

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – May 2023

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Market Commentary

The British Retail Consortium told us that UK shop price inflation hit a record high in May, which further fuels the debate that the Bank of England's Monetary Policy Committee (MPC) have failed miserably in their task of controlling inflation. The good news, if you can see it as that, considering prices remain eye-wateringly high, food price inflation does appear to have peaked, although the cynic would suggest this conveniently comes at a time when political pressure on our wholesalers has been mounting.

Nonetheless, calls of 'rip off Britain' were ringing in the office given the slide in the European inflation numbers at the end of the month. A host of countries, including France, Germany and Spain, reported cooling prices, largely as food and energy prices moved lower, but broad price declines were seen. Whilst positive, one concern for Europe is the potential for a wage price spiral, although bonds rallied with the market believing rate rises would be more limited moving forward.

Putting aside the US debt ceiling (which appears to be close to being resolved), sticky inflation (where prices remain stubbornly high), is the markets' main concern at the moment. Whilst a lot higher than its G7 peers, the UK is not alone in this fight. The latest reading of US Core PCE (the Federal Reserve's preferred measure of US inflation) moved higher, coupled with the continued robust jobs data, uncertainty remains if the Federal Reserve will pause in rate hikes or press on with another 25-basis point hike in June.

In the case of the UK, more rate hikes are highly likely, pushing UK government debt to levels last seen during the chaos brought about by the Liz Truss government's mini budget. The next reading of UK CPI comes a day before the next MPC rate decision. Whilst that figure is unlikely to sway the committee, a move lower will raise questions over future hikes that are priced in. The UK's Chancellor Jeremy Hunt turned some heads when he said a recession may be necessary to get inflation down. Given the rate path trajectory, this is a growing concern, with headwinds in the housing market on the rise. However, the UK jobs market remains robust whilst the outlook for the consumer continues to improve for now.

The knock-on effect of yields moving higher was infrastructure and property suffering. We recently commented on the property sector. Here our focus is on closed-ended REITs, either directly or through an open-ended fund. We have seen a number of property deals go through in the last couple of months at large premiums to share prices, which has highlighted the value that is available in the sector once investors look through the noise.

In terms of equities, the UK and Europe underperformed the US, with a small handful of large tech names driving the divergence, with some questioning the lack of breadth in the market's outperformance. The order of the day was artificial intelligence, which got a huge boost from comments from Nvidia, whose double-digit share price rally saw the company join the \$1 trillion club for a few hours. Elsewhere, the energy sector has been a noticeable underperformer given the concerns over economic growth, particularly around the China recovery which has been lacklustre so far. The one beneficiary of this appears to be India, which was the standout market in terms of equity returns in the month as investors rotated back to the growth story.

Turkey's Recep Tayyip Erdogan won a third term in office in a tightly run contest against the 'untested democrat' Mr Kilicdaroglu. We now look to Spain following the Prime Minister's decision to call a snap election after conservative and far-right parties triumphed in Spain's recent regional and municipal elections.

Model Portfolio transactions in the month:

There were no changes made to portfolios during the month.

Performance:

Funds MPS	May 23
Defensive	-1.16%
Cautious	-1.17%
Income	-2.47%
Balanced	-0.89%
Balanced Growth	-0.78%
Growth	-0.27%
Adventurous	0.19%

Direct Equity MPS	May 23
Cautious Green	-1.53%
Light Green	-1.31%
Mid Green	-0.76%
Dark Green	-0.52%

Defence stocks in our portfolios

A recent interview with the Chief Executive Officer of Saab AB caught our attention. Many would see that name and expect the comments to focus on the automotive industry, however the company was initially founded in the 1930s as an aerospace and defence company.

The auto business, which started in 1947, was spun off in 1990 and eventually was taken over by General Motors in 2000. The company's main focus has been fighter aircraft, and has largely seen flat revenue for the last decade, until the Russian invasion of Ukraine. In the interview the CEO commented **"We had investors telling us, 'We will never invest in Saab. You're manufacturing dangerous products...Just weeks later the same investors thought that maybe it wasn't such a bad idea."**

The growth in defence stocks, alongside other sectors such as oil & gas has been well documented given the impact this has had on portfolios. We would like to reconfirm to our investors that where we have an explicit ethical screen in place, such as defence, we will not go seeking returns at the expense of ethics.

MPS Stock pick feature:

Pigeon Corporation manufactures & sells baby and childcare, maternity & home/nursing care products. It also operates child-minding centres. Pigeon *wants to make the world more baby-friendly by furthering our commitment to understanding and addressing babies' unique needs.* Pigeon aims to become the number one baby product manufacturer in the world, and have established its own quality standard, the PQS (Pigeon Quality Standard) to ensure that their products are always of the same quality around the globe. Pigeon ensures that the edges of their products are rounded, and will not cause harm in any of the endless variety of situations that arise during childrearing. Their Singapore division collaborated with a local social enterprise that supports artists on the autism spectrum to design a 100% Biomass Polypropylene nursing bottle using pulp-derived tall oil and waste cooking oil instead of petroleum. Pigeon Singapore also started a Nursing Bottles Recycling Campaign in 2019 to reduce the number of plastic waste and advocate a sustainable society.

Ethical News

Most people live in homes that burn gas or other fossil fuels to provide heat and hot water. To reach net zero emissions by 2050, we have to switch to greener heating. **Heat pumps**, which run on electricity that comes increasingly from renewable sources such as wind and solar, will help us get there. **Nesta, the UK's innovation agency for social good**, conducted a survey that showed people living in England, Scotland and Wales who own their home and use a heat pump to heat it are satisfied that heat pumps are safe, reliable, quiet heat sources that are effective for space heating and producing hot water.

CGI, a leading global IT and business consulting services firm, in partnership with **Ordnance Survey**, has developed an initiative designed to **remotely detect sewage overflow** events from space. The project will utilise a newly created artificial intelligence (AI) model that can predict with high levels of accuracy the conditions most often associated with pollution events. The new tool to detect sewage has launched in North Devon.

Talking of sewage.... **Water companies in England have apologised for repeated sewage spills and pledged to invest £10bn this decade** in an attempt to quell public anger over pollution in seas and rivers. The companies will triple their existing investment plans to plough funds into the biggest modernisation of sewers "since the Victorian era" to reduce spills of overflowing sewage into England's waterways. Industry body Water UK said the plans will cut the number of overflow incidents by up to 140,000 each year by 2030, compared with 2020. Environment Agency figures earlier this year showed there were a total of 301,091 sewage spills in 2022, an average of 824 a day.

Lithium carbonate has been successfully extracted from geothermal brines at a former cement works in County Durham by **Weardale Lithium**. Lithium is of strategic importance to the UK's net zero ambitions and production of high-value batteries for electric vehicles. The UK needs a secure supply of lithium as there is currently no commercial lithium production or refining in the UK or Europe. Consequently, this is a significant milestone as it advances the possibility of producing domestic lithium and in turn advancing an integrated battery-supply chain industrial hub in the North East of England. Lithium produced and refined in the UK will confer transportation cost advantages, supply assurances and an environmental-premium over foreign suppliers. The company are not creating large open pits in the landscape, with the current landscape remaining unchanged.

A former M&S department store in central Bristol has been reopened as a "creative sustainability hub". The green shopping hub aims to encourage citizens to recycle, upcycle, and buy second-hand goods. **SPARKS Bristol** have used 100% recycled material to build the

hub, All the materials used have been recycled from Bristol film and TV sets. All the staff, volunteers and partner organisations are committed to being sustainability champions.

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