

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – February 2024

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Market Commentary

Equity markets, with the exception of the UK, took a leap forward in February, with growth equities leading the way. A blowout set of results from Nvidia propelled their stock to fresh highs, with many of the so called magnificent seven joining in on the advance. However, as we saw in the latter stages of 2023, the rally was broader, with US small caps keeping pace with their larger counterparts, something we've witnessed on few occasions over the last couple of years. Meanwhile, after lagging in January, emerging market equities bounced back strongly.

The Artificial Intelligence fuelled equity rally has some comparing it to the late 1990s, or the dotcom bubble which, for those that are too young to remember, soon ended in a market crash. On the one hand, the rally isn't built on blind optimism given the future earnings expectations for many of these stocks. On the other, these high expectations need to be met which opens them up to the risk of declines, which can swing dramatically in a crowded trade. We are wary of the equity market rally that in some areas is flagging as overbought, particularly when you look at the euphoria around risky crypto assets.

The equity market rally has come about despite bond yields consolidating higher. If this move unfolded six months ago, you would have likely seen more volatility and declines than we have this time round. The reason being is that the market is coming to terms with the fact that the next move in interest rates is lower, albeit further down the road than had been priced in only a couple of months ago. The rhetoric from central banks, notably the Federal Reserve, is interest rate cuts are not immediately forthcoming given that the economy continues to tick along.

When it comes to fixed income positioning, portfolios remain at the shorter end of the yield curve (3-5 years). This reflects our belief that the back and forth on interest rate expectations will lead to some volatility in the near term, although we are happy to add to duration slightly when we see periods of weakness. On top of this, risks to the interest rate outlook do remain; including potential spending giveaways from governments in an important election year (notably the UK and the US), and geopolitics leading to higher defence spending, all at the same time that debt supply and government deficits are under scrutiny. With the war in Ukraine rumbling on, and the potential for Trump to reduce support for the conflict, this is a particular problem for Europe whose doorstep the war is on.

With a host of companies reporting in February, the news flow has been relentless. Core solar holdings shed some more positive light (pardon the pun) on the sector after facing a number of headwinds in 2023 (higher rates, US slowdown). Enphase Energy expects an increase in

demand for their batteries and micro-inverters through 2024, with Europe showing signs of recovery and certain US states are expected to bounce back, whilst First Solar also expects resilient demand in the year ahead. From a fund perspective, the standout performer in the month was RobecoSAM Smart Energy, which rose 8.52%, bouncing back from January's declines, with semiconductors being a notable subsector which continues to perform well.

Elsewhere, February also saw a number of positive headlines within the healthcare sector, an area we increased exposure to at the last rebalance. Portfolio holding, Zealand Pharma (please see MPS Stock pick feature below), saw their share price rise over 40% in February alone following a groundbreaking mid-stage trial result for their weight-loss drug. The investment case for increased healthcare exposure at the time was compelling and it remains so, and we are beginning to see Biotech come back into favour this year.

Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

Performance:

Funds MPS	Feb 2024
Defensive	0.27%
Cautious	1.17%
Income	-1.34%
Balanced	1.74%
Balanced Growth	2.44%
Growth	3.21%
Adventurous	4.28%

MPS Stock pick feature:

Zealand Pharma is a biotechnology company, seeking to change lives, by focusing on the development of next generation peptide-based medicines. Peptides are smaller versions of proteins, they may provide pro-aging support, anti-inflammatory, or muscle building properties. Recent successes have been around their GLP-1 medicines (Glucagon-like peptide 1). GLP-1 agonists are medicines used to treat type 2 diabetes. They mimic the action of a hormone called GLP-1, with the medicine helping the body to a) make more insulin when needed, b) reducing the amount of sugar that the liver makes, c) sometimes reducing appetite and d) slowing down the digestion of food, so that it takes longer for your body to absorb the sugar from meals. According to the World Health Organization website the number of people with diabetes rose from 108 million in 1980 to 422 million in 2014. Prevalence has been rising more rapidly in low-and-middle-income countries than in high-income countries. More than 95% of people with diabetes have type 2 diabetes. Until recently, this type of diabetes was seen only in adults but it is now also occurring increasingly frequently in children.

Fund House Meetings:

We were very active with our interactions and engagements with fund houses during February, meeting managers and representatives from Schrodgers, Franklin Templeton, Janus Henderson, Abdrn, WHEB, Triodos and Ninety-One.

Ethical News

Jones Food Company have opened a new vertical farm in Gloucestershire, hailed to be one of the UK's most technically advanced. The 14,500-square meter farm will grow basil, lettuce, dill, parsley and other salad crops all year round, boosting the domestic supply to supermarkets and easing the reliance of imports in the winter. With air temperature kept at 27 degrees and around 75% humidity inside the facility, the farm can grow basil from seed to harvest in 18 days, three times faster than outdoor conditions in Spain or Morocco. Unsurprisingly, keeping a warehouse in these hot and humid conditions requires huge amounts of electricity. Rising electricity costs in 2023 saw industry leader Aerofarms file for bankruptcy in June, but the founder and chief executive of Jones Food Company said the new unit in Gloucestershire is more efficient, and will survive better than the others, "Commercial success has been the challenge in this industry, but we have now cracked it." The farm is completely powered from renewable electricity and carefully managed. The head grower at Jones Food Company insists their crops produce much lower carbon emissions than air-freighting or trucking the crops across Europe, as well as being protected from the weather, suffering neither floods nor droughts, and few pests can penetrate the tightly controlled bio-security of the growing shed.

The effect of climate change has been felt across the nation, as **England and Wales had their warmest February on record.** The average temperature in England was 7.5C, and 6.9C for Wales, meaning four of the UK's 10 warmest Februarys since 1884 have all come in the last 6 years (2024, 2023, 2022 and 2019). This caused parts of south Wales, the Midlands and Lincolnshire to see more than two-and-a-half times their normal February rainfall, devastating farmers' crops. Warmer winters also cause fewer frosts, and while it may mean less scraping ice off the car, it's not good news for plants and the foods we eat. Frost is an essential part of the growth cycle of apple trees. They need 'chill hours' (hours in the year where it's between zero and six degrees) in order to produce enough fruit buds to bear fruit later in the year. Some traditional British apple types are at risk of extinction from orchards.

Plans for a hydrogen and carbon capture plant in East Yorkshire have been approved. Equinor, a Norwegian-based energy company, plan to build H2H Saltend on the Saltend Chemicals Park, expected to begin in 2026. While creating around 2,200 jobs, H2H Saltend is expected to cut the emissions from the chemicals park by up to a third, the equivalent of taking around 500,000 cars off the road. The low-carbon hydrogen plant is being described as one of the UK's key decarbonisation projects, according to the Local Democracy Reporting Service (LDRS). In addition to the hydrogen production, which will be used by companies on the park and replacing the natural gas usage, the facility will also create a carbon capture and storage site. 900,000 tonnes of CO₂ are projected to be captured and sent for storage below the North Sea, aiding the UK's most carbon-intensive industrial region (the Humber) net-zero by 2040.

Tesco and Vauxhall have joined forces to offer all new Vauxhall electric vehicle owners a year's free charging credit at Tesco stores. Tesco has 2,700 charge points across its 619 nationwide stores made up of a mix of 7kW, 22kW, 50kW and 75kW rapid charging stations. With Tesco stores found within a 10-minute drive for over 70 per cent of the UK population,

this initiative will allow greater ease and convenience for a huge number of UK based EV drivers and aid the transition of electrifying Britain and helping UK motorists to make the switch to electric. The partnership forms part of Vauxhall's Electric Streets of Britain initiative, introduced to address the lack of on-street charging infrastructure in the UK.

The largest ever housing estate to be built in a National Park wins planning permission.

The Phoenix housing project in Lewes, East Sussex, got the green light from the South Downs National Park authority to construct 685 super-insulated homes and workspaces on the site of a former ironworks. The Phoenix project is an environmentally-sound, 7.9-hectare neighbourhood that features a canteen, nursery, health centre and workshop, aimed to tackle the below-par new-build suburbs that currently dominate the industry. The homes are set to be built from sustainable wood, reducing the residents' heating bills by 80% when compared to conventional new-builds, and promises a fleet of 50 shared vehicles in order to tackle high car-ownership rates. It also incorporates upgraded flood defences along the river Ouse, and refurbishment of existing heritage buildings for community use.

Winners & Losers

Winning this this month are hedgehogs – after years of decline in British gardens caused by habitat loss and fragmentation, their numbers may finally be on the way up. In a snapshot survey, readers of BBC Gardeners' World magazine were asked to chronicle the wildlife in their gardens, and reported that hedgehog sightings were up two percentage points. The magazines previous annual survey had them to be declining.

Donald Trump was the biggest loser this month as a fraud trial concluded with the former US President liable for almost \$355m (£281m) in penalties. The Trump Organisation was found guilty of fraudulently misrepresenting their assets in order to get more favourable loans and interest rates over the course of years. Mr Trump was also barred from conducting business in New York for three years.

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