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20 YEARS ANNIVERSARY

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MONTHLY NEWSLETTER

Everything Ethical Newsletter – June 2023

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Market Commentary

As global inflation data continues to be sticky (where prices remain stubbornly high), all eyes were on the swathes of central bank activity in June where we are beginning to see divergences in policy. Data has been souring and we anticipate growth to moderate in the second half of the year. The recent tailwinds that boosted the services sector has begun to fade and monetary tightening drags are beginning to feed through into the system with credit tightening. However, equity markets have been supported by the thesis that the looming recession will be shallower than initially expected.

The UK continues to struggle in its fight against inflation. Data once more surprised to the upside, coming in higher than expected for the fourth month in a row. The headline number remained unchanged whilst the core number (stripping out volatile food and energy) increased once more, making the UK increasingly look like a global outlier. The market reaction saw traders price in peak Bank of England (BoE) rates in excess of 6%. Just a day later, the BoE were in action and they increased interest rates by 0.5%, which was more than was expected by the market, taking rates to 5%. The key message coming out of the BoE was that inflation persistence would require further tightening. The central bankers sent a hawkish message with their voting, with 7 of the 9 voting for the 0.5% increase. Whilst we see further rate rises likely, we feel the market is overpricing one or two hikes, as the effect of rate rises continue to feed through. As a result, we have added duration to portfolios given we expect a flattening of the yield curve.

This step-up in the pace of interest rate rises comes against a backdrop of chaos in the UK mortgage market. Between now and the end of 2024, around 2.4 million households will see their fixed rate mortgage expire. This would suggest most of the monetary tightening that has occurred over the last eighteen months is yet to be felt by households and therefore the economy. According to a report by property website Zoopla, two-fifths of UK sellers are accepting discounts of more than 5% on the asking price of their property as they become increasingly spooked by the impact of rising mortgage rates.

The US continues to fare better in its fight against inflation, with data coming in-line with expectations and headline numbers continuing to fall. However, core inflation numbers remain steady, showing the stickiness of inflation. As had been expected, the Federal Reserve (Fed) conducted a hawkish pause. Following 15 months of hikes, they left rates unchanged but signalled that they would likely need to resume tightening again at some point given inflation's stickiness. This did leave some to wonder what the benefits of pausing at this point was. Economic data remains strong, with numbers such as consumer confidence and new home sales coming in better than had been expected whilst the labour market remains robust.

Driven by the Fed pausing its monetary tightening, the US large cap index entered a bull market in June as the index has increased by over 20% since its depths in October 2022, mainly driven by large tech names. As a result, US equity markets continue to outperform the UK and Europe, whilst the breadth of this performance has been increasing with outperformance no longer driven by just a few names. The energy sector has continued to underperform however as concerns about economic growth rise. UK infrastructure has been a particular drag on portfolios in the face of increasing rate expectations in the UK, alongside a negative global view towards medium and small sized UK companies. The investments offer increasing value given dividends and NAVs have generally been growing, whilst the underlying cash flows offer inflation protection, although the near-term rate conundrum will weigh on sentiment for now.

As was expected, the European Central Bank (ECB) raised rates by 0.25% to 3.5%. President Lagarde commented that they will continue to raise rates as the 'job is not done'. She also commented that firms should absorb higher wage bills rather than pass them onto consumers in order to get inflation lower. Something much easier said than done. The Bank of Canada shook markets by resuming their interest rate increases that were paused in January, underscoring the difficult task central bankers are facing. New Zealand entered a recession as interest rates alongside storm damage saw the economy contract, creating a belief that policy makers will cut interest rates by the end of the year. China's lacklustre recovery also continues with the central bank ramping up its monetary stimulus to try and kick some life back into it as spending continues to slow on pretty much everything.

Model Portfolio transactions in the month:

We rebalanced portfolios early in June. Details can be found in the attachments in the main body of the email.

Performance:

Funds MPS	June 23
Defensive	-1.05%
Cautious	-0.94%
Income	-2.29%
Balanced	-0.70%
Balanced Growth	-0.40%
Growth	0.14%
Adventurous	0.45%

Direct Equity MPS	June 23
Cautious Green	-1.98%
Light Green	-1.78%
Mid Green	-1.83%
Dark Green	-1.27%

MPS Stock pick feature:

The Wildlife Conservation Bond (the 'rhino bond') is issued by the International Bank of Reconstruction and Development (IBRD) arm of the World Bank. This is a high-quality rated bond from a credit point of view, rated AAA- by rating agencies. The bond offers an innovative use-of-proceeds issuance which is tied to targets for conservation success of the South African black rhino population. The proceeds will finance eligible sustainable development projects and programmes globally. Environment co-benefits of the program relate to broader ecosystems and other species within them. Social co-benefits for local communities include increasing conservation and tourism employment opportunities in the poorest province of South Africa and share in revenues as they are part-owners of the rhino sites. Rhino are threatened by poaching, habitat loss, conflict and corruption. This bond helps the conservation of over 150,000 hectares of ecosystems of high biodiversity where rhinos represent an 'umbrella' species. Outcomes of the bond will be verified by the Zoological Society of London (ZSL).

Ethical News

Hot off the press, **the UK had its hottest June since records began**. This caused unprecedented deaths of fish in rivers and disturbed insects and plants according to environmental groups. The link to the BBC article can be found here: UK - Hottest June since records began

Lord Goldsmith resigned from the UK Government over its 'apathy' on environment, firing a parting shot at PM Rishi Sunak. In his two-page resignation letter Lord Goldsmith said, "The problem is not that the Government is hostile to the environment, it is that you, our Prime Minister, are simply uninterested. "That signal, or lack of it, has trickled down through Whitehall and caused a kind of paralysis." He concluded the letter: "This Government's apathy in the face of the greatest challenge we have faced makes continuing in my current role untenable."

'Range anxiety' among EV drivers could soon be a thing of the past, as fresh research reveals confidence in both battery range and the charging network is growing for drivers across Europe. According to a major new survey commissioned by Shell and conducted by LCP Delta, only 14 percent of EV drivers state they refrain from taking longer journeys. The Shell Recharge EV Driver Survey 2023 polled 25,000 European EV drivers from Belgium, France, Germany, Italy, the Netherlands, and the UK. It underscored how demand for EVs is surging across much of Europe, with drivers making the switch expressing high levels of satisfaction with their new vehicles.

Zenobē and **Mobico Group** (formerly **National Express**) partnered together to launch the first sustainable shuttle bus service for the most recent Glastonbury Festival. Zenobē provided eight electric double-decker buses for the Bristol-Glastonbury route, offering a "zero-emission" transportation option. Pop-up charging station with fast DC chargers and second-life batteries were set up near the festival grounds. This collaboration looks to decarbonise mass passenger transport for large scale events and provide an environmentally-friendly alternative to petrol or diesel vehicles.

UK pension funds are dangerously misaligned with the goal of reducing greenhouse gas emissions fast enough to limit global warming to the critical threshold of 1.5C, a fresh study has found. The industry holds more than £88 billion ($110 billion) in bonds and equities issued by fossil fuel companies, according to a report published by Make My Money Matter, a climate finance campaign co-founded by Love Actually director, Richard Curtis. That's roughly 10 times as much as UK pension funds hold in listed FTSE 350 clean energy stocks, it said.

Some firms are already divesting. **Recently, the Church of England Pensions Board** said it was blacklisting all oil and gas assets, a move that entailed offloading its stake in Shell Plc. That followed an announcement by the oil major that it was stepping up spending on fossil fuels and limiting investment in renewable projects. **A separate Church investing body, the Church Commissioners for England, made a similar announcement.** The two investors represent a combined $17 billion in assets.

The report found, the broader **UK pensions industry**, which manages about $3.7 trillion, remains **heavily exposed to Shell**. About 70% of the funds analysed said their biggest holdings included Shell and 60% held BP shares among their top picks, while none had renewable energy stocks among their leading selections. Continued investment in a growing fossil-fuel industry adds to the risk of “a disorderly transition,” the authors of the report said. A separate study, published by five nonprofit organizations including Reclaim Finance, found that the 30 biggest asset managers hold at least $3.5 billion in newly issued bonds from companies actively engaged in fossil fuel expansion.

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