

# EVERYTHING ETHICAL MONTHLY NEWSLETTER

## Everything Ethical Newsletter – July 2024

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### Market Commentary

Big tech stocks were once more in the spotlight during the month of July, but for vastly different reasons as the unwinding of the big tech trade took hold. Equity market returns widened as a US index of 100 large, technology-based companies fell 1.59% in the month whilst a US index of 2000 small & mid cap stocks rose 10.16%. The catalyst for this occurred midway through the month following a weaker than expected US CPI (inflation) print and was consolidated later in the month following a swathe of lacklustre big tech earnings. Portfolios have been shielded from the large tech rotation that accelerated in the second half of July given the limited exposure to the Magnificent 7. We have previously expressed our concerns with the concentration risk that had built within these large names, and disappointing earnings has accelerated the rotation out of these names.

Alongside the growing scepticism towards technology investment in AI paying off anytime soon, markets have been moving amid mounting doubt over the health and outlook for the US economy. This has increased speculation that the Federal Reserve will have to cut interest rates faster and deeper than planned, driven by a weakening consumer evident in a disappointing round of corporate earnings. At the start of the month, the market was pricing in less than 2 cuts by the end of the year, by the end of the month this had increased to nearly 3, a trend which has accelerated into the early part of August. Copper and other industrial metals have also reversed recent strength, with continuing economic weakness from China playing a role in their decline.

Politics continued to have an important role in market positioning. UK assets were a stand out in the month, with Liontrust UK Ethical Fund returning 5.48% and Foresight UK Infrastructure Income fund rising 4.46%. We increased exposure to these holdings in our rebalance in the middle of July given we felt they would benefit from a Labour government, easing inflation, and subsequent lower rates (the Bank of England obliging in August). Meanwhile, the euro fell as elections in France suggested a move towards political instability after a surprise win by the left coalition led to a hung parliament with no one party getting a majority. Whilst this was taken positively as it meant Le Pen's party did not get into office, it continued to put a spotlight on the country's strained finances. We expect more developments to play out in September following the conclusion of the Olympics. Elsewhere, Middle East tensions continue to rise and there remains a high risk of a significant escalation in the region.

The political risk and concerns around fiscal deficits mean that we continue to favour a shorter-duration strategy with regards to fixed income. Global green bonds rallied alongside conventional bonds, with the iShares Green Bond Index fund returning 2.14% in the month.

Portfolios thematic exposure was mixed in the month; healthcare continues to perform well, with Polar Capital Healthcare Opportunities fund returning 2.98% in July, whilst Regnan Water and Waste was a notable performer, returning 4.49%. The energy transition universe was mixed, with many funds underperforming the wider market, with smaller capitalised companies performing better in the market rotation, particularly those with a more pureplay clean energy focus, as seen with a leading clean energy index returning over 3.1% in sterling terms.

### **Model Portfolio Transactions in the Month**

A rebalance was conducted during the month, please see the changes to the asset classes below:

<b><u>Bonds</u></b> Remain cautious towards long-duration due to government deficits. We have increased exposure to UK gilts in lower risk portfolios using passive investments which will assist in lowering costs.	<b><u>Property</u></b> It was a small part of portfolios given we have reduced over time. We do not expect the same recovery potential as infrastructure, evidenced by continued poor performance last quarter. We have therefore sold out of real estate in favour of infrastructure.
<b><u>Infrastructure</u></b> We have slightly increased exposure, using proceeds from real estate. We see policy support in the UK, complimenting decreasing interest rates, which should see momentum from the last quarter continue.	<b><u>Equity</u></b> We have reduced thematic exposure after a period of strong performance. Increased core global equity exposure, and increased UK growth exposure where we see a more positive outlook.

For further details, please contact us to request the full investment committee minutes.

Email: [craig.hart@kasl.co.uk](mailto:craig.hart@kasl.co.uk)

### **Performance**

<b>Funds SAS MPS</b>	<b>July 2024</b>
<b>Defensive</b>	<b>1.85%</b>
<b>Cautious</b>	<b>1.95%</b>
<b>Income</b>	<b>2.97%</b>
<b>Balanced</b>	<b>1.95%</b>
<b>Growth</b>	<b>1.94%</b>
<b>Adventurous</b>	<b>1.62%</b>



### MPS Stock pick feature:

**Hannon Armstrong Sustainable Infrastructure (HASI)** is the first listed US company whose business model is solely dedicated to financing climate solutions, ranging from behind-the-meter assets, such as energy efficiency improvements of buildings, to renewable energy, such as solar. With more than \$12 billion in managed assets, their vision is that every investment improves our climate future, and require that all prospective investments be neutral-to negative on incremental carbon emissions or have some other tangible environmental benefit, such as reducing water consumption. Their latest impact report states that 7 billion cumulative gallons of water are saved annually from their investments, the equivalent to eliminating the annual water consumption of over 138,000 US homes every year. Their investments directly and indirectly result in healthier communities while supporting job growth in the US. HASI has its own proprietary scoring tool for evaluating carbon savings from their assets.

### Fund House Meetings:

During July, the team met with the representatives of Foresight, RobecoSAM, Aubrey Capital Management, Aegon Asset Management and T. Rowe Price.

### Ethical News

**E.ON has recently announced a multi-million-pound investment to double its Sheffield district heating network**, adding 10km of pipeline in the Don Valley. Powered by the Blackburn Meadows renewable energy plant, the expansion aims to provide low-carbon heating to new customers, create over 2,000 green jobs and enhance public spaces.

**The UK Government aims to fast-track the Deposit Return Scheme (DRS)** before October 2027. The scheme, initially promised under the Tory government in 2018, involves customers paying a deposit on beverage containers that is refundable upon recycling. The UK currently uses around 14 billion plastic beverage bottles and 9 billion cans annually, so the scheme is expected to reduce littering and roadside waste considerably.

**UK onshore and offshore wind set new records in 2023**, helping renewables meet almost half of the country's power needs. Renewables accounted for 46.4% of the UK's electricity, while fossil fuels fell to a record low of 36.7%. Furthering the good news, Chancellor Rachel Reeves has lifted the ban on onshore wind farms, allowing them to be evaluated like other energy projects, in an attempt to double onshore wind capacity by 2030.

Redefine Meat's hyped **new-meat steak has arrived in Europe**, at leading supermarket chains. Both vegan and meat-lovers have provided positive feedback to the meat alternative, being described as a 'hero item' and 'historic milestone'. The steak boasts 25g of protein per steak and a Nutriscore of A (the maximum), and is produced using a patented additive manufacturing process at the company's facility in the Netherlands. Redefine hopes their product seamlessly replaces conventional meat in all cuisines, considering it suitable for grilling, pan-frying, oven cooking, and air frying.

**The UK will allocate a record £1.5 billion to support new renewable power capacity**, with £1.1 billion earmarked for offshore wind farms. This increased budget follows last year's unsuccessful auction due to low guaranteed power prices. The funding, sourced from energy bill charges, includes £270 million for emerging technologies like floating wind farms. Energy Secretary, Ed Miliband, emphasised that the funding will help the UK become a clean energy

superpower and achieve a zero-carbon power grid by 2030. This auction uses contracts for difference, ensuring developers sell power at fixed prices for 15 years.

### **Winners & Losers**

**Winning this month is the Flow Country in northern Scotland**, as it has been awarded UNESCO World Heritage status, recognizing its vast, intact blanket bogs covering nearly 2,000 square km. This peatland ecosystem, rich in rare plants and wildlife, plays a crucial role in climate change mitigation by storing up to 400 million tonnes of carbon. The designation follows a 40-year campaign and adds the Flow Country to the list of 121 global landscapes with World Heritage status, alongside the Jurassic Coast and Giant's Causeway.

**Losing this month are the earth's inhabitants, as for the 13th consecutive month, temperature records were broken.** July 22<sup>nd</sup> saw the highest ever global surface air temperature of 17.16°C, smashing the previous record of 17.08°C from 6<sup>th</sup> July 2023. Additionally, the average global temperature for the year through June 2024 was 1.64°C higher than pre-industrial era, highlighting the challenge in limiting global warming to below 1.5°C as set by the Paris agreement in 2015. The consequences of this warming are evident. The heat killed more than 1,300 Hajj pilgrims as temperatures in Saudi Arabia reached 52°C, while Greek & US firefighters tackled dozens of blazes once more. Extreme heat has wreaked havoc across many parts of the global economy already this year, disrupting air travel to power grids.

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