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Everything Ethical Newsletter – August 2022

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Market Commentary

Markets gave back much of the previous months gains as central bankers stepped up their tough talk about bringing inflation back down to their respective targets. This was epitomised at the annual Jackson Hole symposium, where dozens of central bankers, policymakers, academics and economists from around the world meet to discuss economic affairs. All eyes were on the Federal Reserve Chair Powell's keynote speech where he emphasised that the Fed won't stop until the job is done. Whilst there will be pain and sustained periods of low growth, the failure to restore price stability would cause far greater pain.

The Bank of England kicked off central bank action in August with their first 50 basis points rise since becoming independent in 1997. They warned of an inevitable recession that they forecast will begin in the fourth quarter of this year and last the majority of 2023. They also upwardly revised inflation forecasts, which they now see peaking at 13.3% in October. CPI figures for July came in at 10.1%, this was above estimates and unsurprisingly energy and food were the biggest contributors. There were also headline grabbing forecasts from a number of investment banks, who forecasted inflation to potentially rise into the low 20's by next year.

The UK labour market showed early signs of cooling with a small increase in unemployment. Whilst underlying wage growth showed that inflationary pressures were still strong, real UK wages have fallen at the fastest pace in 2 decades. As the so-called Summer of Discontent continued, UK consumer confidence fell to record lows, there were increasing numbers of strikes and plans for future strikes as people increasingly have their finances squeezed and struggle to live. Ofgem confirmed the price cap rise which represents an 80% increase and that it may rise to over £5000 next year. Some forecasters suggested that 50% of the UK could be in fuel poverty this winter.

Gas prices were once more the focus in Europe as the Nord Stream pipeline once again ceased supplying gas for "maintenance" purposes. Power prices surged to record highs in countries such as Germany and France and the Euro fell below parity with the US Dollar off the back of this. The market is now expecting that the European Central Bank will raise interest rates by 75 basis points at their next policy meeting.

The EU has been effective in its preparations for winter and met its gas storage goal two months ahead of schedule, however industrial companies are feeling the knock-on effects of these energy price rises. Energy intensive areas such as smelting have seen factory closures,

causing metal prices to surge. Similarly, there is further talk of CO2 shortages in Europe which is vital in various food and drink sectors. The gas is commonly produced as a by-product of ammonia plants, which have been shutting down due to the high energy costs. At the same time, unprecedented weather has further added to supply issues across the globe. Whether it be drought and heatwave causing hydropower shortages and factory shutdowns in China, or falling river levels preventing the movements of shipping in Germany.

For obvious reasons, a lot of the focus during the recent reporting period was on the consumer. Large US retailers gave strong indications of changing consumer habits when they reported. Consumers have been paying more for fewer goods which is a stagflationary trait, and higher income shoppers are actively trying to save money by 'shopping down'. Spending on discretionary items has fallen and, in response, retailers have been liquidating discretionary inventories to pivot towards essentials which has seen earnings take a hit. In combination, this all adds to the picture of a consumer being squeezed and a slowdown in growth.

Model Portfolio transactions in the month:

There were no changes to portfolios during August, but in early September we conducted a rebalance. Further details on this will be with you in due course.

Performance:

Funds Model Portfolio	August 2022
Defensive	-3.19%
Cautious	-2.33%
Income	-2.70%
Balanced	-2.07%
Balanced Growth	-1.54%
Growth	-0.82%
Adventurous	0.05%

Direct Equity Model Portfolio	August 2022
Cautious Green	-2.86%
Light Green	-2.50%
Mid Green	-1.48%
Dark Green	-0.28%

MPS Stock pick feature:

ALK-Abelló is a developer of products that prevent and treat severe allergies. The Danish company is a global leader in allergy immunotherapy, which addresses the underlying cause of allergy, not just the symptoms. ALK-Abelló offers treatments for some of the most common respiratory allergies, including grass pollen, tree pollen and house dust mites. It has developed tablet and drop alternatives to injections, allowing allergy patients to painlessly treat

themselves at home. By allowing people to overcome their illnesses, ALK-Abelló contributes to the achievement of UN Sustainable Development Goal 3 – ensuring healthy lives and promoting wellbeing.

Ethical News

In the midst of the driest eight-month period since 1976, and with the East of England only seeing a fifth of its average rainfall in July, **Anglian Water** revealed that long-term plans for two new reservoirs that will secure the region's water supplies for future generations are continuing to progress. One reservoir is proposed to be in the Fens and will see Anglian joining forces with Cambridge Water, the other will be located in Lincolnshire.

Home furnishings company **Dunelm** have created a Conscious Choice range with the aim to be transparent about their own-brand products and make it easier for everyone to find homewares that have a reduced environmental impact (compared to other products available from Dunelm). They are focusing on the raw materials initially as this is where their data shows the greatest opportunity to reduce the environmental impact of their products. Long-term goals include creating better supply chain processes and localising sourcing regions closer to assembling factories.

Morrisons has become the first supermarket to launch its own line of carbon neutral eggs as part of its commitment to be directly supplied by 'zero emission' British farms by 2030, five years ahead of the rest of the supermarket industry. In stores now, Morrisons new carbon neutral 'Planet Friendly Eggs' come from Morrisons farms where hens are fed a soya-free diet of insects - which are in turn fed on food waste from its bakery, fruit and vegetable sites. This pioneering 'circular waste' feeding scheme, powered by Better Origin technology, reduces deforestation caused by soya production and negates the carbon emissions emitted from transporting this soya. The egg farm where the first stock of Planet Friendly Eggs will originate also has a large wind turbine, 50kWh solar panels, and a carbon sequestration programme to offset any remaining emissions on the farm - with 20 percent of its land planted with trees.

SSE Energy Solutions has partnered with The Association of University Directors of Estates (AUDE) to inform Universities on the best practices to go green and decarbonise. Energy professionals from SSE provided certified Continuing Professional Development training across UK campuses, on the topic of decarbonisation. The sessions, led by subject matter experts, set out to provide a better understanding of how to achieve net zero goals within enforced time frames, and what considerations are necessary to achieve them.

The **U.S. Senate** finally passed a sweeping \$430 billion bill intended to fight climate change, lower drug prices and raise some corporate taxes, a major victory for President Joe Biden. The legislation is aimed at reducing carbon emissions and shifting consumers to green energy, while cutting prescription drug costs for the elderly and tightening enforcement on taxes for corporations and the wealthy.

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