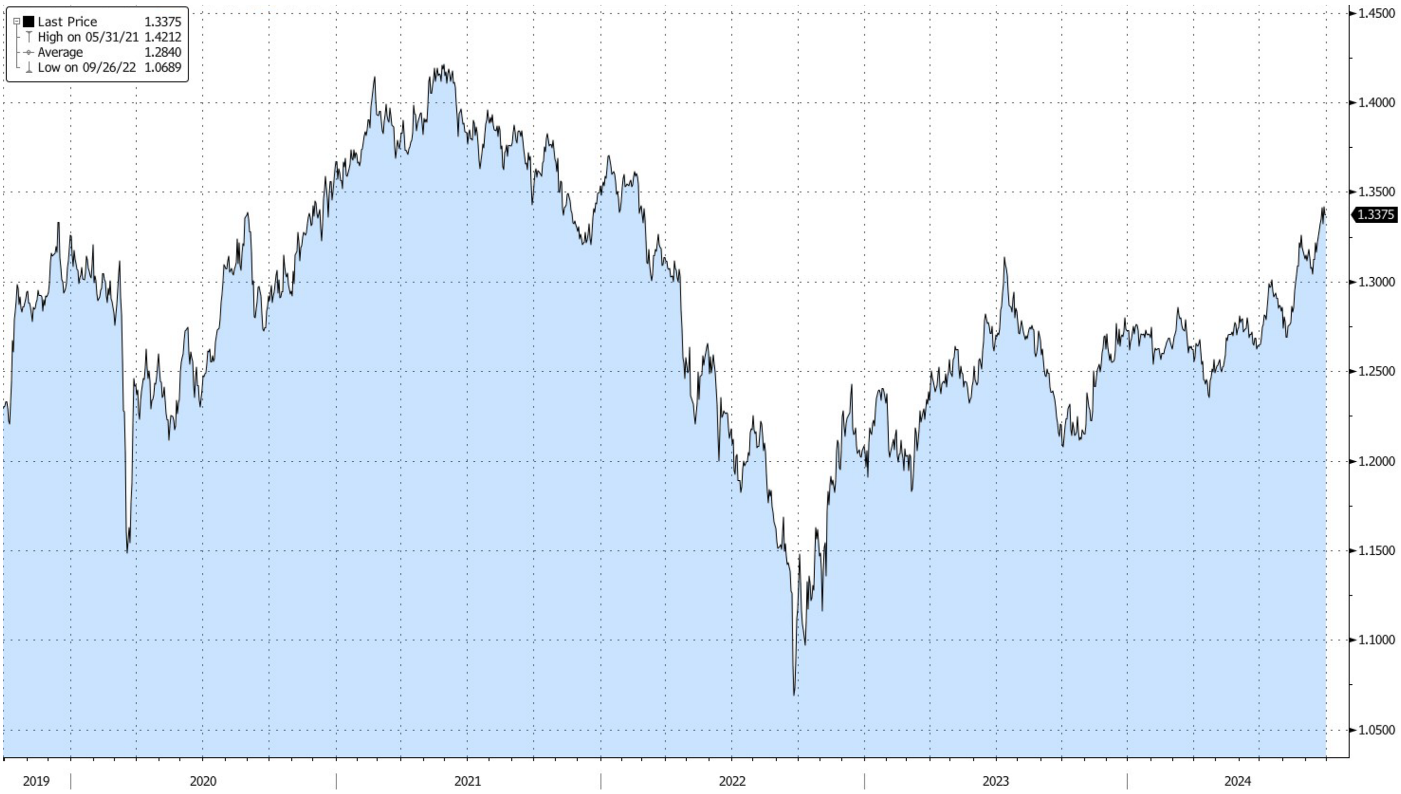
There were positive signs for the Australian economy as it achieved a budget surplus for the second year in a row and inflation fell. This was, however, balanced with the fact that the labour market seems to be cooling with the number of vacancies coming down. The Reserve Bank of Australia was one of the early movers globally in terms of increasing their interest rates, and they have kept them at restrictive levels for a while now (the base rate has been 4.35% since November 2023) as inflation has proved sticky. Arguably, this has been having the desired effect of slowing the economy to tame inflationary pressures, and policy makers seem to be looking towards December, or into 2025, before rate cuts come into view.

Emerging Market Commentary

India overtook China's weight in the major free float adjusted MSCI All-Country World Index. India has been working hard to open up their market to global investors, and it seems to be paying off. Performance in these two markets has also been quite divergent with India surging ahead and China lagging, at least until the final day of the month.

It seems that Chinese authorities have recognised there is a problem, with a swathe of stimulative reforms announced at the end of the month. This helped shock Chinese equity markets back into life, sparking their strongest single day returns in over fifteen years. The aims of the policies seem to be focussed on the boosting nation's long-suffering property market, aiming to support stock markets by promoting share buybacks, and offering direct stimulus to the poorest in society (a highly unusual move for China).

Chart(s) of the month – British pounds / US dollars / Truss



The above chart from Bloomberg shows a five-year history of sterling against the US dollar. September marks two years from the pound's low against its American peer, and the recovery since has been stellar.

Liz Truss' ascension to Prime Minister and subsequent "mini budget" sparked the sharp sell off seen above, with the exchange rate hitting a record intraday low of £1 being able to purchase $1.035 on the 26th of September 2022. Since then, the pound has rallied almost 30%, proving many of the doom-mongers of the day incorrect.

Foreign exchange markets are notoriously difficult to predict, and such sharp movements as can be seen above speak to this. These are two major international currencies, and fluctuations of this pair have often proved dramatic. Ultimately, however, the exchange rate has ended this five-year period not far off where it began, and modestly above the average over this time despite the aggressive moves seen during COVID and Mrs Truss' brief premiership. This is yet another excellent reminder to look through short term noise and towards longer term averages and patterns.

Investment Profile – Ninety One American Franchise Fund

This fund focusses on investing in US-focussed businesses which possess attributes such as high levels of customer loyalty and strong brands. The fund has been managed by Paul Vincent since 2019. Paul is a member of Ninety One's Global Franchise team, so can draw on knowledge of global markets to help identify exactly which American companies possess these attributes.

The portfolio is relatively high conviction and typically contains between 25 and 40 stocks (currently 30). Behemoths Microsoft and Alphabet make up around 18% of the portfolio presently. While the fund is slightly overweight technology, the main relative bet is in health care where companies such as pet and livestock drug producer Zoetis feature.

The strategy has worked well and has managed to outperform the S&P 500 over the past decade, with the "I" share class growing at an average 15.40% to the index's 14.61%. The portfolio has a growth bias against what is arguably already a growth-focussed index. This has paid off as this style has been in favour over this period.

Investment Team's thoughts

The team are relieved to finally see some progress being made on the investment trust company cost disclosure issue. It seems these vehicles are now able to disclose a zero cost of their operations, which makes sense given the fact that their costs are arguably already discounted in the price. We continue to watch developments here closely and are encouraged to see regulators aiming to have a new regime in place within a year, while also offering a temporary exemption from the current (confused) legislation.

We were also encouraged to note that global dividends hit a new record in the second quarter, according to the Janus Henderson Global Dividend Index. This represents an 8.2% increase year over year. Dividends are a good gauge of the cash companies are actually generating, and it is encouraging to see significant uplifts in this coming through. Whatever is going on politically or economically, companies have been enjoying reasonably strong cash generation, which they have been able to pass on to investors.

Finally, we await the budget at the end of October eagerly, although we are perhaps pessimistic about what it may bring. We believe the market shares this pessimism, and the uncertainty is weighing on UK markets. We hope that certainty can bring some positives to markets, and that common sense prevails over some of the less rational policies which have been leaked to the press thus far.