ALBERT E SHARP

INVESTMENT MANAGEMENT & STOCKBROKING

Market Commentary

March 2024

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Monthly returns and summary

Index	Portfolio Benchmark Risk Level	31/03/2024	1 Month	3 Months	1 Year	3 Years	5 Years
ARC Cautious	Low Risk	201.73	+1.9%	+1.9%	+4.7%	+1.8%	+10.8%
ARC Balanced	Medium Risk	253.31	+2.3%	+2.9%	+7.2%	+5.9%	+18.1%
ARC Steady Growth	Medium High Risk	307.23	+2.7%	+3.9%	+9.2%	+9.1%	+24.3%
ARC Equity Risk	High Risk	363.80	+2.9%	+4.7%	+10.8%	+10.8%	+30.5%

Source: Figures based on ARC estimates.

Index	Region / Asset Class	31/03/2024	1 Month	3 Months	1 Year	3 Years	5 Years
UK 100	UK	7952.62	4.2%	2.8%	4.2%	18.5%	9.3%
UK All Share	UK	4338.05	4.2%	2.5%	4.3%	13.2%	9.0%
Dow Jones Ind Avg	US	39807.37	2.1%	5.6%	19.6%	20.7%	53.5%
S&P 500 Index	US	5254.35	3.1%	10.2%	27.9%	32.3%	85.4%
Nikkei 225	Japan	40369.44	3.1%	20.6%	44.0%	38.4%	90.4%
MSCI Europe Ex UK	Europe	206.83	3.4%	7.8%	13.1%	20.7%	43.5%
MSCI Asia Ex Japan	Asia	654.64	2.3%	2.0%	1.6%	-24.2%	-1.3%
MSCI Emg Mkts (£)	Emg Mkts	646.20	2.6%	3.3%	5.9%	-6.5%	15.1%
MSCI World Index (£)	Global	3437.76	3.0%	8.5%	23.2%	22.3%	63.1%
UK Conventional	Gilts	3078.72	1.7%	-1.6%	0.0%	-20.6%	-17.5%
UK Index-linked	Gilts	3964.51	2.4%	-1.8%	-5.0%	-26.8%	-23.5%
FTSE All-Share Real Estate Investment Trust Index	Property	2083.81	7.4%	-3.6%	4.9%	-17.4%	-21.3%
WTI Crude ($/Barrel)	Oil	83.17	6.3%	16.1%	9.9%	40.6%	38.3%
Gold Spot $/Oz	Commodities	2229.87	9.1%	8.1%	13.2%	30.6%	72.5%
£1 = US$	Currencies	1.2623	0.0%	-0.8%	2.3%	-8.4%	-3.2%
£1 = €	Currencies	1.1697	0.1%	1.4%	2.8%	-0.5%	0.7%
£1 = Yen	Currencies	191.03	0.9%	6.4%	16.6%	25.2%	32.3%

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

Index	Region / Asset Class	31/03/2024	1 Month	3 Months	1 Year	3 Years	5 Years
FTSE All-Share Investment Companies Index	Diversified	12,009.06	2.7%	1.7%	5.8%	-6.9%	17.4%
Latest Weighted Average Discount	-8.0%						
12 Month Weighted Average Discount	-11.6%						

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

General Comments

The UK stock market led the way in March, outperforming global peers and many other asset classes. Unfortunately, this has not been a familiar story of late, but the FTSE 100 index is now nearing all time high levels and there are many reasons to be more positive on the UK.

In commodities, both oil and gold continued to tick up, as did the likes of copper and cocoa. In fact, the Easter break was an interesting time as cocoa futures hit record highs and did so in dramatic fashion. The price of the key chocolate ingredient is now up around 250% over the past year, so future chocolate eggs may prove to be more expensive than any enjoyed this year. It is also important to note that the gold price continued to rise despite ETF (exchange traded fund) outflows. Reportedly, the buying is coming from central banks including the People's Bank of China, the nation's state bank.

Investment company discounts narrowed further with the market rally and private client indices made gains. Overall, March was a positive month and closed out a good first quarter for most assets.

UK Commentary

UK politics continued to be volatile in March, with the Conservatives losing their ex-Chairman (Lee Anderson) to Reform UK, and their lead over this rival dropping significantly in the polls. A well-respected YouGov poll saw Conservatives drop to 19% vote share, with Reform moving up to 15%. If current trends continue, the Conservatives will soon be the third party in UK politics and may not even be leading the next opposition, let alone the next government.

The UK's second largest investment trust (or the largest excluding 3i, which many do), Scottish Mortgage, announced a record £1bn share buyback programme. This is the largest such programme ever announced by a UK-listed investment trust, but will perhaps be significantly underutilised as the announcement alone seems to have meaningfully lifted the mood around shares and re-rated them upwards, as is often the case with such programmes, narrowing the discount from around 13% to 4% over the course of the month. Arguably the driving force behind this announcement is that activist hedge fund Elliot announced a 5% stake in the trust, which appears to have sharpened the board's mind somewhat. This is a good example of how investment trusts can be held responsible by the market and how those which allow their discount to drift can soon find themselves under pressure. That this can happen to perhaps the biggest name in the investment trust market is a warning to all other boards that they cannot be asleep at the wheel.

North America Commentary

Joe Biden proposed an enormous $7.3tn budget, which involved higher taxes, more debt and increased government spending. This is in clear contrast to potential election opponent Donald Trump who prefers lower government spending and taxes (particularly corporation taxes). In related news, Trump does look to be able to run for President later this year as The Supreme Court unanimously restored him to the ballot in Colorado and a successful IPO of Trump Media & Technology Group Corp helped him post a $175m bond to avoid having his assets frozen.

While the stock market was closed for Good Friday the key PCE inflation data was released, with the headline number showing that prices had increased 2.5% year-on-year, and with core inflation reading 2.8%. This is widely regarded as the key measure that the Fed looks at with respects to inflation, so seeing it close towards the 2.0% target led to a shift of expectations and the probability of a June interest rate cut to increase slightly to around a 60% chance.

The FTX saga had some sort of conclusion as disgraced founder of the cryptocurrency exchange-cum-pyramid scheme Sam Bankman-Fried was sentenced to 25 years in prison. The fraud reportedly cost investors, lenders and customers a total of around $11bn US dollars.

Significant news in the smartphone market came as Apple's iPhone shipments in China were around a third lower in February than a year prior. There were idiosyncratic factors at play here, such as the later timing of the Lunar New Year, however, there is no doubt that local rivals such as Huawei are gaining ground on Apple, in this market at least.

Elsewhere, Aerospace giant Boeing continued to be under pressure this month with further issues with their planes making headlines, which ultimately lead to their CEO announcing he will be stepping down at the end of the year. Furthermore, a whistleblower was found dead at his hotel while in the midst of giving evidence in a lawsuit against the company, leading to plenty of conspiratorial opinions being voiced. Shares lost 5% over the month, continuing the negative trend.

Europe Commentary

A recent data release showed that for the first time on record (since similar data began being collected in 1960), the number of babies born in the EU dropped below 4 million in 2022. Eurostat say 3.88m babies were born in 2022, down from 4.09m the year before. Dramatic demographic change is happening across the western world. While this presents investment opportunities in some areas, it also creates challenges in others, and will give policy makers plenty of headaches as well.

Pharmaceutical giant Novo Nordisk continued its strong run, with its market cap eclipsing Tesla's in the month. In fact, it contributed 1.9% to Denmark's GDP in 2023, while the headline GDP number was just 1.8%, so without the weight loss drug maker the nation's economy would have contracted last year.

In politics, Ireland lost a Taoiseach in Leo Varadkar, who resigned following the Irish public emphatically rejecting two proposed amendments to the constitution which were considered "progressive" and centred around marriage and women's household roles. The public rejected the proposals with majorities of 70% and 74%, despite support from all major political parties and swathes of the media. This clearly came as a shock to many and led to Varadkar stepping down. His replacement is 37-year-old Simon Harris, the youngest leader the Republic of Ireland has had to date.

Asia Pacific Commentary

The Bank of Japan finally ended the era of negative interest rates, shifting to positive returns on deposits for the first time since 2015, raising rates for the first time since 2007. This historic change came with their monetary policy committee voting with a 7-2 in favour of the proposals to become the world's last central bank to end the use of negative rates. This came as Japanese consumer inflation (excluding fresh food) rose to 2.8% year-on-year from the 2.2% reading of the prior month, prompting action from the central bank.

They also decided to end purchases of ETFs and Japanese real estate investment trusts (REITs). However, plenty of monetary stimulus remains in place with the commitment to buy around $40bn of Japanese government bonds per month continuing.

Emerging Market Commentary

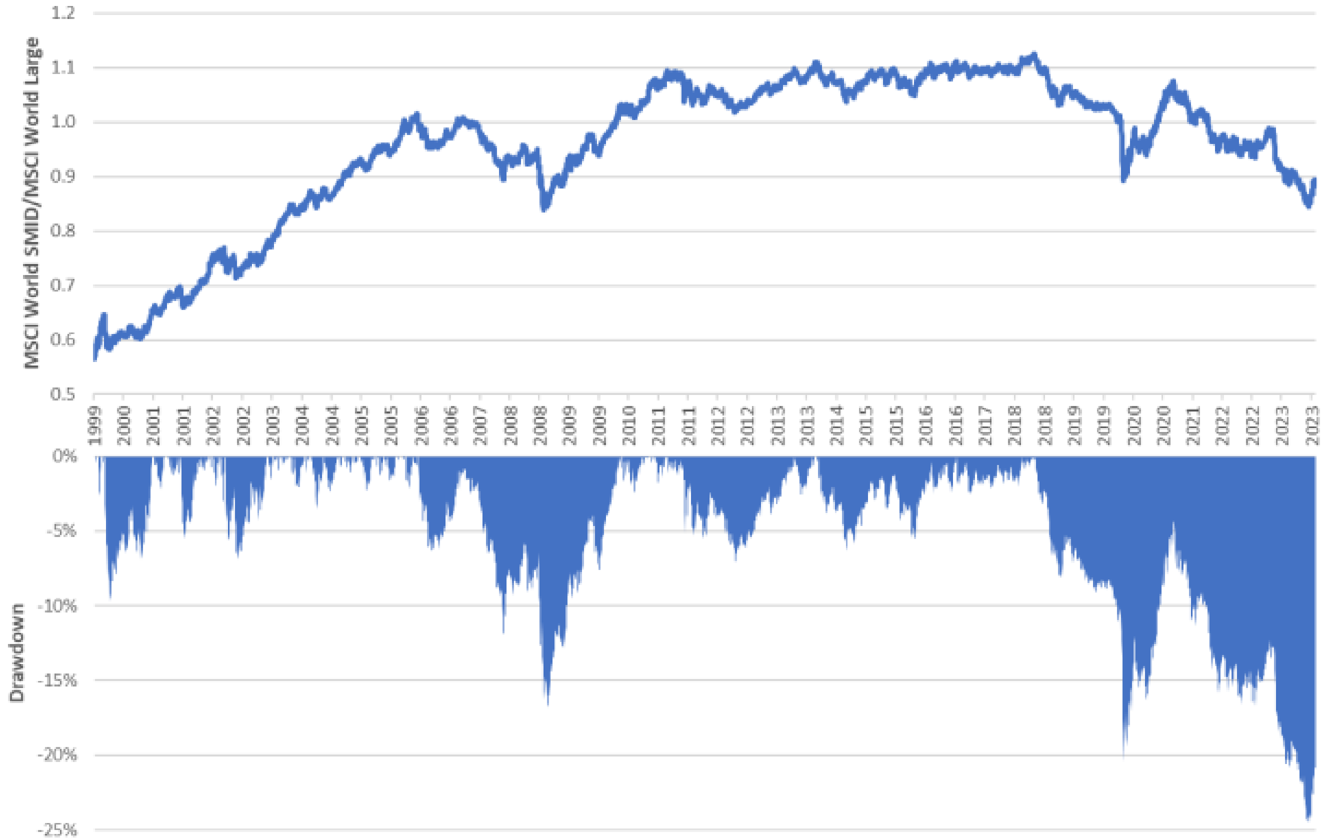
China's government formally announced their annual growth target, setting it at 5%. This raised expectations that more stimulus may be incoming, as many commentators believe help may be needed in order for this target to be hit.

On this note, Blackrock reported that flows into emerging market equity ETFs hit record levels in February, the vast majority of which went into Chinese equity ETFs. Analysts estimate that the significant majority of this came from major state-backed financial services companies, suggesting stimulus efforts are well under way.

Vladimir Putin comfortably won Russia's presidential election once again, giving him another 6 years in power. Putin won nearly 88% of the vote, so obviously faced no serious opposition. Following the result, Putin told supporters that he would continue to strengthen Russia's military and prioritise work around the so-called "special military operation" in Ukraine.

In similar news, president of Venezuela Nicholas Maduro appears to be the only candidate left for the upcoming election, as the main opposition candidate Corina Yoris was banned, and her replacement was unable to register.

Chart of the month – Small & Mid Cap versus Large Cap



The above chart from the recent Smithson Investment Trust webinar highlights something we have been pondering for a while. Small and mid-sized (SMID) companies have been dramatically underperforming larger companies for an unprecedented duration, and to an unprecedented degree in recent times. The deepening of the blue area in the bottom half of the chart represents underperformance of SMID cap companies compared to their larger peers.

There are numerous reasons for this, but ultimately investors around the world seem to be focussed on a very narrow set of enormous companies, shunning smaller counterparts. We have opined on this many times in previous commentaries and do not wish to repeat ourselves, but hope the above adds further context.

Smaller companies have many advantages over larger ones. They are typically more dynamic, and many academic studies have found that they outperform larger counterparts over time. While this is often coupled with greater volatility and uncertainty, long-term investors usually benefit from having a significant allocation to smaller companies. In recent times, however, this seems to have been forgotten. Hopefully this unusual period represents an opportunity for investors such as ourselves.

Investment Profile – JPMorgan US Smaller Companies Investment Trust

One strategy that could help an investor exploit this opportunity is JPMorgan US Smaller Companies IT. This is a well-diversified fund offering a one-stop-shop for US smaller company exposure. The portfolio contains around 90 stocks and is valued at reasonable levels compared to US equities in general.

Manager Don San Jose has been in place since 2008, and is ably supported by Dan Percella (since 2014) and Jon Brachle (since 2017). From the start of 2008 to today the trust has returned over 11% per annum, giving a total return of over 450% in that time.

With around 37% of holdings over £5bn market cap, a significant portion of the portfolio would be FTSE 100 constituents were they listed on this side of the Atlantic. While these are smaller companies, many are well established and profitable businesses which are "smaller" on the US scale, not necessarily the UK scale. Companies of this size in the US tend to be more domestically-focused than larger US peers or international peers of a similar size. This makes this portfolio well positioned to benefit from the current strength of the US economy.

Investment Team's thoughts

We believe the strong first quarter of 2024 to be justified. As we have pointed out in many prior commentaries, inflation and interest rate issues seem to be moving in the right direction, many economic data points are improving across the world, and many assets remain attractively valued. There are plenty of reasons to be positive and we are glad that markets seem to agree.

There may well still be reasons for caution, and there are certainly markets, or at least pockets of certain markets, where we believe risks may outweigh potential for rewards. However, the overall picture seems to be a more positive one than we have been looking at in recent years and we believe we are well positioned to take advantage of this.