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Everything Ethical Newsletter – February 2023

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Market Commentary

In last month's commentary we noted that we thought certain market moves had been overdone. We believed that, particularly in the United States (US), data continued to point to resilience in the economy, the labour market was hot and that there could be upside surprises to inflation numbers. February seemed to play to that tune, with bonds and equities selling off following swathes of strong economic data and stickiness in the inflation prints which pointed to Central Banks jumping back onto the hawkish foot.

The month began as the market expected, with the Federal Reserve (Fed) slowing their rate hikes to 0.25%, taking the target rate to 4.75%. This was accompanied by a more optimistic outlook on the economy and the inflationary situation. The Bank of England (BoE) and European Central Bank (ECB) followed with 0.5% rate hikes, which were also expected by the market. The BoE anticipated a shorter and shallower recession than they had previously and the ECB commented they would continue raising at a steady pace. This was also anticipated given they started later and from a lower level, and we agree that the ECB still has the furthest to go in their tightening.

In the US, it did not take long for doubts to creep in over the Fed's path of monetary policy. The all-important non-farm payroll employment data came in much hotter than expected (noted in last month's commentary) alongside a fall in the unemployment rate and a larger increase in average hourly earnings than had been anticipated. This was quickly followed by some hawkish comments from Fed officials, with Chair Powell saying the Fed may have to hike more than what was priced in by the market.

US inflation prints then came in to the upside, with headline inflation ticking up from the previous month and core inflation remaining sticky. Retail sales and PMIs also came in stronger than expected, giving credence to the view that the Fed could continue to tighten supported by economic resilience. The market also reacted to comments from officials who said that they had seen a strong case for a 0.5% rate hike at the Fed meeting earlier in the month. The culmination of all of this saw yields rise and stocks sell off as the market repositioned, now fully pricing in a peak rate of 5.5% which we see as more realistic than had been previously. The market does still anticipate a small rate cut before the year is out, but we anticipate that they will be held higher for longer.

We learnt that the UK avoided a technical recession in Q4 but that the economy did stagnate. Rate expectations are more dovish than other central banks given how far they have come down from their highs. Economic data is mixed and whilst inflation did come in lower than the market estimated, headline inflation remained above 10% year-on year. A tight labour market and expected second rounds of inflation as wage increases feed through gives support to the hawkish members of the BoE. With a bleak outlook priced into the UK economy, signs of improving relations with the EU could provide some signs of life as the UK Prime Minister and the President of the European Commission agreed the so-called Windsor Framework (a new framework covering the Northern Ireland Protocol).

Amongst all of this economic data, earnings season rumbled on. Tech bellwethers continued to show that the slowing economy is hurting demand for electronics, e-commerce, cloud services and digital advertising. Big Oil & Gas companies continued to break profit records as they benefitted from surging prices, the majority favoured returning money to shareholders rather than reinvestment which drew further scrutiny from the public and politicians. Manufacturers pointed to signs that supply chains were easing, particularly as the upside from China's abandonment of its zero-covid policy fed through. Retailers pointed to a consumer that remains strapped for cash, spending more on essentials and less elsewhere. Yet, as Covid-19 now seems firmly in the rear-view mirror airlines and travel companies are telling us that what spare money people do have they are spending on holidays.

Model Portfolio transactions in the month:

There were no changes made to portfolios during February.

Performance:

Funds MPS	Feb 2023
Defensive	-0.70%
Cautious	-0.57%
Income	-1.20%
Balanced	-0.35%
Balanced Growth	-0.09%
Growth	0.15%
Adventurous	-0.03%

Direct Equity MPS	Feb 2023
Cautious Green	-0.83%
Light Green	-0.66%
Mid Green	-0.50%
Dark Green	-0.01%

MPS Stock pick feature:

During its 70-year operating history, **Stevanato Group** evolved from a simple glassware manufacturer to a leading global provider of drug containment solutions (vials, cartridges and syringes), drug delivery systems and in-vitro diagnostic solutions. The Italian company offers an integrated, end-to-end portfolio of products, processes and services for each stage of the drug and diagnostic lifecycle. Stevanato also provides machinery and equipment to produce drug containment and delivery systems. Containment systems interact with drug formulations and are thus critical for the safety and efficacy of therapeutics. Indeed, containment systems form part of the regulatory approval process for therapeutics.

Ethical News

It's reported that **100,000 green jobs** have been announced since the landmark **US Inflation Reduction Act** which provides tax credits and incentives for green industries to help reduce the countries climate emissions. The research by the group Climate Power, was based on press and company announcements to estimate the private sector jobs created.

Climate activist Global Witness has accused **Shell Plc** of **greenwashing** in their claims about the number of investments into renewable energy. The group has asked the US Securities and Exchange Commission to investigate Shell's statements, given they include marketing and trading of natural gas within the spending on Renewables and Energy Storage segment. Shell believe they are being fully compliant in their disclosures. Given the recent backlash to ESG in the States, it will be interesting to see how the regulator responds.

A recent study by the **Recycling Partnership** showed that recycling rates in the US could increase by 50% if laws put responsibility on manufacturers for the afterlife of the products they produce. These laws are known as extended producer responsibility (EPR) laws and are beginning to be introduced by individual states, given they are common place in Asia and Europe. The study showed that recycling rates jumped from anywhere to 60-75% higher in jurisdictions that had EPR laws in place.

Vestas Wind Systems, a holding in some of the funds held in your portfolio, has developed a solution to allow for wind turbine blades to be broken down and recycled, in what is being signalled as a new era for the wind industry given that many blades are often placed in landfill. It had previously been reported that over 25,000 metric tons of blades will be decommissioned by 2025, presenting a sustainability challenge for the industry. Importantly, the solution can be used on old blades currently sat in landfills.

National Grid, the UK's grid operator, has set out plans to speed up **grid connections to boost clean energy** capacity by reforming the way generators apply to connect to the grid. It has been reported that as little as 30% of the projects that apply for grid connection are actually built, with supposed bottlenecks created for smaller-scale wind, solar and battery projects. The changes come into effect on 1st March 2023.