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20 YEARS ANNIVERSARY

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EVERYTHING ETHICAL
MONTHLY NEWSLETTER

Everything Ethical Newsletter – January 2024

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Market Commentary

After a strong end to 2023, the start of 2024 has seen some pullback in portfolios as markets reined in some of their bets for interest rate cuts. At the time, we did comment that the number of cuts being priced in had been overdone and so we were anticipating some of this pullback going into the new year. Economic data and comments from corporates during the most recent earnings season point to an economy that is remaining resilient, leading to central bankers and investors pulling back on the need to start cutting rates.

Both equities and bonds fell across the board at the start of the month as investors pulled back on rate cut expectations, with the biggest beneficiaries from the end of 2023 coming under renewed pressure. We commented that the outlook of lower rates favoured long-term and more capital-intensive infrastructure and growth investments, but that there would be bumps in the road. January proved to be one of these bumps, with a clean energy index falling 10.5%.

In the US, the economy continues to be resilient in the face of higher rates with stronger than expected growth, PMI and labour market data. At the same time, data points to inflation continuing to fall driving a 'Goldilocks Scenario' narrative for the economy that would mean the Federal Reserve does not need to rush into rate cuts. The strength in the US economy has led to increasing portfolio allocation to the region over the last few months (outside of the mega cap names), and we continue to look for new investment opportunities to increase our exposure to the region further.

The 'Goldilocks Scenario' alongside a pullback in rate cut expectations has favoured larger cap equities. A US Large-Cap index outperformed a US Small & Mid-cap one by just under 6.5% in January, as we would expect with the shift in narrative following the end of 2023. We do not see a change in the longer-term narrative that rates will come down, it is just a question of when, and so we see periods of weakness in our investments as buying opportunities. The dominance of the so called 'Magnificent 7' fell away in the month amid underperformance in certain names. In fact, it only marginally outperformed the 500 largest US companies over the month as we continue to see a broadening out in equity performance.

Outside of the US, the UK economy continues to be more resilient than many were expecting, with the outlook for the UK consumer being more positive than a year ago. However, inflation does continue to be stickier than other regions and therefore we do not expect the Bank of England to start cutting rates anytime soon. In fact, at the latest meeting two of the nine members voted for further rate hikes. The European Central Bank however faces an economy that is becoming evidently weaker, and market pricing suggests they will be the first to cut rates potentially as soon as April.

Added to economic strength is geopolitical concerns, particularly in the Red Sea, which risks the potential for flare ups in inflationary pressure which will feed into central bankers' caution against cutting too soon. Several global companies have already spoken of the increase in costs that the re-routing of shipping has caused, which they intend to pass onto the consumer. Elsewhere, the Chinese economy and stock market continues to be under-pressure despite swathes of government support. We continue to favour other countries in the region, such as India, for both growth and ethical points of view.

As we enter a year that will witness over half of the world's population going to the polls, we remain cautious over extending bond duration. Our concern continues to be the supply & demand dynamic. Supply continues to grow as government deficits inflate, whilst demand will fall as central bankers continue with Quantitative Tightening. We see risks in policy announcements as political parties look to win over voters, and therefore envisage a steepening of the yield curve as investors demand a higher return for longer-dated debt.

Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

Performance:

Funds MPS	Jan 2024
Defensive	-1.11%
Cautious	-1.45%
Income	-2.27%
Balanced	-1.69%
Balanced Growth	-1.97%
Growth	-1.93%
Adventurous	-2.31%

MPS Stock pick feature:

Nibe Industrier has a vision to create world-class solutions in sustainable energy, that contribute to a faster transition to resource efficient and a fossil-free society. In looking to where the company can exert the most influence, they have chosen to work mainly with 6 of the 17 United Nations Sustainable Development Goals. They take their responsibility extremely seriously, and strive to reduce the environmental and climate impact of their products throughout their life cycles. For Environment, they optimise the use of materials in their manufacturing processes, which contributes to reduced waste and emissions. They also regularly audit their used energy to keep on improving. For Climate, for example they are working on replacing todays refrigerants with new ones that have a lower climate impact, supporting a shift to a smaller carbon footprint and help customers to improve energy efficient and convert to renewable energy. The company's heat pumps reduced 360,000 tonnes of C02 alone in 2021, and in the Netherlands, they are looking at using heat pumps on a wider scale, based on a shared network, rather than a single home solution. The principle is based on connecting all buildings to a pipeline system with two pipelines for the water to circulate – one with warm water (up to 30 degrees Celsius) and one with cold water. When heating is needed, heat is recovered from the warmer water via a heat pump in the building. The district heating network does not need to maintain the same high temperatures as current networks, while the relatively warm water (compared with boreholes) means that the heat pumps can operate at a lower power level. If the property requires cooling, the reverse happens, which means the water in the cold-water pipeline provides cooling and surplus heat is returned to the warm water pipeline and stored in buffer reservoirs. In Heerlen, the water is stored in disused coal mine corridors which are filled with water, but other types of reservoirs can be used. By connecting all the buildings in the city, the different thermal comfort needs can be met and balanced. Surplus heat from local industry, data centres, hypermarkets, waste water, etc. is recovered and stored while buildings which require heating, including homes, schools and offices, extract and recover the heat using heat pumps in the buildings, that is, close to the point of demand to not risk heat losses. At the same time, hot water is generated in each apartment in apartment blocks. At the same time, hot water is generated in each apartment in apartment blocks through the use of individual heat pumps, so-called boosters.

Fund House Meetings:

We were extremely active in our interactions and engagements with Fund Managers during January, meeting with a total of 12 providers to discuss existing and prospective investment ideas.

Ethical News

A new Baltic Sea wind farm that will power more than 1.5 million Polish homes is getting turbines made with greener steel that will cut their carbon footprint. **Denmark's Vestas Wind Systems, the world's largest turbine maker, is partnering with ArcelorMittal SA to use recycled steel to build towers that blades spin on**. They'll be first installed in the Baltic Power farm from next year and will curb emissions created along the supply chain by 66% compared with traditional models. It's one way to manufacture wind turbines in a cleaner way. While the power conventional turbines generate is green, building them can be a dirty process because they use energy intensive materials like steel and iron. More effort is going into cleaning up the start of a turbine's life or finding new uses for it at the end. One startup — which Vestas has backed — is using timber to develop towers. Others are converting decommissioned blades made primarily from fiberglass into pedestrian bridges or park benches. The Danish company is also opening a Polish factory to produce blades taller than the Statue of Liberty, another indication that future demand should remain healthy. That should bode well for sales of greener turbines as well.

The world's new renewable power capacity grew by 50% last year and should keep breaking records this decade on the back of a surge in cheaper solar panels, particularly in China. Almost 510 gigawatts of renewables were installed in 2023, setting a record for the 22nd straight year, the International Energy Agency said. Driven by a huge expansion in China's solar fleet, the world is inching toward a target set at the COP28 climate summit to triple renewable power by the end of the decade. "Under current policies and market conditions, global renewable capacity is already on course to increase by two-and-a-half times by 2030," IEA Executive Director Fatih Birol said. "It's not enough yet to reach the COP28 goal of tripling renewables, but we're moving closer – and governments have the tools needed to close the gap."

Supermarket chain Aldi has cut food waste by 57% since 2017, well ahead of their 2030 target date as set by the Courtauld 2030 commitments. They have been able to achieve this target by working alongside food redistribution companies, diverting food destined to landfill to other sources. On top of this, they have delivered tens of millions of meals since 2019 through its charity partner Neighbourly. Their original commitment was to reduce food waste by 50% by 2030, based on a 2017 baseline, a target adopted by a number of supermarkets in the UK who have voluntarily signed up to the Courtauld 2030 commitments. Having reached their goal already, Aldi have revised their target to reduce food waste by 90% by 2030. Around a third of all food produced globally for human consumption is lost or wasted, highlighting the need to reduce waste in supply chains and surplus food in stores. On top of food waste, the Courtauld 2030 commitments also include targets on GHG emissions and water use.

"Astounding" ocean temperatures in 2023 supercharged "freak" weather around the world as the climate crisis continued to intensify, new data has revealed. The study, published in the journal Advances in Atmospheric Sciences, used temperature data collected by a range of instruments across the oceans to determine the heat content of the top 2,000 metres, where most of the heating is absorbed, as well as sea surface temperatures. The oceans absorb 90% of the heat trapped by the carbon emissions from the burning of fossil fuels, making it the clearest indicator of global heating. Record levels of heat were taken up by the oceans in 2023, scientists said, and the data showed that for the past decade the oceans have been hotter every year than the year before. The heat also led to record levels of stratification in the oceans, where warm water ponding on the surface reduces the mixing with deeper waters. This cuts the amount of oxygen in the oceans, threatening marine life, and also reduces the amount of carbon dioxide and heat the seas can take up in the future.

Winners & Losers

Winning this this month was the residents of San Jose, California after the United States largest solar energy and storage project came online in Kern County, California last week, providing enough renewable power to power 233,000 homes, including some of those in San Jose.

Elon Musk was a definite loser this month as a Delaware judge voided the Tesla CEO's eye-popping $55.8 billion pay package from Tesla last week, after a shareholder argued the package was (quite rightly) excessive.