

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – June 2024

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Market Commentary

Big tech stocks linked to the Artificial Intelligence theme continue to drive equity indices higher, with Nvidia briefly becoming the world's most valuable listed company in June. In the quarter, more sectors in the main US bourses were negative than were positive whilst larger capitalisation companies with strong balance sheets continue to outperform. Higher for longer rates in the US are now priced in, but data in June continued to show inflation trending down, although the job market was hotter than expected. As expected, the European Central Bank (ECB) cut rates, although it was seen as quite hawkish given they raised their estimates for inflation. Corporate earnings did point once more to a weakening economy, with several high-profile retailers missing expectations and providing very weak forward guidance.

It was politics, however, that was the big driver in markets during June as attention was placed once more on the size of government deficits, driven by a new wave of populism through Europe as right-wing parties performed well at the European elections. The surprise calling of an election in France heightened this, with Marine Le Pen's National Rally expected to perform strongly on a mandate expected to increase the deficit, at a time when France are already under scrutiny from the EU. Political developments and policies have led to commentators reminding the market of what happened in the UK under the leadership of Liz Truss.

Attention is also on the other side of the Atlantic, with a dismal performance from President Biden in a debate leading to renewed attention on how Trump 2.0 will play out in bond markets. The expectation is that long-term interest rates are rising relative to the short-term, and we continue to remain cautious towards extending portfolio duration. Surprisingly, in the context of the last few years, the UK appears stable ahead of the general election, with economic policies being similar between Labour and the Conservatives. Markets are happy with the expected Labour government, and we have an improving view to the UK.

The clean energy and energy transition universe had a weak month, reflected in the global clean energy index being down over 8%. Concerns over earnings and the prolonged higher rate scenario in 2024 have continued to weigh. Meanwhile, as noted above, the support for Trump and the growth of populist parties in Europe were both seen as having a detrimental impact on the roll out of clean energy policies. US solar was particularly hit following question marks over Biden's credibility. Major solar indices were down around 13% in June, with leading players such as First Solar returning -16.46% in sterling terms.

Portfolios developing world exposure benefited from the outcome of the Indian election, which was initially taken negatively given the incumbent, Modi, lost his overall majority. However, this is now seen as a positive given it will add a layer of scrutiny over government direction.

Markets now expect a renewed focus on economic growth, with key government positions, such as finance, being held by previous ministers despite the coalition. The Indian mid-cap market was up over 8% in local currency terms for June, which left it at over 14% in the green for the second quarter. We continue to favour India for our emerging exposure, but have taken opportunities in previous rebalances to rotate into selected broader EM markets, and more specifically, China.

Portfolios healthcare exposure was a standout in the month, with Polar Capital Healthcare Opportunities fund returning over 6.5% in sterling terms. The wider healthcare sector was slightly in the green in June, whilst biotech was a standout subsector. Stock selection was a key driver of returns, with the fund's largest holding, Zealand Pharma, returning over 38% in June following the early results of its next-generation weight-loss compound which puts it in competition with leading brands

Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

Performance:

Funds MPS	June 2024
Defensive	0.58%
Cautious	0.60%
Income	0.38%
Balanced	0.63%
Balanced Growth	0.53%
Growth	0.65%
Adventurous	1.00%

MPS Stock pick feature:

Klabin - Founded in 1899 and headquartered in São Paulo, Brazil, Klabin S.A. is a leader in the paper and pulp industry, specialising in the production of sustainable paper & packaging solutions. It engages in responsible forestry practices, planting and managing pine and eucalyptus plantations. This ensures a sustainable supply of raw materials while preserving biodiversity. Klabin plants over 90 trees every minute, expanding its 719,000 hectares of forestry, 42% of which are conservation areas. This provides a protected home for over 855 species of fauna and 1968 species of flora, dozens of which are threatened by extinction. By producing sustainable packaging, including recycled paper, industrial bags, corrugated boxes, Klabin's products are designed to be biodegradable and recyclable, offering a more sustainable alternative to traditional plastic packaging.

Fund House Meetings:

During June we met with representatives of Premier Miton, Schroders, Union Bancaire Privee, RBC BlueBay, Stewart Investors, Legal & General, Abrdn, Amati & Unicorn.

Ethical News

BP's new CEO, Murray Auchincloss, is steering the company towards a more conservative approach on clean energy initiatives. BP has initiated a hiring freeze and paused plans for new offshore wind projects, diverging from the previous strategy under Bernard Looney, in an attempt to appease investors concerned about BP's financial performance. Existing offshore wind projects in the UK and Germany will continue, but resources for identifying new projects have been redirected. Despite scaling back in renewables, BP remains committed to biofuels and low carbon fuels, as evidenced by its recent \$1.4 billion buyout in Brazil. Auchincloss's strategy is influenced by robust returns in oil and gas amidst rising costs in renewable projects, and this has sparked criticism from environmental groups, questioning BP's dedication to reducing carbon emissions.

Human-induced climate change has made extreme heatwaves in the US south-west, Mexico, and Central America about 35 times more likely, due to a new study by the World Weather Attribution (WWA) group. The recent heatwave resulted in record-breaking temperatures and several fatalities in Mexico, with scientists claiming the hottest five-day stretch across the region in June was made around 1.4C degrees warmer by climate change, a small but deadly increase for some. It has also been blamed for the deaths of howler monkeys in the southern state of Tabasco. Scientists also underlined the danger from high nighttime temperatures, as the body does not have time to rest and recover.

Twenty UK homebuilders, collectively constructing over 90,000 homes annually, have joined the **Homes for Nature initiative**, set to begin in September 2024. This commitment mandates installing a bird-nesting brick or box and creating hedgehog highways in every new development, aiming to provide at least 300,000 nesting sites for swifts and other birds. Additionally, builders are encouraged to include bat roosts and insect bricks. The initiative aligns with Biodiversity Net Gain regulations, requiring a 10% increase in wildlife on new sites, and promotes sustainable urban drainage and pollinator-friendly landscaping. Supporting nature is a key part of the homebuilding sector's overall sustainability roadmap, 'Future Homes, One Plan', which sets out the industry's pathway to building a generation of high quality, affordable and sustainable homes and communities.

Imperial College London has launched the Bezos Centre for Sustainable Protein, which aims to revolutionise alternative food products. It aims to provide new alternative protein products, which are eco-friendly, nutritious, and affordable, to give consumers more choice for meat and dairy products. The Centre spans across seven Imperial academic departments and will advance research into precision fermentation, cultivated meat, bioprocessing and automation, nutrition, and AI and machine learning. The Bezos earth fund is providing the funding as part of a \$100 million commitment to developing sustainable protein alternatives and expanding consumer choice, and an overall \$1 billion commitment to food transformation. Collaborations with industry leaders like Quorn and Nestlé will aid in commercialising these innovations, ensuring wider consumer choice and supporting biodiversity and climate goals.

Lidl and WWF have announced a strategic five-year partnership to promote sustainability and reduce food waste across 31 countries, in a bid to transform Lidl's value chain, address urgent ecological challenges and support sustainable consumer choices. Lidl's and WWF's key initiative includes minimising food waste throughout the supply chain and fostering responsible consumption, and by doing so, aim to halve the environmental impact of shopping baskets in the UK by 2030. The partnership will also focus on biodiversity conservation, responsible water management, climate protection, and sustainable sourcing of raw materials. Lidl and WWF's global collaboration builds on successful partnerships in

countries like Switzerland and Austria, aiming to set new standards for sustainability in the retail sector across the globe.

St Austell Brewery, the South West's leading brewing, hospitality and drinks wholesale business with over 160 pubs in its estate has announced a partnership with Scottish Power, the UK's first integrated company to generate 100% green electricity. The partnership will consist of installing over 300 new public EV chargers in pub car parks across South West England, boosting the region's charging infrastructure by roughly 60%. The installation of these rapid and ultra-rapid units aims to enhance accessibility for EV users, making electric cars more attractive and in turn, take more internal combustion engines off the road.

Winners & Losers

Winning this month are the Caicarás, a traditional fishing tribe of Cardoso Island, Brazil.

For the first time in Brazil, a traditional community is managing and operating visitor facilities inside a state conservation unit. The Caicarás people have lived in the Ilha do Cardoso State Park since the 19th century, but since the creation of the state park in 1962 and the end of Brazil's military regime in 1984, the 400 families living on the island faced constant intimidation to leave. Now the community formally manages accommodation, cafeterias, education trails, and a visitors' centre.

Losing this month is online fashion group Shein. Shein are seeking to list on the London Stock Exchange, but in its first attempt to woo investors, UK fund managers warned them that investors will "struggle to support" the flotation in London over concerns about its alleged treatment of workers. Despite Shein denials, there are claims regarding forced labour of ethnic minorities in part of its cotton supply chain.

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