

EVERYTHING ETHICAL

MONTHLY NEWSLETTER

- ETHICAL MPS

Everything Ethical Newsletter – August 2024

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Market Commentary

The mounting doubt over the health and outlook of the US economy that had begun to build in July accelerated into the early part of August. The catalyst for a global selloff came from the US jobs report which was significantly weaker than had been expected, including a tick-up in unemployment, leading to growing concerns that the Federal Reserve (Fed) was behind the curve. This fuelled a wider rotation out of big tech, with the tech heavy US index losing more than \$2 trillion in value in the 3 weeks to the 5th August.

Whilst expectations grew that the Fed would have to cut interest rates more aggressively than was priced in, the Japanese Central Bank raised interest rates. This led to heightened volatility as it sparked an unwind of the yen carry-trade, this a popular trading strategy in which investors borrow money at ultra-low rates in Japan to deploy in other assets such as US stocks. This unwind saw the Yen appreciate, which is negative for their stock market, with the main Japanese index falling 12.4% in a single day. The weakness was felt across the globe, with equities being aggressively sold in favour of short-duration bonds.

The sell-off did not last long however, and indices were soon to stage a recovery of the losses suffered. Markets showed themselves to be extremely sensitive to economic data, with Asia leading a sharp recovery following signs of improved consumption in China. Data from the US showed resilience remained in the labour market, despite the jobs report, which gave further impetus to the recovery. US inflation data continued to come in-line with expectations which gave a further boost to equities. The market returned to its thesis of a soft landing, where central banks can reduce interest rates steadily whilst avoiding a major deterioration in the economy.

The Bank of England made their much anticipated first cut to interest rates, reducing them by 0.25% to 5%. The decision was finely balanced, with the vote split 5-4. There was also the annual central bank event held at Jackson Hole, where Fed Chair Jerome Powell strongly suggested that the Fed were ready to begin cutting interest rates.

Small and mid-cap companies were weaker in August versus larger-cap peers, as following the bout of volatility in the early stages of the month, volumes and returns down the cap scale were muted for the remainder of the month. With the growing rhetoric around easing monetary policy, particularly in the US, smaller capitalised companies will begin to see headwinds such as higher rates ease. We have limited exposure to the magnificent seven and expect this to be a benefit moving forward after being such a headwind on relative performance.

The divergence between smaller capitalised companies and larger names is unprecedented, at a time when a number of companies within the sustainable and impact universe are seeing earnings recover. A core holding, the Regnan Global Equity Impact Securities fund, currently sits on a 19.8x 2025 P/E, below major indices in the US, despite Regnan's portfolio expecting sales growth of 20.7% (weighted by position) versus the major indices' earnings growth of mid to high single digits.

Our specific healthcare exposure through Polar Capital continues to be a top performer, returning 2.66% in August. On the flip side of this, after a strong July following the election results, UK mid-cap stocks gave up some of their gains, although portfolios exposure was largely flat, which was a similar case to our infrastructure exposure.

Model Portfolio transactions in the month:

There were no portfolio transactions during the month.

Performance:

Funds MPS	August 2024
Defensive	0.45%
Cautious	0.27%
Income	0.37%
Balanced	0.19%
Balanced Growth	-0.08%
Growth	-0.24%
Adventurous	-0.37%

MPS Stock pick feature:

Stantec is a global leader in sustainable engineering, architecture and environmental consulting. It operates in various markets, from climate solutions, coastal resilience and ecosystem restoration to transportation and smart city solutions. It also provides water services, including wastewater treatment and urban stormwater solutions, saving over 10 billion litres of water each year. The company have over 1,500 sustainable building projects and have worked on over 40,000 acres of land restorations across the world. Stantec are addressing the majorly emitting mining sector by providing solutions in reclaiming and remediating mine sites. The company contributed over 30,000 hours of voluntary service in 2023, supporting various community and environmental initiatives, in addition to donating over \$4 million to social and environmental causes, including education, health, and disaster relief efforts.

Fund House Meetings:

During August, the team met with representatives from Axa IM, RM Infrastructure, M&G & Regnan.

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Vauxhall, the UK-exclusive twin of Opel, has shared local pricing for the new Frontera with a notable twist. Both the Electric and Hybrid versions of this SUV are priced from £23,495 (\$31,026) in Britain—marking a first in achieving price parity between EV and ICE vehicles. The Stellantis brand notes that typically, fully electric vehicles are about 31 percent pricier than their ICE counterparts. However, Vauxhall has managed to eliminate this premium for the Frontera, setting both powertrain options at the same price.

The United Nations Secretary-General António Guterres has said that big polluters have a clear responsibility to cut emissions – or risk a worldwide catastrophe. “The Pacific is today the most vulnerable area of the world,” he told the BBC at the Pacific Island Forum Leaders Meeting in Tonga in August. “There is an enormous injustice in relation to the Pacific and it’s the reason I am here.” “The small islands don’t contribute to climate change but everything that happens because of climate change is multiplied here.” But eventually the “surging seas are coming for us all,” he warned in a speech at the forum, as the UN released two separate reports on rising sea levels and how they threaten Pacific Island nations.

The United States is expected to see the start of the operation of its **very first zero carbon emission hydrogen train** before the close of this year, in a move aligning with decarbonization goals. While smaller vehicles such as passenger vehicles are broadly turning to battery electric technology to decarbonize, larger vehicles such as buses, planes, boats, and heavy equipment are looking to H2 for its range, rapid refuelling time and greatly reduced downtimes. It is these advantages, among others, that the hydrogen train – called the FLIRT H2 – is expected to demonstrate later this year when it begins its operation in southern California.

Power is flowing from the Shetland Isles to mainland Britain for the first time as the UK’s most productive onshore windfarm comes on stream. SSE said its 103-turbine project, known as Viking, can generate 443 megawatts (MW) of electricity, enough to power nearly 500,000 homes. Shetland is the windiest part of the UK, which means it will be rare for the blades, which reach a massive 155m at their tip, not to be spinning. SSE Chief executive Alistair Phillips-Davies told BBC News a “significant acceleration” in renewable energy infrastructure is now urgently needed if the UK is to meet its climate change targets. “We need to do a lot more of these projects, a lot more offshore wind projects as well, to make sure that we can decarbonise the energy system,” he said.

The Cold Chain Federation and the British Frozen Food Federation have joined The Move to -15°C, a global Coalition campaigning for the temperature at which frozen food is stored and transported to be increased from -18 to -15 degrees Celsius. Recent studies shows that temperature increases do not compromise food safety and quality, but changing the standard would significantly reduce carbon emissions. Both federations have been involved in previous research on revising the temperature, which was established 100 years ago and hasn’t changed since. By joining the Coalition on behalf of their memberships, they are committing to putting forward the views of hundreds of frozen food and logistics businesses across the UK to this campaign.

Utility Warehouse, the UK’s leading multiservice supplier, has teamed up with Moor Trees, to help restore and regenerate native woodland across Dartmoor. This partnership will see up to 90,000 trees from local provenance stock planted in the Dartmoor area over the next three winters. They are currently being grown in two community tree nurseries. Utility Warehouse’s commitment of £270,000 will help Moor Trees scale and grow over the lifetime of the partnership. The aim is to increase native broadleaf woodland cover and expand and restore the region’s temperate rainforest, a rare and declining habitat. Temperate rainforest is found in areas of oceanic climate, with high rainfall and humidity without extremes of

temperature. This creates lush conditions, perfect for numerous plants, lichens and other wildlife, and they are excellent stores of carbon. Dartmoor is one of the few places in the UK with existing fragments of temperate rainforest along with potential sites for future rainforests.

Winners & Losers

Winning this month is Cindy Ngamba, who beat France's Davina Michel to become the first-ever medal-winning athlete for the Refugee Olympic Team, earning bronze in the Paris Olympics. Ngamba, who was also the team's flagbearer during the opening ceremony, took up boxing at 15 years old and came out as gay when she was 18. She competes on the Refugee Olympic Team because in her home country of Cameroon, homosexuality is banned and if she were to return, she could be sent to prison. The Refugee Olympic Team has given refugee athletes a place to compete at the Games since 2016 — it was created for competitors just like Ngamba, who have been forced to flee their country.

Losing this month is Google. Over the years Google, and its parent Alphabet have been fined numerous times, running into billions of dollars. We avoid investing into companies like Google given all the issues over anti-competitive tactics. During August a US Federal judge ruled that Google acted illegally to maintain a monopoly in online search, a landmark decision that strikes at the power of tech giants in the modern internet era and that may fundamentally alter the way they do business.

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