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## Everything Ethical Newsletter – July 2022

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### Market Commentary

Stocks and fixed income had a bounce back after what had been a very tough first half of the year for markets. This was driven by a better-than-expected earnings season alongside an easing of expectations for interest rate rises in the face of gloomy economic data, particularly around the consumer. Inflation continues to run high, with little sign of it easing, and this creates an ever-greater dilemma for central banks.

The US Federal Reserve hiked interest rates by another 75 basis points and Federal Reserve Chair Powell said that they will press on with the steepest tightening in a generation. At the same time, he gave officials flexibility on coming moves and stepped away from giving specific guidance amid signs of a broadening economic slowdown. However, unlike other slowdowns, the labour market remains resilient which will keep monetary policy makers in two minds.

Consumer spending and confidence was weaker alongside declines in business and residential investment. GDP also shrank for a second straight quarter increasing the odds of a downturn. There are even signs that job opportunities are beginning to slow, with some large tech companies slowing their hiring plans whilst others are withdrawing internship offers.

Unilever, a global consumer goods company, reported that they had raised prices by 11% in the second quarter, a rise that did not even pass on the full impact of input costs to shoppers. They note that consumers are switching to supermarket own brands as they look to cut costs to cope with the increasing cost of living. Similarly, Walmart highlighted that soaring inflation is impacting consumer spending habits, with lower spending on higher margin products which will cause a fall in their profits.

As expected, the European Central Bank raised rates for the first time in 11 years. Up until a few days before it seemed as if a 25-basis points rise was nailed on but a worsening inflation backdrop led to 50 basis points being on the table and this is what they duly delivered. They also revealed further details of its anti-fragmentation tool that is designed to prevent spreads between different sovereigns being too wide.

Euro-zone GDP expanded by more than three times expectations, however, Germany's economy stagnated and its inflation soared to a fresh record. Russia continues to use energy as a weapon and is proceeding to cut supplies to the continent through the key Nord Stream pipeline. This threatens to cause widespread issues as we head into the winter months and the EU has met to outline plans to try and reduce energy consumption, although there are no concrete commitments.

In a more positive development, steps have been made in mitigating the global food crisis. A deal has been reached between Russia and Ukraine which will allow grain shipments to leave the port of Odesa in an attempt to alleviate soaring prices. The crisis in Ukraine has left as many as 47 million people globally at risk of acute hunger according to the world food programme. The deal comes at a welcome time as heatwaves across Europe and the US have impacted growing conditions and raised concerns over crop supplies.

Bank of England policymakers will be under pressure to step up the pace of monetary tightening when they meet at the start of August. Governor Bailey said that 50 basis points is on the table but not locked in. A growing number of forecasters are moving towards 50 basis points because the Fed and ECB decisions will leave the BoE worried about credibility. The IMF pointed to the UK as one of the countries where the inflation outlook had worsened the most, but this is finely balanced against the rising risk of recession.

The race to be the next UK Prime Minister has been heated so far but now Liz Truss appears to be the front-runner. If she is successful, there is likely to be expansionary fiscal policy which may cause more headaches for the MPC and could force them into raising rates further. Truss has pledged to scrap April's National Insurance rise, cancel a planned corporation tax rise and temporarily suspend green levies on energy bills.

#### **Model Portfolio transactions in the month:**

There were no changes to portfolios during the month.

#### **Performance:**

<b>Funds Model Portfolio</b>	<b>July 2022</b>
<b>Defensive</b>	<b>3.53%</b>
<b>Cautious</b>	<b>4.37%</b>
<b>Income</b>	<b>4.14%</b>
<b>Balanced</b>	<b>5.65%</b>
<b>Balanced Growth</b>	<b>6.39%</b>
<b>Growth</b>	<b>7.06%</b>
<b>Adventurous</b>	<b>7.41%</b>

<b>Direct Equity Model Portfolio</b>	<b>July 2022</b>
<b>Cautious Green</b>	<b>4.25%</b>
<b>Light Green</b>	<b>4.96%</b>
<b>Mid Green</b>	<b>5.98%</b>
<b>Dark Green</b>	<b>6.34%</b>

### **MPS Stock pick feature:**

**Safaricom** is the largest telecoms company in Kenya that provides integrated telecommunication services, including mobile and fixed voice, data and internet. Safaricom also has the largest mobile payment system in Africa, called M-Pesa. A combination of the Swahili word for money, 'pesa' and the 'M' for mobile, M-Pesa was born in Kenya as a phone-based alternative to physical bank branches. The company's purpose is to transform lives by connecting people to people, people to opportunities and people to information. They keep over 42 million customers connected and play a critical role in the society, supporting over one million jobs both directly and indirectly. They state in their 2021 Impact report that their total economic value was estimated at KES 362 billion (\$ 3.2 billion) for the 12 months through March 2021.

### **Ethical News**

After decades spent pioneering sustainable practices, **MARTINI**, the world's number one Italian sparkling wine and vermouth from family-owned Bacardi, has reached a sustainability milestone – 100% of the wineries for the entire MARTINI portfolio are now certified sustainable. Every drop of grape juice used in the production of vermouth and sparkling wines, including Fiero and the new Non-Alcoholic Aperitivo range, is now sourced from wineries certified according to the standard set by Equalitas, the most comprehensive sustainability standard in Italian wine making.

UK supermarket company **Morrisons** have launched their first lower environmental impact store in Little Clacton. It will use 43% less carbon, stock 366 loose products and will be almost zero waste, whilst quadrupling locally sourced products and increasing biodiversity schemes and community hours. In its environmental construction, Morrisons Little Clacton has recycled 99% of the demolition materials from its old store in the new build, and reused and reduced steel to lower carbon emissions by 52%. Special car park tarmac has been used to offer a carbon saving of up to 25%. A rainwater harvesting system will be used to flush the store's toilets and reduce virgin water use of nearly 600,000 litres a year. Outside the store, a wildlife area has been created in the grounds of the store to offer a home for birds, insects and small animals.

**Johnson Matthey**, a global leader in sustainable technologies, announced that it is building a £80m Gigafactory at its existing site in Royston, Hertfordshire, to scale up the manufacture of hydrogen fuel cell components. The Gigafactory will initially be capable of manufacturing 3GW of proton exchange membrane (PEM) fuel cell components annually for hydrogen vehicles and is supported by the UK Government through the Automotive Transformation Fund (ATF). The investment will safeguard highly skilled manufacturing jobs in the UK. The site is expected to be in operation by H1, 2024.

The **World Wildlife Fund** and **Scottish Power** are working together to accelerate the UK's transition to net zero. Recent analysis they have produced shows that installing an air-source heat pump could increase the sales value of a home by around £5,000-£8,000; solar panels could increase sales value by around £1,350 - £5,400; and an EV charge point could increase it by around £5,400 - £7,400. In combination, these technologies could increase the value of a home by, on average, around £10,000.

12.5 million home pregnancy tests are completed in the UK each year, causing a shocking amount of plastic waste to be sent to landfill. But **Hoopsy** is on a mission to change this, with its eco pregnancy tests made of 99% paper. The paper test can be cut in half – the part that is urinated on can be discarded while the other half goes into standard paper recycling. Furthermore, the cardboard packaging can be recycled in paper recycling while the pouch that the test comes in can be recycled in soft plastics at most supermarkets.

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