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Market Commentary

The last few months have been dominated by central bank activity and economic data as the market attempts to predict when central banks around the world will stop raising interest rates and determine how the economy has been affected by them. July saw an extra dynamic thrown into the mix as earnings season kicked off, with companies giving updates on Q2 and the first half of the year more broadly.

For now, at least, inflation data has been moving in the right direction. In the UK, following May's surprise upside print, June's data showed CPI coming in lower than was expected on both the headline and core readings. Similarly, CPI in the US came in lower than expected on both headline and core readings, whilst the Eurozone saw little change to their inflation rate. This follows what the market has been hearing from companies. Goods inflation has been on a deflationary path as global supply chain pressures have eased substantially. On top of this, there is signs of food prices easing. This has been a particular issue for the UK but several supermarkets have commented upon this pressure reducing. This being said, inflationary risks remain around every corner as the market was reminded of when Russia pulled out of the grain deal causing Wheat Futures to surge, whilst rice prices remain elevated following India's announcement to ban exports of certain grains.

Central bankers were keen to temper excitement about lower than forecasted inflation rates, emphasising that they would not be cutting interest rates anytime soon because the fight against inflation has not yet been won. The Federal Reserve (Fed) and European Central Bank (ECB) were in action and they both raised rates by 0.25% which had been widely expected. The Bank of England will be announcing policy in early August, and the market is undecided on whether they will raise rates by 0.25% or 0.50%.

Economic data has been mixed and it is giving a cloudy picture on the state of the global economy. US, EU and UK PMIs all came in weaker than had been expected, falling further from the previous month. Despite this, GDP numbers came in better than expected showing continuing resilience in the economy. The US was particularly strong, with Q2 annualised GDP printing 2.4% versus an estimate of 1.8%, leading to several commentators suggesting the possibility of no economic landing, particularly alongside the lower inflation data. This thinking has supported both equities and bonds in July.

However, the labour market continues to show strength which suggests that core inflation will remain sticky. Without a significant improvement in the supply of labour, a recession may be necessary to get inflation back to target. The UK is particularly susceptible where the labour supply is weaker. This is important because of the impact upon inflation expectations, causing a behavioural change will be much harder for central banks to tame.

A trend that has come out of consumer goods companies during earnings season has been a weakening in demand from North American customers which has hurt reported earnings. Similarly, the China recovery has continued to disappoint which has been a driver in markets during July. Continuously weak data in China has fuelled expectations of government stimulus which has been a tailwind for equity markets both in the region and outside of it.

Unsurprisingly, July's move from the Bank of Japan (BoJ) has been widely broadcast as being good for Japanese equity markets over the longer term but the near-term implications for global bond markets are less clear. This is partly because many investors had already been anticipating such a move for some time, and partly because the BOJ, like other central banks, is taking a step-by-step approach; almost immediately taking steps to demonstrate that it remains involved in management of the Japanese yield curve, even if the parameters have shifted. There is little more we can say at this juncture beyond what is already widely known.

Model Portfolio transactions in the month:

There were no changes to portfolios in July.

Performance:

Funds MPS	July 23
Defensive	1.13%
Cautious	1.13%
Income	1.44%
Balanced	1.04%
Balanced Growth	0.86%
Growth	0.85%
Adventurous	1.24%

Direct Equity MPS	July 23
Cautious Green	1.66%
Light Green	1.70%
Mid Green	2.30%
Dark Green	2.09%

MPS Stock pick feature:

First Solar (Solar Modules)

First Solar produce solar modules using advanced thin film PV which represents the next generation of solar technologies, providing a competitive, high performance and lower carbon alternative to conventional crystalline silicon PV panels. The Solar module industry has always been of concern due to the dominance of China and the exposure of Chinese supply chains to forced labour of Uyghurs. First Solar have zero exposure to this issue, and have been benefitting from the significant increase in legislation that focuses on tackling it. At the end of 2022, they had a manufacturing capacity of 9.8 GW and are on track to have capacity of 16 GW by the end of 2023 as they look to benefit from industrial policies such as the Inflation Reduction Act in the US.

Ethical News

Top automakers are rushing to develop more electric cars with plans laid out to convert much of their fleet. However, in the US a lack of **charging stations** has been cited as a top concern keeping consumers from switching to an EV. This is a why a group of major automakers are planning a joint investment to build-out this infrastructure in the US to ease these pressures. Collectively, at least $1 billion will be invested in a joint-venture company that will build out a targeted 30,000 fast chargers. These will be available to all EV drivers, with various technologies utilised, and the first ones will be operational in 2024.

The first **nuclear reactor** built from scratch in the US for more than 3 decades, Plant Vogtle unit 3, began delivering commercial electricity to the Georgia power grid this month. It may also be one of the last that is built from scratch due to it being 7 years late and billions of dollars over-budget. It was meant to be one of dozens of new reactors built across the country in a drive at the start of the 2010s, however enthusiasm quickly lost momentum following the Fukushima disaster and a plunging natural gas price. Unit 3, alongside unit 4 which is due to go online in 2024, were the only two that have been built.

Walmart is teaming up with Rubi Laboratories, a Californian start up, to pilot a project of removing carbon dioxide from its supply chain and convert it to cellulose, a technique inspired by the way trees use carbon dioxide to grow. This is then used to produce lyocell yarn which can be made into textiles, which could lead to Walmart and Rubi developing an apparel collection.

July 2023 was likely the hottest month on record according the UN World Meteorological Organisation and the European Union’s Copernicus Climate Change Service. The effects of this have been seen across the world. Death Valley in California witnessed the hottest night ever recorded anywhere in the world. Canadian wildfires burned at an unprecedented pace, whilst continental **Europe sizzled** and tourists had to flee holiday islands. A township in northwest China reached a national record temperature of 52.2 Degrees Celsius whilst sea ice in Antarctica is at a record low in the Southern Hemisphere winter, a time when it should soon be reaching its maximum extent.

Whilst the world experienced the hottest month on record, the effects of which were felt across the globe, in the **UK climate policies** have been in the spotlight. The Climate Change Committee (CCC) has described UK government efforts to scale up climate expansion as “worryingly slow” and that it was “markedly” less confident than a year ago that the UK would reach its targets. As a result, the CCC no longer sees the UK as world leader in climate policy. Policy towards new oil and gas projects has been under particular criticism, new licenses for which were proposed in July. Also in the headlines has been plans around the expansion of the ULEZ zone in London, a controversial policy but one that would be environmentally beneficial. For more on these points, please see our blog page.

Romanian hydroelectric energy producer **Hidroelectrica** had its IPO in July in what was Europe’s largest one so far this year. The deal, which implies a market capitalisation of over $10 billion, was hailed as a “historic success” by the Romanian government. The government will continue to own 80% of the company, which is the largest energy producer in the country, and operates 182 hydroelectric plants with a power capacity of 6.3 gigawatts.

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