Everything Ethical Newsletter – October 2022

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Market Commentary

October saw some recovery in the markets as central bankers around the world started to give hints that interest rates were starting to have an effect and the time to cease being so aggressive may be nearing. The highly anticipated earnings season also began as investors looked for further colour on the economic situation amongst persistently high inflation and slowing growth. However, the headlines for the first half of the month continued to be dominated by the embarrassing UK political scene.

The fallout from Liz Truss' mini budget, announced at the end of September, reverberated around the markets. Volatility remained in UK gilts and yields pushed higher as the government tried to stick to their un-costed growth plan for as long as they could. But reversals were inevitable, and the UK market began to stabilise upon news that Kwasi Kwarteng had been sacked and replaced with Jeremy Hunt who quickly went about ripping up the mini-budget. As Hunt's message got through, gilts rallied and the pound gained strength but volatility remained until Truss herself finally resigned.

Whilst this was ongoing, concerns over the cost of living continued to worsen. UK CPI came in hotter than expected at 10.1% with broad increases in items such as food and household goods. However, following the reversal on the mini-budget a whole percent was shaved off the expected peak in the UK bank rate. MPC member Broadbent also suggested that Bank of England may not raise rates to as high as had been priced in by the market.

The European Central Bank raised the interest rate for the bloc by another 75 basis points saying that inflation will stay above the target for an extended period of time. They did say that the scale and pace of further tightening would depend on the inflation outlook and take into account the impact of the council's previous rate rises. Actions of central bankers elsewhere added to the speculation that aggressive tightening was nearing the end. For example, the central banks of Canada and Australia hiked by less than was expected and commented that it was time for smaller increments.

Global consumer goods companies have fared better than expected this year in the inflationary environment as they have been able to pass on their costs to consumers. However, many global brands are starting to see the squeeze changing consumer habits as they are pushed towards cheaper products and supermarket own brands. In the UK, the situation was bleaker as Asos launched a series of cost-cutting measures in the latest sign that the cost-of-living crisis had deflated the ecommerce boom.

The big American banks reported better than expected results, benefitting from rising interest rates and a surge in fixed-income trading revenue as activity picked up amongst the recent volatility. They painted the US consumer as still being in a strong position but as expected they have put further money aside for expected loan defaults as the economy continues to slow. In a similar vein, European banks saw benefits from rising interest rates and volatility in fixed-income and currency trading. Banks have been benefitting from the rising rates as they make profit on the difference between what they charge on loans, and the deposits they pay to customers which lags behind increases in interest rates.

In Ukraine, the intensification of rhetoric and violence continued as Russian forces continued to struggle on the battlefield. Following the symbolic attack on the bridge that connects Crimea to mainland Russia, there have been numerous missile attacks on key Ukrainian infrastructure including critical energy supplies.

There was sabre-rattling at the Chinese Communist party conference with a clear message that those wanting to thwart China's rise will fail. Xi's remarks were intended to let Biden know he is ready to stare down any US challenge amongst moves to hinder Beijing's access to advanced technology and deter against military action in Taiwan. Elsewhere, the Brazilian elections saw an extraordinary comeback for Lula da Silva who will once again take the office of President.

Model Portfolio transactions in the month:

We rebalanced the portfolios in October following the increased volatility in UK assets, details of these were distributed last month, please contact us if you need the document again.

Performance:

Funds Model Portfolio	October 2022
Defensive	-1.03%
Cautious	+0.12%
Income	+2.35%
Balanced	-0.28%
Balanced Growth	-0.07%
Growth	+0.37%
Adventurous	+1.21%

Direct Equity Model Portfolio	October 2022
Cautious Green	-0.45%
Light Green	-1.02%
Mid Green	-0.94%
Dark Green	-0.33%

MPS Stock pick feature:

Befesa are a waste management company who provide environmental services and sustainable solutions to the steel and aluminium industries. They are a global leader in the management and recycling of hazardous residues generated in the value chains of steel and aluminium producers. They are strong contributors to the circular economy through reducing the environmental impact of industrial waste, recovering valuable materials and reintroducing them into the production process, thus also reducing the cost of primary production.

Ethical News

The election of **Lula da Silva** into office in Brazil should have a positive effect on the environment. Many were very critical of President Bolsonaro's environmental record to the point that he skipped last year's COP climate talks. Within hours of winning, Lula pledged to halt the destruction of the Amazon rainforest and restore Brazil as an international leader on climate issues. He plans to attend this year's COP27 summit even though he doesn't take office until January. His promises have credibility because of his internationally renowned former environment minister who oversaw a dramatic reduction in deforestation during Lula's first two terms as President. She has already said that: "the issues of climate change, forest protection, biodiversity and indigenous peoples will be at the top of the government's list of priorities". The political lens will switch to North America in November as the **US midterms** take place. The Republicans are expected to do well and this could have negative implications for climate progress.

November will see **COP27** being hosted in Egypt and the UK prime minister Rishi Sunak will be in attendance after initially saying that he would not be. His initial snub had raised questions about the new PM's commitment to climate but has since tweeted that there was "no long-term prosperity without action on climate change". His actions in the coming months will determine where he really stands in his commitment. The five key issues that will be at the centre of COP27 are nature, food, water, industry decarbonisation and climate adaptation. It comes after a year where climate change has become ever-present as a third of Pakistan was flooded and Europe had its hottest summer in 500 years.

Developed countries will be in focus given their commitments to climate finance and the promised delivery of $100 billion per year to assist developing countries, which has not so far materialised. Those that are in a position to do so are being urged to "lead by example" and take "bold and immediate actions" to reduce emissions. Progress is also needed towards enhancing climate change resilience and assisting the world's most vulnerable communities. It is therefore pertinent that COP is being held in Egypt. Africa produces a very small fraction of the global greenhouse gas emissions yet is one of the most vulnerable to the effects of climate change. It threatens to expose up to 118 million of the poorest Africans to droughts, floods and extreme heat by 2030.

The FCA has released its consultation paper into the long awaited **'Sustainability Disclosure Requirements'** (SDR). The announcement saw three investment labels introduced in order to distinguish between investment funds based on, in short, intentionality and the primary channel of achieving the positive outcome. The three fund labels include 'sustainable focus', 'sustainable improver' and 'sustainable impact'. As with the European Union's SFDR, the inclusion of sectors such as fossil fuels are possible under certain conditions, which we feel could lead to certain client's expectations not being met. The FCA are also proposing an 'anti-greenwashing' rule, "reiterating that sustainability-related claims must be clear, fair and not misleading". At this early stage, we will be engaging with our peers on the proposal.

On the topic of **greenwash**, the Advertising Standards Authority has banned a series of adverts from **HSBC**, saying the bank was misleading consumers over their green credentials. The adverts showed the bank being active in planting trees, in turn helping the transition to net zero, but the watchdog felt this was misleading as they failed to mention the billions of pounds the bank provides to companies actively involved in controversial areas, including fossil fuels and deforestation.

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