

EVERYTHING ETHICAL MONTHLY NEWSLETTER

Everything Ethical Newsletter – October 2024

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Market Commentary

Financial markets became increasingly preoccupied by the run-up to the US elections in October. For the majority of the month polls favoured Trump which saw the so called 'Trump Trade' in full swing. The dollar strengthened driven by his views on tariffs and continuing US growth exceptionalism. There will be a looser fiscal policy regardless of who wins, which will be inflationary, but even more so should Trump win with policies such as deportations and the aforementioned tariffs. Yields rose significantly in the month, with the US 10-year opening the month at 3.77% and closing it at 4.28%.

UK yields also sold off dramatically in the closing stages of the month, and have continued higher following the UK budget. There is large concern over the increase in spending and how much will actually be raised by the employer national insurance rise, given the impact this might have on future wage growth.

The rise in yields caused weakness in portfolios fixed income allocation, where labelled bond funds sold off around 1-1.5% for the month. Portfolios infrastructure exposure was also weak given the rise in yields, as was portfolios exposure to small and mid-cap companies with a more sustainable profile given the growth style of this allocation.

The impact on renewables is the most obvious threat to portfolios as we headed into the US election. The general consensus is that it will be very hard to repeal key legislation such as the Inflation Reduction Act given the benefit to many Republican states. One should also not forget that renewables actually grew in Trump's first term, and the demand from corporate America will continue to fuel growth. Nonetheless, sentiment will be hit and we will comment further once the dust settles in November.

If anything, the risks of a Trump Presidency lie outside of America, with the spotlight on Europe in particular. The European Central Bank lowered their deposit facility rate to 3.25% in a unanimous decision, citing a somewhat weaker economy. They do not expect a recession in the region, with a soft landing the base case with disinflationary pressures 'well on track'. Whilst highlighting they haven't yet reached their 2% medium inflation target; the risks are greater to the downside rather than up.

The ECB president commented that any hardening of trade barriers will have its downside risks, given the importance of global trade to the European economy. Further, if support is withdrawn for Ukraine, this will put increased strain on spending at a time when fiscal sustainability and debt levels are at the fore. We have an increasingly negative view towards

the European economy, and announcements in the month such as Volkswagen closing factories in Germany for the first time underlined the point.

Amidst everything else, third quarter reporting kicked off with a bang with the US banks reporting strong numbers predominantly in the trading and capital markets divisions. Margins were better than expected and the likes of credit card delinquencies are still low showing continued resilience in the US economy. Subsequently, earnings have on the whole underwhelmed investors, with big tech companies once again catching the eye in dragging indices down after their reports. Generally, European names have fared even worse, with the car industry in particular causing pain as noted above.

Model Portfolio Transactions in the Month

There were no changes to portfolios during the month.

Performance

SAS MPS	Oct 2024
Defensive	-1.09%
Cautious	-1.20%
Income	-2.22%
Balanced	-1.15%
Growth	-1.09%
Adventurous	-0.91%

MPS Stock pick feature:

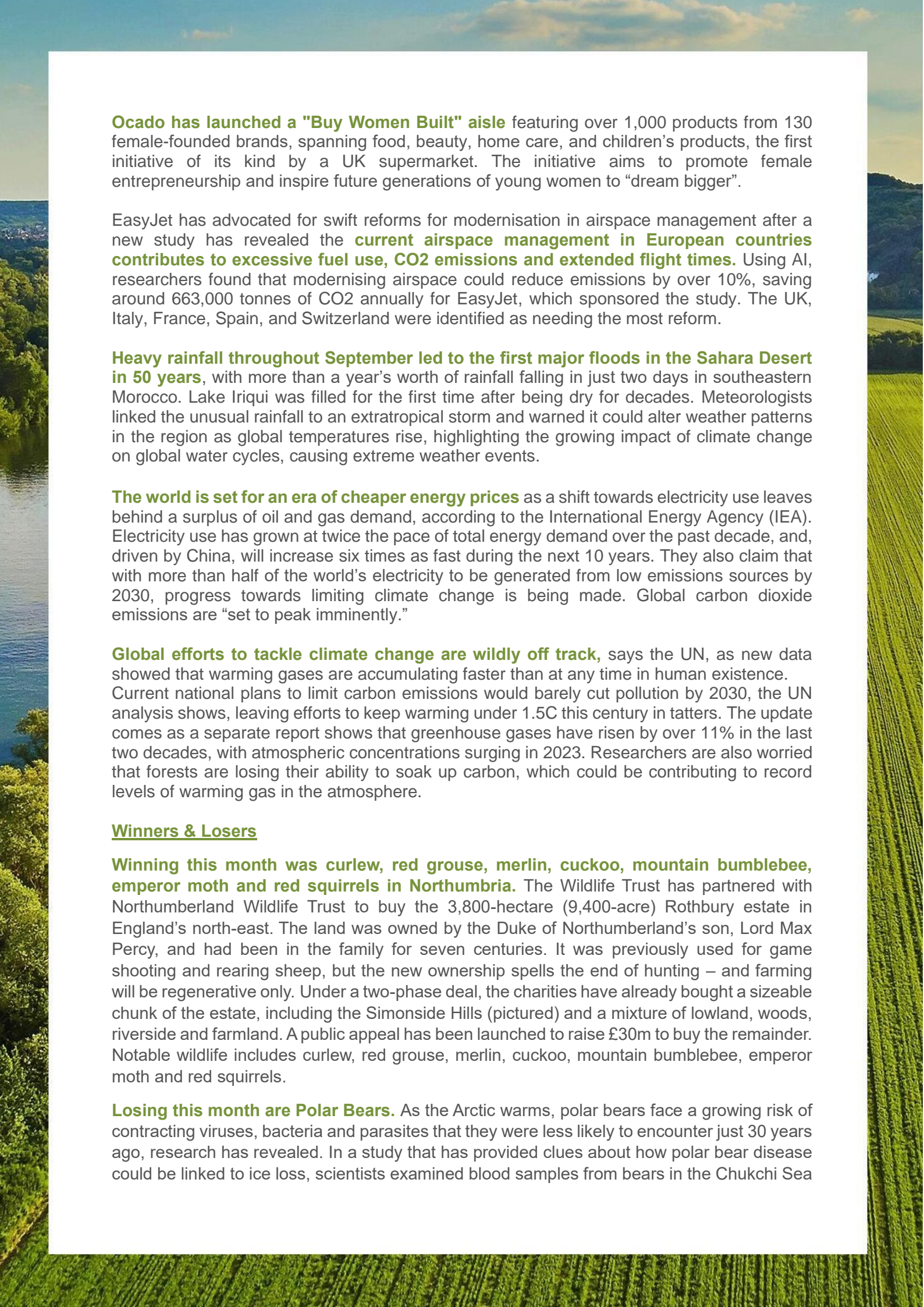
The **International Bank for Reconstruction and Development (IBRD)** has launched a new Amazon reforestation 'outcome' bond. The bond proceeds are transferred to Brazil-based reforestation company Mombak, who fund partnerships with landowners in the Amazon rainforest to reforest degraded land with native tree species. Mombak will calculate how much CO2 has been sequestered by reforesting degraded land, and in the latter years of the bond's life, investors will receive a variable coupon that's linked to the value of the Carbon Removal Units generated. This outcome bond does not only provide direct exposure to measurable environmental impact in the Brazilian Amazon, but also provides reassurance knowing the issuer is following the international best practice in managing project risks.

Fund House Meetings:

During October we met with Axa IM, Gravis Capital, Polar Capital, Schroders & Premier Miton.

Ethical News

The Valencia region saw a year's worth of rain in just eight hours, causing deadly floods, with witnesses comparing the event to a tsunami. Scientists blame climate change for "intensifying these explosive downpours." Researchers discovered that climate change directly impacted the amount of rain that these clouds carried, pushing it up by 7% for every 1C degree of warming.



Ocado has launched a "Buy Women Built" aisle featuring over 1,000 products from 130 female-founded brands, spanning food, beauty, home care, and children's products, the first initiative of its kind by a UK supermarket. The initiative aims to promote female entrepreneurship and inspire future generations of young women to "dream bigger".

EasyJet has advocated for swift reforms for modernisation in airspace management after a new study has revealed the **current airspace management in European countries contributes to excessive fuel use, CO2 emissions and extended flight times**. Using AI, researchers found that modernising airspace could reduce emissions by over 10%, saving around 663,000 tonnes of CO2 annually for EasyJet, which sponsored the study. The UK, Italy, France, Spain, and Switzerland were identified as needing the most reform.

Heavy rainfall throughout September led to the first major floods in the Sahara Desert in 50 years, with more than a year's worth of rainfall falling in just two days in southeastern Morocco. Lake Iriqui was filled for the first time after being dry for decades. Meteorologists linked the unusual rainfall to an extratropical storm and warned it could alter weather patterns in the region as global temperatures rise, highlighting the growing impact of climate change on global water cycles, causing extreme weather events.

The world is set for an era of cheaper energy prices as a shift towards electricity use leaves behind a surplus of oil and gas demand, according to the International Energy Agency (IEA). Electricity use has grown at twice the pace of total energy demand over the past decade, and, driven by China, will increase six times as fast during the next 10 years. They also claim that with more than half of the world's electricity to be generated from low emissions sources by 2030, progress towards limiting climate change is being made. Global carbon dioxide emissions are "set to peak imminently."

Global efforts to tackle climate change are wildly off track, says the UN, as new data showed that warming gases are accumulating faster than at any time in human existence. Current national plans to limit carbon emissions would barely cut pollution by 2030, the UN analysis shows, leaving efforts to keep warming under 1.5C this century in tatters. The update comes as a separate report shows that greenhouse gases have risen by over 11% in the last two decades, with atmospheric concentrations surging in 2023. Researchers are also worried that forests are losing their ability to soak up carbon, which could be contributing to record levels of warming gas in the atmosphere.

Winners & Losers

Winning this month was curlew, red grouse, merlin, cuckoo, mountain bumblebee, emperor moth and red squirrels in Northumbria. The Wildlife Trust has partnered with Northumberland Wildlife Trust to buy the 3,800-hectare (9,400-acre) Rothbury estate in England's north-east. The land was owned by the Duke of Northumberland's son, Lord Max Percy, and had been in the family for seven centuries. It was previously used for game shooting and rearing sheep, but the new ownership spells the end of hunting – and farming will be regenerative only. Under a two-phase deal, the charities have already bought a sizeable chunk of the estate, including the Simonside Hills (pictured) and a mixture of lowland, woods, riverside and farmland. A public appeal has been launched to raise £30m to buy the remainder. Notable wildlife includes curlew, red grouse, merlin, cuckoo, mountain bumblebee, emperor moth and red squirrels.

Losing this month are Polar Bears. As the Arctic warms, polar bears face a growing risk of contracting viruses, bacteria and parasites that they were less likely to encounter just 30 years ago, research has revealed. In a study that has provided clues about how polar bear disease could be linked to ice loss, scientists examined blood samples from bears in the Chukchi Sea

- between Alaska and Russia. They analysed samples that had been gathered between 1987 and 1994, then collected and studied samples three decades later - between 2008 and 2017. The researchers found that significantly more of the recent blood samples contained chemical signals that bears had been infected with one of five viruses, bacteria or parasites.

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