

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – August 2023

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Market Commentary

Our thinking that the aggressive tightening of monetary policy would lead to an economic slowdown really began to play out in the macro data released in August. We had already seen signs of fragility in the Chinese economy, but other major economies are starting to show cracks, with economic data such as PMIs and retail sales disappointing, whilst headline inflation continues to cool. This has led to investors to re-assess when and at what level we will see peak rates in economies such as the US and UK, and is a contrast to sentiment early in August, where yields sold off on concerns there is still more tightening to come.

The re-adjustment we witnessed supports our rationale for adding to duration over the last few months, and comments that the Bank of England's chief economist will vote to keep interest rates at their current level rather than push higher was welcome news given our positioning. We still feel the market is underestimating the effects of previous rounds of tightening, given it takes several quarters to feed through. On top of this, we feel the UK economy will come under greater pressure given the rapid rise in mortgage rates, and our wider conversations with friends, family and peers suggest more pain is to come as people switch from their low fixed rate mortgages to a drastically higher floating rate, which will hit disposable incomes and therefore consumption.

At one point in August, equity markets were deep in the red, but they bounced back in the latter part of the month on the 'bad news is good news' thesis, which isn't a strong foundation, particularly if the data continues to turn sour. We have been below our neutral level for equities over the last few months and this saw no change in the month of August.

Whilst we do believe we are close to peak rates, we still feel there will be some jitters along the way, especially with oil and certain soft commodities moving higher alongside services inflation remaining sticky. Central banks have historically pushed economies into recession when there have been large inflation spikes like we have witnessed in the post-covid world, and we expect this is something they will do with the monetary tightening thus far.

August has been a particularly tough time for a number of companies exposed to the clean energy transition, from electrical goods in mobility and EV charging, to US residential solar. Many of these companies are facing cyclical pressures from higher rates, which was written on the wall heading into the year. However, persistent supply chain issues, and more specific issues such as lack of clarity over the tax credits from the US inflation reduction act, have impacted wind projects in the US, and names such as Vestas Wind Systems have suffered as a result. Given the medium-term outlook for these types of companies and the de-rating we have seen over the last few months, we favour re-balancing into any weakness.

Model Portfolio transactions in the month:

There were no changes to portfolios in August.

Performance:

Funds MPS	August 23
Defensive	-0.64%
Cautious	-1.20%
Income	-1.27%
Balanced	-1.38%
Balanced Growth	-1.57%
Growth	-1.82%
Adventurous	-2.38%

Direct Equity MPS	August 23
Cautious Green	-2.23%
Light Green	-2.23%
Mid Green	-2.84%
Dark Green	-3.34%

MPS Stock pick feature:

Arcadis is a design and consulting firm that provides engineering and environmental services particularly focused on buildings, infrastructure and water businesses. The company also specialises in integrating climate adaptation specifically and sustainability more generally into their services. Infrastructure projects are spread across Europe and the Americas and include railroads and renewable energy projects, such as wind energy parks and hydropower plants. Arcadis also has a large environmental consulting business which advises clients on all aspects of environmental management, including soil and groundwater contamination, land remediation, waste and water management and ecological projects.

Ethical News

Eight countries of the **Amazon Basin** agreed to a major new declaration that puts forth a unified vision to **protect the rainforest**. In the lead up to the Belem summit, around 300 leaders from 100 organizations from within and beyond the Amazon region supported by Conservation International, World Resources Institute (WRI) and multiple partners delivered a set of recommendations for advancing a Pan-Amazon network and workplan on bioeconomy to the heads of state and ministers of the Amazon countries. WRI also released a landmark study finding that with the right actions, ending deforestation in the Brazilian Amazon would not curb development, but rather create new jobs, grow GDP, improve people's lives, and keep climate goals within reach.

Octopus Energy and UK Power Networks (UKPN) will offer customers free electricity when energy supply exceeds demand due to excess renewable power on the grid. Through the 'Power-ups' scheme Octopus will send customers a notification of the times they are able to use their 'Power-ups' one day in advance. The scheme aims to tackle imbalance challenges face by the grid when an abundance of renewable power means supply exceeds demand and reduce curtailment.

UK Prime Minister Rishi Sunak has been under pressure ever since he watered down government rhetoric on net zero targets — from campaigners, industry leaders, and his own warring MPs. Now he faces a challenge on another front: his own voters. Even as the Tories

prevaricate on key climate policies, new polling shows that voters planning to support the Conservative Party at the next election **overwhelmingly back the government's target of reaching net zero carbon emissions by 2050**. Around two thirds of all voters support the 2050 deadline, with support among Conservative voters slightly higher at 73 percent, according to a poll from the research company Focaldata, alongside the Energy and Climate Intelligence Unit (ECIU) think tank.

The **NFU (National Farmers Union)** called for legal targets to ensure **at least 60 percent of food consumed in the UK is homegrown**. The trade association highlighted the huge risks posed to the UK's food security from worsening threats from wildfires, extreme temperatures and drought that have caused "havoc" across many parts of the world – as well as from geopolitical crisis such as Russia's invasion of Ukraine and ongoing inflationary pressures facing the economies around the world. The UK currently imports around 46 percent of its food.

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