QuotedData

BY MARTEN & CO

INVESTOR

Economic and political roundup

Investment companies | Monthly | October 2023

Reading the headlines, it still feels that we are trying to walk across a frozen lake. While none have yet to fall though, cracks are starting to appear, and some are certainly closer to making it to the other side than others. In practical terms we have seen another month of mixed news for economic growth, with the US leading the charge while the rest of the world tries to dodge stagnation, interwoven with concerns by businesses around the fragility of the economic outlook.

"The only function of economic forecasting is to make astrology look respectable." **– JK Galbraith**

One of the biggest surprises has been the exceptionally strong jobs data the has come out of America, with 336,000 jobs added in September, almost twice the consensus estimates for the month. This is a doubled edged sword however, as it places greater pressure on the Fed to raise rates again this year, with at least one more rise being the markets expectation (this was reflected in a jump in bond yields over the month). Ultimately the US is increasingly looking like the bright spot in the global economy, with the economic activity continuing to remain very robust in the face of rising interest rates.

The story elsewhere is not as rosy. While the UK did revise its Q1 GDP estimates upward (implying a greater post-COVID rebound than originally thought) September's PMI fell to 46.8, indicating that business had become gloomier on the UK's outlook. However, a recession is not a certainty, as a weakening outlook may finally give the BoE pause for thought. Despite the impact of high rates and cost of living increasingly weighing on the markets minds, the UK consumer was more confident in September, with retail sales having rebounded in the month.

The world's second largest economy continued to show signs of stagnation over September, with China's exports falling YoY once again (though not as much as pundits thought). Chinese inflation came in at 0% in September, which indicates that the risk of deflationary pressures is a real one, often a sign of declining economic activity. The Communist party has got the ball rolling on supportive measures however, having proposed establishing a stock market stabilisation fund to boost market confidence.

> The valuations currently being paid for growth companies in UK small mid-cap markets remain significantly below historic levels

> So far in 2023, both the US economy and the US stock market have defied expectations on the upside

> An important focal point during the second part of the year will remain the inflation trend, with inflationary pressures likely to continue to ease, but with the risk of inflation remaining stickier and longer lasting.

QuotedData
BY MARTEN & CO

Contents

Click to read our guide to investment companies

Click to access our latest research

Analysts

David Johnson
ac@quoteddata.com

Richard Williams
rw@quoteddata.com

James Carthew
jc@quoteddata.com

Click to access upcoming events

Click to see our recent commentary in the press

Click for a list of our clients

At a glance

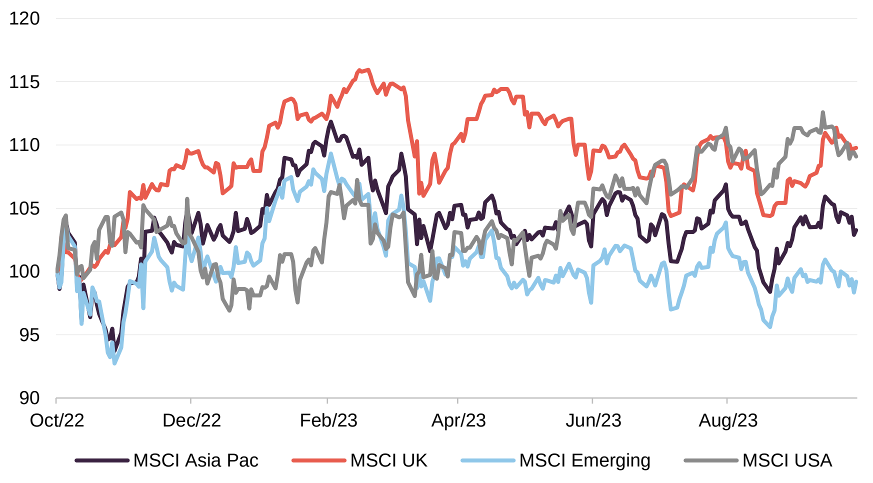
Exchange rate		30/09/23	Change on month %
Pound to US dollars	GBP / USD	1.2199	(3.7)
US dollars to Euros	USD / EUR	0.9458	2.6
US dollars to Japanese yen	USD / JPY	149.37	2.6
US dollars to Swiss francs	USD / CHF	0.9153	3.6
US dollars to Chinese renminbi	USD / CNY	7.2980	0.5

Source: Bloomberg, QuotedData

MSCI Indices (rebased to 100)

While a largely positive month for global markets, September marked a rare period of underperformance of the US, which fell 1.2% in sterling terms, a likely reaction to the sudden surge in jobs figures sparking interest rate fears. The UK was the leader, up 2.8%, with EM and Asia Pacific up 0.7% and 0.8% respectively. Given the underperformance of the US it should be no surprise that the developed markets underperformed emerging over the period. The US was not alone though, Europe also declined by 1.3% over the month.

Time period 30 September 2022 to 30 September 2023



Source: Bloomberg, QuotedData. Converted to pounds to give returns for a UK-based investor.

Indicator	30/09/23	Change on month %
Oil (Brent – US$ per barrel)	95.31	9.7
Gold (US$ per Troy ounce)	1848.63	(4.7)
US Treasuries 10-year yield	4.57	11.3
UK Gilts 10-year yield	4.44	1.8
German government bonds (Bunds) 10-year yield	2.84	15.3

Source: Bloomberg, QuotedData

Global

(compare global and flexible investment funds **here, here, here** and **here**)

David Seligman, chairman, British and American Investment Trust – 29 September 2023

With the many political, social, economic and indeed climatic uncertainties facing the world today, both in the immediate future and in the longer-term, it is difficult to be very positive about the investment climate going forward. Inflationary pressures, while reduced, remain unconquered. Counter-inflationary interest rate measures may not have peaked and, if shortly to do so, might last longer than originally expected. The war in Ukraine, together with its effect on world energy and food prices, is likely to enter a third year and this year has brought numerous examples of disruptive and destructive weather patterns world-wide which can only be expected to worsen over the coming years. While the attempts to control the generationally high levels of inflation have so far resulted in a generally softer landing than originally feared, much of the higher than expected economic activity, particularly in the retail, hospitality and travel sectors could be the result of pent up demand following the Covid period and the drawdown of savings built up during this latter period which may soon come to an end.

. . . .

Manager, Manchester and London – 27 September 2023

After more than 525bps of US rate hikes over the past couple of years, the range of potential outcomes for the next 12 months now appears somewhat narrower. Advanced economies are expected to experience slower growth and inflation remains a key factor influencing monetary policy. China has shifted from a growth engine for the world to a deflation engine. We see geopolitical risks remaining between the US and China and continuing de-risking of supply chains.

Most major central banks are near the end of their rate tightening cycles. In the more medium term, inflation is expected to fall, and there are even signs of future disinflation in parts. While risks remain, the possibility of 10 year Treasury yields falling with improving inflation prints provides optimism for stock returns. The US economy's situation is unique, and while recession risk exists, the outturn may well be much better than previously anticipated. We do believe that our portfolio of long duration assets may be more interest rate sensitive than it is sensitive to a mild recession.

The primary challenges to equities remain inflation, recession, regulation, energy p rices and war. Central banks aim to prevent entrenched price changes, but it is diff icult to calibrate monetary policy to prevent transitions to high inflation regimes. The Fed's preferred measure, the PCE price index, has fallen but history has seen rev ersals before. We are hopeful that, over time, productivity gains can assist in reducing inflation.

Recession risk is always a concern when the Fed has been so active in attempting to slow the economy but we would remind readers that the areas of technology that we are invested in are often considered more defensive. Geopolitical risks, such as the conflict in Ukraine and US-Sino relations, also pose very material concerns.

China, Iran, N Korea and Russia are all bad actors that can cause numerous horrific events that could cause material downside for the markets. We are constantly watching the oil price with anxiety.

. . . .

Zehrid Osmani, Manager, Martin Currie Global Portfolio Trust – 27 September 2023

An important focal point during the second part of the year will remain the inflation trend, with inflationary pressures likely to continue to ease, but with the risk of inflation remaining stickier and longer lasting. Inflation is likely to be driven by technological fragmentation, near-shoring trends which will increase production costs, and elevated wage inflation. The latter is likely to be the most important determinant of inflation in the medium term.

Inflation trends will continue to feed into monetary policy expectations - we predict that the peak in interest rates is getting very close now, which should in itself be supportive for the quality growth style that we invest in. However, we do not subscribe to the market view that monetary policies will reverse in the first half of 2024 because we envisage inflation rates preventing central banks cutting interest rates.

The economic cycle will continue to be an important focal point with an ongoing uncertain outlook, given the sizeable interest rate increases that we have seen in the past 18 months across key geographies. Our central scenario remains a sharp slowdown rather than recession for the world as a whole and the US in particular. For Europe, our central scenario remains stagflation. We maintain our probability of a global recession at 30-35%, despite a broad consensus view that a recession is a high likelihood in 2023. China's economic momentum remains key to the global economic cycle and we expect ongoing recovery in the services sector in China in the remainder of 2023. There is a rising risk of recession in the US in 2024, however, which could be an important focal point for investors.

The corporate earnings cycle is already in recession following downgrades and with the risk of further downgrades in the rest of 2023. Equity valuations are now less supportive but, within this, EU and Asian equities are relatively attractive. In this continuing uncertain environment, we believe that focusing on fundamental assessments and picking undervalued stocks that have strong fundamentals and operate in industries with favourable dynamics for value creation will serve our shareholders well over the longer term.

. . . .

Managers, JPMorgan Global Growth & Income – 27 September 2023

Overall, we are relatively sanguine about the year ahead. While we hope that AI could lead to a technology-led growth opportunity within the broad economy, we see headwinds in the form of: higher interest rates; a depleting consumer cash balance; and record profit margins at risk of returning to pre-pandemic levels. So, while broad market valuations trading slightly above historical averages look neither compelling nor particularly demanding.

This year has seen several key themes emerge, some of which we believe will have longevity, while others will be temporary. We see AI as an opportunity that could change the way companies operate over the next decade, from both an efficiency point of view and a quality-of-service perspective, with social media stocks seeing this as a core part of their infrastructure and business. Over the coming year we will undoubtedly see many companies claim to be AI winners, just as we saw many companies claim to be internet winners in the early 2000's. Our core objective is being able to separate which of these companies will be able to monetise AI from those that will purely implement it without seeing a long-term lift to earnings. Given AI's data requirements, we see Nvidia as the key beneficiary of this growth opportunity, with demand outstripping supply for the foreseeable future. As the clear market leader, Nvidia has a great starting place from which to monetise the technology, but other types of barriers to entry are just as important to consider. For instance, despite many new companies talking about their ability to deliver AI-generated images, for legal reasons their customers cannot use these images due to litigation risk. Hence, we see Adobe as having a real edge with their image library and their leading image software. We see AI as a great opportunity to not only increase pricing but also tap into new smaller businesses that historically were outside of Adobe's addressable market. With holdings in Microsoft, Amazon, Meta, Nvidia and Adobe, we believe we are well positioned in companies that will have the ability to monetise AI.

Over the coming year, there is a reasonable chance many companies will be incorrectly considered as AI winners; however, we believe that our emphasis on the barriers to entry will stand us in good stead in the long term.

....

Peter Burrows, chair, UIL – 25 September 2023

Several themes continue to dominate global events: heightened geopolitical tensions, the outlook for inflation and interest rates, climate change, technology and Artificial Intelligence ("AI").

As anticipated at the time of announcing UIL's half-year report, Covid-19 has receded and we do not expect it to be an issue going forward. China's reversal of its zero tolerance policy earlier this year was a positive. However, weak Chinese consumer confidence is a headwind to a full recovery by China.

The war in Ukraine has gone on longer than expected and today there continues to be no clear way forward. Both sides have been drawn in further, but once they reach a neutral position, a negotiated outcome would be expected.

The ongoing friction between the USA and China continues to deepen and it is now difficult to see how this reverses direction. Given the USA and China are the two largest economies globally this must pose significant risks at some point in the future, especially for technology businesses on each side of the Pacific Ocean.

Inflation moved markedly for most economies over the year. Nearly all central banks responded with significantly higher interest rates. We now see major differences between three key regions: the Western economies where we expect inflation to reduce gradually; Asia, where we see China heading for deflation; and Latin America ("LatAm"), where inflation has already halved. Against this backdrop we expect Western economies to hold interest rates higher for longer, China to reduce rates further while LatAm is expected to reduce interest rates sharply lower.

The one unknown in our view continues to be the response of the labour force especially in the West. Labour markets remain tight and the number of unemployed are at record lows in many economies. If this continues, then the shortage of the work force will drive up wages and in turn feed inflation.

An ever increasing factor for investors is climate change. It has clearly had devastating impacts on a number of communities from wildfires in Hawaii to floods in Germany. We are seeing whole ecosystems being impacted from prolonged droughts to record temperatures. As investors we need to prepare for these outcomes to continue across our portfolios.

There is a very perceptible shift to embrace AI by most businesses and as with most technological developments, those without legacy businesses benefit the most, but eventually all businesses will need to adapt or risk failure. This has been our experience in the Fintech sector. UIL has a number of investments with significant exposure to AI, Blockchain and Quantum Computing.

The outlook for worldwide economies increasingly rests with global leadership, both political and central bankers. The central banks perhaps have the easier task as inflation looks to be receding in most major markets. We assume interest rates will stay higher than expected and we expect this will be a headwind to economies and commodities are likely to remain soft. The same cannot be said of geopolitical leadership which remains challenging. The rising pressure to meet social expectations and the impact of climate change, natural disasters and conflict will be difficult to navigate. We remain focused on reducing risk and helping investee companies navigate through these challenges and emerge stronger.

. . . .

Victoria Muir, chairman, North Atlantic Smaller Companies Investment Trust – 15 September 2023

Global supply chains have returned to some normality and as a consequence in developed markets the momentum of increasing inflation appears to be weakening. Forward looking indicators suggesting that inflation is likely to moderate, as it has already in the US where it is on a downward trajectory. Central banks are walking an interest rate tight-rope, as they balance inflation control with maintaining economic growth. In Emerging Markets, the inflation picture is mixed with a chance of China going into deflation and inflation levels improving elsewhere.

UK equities, in general, have experienced a prolonged period of being rather unwanted, unfashionable and unloved, and share prices have been affected by a significant withdrawal from this market. Their value is being very gradually recognised and we expect an uptick in M&A. In the US, it has been striking to note how narrow the market has been, with performance concentrated across a handful of names and a marked difference between the S&P 500's returns versus that minus its seven dominant stocks. We are starting to see some signs of this normalising.

. . . .

Russell Napier, chair, CT Global Managed Portfolio – 7 September 2023

The savers who own the shares of our Company are seeking to both protect and grow the purchasing power of their wealth. This involves securing positive nominal returns but also, over the long-term, securing returns higher than the rate of inflation. Over the very long-term equities have provided such returns but sometimes it has taken more than a decade for the initial investment in equity indices to result in positive real total returns. If, as Mr Buffet famously said, 'price is what you pay, value is what you get', then it is possible to pay too much even for the highest quality companies. Assessing the sustainability of corporate returns and the correct price to pay for future returns is the skill and partially the art of investment. Our shareholders have benefited from the skills of our previous managers in selecting high quality companies that can produce sustainably high returns and in investing in those companies at what proved to be attractive valuations. Our Company will continue to pursue such an investment policy under our new managers.

Investing in companies that can both produce high returns on capital and also reinvest their cash flows at similarly high returns is an approach that is likely to be particularly attractive in an age of higher inflation. While none of us can forecast the peak level that inflation might reach in any business cycle, the structural changes underway in the world do seem to augur a materially higher level of inflation than we have been used to over the past decades. To defend savings from the erosion of purchasing power that comes with higher inflation one approach will be to invest in companies that can invest and reinvest their cash flows for returns that very significantly exceed the rate of inflation. Our new manager, Lazard Asset Management, will invest in such companies. Their skill, demonstrated since they began this High Quality Growth strategy, will be in accurately forecasting where corporate returns can remain sustainably high and of course in not paying too much for such high returns. It is a skill they have been deploying for over a decade and since the inception of this approach, in February 2011, that has produced a net outperformance relative to our comparator index of 2.4% per annum. The shares of companies that can invest and reinvest at rates of return well above the rate of inflation are likely to remain in strong demand in an era of high inflation.

The steep rise in interest rates since 2020 has not produced the scale of economic deceleration and perhaps even financial distress that might have been expected. Such a reaction to higher interest rates in 2008 caused a contraction in economic activity, bank collapses and huge losses for equity investors. Despite record high levels of debt, relative to GDP, both the public and the private sector have, so far, been able to service their debts and debt defaults have remained constrained compared to other economic downturns this millennium. This resilience probably primarily reflects a move by many debtors to extend the duration of their borrowing and lock in low interest rates in the period of very low interest rates that pertained up to 2020. Even so debt is always maturing and as it is refinanced the higher costs of servicing that debt will lead to greater strains for those seeking to service their debts. The clock is thus ticking for debtors as their debts are refinanced at higher rates of interest. The data on private sector debt service ratios, which show the proportion of private sector income currently needed to service debts, indicate that many countries, are at a level where historically their private sectors have defaulted on their debt obligations and these ratios will continue to deteriorate as debt is refinanced. Perhaps surprisingly the private sector debt service ratios of the United States, United Kingdom and Japan are reasonable but for some large and important countries, such as France and China, a dangerously high level of private sector income is being diverted to service debts. The impact from rising interest rates on economic growth, financial stability and equity prices has been benign but as time ticks on and debts are refinanced at higher interest rates this is likely to change. Investing in those corporate cash flows that can remain robust even in such circumstances can protect investors from the worst effects of any economic contraction that may come as the impact from higher interest rates hits the private sector. Companies with high returns on capital and low debt levels should be better placed to weather economic contractions when they come.

It is not easy to discern the major trends that are developing during a period of rapid short-term changes and general volatility. One trend though is becoming more apparent. That is that governments are intervening to create outcomes that they believe should not be left to market forces. That is a trend that involves both the socialisation of private sector risk, as we saw with the significant government support for the private sector during the COVID-19 crisis, but also in the form of governments co-opting or cajoling corporations to assist in delivering their political goals. This is a trend that is very likely to continue as governments react to what are the growing list of 'crises' confronting the electorate - climate change, war in Europe, a cold war with China, higher cost of living etc. While such intervention may mitigate the extremes of the business cycle it comes at a price for savers in the form of greater government interference in the allocation or private capital / savings. History suggests that such government interference rarely results in higher returns on capital for the companies so co-opted by governments. A well-chosen portfolio of equities may be one of the few places for investors to hide in such a world particularly by investing in the high-quality companies that can continue to produce high returns on capital even during such shifts in the balance between markets and governments.

Savers face new challenges but rarely are they unique challenges. History provides some guidance to the future and it suggests that well managed companies, producing high returns on capital and bought at good valuations will provide positive real total returns.

. . . .

UK

(compare UK funds **here, here, here** and **here**)

Marwyn Value Investors – 25 August 2023

Despite a challenging global market landscape, we are optimistic about the prospects that lie ahead. Our portfolio is exceptionally poised to capitalise on forthcoming opportunities, and we eagerly anticipate witnessing the growth and evolution of our portfolio companies. We are immensely grateful for your continued trust and investment in Marwyn Value Investors Limited.

We have maintained a cautious stance towards the markets and company valuations in recent years, a strategy that seems increasingly justified given the prevalent speculation and a somewhat unrealistic expectation regarding a return to ultra-low interest rates. We perceive the burgeoning sovereign debt issue and a contracting money supply as significant forces that will necessitate a recalibration of market expectations and valuations. We are beginning to observe early signs of these necessary adjustments taking place.

. . . .

Managers, Strategic Equity Capital – 27 September 2023

The Investment Manager's core planning assumption is that continued geopolitical and macroeconomic uncertainty will drive market volatility throughout the remainder of 2023. The shift to a period of higher inflation and higher interest rates has fundamentally impacted asset markets and equities in particular. It is likely that increasing focus on company fundamentals and valuation discipline will be required to outperform in this environment which plays to the strengths of the Company's investment strategy and the Investment Manager's approach.

The elevated levels of corporate activity within the UK equity market continue to play out and the volume of takeover activity amongst smaller companies has not been seen since H2 2019, despite overall UK takeover volumes (of all sizes) remaining marginally below H1 2022 levels. Bid premia in the period were also elevated, providing further evidence of attractive valuations amongst UK smaller companies despite the higher cost of capital environment today. The investment process and private equity lens across public markets enables the identification of investment opportunities with potential strategic value that could be attractive acquisitions for both corporate and financial buyers.

Simon Gergel, Manager, Merchants Trust – 26 September 2023

In our opinion, the UK stock market offers exceptional opportunities for investors. According to Goldman Sachs, the UK stock market is trading close to its lowest absolute valuation in the last 20 years, in terms of price to earnings ratio, at the same time that the USA is trading close to its highest level. That is unusual in itself. But, in addition, the dispersion of valuations across the UK stock market (the gap between growth and value stocks) is around the widest it has been in 50 years, according to Morgan Stanley. These are conditions, that I don't remember seeing before in my career. Many sound businesses are trading on depressed valuations, offering the potential to make very healthy capital and income returns. To understand why this is the case, and why conditions may change, it is worth discussing the circumstances that have led to this unusual situation.

Since the Brexit referendum in June 2016, the UK stock market has been out of favour with international investors, and it has gradually de-rated. Initially, this was driven by fears over the economic impact of Brexit itself, and this was exacerbated by the tortuous political wranglings with the EU during Theresa May's and Boris Johnson's premierships. Political uncertainty increased, when Jeremy Corbyn, a hard-left leaning politician looked like he could win the general election in 2019. Then, just as the Brexit and political uncertainty started to fade, following Johnson's emphatic election win in 2019, the Covid pandemic hit in early 2020, and the UK seemed to suffer especially hard, providing another reason for foreign investors to stay away. Next, as the pandemic was fading into the rear-view mirror, the Russian invasion of Ukraine caused a huge inflationary spike that particularly affected Europe, giving global investors reason to stay clear of the whole continent. Further political uncertainty ensued when Liz Truss became prime minister for a brief period in 2022 and unsettled the financial markets with what were perceived as unfunded tax cuts. Finally, more recently, as discussed above, the UK's inflation rate has been higher and more sticky than the rate in the US and the EU, creating a narrative that the UK has a more challenging outlook.

These concerns about the UK, have led to steady outflows from UK equity funds in recent years. This comes on the back of a structural, forty-year period, where domestic pension funds and institutions have gone from owning around half the UK stock market, to only 4%. The selling has largely been due to the increasing maturity of defined benefit pension funds, and accounting rules which encouraged funds to sell equities and buy bonds. This selling pressure has exacerbated the de-rating of the stock market, and widened the gulf between those companies that are popular with global investors - typically the large multi-nationals and the higher growth / higher return companies - and the rest. It has often felt like there were no buyers for some of the medium sized and smaller companies, and it not surprising that we have seen a step-up in the number of portfolio companies buying back their own shares, to take advantage of the bargain prices available.

Whilst some people may see this set of circumstances as a reason to shun UK equities, we see the glass as half-full. The selling pressure by domestic pension funds and institutions really cannot go much further, as they own very few UK equities. Furthermore, the government is keen to promote the UK stock market, and to get domestic savers and institutions to support investment and innovation. This may take time to have any effect, but the relentless selling should be nearly finished. The latest inflation numbers suggest that the UK is nearing the peak of the inflation cycle and any visibility on peak interest rates could lead to a significant change in depressed investor sentiment. UK politics seems to be becoming less polarised, with the policy gap between Rishi Sunak and Sir Keir Starmer quite narrow, removing one of the often-cited reasons for avoiding UK investments. Most importantly, the valuations of many UK companies are compelling, especially compared to their peers overseas, despite the majority of sales of UK listed companies actually coming from abroad. We would expect to see a resurgence in takeover activity, as companies and private equity funds look to take advantage of this situation. The cost of debt and volatility of interest rates may keep some of these investors on the sidelines for a while longer, but once the interest rate cycle looks more supportive, sentiment could change rapidly.

. . . .

David Barron, chair, Dunedin Income Growth Investment Trust - 21 September 2023

The economic challenges to global growth continue to build, following rapid and sustained interest rate increases from central banks across the world, coupled with a Chinese economy facing significant headwinds. Despite some signs of easing, inflationary pressures remain significant in most economies and supply constraints are placing upward pressure on many commodity prices. In the UK, inflation remains too high and growth too low, albeit there are indications that a trough has been reached and perhaps somewhat ahead of other major economies. For equity markets, there remain reasons to be cautious and the next 18 months are likely to be a tough period for corporate earnings development. It is that very unpredictability of world and economic events that makes us concentrate on the companies within the portfolio and their ability to navigate the environment ahead of them.

Our objectives remain to meet investor needs for capital and income returns over the medium and long term. We have again made good progress in this period. Whilst the global outlook is far from propitious, we believe our strategy of focussing on a concentrated and actively managed portfolio of high quality companies from across the UK and European markets with leading sustainability characteristics sets us up well to navigate conditions ahead.

. . . .

Steve Tatters, investment manager, Aurora Investment Trust - 21 September 2023

The UK is, in so many ways, mired in its own gloom. Anyone visiting even with a neutral perspective will soon find themselves infected by the negativity that pervades life in the UK. Although there are plenty of negative things occurring, and some of them have been big, like the implications of Brexit, when one thinks about it in the context of what the future holds for the world, there is reason to be particularly optimistic.

Take technology; Charles Babbage is considered to have built the first computer, Ada Lovelace to have written the first computer programme, Alan Turing is the founding father of modern computing and Artificial Intelligence, Tim Berners-Lee is the person who started what became the internet we know today, Geoffrey Hinton who recently stepped down from Google and is considered the father of AI and Demis Hassibis the new head of AI at Google is the co-founder of Deep Mind that has made great breakthroughs in AI. These people are all from the UK and were actually all born in London. This is not coincidence, the British, although they rarely acknowledge it themselves, have a culture that produces creative and inventive people, and we are in an era when that will be highly valued.

The best-selling writer of all time is Shakespeare, but in the modern era it is JK Rowling. In fact, 3 of the 5 best-selling books of all time were written in the UK. The same goes for music where 4 of the top 8 selling artists of all time are from the UK. We could go on, but the picture is the same, the UK is unusually creative in a way that has global appeal.

Machines reduced the manpower needed in food production and robots and AI are doing the same in manufacturing, logistics and administration. As people work less, they put more time and money into leisure and entertainment. That is having a big impact in games and sports and once again, the UK is uniquely placed.

Football is the world's most watched sport with the English Premier League the most watched and most valued in the world. Next it is cricket. The most valuable sport according to Forbes is Formula One, which also originated in the UK and 70% of the teams are based here. As we write another game originated in the UK, Tennis, the most watched single person match sport in the world, is having its annual tournament in Wimbledon, SW London.

This creative and playful inventiveness is not just an intrinsic cultural characteristic, it is also the product of an education system that encourages individuality. Again, the UK has four universities ranked in the Top 10 in the world, the same number as the US, a country with 5 times the population.

Brexit may impact where companies decide to locate their factories, but there is a reason why Apple and Google have recently opened such big HQs in London.

The past 25-year period has been a miserable one for investors in the UK stock market when compared to their global peers. Some of this has been justified but a lot has been due to the devaluing of businesses listed here. As we write, the value of Apple now exceeds the whole of the FTSE 100.

These are the moments when value investors retire, get fired or alternatively double down, maximise their upside value and wait. Buffett says that when it is raining gold put out a bucket not a thimble. In 1999, in our first full year, we lagged the market by 25%, and value investing felt like a lonely place to be as everyone was enjoying bumper returns in the market. What we learned then and have again and again, is that in the end value wins, it can be a long wait, but ultimately value shines through.

. . . .

Charles Luke and Iain Pyle, managers, Murray Income Trust – 20 September 2023

Recent data points provide a less than clear picture around current conditions and future direction. However, in most developed economies growth appears to be more robust than might be expected in light of the meaningful monetary policy tightening over the past 12 months. On the other hand, the momentum of China's reopening has faded and more stimulus is likely to feature. Underlying price pressures have been sticky reflecting excess demand across various sectors and economies prompting central banks to remain hawkish. We believe that the current tightening cycle will ultimately restrict economic growth with the resulting downturn in demand helping to engineer a relatively rapid fall in inflationary pressures allowing significant interest rate cuts over the next 18 months.

Companies with pricing power, high margins and strong balance sheets are better placed to navigate a more challenging economic environment and emerge in a strong position.

The valuations of UK-listed companies remain attractive on a relative and absolute basis. Apart from the global financial crisis, the UK's market multiple is nearing its lowest point for 30 years. It is cheap in absolute terms, relative to history and also relative to global equities. Investors are benefitting from global income at a knock-down price. Moreover, the dividend yield of the UK market remains at an appealing premium to other regional equity markets. In summary, we feel optimistic that our long-term focus on investments in high quality companies with robust competitive positions and strong balance sheets, which are led by experienced management teams will be capable of delivering premium earnings and dividend growth.

. . . .

Sir Laurie Magnus, chair, City of London Investment Trust – 19 September 2023

Over two-thirds of revenues earned by the companies in City of London's portfolio comes from overseas. Whilst this diversification is helpful given the relative economic weakness of the UK, prospects for the global economy remain very uncertain. The war in Ukraine has no end in sight, there is continuing tension with China, the outcome of the increasingly fractious US election campaign remains in doubt and recent climatic events across the world have demonstrated the severe risks of climate change.

A further uncertainty arises from the coordinated actions by central banks to use the levers of monetary policy, and most directly higher interest rates, to curb inflation.

The implications of this will take some time to show their effect, but it is already clear that a return to the cheap lending rates that have prevailed for the last 15 years will not recur. Households will experience a significant increase in interest costs as their fixed rate mortgages are rolled over, as will businesses when their existing debt matures. Over time, although the rate of inflation should continue to fall as increases in energy prices drop out of the annual calculation, this will affect the behaviour of consumers, with consequences for corporate profits and investment.

UK listed shares in general continue to trade at lower valuations relative to comparable businesses overseas. The reasons for this include continuing investor scepticism concerning the benefits of Brexit, the preponderance of "value" stocks (such as banks and energy companies) relative to "growth" stocks (such as technology including AI), the lack of domestic support because many UK investment institutions favour fixed interest in their asset allocations and the prospect of a more interventionist Labour government. These lower comparable valuations, however, offer potential rewards for City of London as both private equity firms and overseas businesses take advantage of opportunities to use the UK's open markets to secure attractive acquisitions. It remains the case that UK equities offer compelling dividend yields relative to the main alternative equity markets and, on this basis, UK investors can reasonably take the view that they are being "paid to hold on" until valuations improve.

Georgina Brittain, Katen Patel, managers, JPMorgan Mid Cap Trust – 19 September 2023

The trajectory of inflation and interest rates is clearly key for the outlook. While we had expected a mild recession in the UK in the second half of 2023, the economy may avoid this - but UK growth prospects are pedestrian at best. Following the encouraging inflation figures in July we believe inflation has peaked in the UK, and we foresee a significant further decline from the current levels over the course of 2023, which will hopefully bring the UK more in line with other developed markets. Interest rates at 5.25% have risen significantly and we believe they are very close to peak levels. Consumer confidence had staged a significant recovery from its abject lows - largely, we believe, due to continuing very low unemployment rates and the wage increases that have been seen this year - although the very recent spike in mortgage rates has caused a setback in what had been an upward trend.

Clearly the UK stock market is currently focused on the macro-economic outlook. Evidence of this can be seen in the sharp one day upward move of 4% in the FTSE 250 Index when July's inflation figures proved a positive surprise. However, as always, our focus is on the companies themselves. Overall the message we are hearing from them is a positive one. The FTSE 250 is a broad and diverse index, and we continue to find exciting and undervalued investment opportunities, some of which we have described above.

This leads us to valuations. While the environment remains difficult for businesses and consumers to navigate, a lot of this is already reflected in valuations. At the time of writing, the FTSE 100 is on a forecast P/E for 2024 of 10.5x, and FTSE 250 is similar on a 10.8x forecast. The Mid Cap index premium has almost completely disappeared; and 10.8x compares to a 20 year P/E average of 13.7x (source: Investec). The Bank of America chief investment strategist, Michael Hartnett, has called out UK mid cap stocks as being at their cheapest versus global stocks since 2003. As we have said before, acquirors of UK businesses are recognising this and M&A is set to continue.

. . . .

Amanda Yeaman, Abby Glennie, Investment managers, abrdn Smaller Comapnies – 13 September 2023

The markets continue to be dominated by macro conditions, predominantly the pathway of inflation and interest rates, globally. The UK still stands out in terms of inflation, in that whilst many countries are battling with high inflation environments, the UK appears to be showing stickier inflation. Whilst energy prices have stepped back, we are seeing areas such as food inflation in the UK remain at high levels; and wage inflation as well as a strong labour market continue to support consumer spending. Without a recession, there remains the challenge of how inflation gets controlled; interest rates having already been increased significantly, but often taking some time to have an impact. China is the region where Covid-19 and the re-opening still remains uncertain, with other countries having returned to some 'normality'. The combination of these factors creates a very uncertain environment, which continues to drive market challenges.

We would also remind investors of the geographic exposures of the portfolio companies' revenues. At the time of writing, 51% of revenues are generated in the UK, with 49% overseas. This is similar to the exposure within the Company's benchmark. Many of the companies in the portfolio, as has been true through time and a result also of our investment process, have strong international growth exposure. Some are global leaders in what they do. One challenge in the upcoming period for overseas earners is the current strength of Sterling, which, if it continues, may cause some currency headwinds for these businesses.

In a recessionary environment, or continued low economic growth, we believe the market will move towards quality, resilience, reliability, visible revenue streams and strong balance sheets. We have seen these characteristics fundamentally demonstrated by the portfolio companies over this period, clear also through the dividend strength. In that economic situation, where growth becomes scarcer, the growth that remains tends to become more valuable.

In a recovery phase, small and mid-cap stocks tend to lead that market recovery, and the outlook for the asset class should be attractive. Small and mid-caps in the UK have still lagged large companies in the market moves since the start of 2022. In that environment, we believe the small-cap asset class can produce some attractive return potential, as markets recover and the disparity to large-cap narrows. Encouragingly, the Company outperformed in the sharp market recovery in Q4 2022, with quality growth companies performing well.

We continue to believe there are opportunities for quality growth businesses, which deliver well on earnings expectations, to outperform. The valuations currently being paid for growth companies in UK small mid-cap markets remain significantly below historic levels, whereas in other regions the market is now paying a ten-year median valuation for growth businesses again. As such, many quality UK growth companies currently trade on undemanding valuations.

. . . .

Jeremy Rigg, chair, Henderson High Income – 13 September 2023

In the near term the outlook for markets will be driven by inflation expectations and the impact this will have on monetary policy. There are certainly some signs that inflation is easing a little, particularly in the US and across Europe. However, inflation in the UK is proving more problematic, and although the Bank of England has increased interest rates significantly in the first half of 2023, the expectation in the market is that they may have to rise a little further.

The UK corporate sector is in the midst of the interim results season and whilst there are certainly pockets of weakness, corporate results are for the most part holding up well. In particular, UK banks have announced positive updates showing relatively little sign of corporate and personal sector weakness, and capital levels within the banks are at very positive levels. In addition, the UK housing market, which is very important to the UK economy, is holding up reasonably well at this stage.

UK companies still appear to be relatively attractively valued in a global context.

. . . .

Investment managers, Onward Opportunities – 7 September 2023

We believe the market's implied base case global outlook is for an economic slowdown. Negative forward indicators include inverted yield curves, declining energy and industrial material prices, falling producer prices and a faltering Chinese recovery. As a result, most large investors remain cautiously positioned with lower-than-normal risk asset exposure and higher-than-normal cash holdings, meaning illiquid risk assets such as UK small-caps remain attractively valued.

It was disappointing but perhaps unsurprising that investors did not view UK equities as a safe haven in this period. Although various bodies including the OECD, IMF and OBR have upgraded assessments of the UK's economy, the UK market has remained sluggish with all indices falling.

One feature of these market conditions has been the impact of private equity backed bids for UK listed companies, as the first quarter flurry of bids faded. EQT's substantial offer for Dechra Pharmaceuticals and offers for Medica and Alfa Financial Software highlighted how other investors will recognise value if public markets don't. With Japan at long last re-rating, the UK does look increasingly isolated as the final value play among developed equity markets.

Many less liquid smaller UK companies now resemble the "cigar butts" of Warren Buffet's much quoted quip – "like picking up a discarded cigar butt" astute value investors should look for companies that have been overlooked but still have value in them. The AIM segment is our preferred investment hunting ground, and we look forward to today's value becoming tomorrow's accepted recovery and momentum plays. We are very conscious that the timing of sentiment transition is always unknowable, but believe that the end of rate increases will be a positive catalyst.

. . . .

Asia

(compare Asian funds **here**)

Lee King Fuei and Robin Parbrook, Investment managers, Schroder Asian Total Return Investment Company – 13 September

What of the outlook for ASEAN economies and stock markets? To us it feels like a mixed bag, economies are probably not completely stuck in a middle income trap but there are significant challenges to drive stronger growth. Educational attainment in India and the ASEAN region, whilst improving on the United Nations Development Programme's ("UNDP's") Education Index, has a long way to go to catch up with developed Asia, and 50% of children in the region still only get primary-level schooling.

Other indicators also suggest economies in ASEAN face hurdles to significantly accelerate growth. The transparency international surveys of corruption perceptions suggest little relative improvement in the region outside of Vietnam, whilst the Heritage Foundation Economic Freedom Index also indicates large gaps in policy-making remain to create dynamic capitalist economies in ASEAN countries (admittedly the Heritage Foundation is a US conservative think tank and may be biased however, stock markets without functioning capitalism and strong property rights etc don't work as any frontier fund investor knows).

Going back to stock markets in ASEAN, they face a lack of dynamism too. New Economy (technology, internet etc.) stocks are a very small part of the indexes in ASEAN, and R&D spending relative to GDP is very low. This has tended to mean both the economies in the ASEAN region and stock markets exhibit a lack of dynamism which limits their potential. This is not all bad as the ASEAN stock markets can be quite defensive but for your portfolio managers if we want to be defensive, we would prefer to buy the high-yielding stocks listed in the developed Asian stock markets as discussed earlier.

Of the four ASEAN stock markets, we are currently more optimistic on Indonesia and the Philippines. Malaysia and Thailand both appear to be stuck in classic middle income traps, with poor policy-making and politics in Thailand in particular messy. Neither stock market has much bottomup attraction at the current time. Indonesia is the most interesting market. Policy-making and stability has generally improved under President Jokowi and the country should undoubtedly benefit from the "green" transition given its exposure to key commodities like nickel. Upcoming elections in 2024 are key but we are hopeful we will see a continuation of current better policies. We are likely to use any dips in the market on election worries to add to our weighting in Indonesia.

India we do however view somewhat differently from the ASEAN economies and stock markets. On current policy settings the potential for an acceleration in the sustainable growth rates is high. India has a young population, and many structural dynamics are in its favour – whether that is better infrastructure provision, improved educational attainment, digitalisation of the economy, stronger property rights and bankruptcy laws, rising financialisation and urbanisation as mortgages become widely available.

Europe

(compare European funds here and here)

Alexander Darwall, investment manager, European Opportunities Trust – 22 September 2023

Investor sentiment regarding Europe is not good. Europe has been a structurally lower growth region than North America and Asia. This pattern is unlikely to change soon. Indeed, Europe remains vulnerable to further energy shocks. The EU's target, as set out in its 'Fit for 55' is the reduction of EU emissions by at least 55% by 2030. The corollary is that renewable energy should reach 45% share of the total energy mix by 2030. Reaching these goals has an economic cost. Accordingly, we select companies that have a global reach, tapping into faster growing regions, and companies where energy costs are a lower component of the overall cost base.

The European economy has proved to be surprisingly resilient, buoyed by robust consumer spending. Driven by the joint impacts of monetary and fiscal stimulus, the post-pandemic period has been one characterised by abundant liquidity and a resilient consumer. However, as the ECB's asset purchases continue to unwind and consumers deplete their pool of excess savings, we see a different dynamic unfolding, a less resilient economy and more subdued consumer spending.

Our companies, typically, have lots of intellectual property (IP) and innovate extensively, meeting customers' needs. New technologies will continue to drive innovation and create new business opportunities. Most prominent of these emergent technologies is Artificial Intelligence (AI). In our view, the biggest beneficiaries of this development will be those companies that have proprietary, monetisable data, and those that provide infrastructure to accommodate significant computing applications, fitting exactly the profile of our investee companies. These same IP intensive, innovative businesses have pricing power and discipline, a crucial factor in softer economic conditions. We remain confident in our strategy and in the positioning of our portfolio. Our lower exposure to consumer spending and input cost dependency positions us well. Moreover, the strong balance sheet and profitability profiles of our companies positions them well not only to survive in more challenging conditions, but to thrive as competitors lack the cash flows to invest through the cycle and as new M&A opportunities emerge.

. . . .

Japan

(compare European funds here)

Masaki Taketsume, investment manager, Schroder Japan Trust – 29 September 2023

We believe that the Japanese equity market currently provides one of the most attractive opportunities, particularly for long-term investors. Several developments that are unique to Japan should combine to support sustained corporate earnings growth and increasing valuation multiples in the years ahead.

From an economic perspective, we should see a continued cyclical recovery following the lifting of Covid restrictions. More importantly, after more than two decades of deflationary pressure, the emergence of "positive" inflation, led by wage growth, is immensely encouraging. Not all inflation can be viewed as positive, but Japan is experiencing lower rates of inflation than in many other parts of the world. This suggests that the re-emergence of inflation in Japan can be viewed as an opportunity rather than a threat.

Indeed, the implications of this positive inflation should not be under-estimated for corporate Japan. This is an environment in which Japanese companies can regain pricing power (the ability to raise prices in response to inflation) which, when coupled with improved consumer purchasing power through wage increases, should drive healthy levels of corporate earnings growth. An element of these higher profits can then be recycled back into the economy through further wage increases, driving a positive cycle of broader economic progress that has been largely absent from Japan for a generation.

Meanwhile, corporate governance reforms are likely to remain a structural driver of the Japanese equity market in the years ahead. Historically, the structure of corporate Japan has been dominated by the keiretsu system of cross-shareholdings and close relationships between customers, suppliers, their banks and competitors. This system has been increasingly criticised from a governance perspective because it can lead to inefficient capital allocation and poor decision-making. In recent years, however, we have begun to see meaningful change, with companies, investors and regulators such as the Tokyo Stock Exchange, working together to raise corporate governance standards, with the aim of improving returns and growth prospects. The success of these initiatives is reflected in the level of dividends and share buybacks from Japanese companies. These have been rising steadily in recent years and currently stand at record levels, but there remains scope for considerable further positive progress as the corporate governance revolution unfolds.

The Japanese stock market has reached multi-decade highs in recent months in response to these positive domestic developments. Nevertheless, the equity market as a whole looks attractively valued when compared to other regions' markets and in the context of history. Many listed Japanese companies continue to trade below their book value despite the ongoing corporate governance movement. This suggests the market is not yet fully reflecting the progress that many businesses are making to improve returns. We are confident we can continue to find selective opportunities for businesses to transform both their growth prospects and their market rating through better capital allocation and by considering the needs of all their stakeholders, shareholders included. These opportunities remain concentrated at the lower end of the market cap spectrum, where valuations are also even more attractive, despite the high quality of many businesses and their superior growth potential.

To conclude, there are many reasons to believe that we may be entering a period of sustained outperformance from the Japanese stock market. We are seeing renewed appetite for Japanese equity from global investors and this demand should continue to grow as the positive domestic story becomes better understood. This represents a fertile environment for active, high conviction stock pickers, and we are excited at the opportunity that lies ahead for investors in the company.

Manager, Baillie Gifford Shin Nippon – 22 September 2023

The first half of this year saw a bifurcation in performance within the Japanese market. Mature large cap stocks in capital intensive and cyclical sectors did very well in share price terms, helping lift the broader Japanese indices to record highs. Their strong performance was largely due to improvements in corporate governance and shareholder return policies. A key driving factor for this has been the pressure applied on management teams by both domestic and overseas activist investors who have taken large stakes in many of these businesses. In addition, Yen weakness has helped inflate profits as most of these companies are exporters. In this environment and amid a complete lack of investor interest, high growth small cap stocks continued to languish.

At a macro level, rising interest rates, inflation, and US-China tensions continue to sour investor sentiment on growth stocks. A slowing Chinese economy and signs of excess inventory in critical sectors like semiconductors and industrial equipment are further dampening market confidence. In this context, it is perhaps unsurprising to see weak operating results being reported by many of our manufacturing holdings exposed to these end markets. More encouragingly and contrary to their weak share price, most of our internet holdings continue to perform admirably well in operational terms.

Joe Bauernfreund, investment manager, AVI Japan Opportunites Trust – 15 September 2023

The Japanese Yen weakness was driven by a cautious tone from Kazuo Ueda, the newly appointed Bank of Japan ("BoJ") governor, which disappointed those anticipating an imminent end to the BoJ's Yield Curve Control ("YCC") policy. Latest data for June showed a 4.2% increase in core inflation (excluding food and energy) which is starting to flow through to higher wages. We think it isn't a matter of if we will see material adjustments to YCC, but when - which would be a boon for the Yen.

Over the period however, small-caps lagged, with the MSCI Japan Small Cap Index returning only +15.4%. With the rally led by large-cap value, the MSCI Japan Value Index appreciated +22.8% (both in JPY). During a period of strong foreign flows into Japan, it is typical to see early capital allocated towards large cap names. As the rally is sustained, however, we would expect there to be a trickle-down effect as capital seeks out smaller and better valued opportunities. Given AJOT's portfolio has an average market cap of £675m, we are well placed to benefit.

The Tokyo Stock Exchange ("TSE") followed through on its announcement at the end of last year calling on companies to address low valuations. This is mostly aimed at the 1,800 companies in Japan that trade on a price to- book ratio of less than 1x. Companies will need to determine why the market evaluates their shares so lowly and disclose plans to improve the valuation. It is an encouraging step, highlighting regulators' intentions to continue using their powers to promote governance reforms.

It feels that the stars are starting to align in Japan. Our approach to engaging with undervalued, high-quality companies is bearing fruit and, particularly if we see a reversal in Yen weakness and increased flows into small caps, we could be in for a period of strong NAV growth.

North America

(compare North American funds **here** and **here**)

Managers, Middlefield Canadian Income –21 September 2023

We believe cyclical value sectors are poised to outperform in H2 and that Canadian equities are uniquely positioned to benefit from this setup. The recent strength in commodity prices supports our view that the Canadian dollar should appreciate relative to the British Pound in H2 after depreciating 3.3% in H1. Our highest conviction sectors are real estate and energy, as reflected by the Fund's current asset allocation. Both sectors have historically acted as effective hedges against inflation which is expected to remain elevated over the medium-term. Growth stocks that demonstrated market leadership during H1 are starting to screen as expensive, especially with monetary policy expected to remain restrictive for longer. The relative value that Canadian cyclicals currently offer further strengthens our conviction. Canadian companies have returned record amounts of capital to shareholders recently in the form of dividends and share buybacks. This is a trend we expect to continue in H2 as earnings outlooks improve due to better-than- feared economic conditions.

Stephen White, chair, Brown Advisory US Smaller Companies – 18 September 2023

So far in 2023, both the US economy and the US stock market have defied expectations on the upside. Despite major headwinds comprising a huge jump in interest rates, persistent inflation, the depletion of pandemic era savings, concerning geopolitical tensions and a minor regional banking crisis, the US consumer has remained resilient and continued to drive the American economy.

As a result, the recession forecast by many a year ago has failed so far to materialise. The stock market has responded positively, and it has been supported further by hopes that the peak in interest rates is within sight.

Given the market's rise to date, some setback should not, of course, be ruled out. While the Federal Reserve may have paused its rate increases in June, this was done merely in order to take stock and assess the impact so far. With the resilience of the economy and still high inflation numbers, the trajectory for interest rates remains upwards in view of the Federal Reserve's determination to bring inflation back into its target range. The difficulty for the Federal Reserve is in determining at what point the rise in rates will achieve this, without putting the economy severely at risk. With the Federal Reserve putting inflation restraint before economic activity, there is a risk that investors underestimate the extent and duration of tightening potentially to come.

At the same time, the geopolitical concerns remain, the economy may slow if the consumer finally becomes more cautious and corporate earnings may be impacted.

As we look further out, we become more optimistic. We expect the Federal Reserve's tough medicine to work and for the inflation numbers as we enter the autumn to trend lower, allowing interest rates to ease back too. Although possibly somewhat softer, we still expect the domestic US economy to hold its own, with demand supported by recent wage growth and still high levels of employment. We see this as a generally favourable background for the US smaller company sector which should again draw investors given its attractive valuations and extended period of underperformance relative to its larger peers.

. . . .

Emerging Markets

(compare emerging market funds **here**)

Managers, BlackRock Latin American Investment Trust – 29 September 2023

The outlook for the Mexican economy remains positive as it is a key beneficiary from the re-shoring of global supply chains. Mexico remains defensive as both fiscal and the current accounts are in order. While our view remains positive, we have taken profits after a strong relative performance, solely because we see even more upside in other Latin American markets such as Brazil. In addition, we believe that the Mexican economy will be relatively more sensitive to a potential slowdown in economic activity in the US in response to rising interest rates there.

We continue to have a very positive view on Brazil, even though our thesis of slowing inflation and sound fiscal policies has partially played out already. While the market is now pricing in interest rate cuts, these have not yet started, and the positive economic impact is yet to come. In addition, while international investors have moved capital to Brazil, local equity flows have continued to be negative year-to-date as equity markets struggle to compete with a risk-free rate of return of close to 14%. We therefore see Brazil as very early stage in its positive economic cycle and continue to see further upside over the next 12-18 months. We have significantly scaled back our positions after the strong performance, but domestic Brazil remains a dominant bet in the portfolio.

Political uncertainty has been the overriding market sentiment in other countries in Latin America. We believe this will continue to impact market performance, and we have a cautious view on Chile, Colombia and Peru. However, despite the political headwinds in Colombia, we are seeing a slow improvement in macroeconomics and believe it can become an attractive market again once the political climate stabilises.

In a global context, we remain optimistic about Latin America as a whole. Central banks have been proactive in increasing interest rates, which has now resulted in falling inflation. Thus, we will likely see a monetary easing cycle in most countries in Latin America, which should support both economic activity and asset prices. In addition to this normal economic cycle, the whole region is benefitting from being somewhat isolated from global geopolitical conflicts. We believe that this will lead to both an increase in foreign direct investment and an increase in allocation from investors across the region. As such we are optimistic about the outlook for Latin American stocks over the next 12-24 months.

. . . .

Aidan Lisser, chair, JPMorgan Emerging Markets Investment Trust – 27 September 2023

Developments in China were one of the main factors impacting emerging markets over the past year. With demand for exports weakening and the heavily indebted property market under severe pressure, near-term economic growth is likely to remain well below pre-pandemic levels.

However, it is important to stress that our Portfolio Managers are focused on the bottom-up fundamentals of the high-quality businesses that they own or target, and the growth prospects of those companies over the long-term. Whatever the country's near-term economic prospects, the Chinese market will still offer appealing investment opportunities capable of generating excess returns for the Company's shareholders. Furthermore, while the Chinese market continues to face challenges over the coming year, it is evident that many other emerging markets have done well - inflation pressures are less extreme, their currencies have been strengthening and companies have performed strongly. Opportunities in these markets will remain plentiful.

In addition, the long-term case for emerging markets remains robust - based on superior economic growth, favourable demographics, increasing consumption and the presence of high-quality companies and managements.

. . . .

Managers, Gulf Investment Fund – 25 September 2023

The outlook for the GCC in 2023 remains positive, driven by benign inflation, giga & mega infrastructural projects, and continuous reforms across social and economic policies. The IMF projects GCC to grow by 2.9 per cent and 3.3 per cent in 2023 and 2024, respectively; after growing at 7.7 per cent in 2022 from a lower base. This compares to World GDP growing at 2.8 per cent in 2023 and 3.0 per cent in 2024.

The IMF expects CPI inflation in the GCC to be 2.9 per cent and 2.3 per cent in 2023 and 2024 vs 4.7 per cent and 2.6 per cent for the advanced economies, respectively. The lower inflation in the GCC economies gives the necessary bandwidth to the GCC governments to continue and/or increase their fiscal spending at a time when the contribution from oil is expected to decline driven by production cuts by Opec+ and a slowdown in global economy.

The pace of structural reforms in the GCC was maintained during the covid period of 2020-2022 due to which growth in the non-oil GDP is expected from fixed investments, private consumption, and high government spending ensuring diversification and unabating increase of the non-oil share in the economy.

The global economy is under an overhang of an ongoing invasion of Ukraine by Russia, and an economic softness due to high-interest rates. Against such a backdrop, the GCC is a bright spot on the global map where the above-mentioned headwinds are positively offset by domestic public and private spending.

. . . .

India

(Compare India funds **here**)

Managers, India Capital Growth Fund - 21 September

Whilst the ongoing conflict between Russia and Ukraine is having an impact on the supply and cost of energy and agricultural commodities for many of the world's economies, the Indian economy has been less impacted than most others: India's dependency on imported oil remains but the overall economic impact has been offset by the increasing value of India's IT exports and the government no longer directly absorbs the cost of rising oil costs. Indeed, India has been the beneficiary of a global corporate trend to diversify supply chains, with many corporates having realised the risk of been overly dependent upon Chinese manufacturers.

India's inflation is not driven by weak monetary policy, wage pressure or the expectation of wage increases, and India is self-sufficient in agricultural commodities meaning the risk of high inflation having a detrimental impact upon the Indian economy is much less than in many other countries.

....

South Korea

(compare country specialist funds **here**)

Managers, Weiss Korea Opportunity Fund – 19 September 2023

On a year-to-date basis ending 30 June 2023, the benchmark Korea Index returned 14.4% and the KOSPI 200 Index returned 16.1%.21 To contextualise these returns, Korea was one of the best performing markets in Asia alongside Taiwan and Japan.39 Looking into daily trade flow and volume, foreign investors were the largest net buyers, accumulating more than 12.3 trillion KRW net in the first half of 2023, according to the Korea Exchange.40 However, unlike previous market cycles, the stock market gains were not evenly distributed across a wide range of sectors. While the information technology (including memory semiconductors) and materials (including EV batteries and other materials) sectors outperformed the Korea Index, the utilities, healthcare, financials, and consumer staples sectors generated negative returns. Foreign net buying was also concentrated in select sectors and names. For instance, out of the 12.3 trillion KRW in net buy flow by foreigners, 12.08 trillion KRW (roughly 98%) was focused on one issuer: Samsung Electronics.41

More broadly, the South Korean economy finally began to exhibit signs of a rebound during the second quarter of 2023. Korea's exports posted a meaningful rise during the final two months of the quarter, even escaping a trade deficit for the first time since February 2022.42 The improvement in the balance of trade was led by trade exports, which grew 7.9% and 13% in month-over-month terms in May and June, respectively.43

Focusing exclusively on rebounding exports and the surge in a few risk asset prices, however, would present an incomplete view of the South Korean economy. As Governor Rhee noted at the most recent Bank of Korea Monetary Policy Board meeting on 13 July 2023, other macroeconomic indicators still require careful attention, such as persistent high core CPI inflation and significant household debt.44 For instance, while year-on-year CPI increases moderated to 2.7% in June 2023 from a high of 6.3% in July 2022, core CPI increases remained in the 4% range in June 2023 from a high of 5% in January 2023, according to Statistics Korea.45 Household debt remains at 103% of GDP, which is an area that the Bank of Korea is "closely monitoring".

As we noted in the 2022 Annual Report, we continue to observe early but positive signs in the realm of corporate governance in South Korea. The source of activist demands, volume of requests and success rates of adding board members to target boards all appear to exhibit positive directionality. We have also witnessed the Korean government more actively pursuing corporate governance reforms as described later in the report.

Much of the support in favour of reform is now originating within Korea, particularly from domestic activist funds and the Korean government. This is new, as historically such support mostly arose from non-Korean investors and organisations which were ineffectively attempting to exert shareholder-friendly pressure. According to Insightia, which publishes regular reports on the state of shareholder activism in Asia, approximately 75-80% of activism campaigns launched in South Korea in 2022 were "by funds based in Korea or run by Korean fund managers," which is an increase from the 60% Insightia reported for 2019.58 We believe this dynamic is likely to make companies more agreeable to positive reforms.

We are also encouraged by the volume and success of activist campaigns seeking to add board members to the boards of targeted companies. The absolute number of campaigns increased more than 480% from 2019 to 2022. The success of these campaigns is also increasing; in 2020, no activists were successful in putting one or more of their nominees on the target company's board, whereas in 2022, 10 campaigns succeeded on this measure.

Vietnam

(Compare country specialist funds here)

Vu Huu Dien, Investment managers, Vietnam Enterprise Investments – 13 September 2023

The performance of the VN Index in the first six months of 2023 was characterised primarily by two factors: (1) the repricing of market valuations, in which sectors and stocks that were oversold and hit multi-year low valuations have been readjusted upwards; and (2) the initial optimism that the Government's policy actions will start to have a material impact in the economy from the second half of 2023. From a macro perspective, external factors have, so far, not had the same impact as in previous years. Barring black swan type events, external factors are unlikely to alter the current course of Government policy, focusing on easing monetary policy and stimulating the domestic economy via public and private investments. Against this macro backdrop, sectors that tap into the recovery theme should fare well in the latter half of the year.

At the end of 2022, VEIL had anticipated 2023 to be a year of consolidation and rebuilding for Vietnam. The story thus far has matched that expectation. Earnings growth in 2023 won't be as exciting as previous years, for a high growth country such as Vietnam. Nevertheless, VEIL is expected to see an improvement in quarterly earnings and, so far, this has been the case. For the full year 2023, Dragon Capital's Top80, which represents 69% of the VN Index, is projected to deliver 3.9% in EPS growth. More exciting growth is currently expected for 2024 at 24.4% EPS growth and only at an undemanding forward Price-to-EPS ratio of 8.1x. For VEIL, 2023 serves as an important steppingstone in further realigning the portfolio to better capture the structural growth expectations of Vietnam.

. . . .

Biotech and Healthcare

(compare Biotech and Healthcare funds **here**)

Investment managers, RTW Biotech Opportunities – 13 September

Pharma went shopping in the first half of the year. Total deal value of US$93 billion puts sector M&A activity on track to be at the highest level since 2019. 2019's US$328 billion total was driven by two large deals, Bristol-Meyers' US$74 billion for Celgene Corporation and AbbVie's US$63 billion for Allergan plc, both focused on diversification and cost savings. In contrast, recent deals have been about innovative assets that can deliver growth. Deal highlights include Pfizer's US$43 billion for Seagen Inc., Merck's US$11 billion for Prometheus, Novartis' US$3.2 billion for Chinook Therapeutics, Sanofi's acquisition of Provention Bio for US$2.9 billion and Lilly's US$2.4 billion for Dice Therapeutics. Premiums ranged from 30% for Seagen up to 270% for Provention Bio and proxies tell the story of competitive processes. Of the three large cap pharma companies we have highlighted as most in need of patent cliff revenue replenishment (Bristol, Pfizer, and Merck), only Pfizer has addressed a significant part of its exclusivity losses this decade, not to mention the potential impact of the Inflation Reduction Act (IRA) on small molecule portfolios. With attractive valuations for midcap biotech companies and record (and growing) cash piles on large cap pharma balance sheets, we think these deals will continue.

Despite the strong pick-up in M&A, the biotech sector's burgeoning recovery from the second worst bear market in its history flattered to deceive in the first half of the year. From the low in mid-May last year to the end of January this year, the Russell 2000 Biotech Index rallied over 40%, but then finished the first quarter -7.3%. It rallied back slightly in the second quarter to finish the first half +5.3%, but it was the only sector index to finish the half in meaningfully positive territory. The pharma heavy Arca index was +0.7%, the large cap heavy NBI was -3.2%, and the most commonly traded small cap index, the XBI, was +0.2%. At US$85.00, the XBI is trading at approximately the same level as it was in 2015 and only marginally above last year's lows when adjusting for subsequent take-outs and transformational clinical data. As a result, sector valuations remain attractive. The NBI is trading at 5.8x price to sales, which is still only 29% above Global Financial Crisis lows. At the smaller end of the spectrum, 180 of the 578 companies with less than US$10 billion of market capitalisation are trading at less than the cash on their balance sheets.

We suspect that some negative sector headlines might have impacted sentiment in the short term (without impacting fundamentals too much). The FTC Chair Lina Khan's push to expand the definition of anti-competitiveness beyond portfolio overlap likely dampened excitement about M&A. In the FTC's lawsuit to block Amgen's acquisition of Horizon Therapeutics, Khan introduced theoretical product bundling of non-overlapping products as an argument to block the deal. While we think the odds are low, should courts decide in favour of the FTC, agreements not to bundle across products seem a straightforward remedy in the same way that there were no pharma deals in the last decade that were blocked due to portfolio overlap - any issues were solvable with the divestiture of overlapping products.

The banking crisis in the first quarter also likely weighed on sentiment, especially with "biotech bank", Silicon Valley Bank ("SVB"), featuring so heavily. This was made moot by the deposit backstop, and SVB's orderly wind-down should have no material impact on biotech funding. However, it did conceal two significant M&A deals that happened on the same weekend: Pfizer-Seagen was the biggest deal since 2019 and Sanofi-Provention was the biggest premium paid so far this year.

Another reason the sector's recovery has decelerated is likely the strong performance in the technology sector, driven by interest in AI. The year-to-date performance divergence between tech and biotech is as wide as it has ever been. For biotech, the near-term opportunity to apply AI is in the laborious idea generation and screening phases of target discovery and molecular design, making these processes more efficient. This is clearly more incremental rather than transformational, as the market thinks AI will be for some large cap tech names, which have driven the sector's returns, pulling growth capital flows away from other sectors.

The good news is that capital markets activity is showing some improvement on top of the M&A already mentioned. Follow-on activity has been solid, rewarding those drug developers that can deliver successful data or news, with many of these offerings being oversubscribed and upsized. IPO activity is still slow with only three significant biotech debuts this year. Two more IPOs took place after the end of the reporting period, and they performed well on debut. We think that our portfolio company Apogee Therapeutics' upsized IPO in July may augur well for a better IPO environment ahead given its strong performance despite its being a pre-clinical company.

Finally, we believe that there is room for upside surprises with the Inflation Reduction Act ("IRA"), as we approach implementation later this year. The market appears to have assumed that Medicare price negotiations are effectively early genericisation with dramatic and immediate price drops. Amid this sentiment, we think there could be some upside optionality. For example, the negotiation framework leaves the door open for more modest price reductions, especially for drugs that address high unmet needs with limited alternatives. What's more, pharma companies are now challenging the IRA in courts. In our view, if there is anything that ameliorates the worst-case scenarios, then this will likely be interpreted as positive for the sector.

Commodities and natural resources

(Compare commodities and natural resources funds **here**)

Investment Manager, Bakersteel Resources Trust – 15 September

During the first half of 2023, the market for commodities and mining shares was generally weak with the EMIX Global Mining Index ending the period down 7.1% in Sterling terms over concerns for global and Chinese growth. In precious metals, gold rose 5.2% but silver was down 4.9% over the period. The copper price was unchanged after its fall in 2022 though tin recovered 10.9% after falling 37.1% in 2022 (all in US dollars). Steel making coal continued its retreat from its all-time highs as a result of the war in Ukraine, falling a further 12% in the first half of 2023 following the 17.6% fall in 2022 after its 252% gain in 2021. Likewise, potash fell back a further 36% to around US$320 per tonne following its peaks in excess of US$1,000 per tonne in 2021.

The disruption in availability of financing for junior companies with development projects continued during the first half of 2023 and it is unclear when this position will change. Inflation fears combined with sluggish global growth have led to investors generally adopting a "risk off" position, whilst seeking to preserve capital. Commentators expect inflation and interest rates to remain high into 2024. An eventual change in the trend in interest rates could be the trigger for a return to a healthier market. However there remain concerns that the Chinese economy in particular has not bounced back post covid lockdowns, and that their government is no longer capable of stimulating the economy in the face of a deteriorating housing market. Against this, there remains the medium term demand profile for many minerals to underpin the energy transition plus the growing interest by governments to secure supply chains for essential minerals. Attempting to call the exact timing on the potential recovery in the markets for both commodity prices and shares would be unrealistic.

....

Environmental

(compare environmental funds **here**)

Howard Pearce, chair, Menhaden Resource Efficiency – 15 September

Over the first six months of 2023 the level of investment in both the global quoted and private capital markets was subdued. The main reasons include post pandemic concerns, the dislocating impact of the Ukraine war on global energy and other resource supply chains, inflationary pressures and rising central bank interest rates, and incidence of extreme weather events in North America, Europe, and Asia.

At the same time the global demand for energy and resources continues to rise. The World Meteorological Association has stated that 2023 is set to be the hottest year ever recorded and the International Monetary Fund reported that financial markets are under-pricing climate related risks. The need for businesses to progressively reduce their use of fossil fuels and greenhouse gas emissions has never been so critical.

Consequently, our investment thesis to invest in high quality businesses that both enjoy strong market positions and are demonstrably delivering or significantly benefitting from the efficient use of energy and resources is now even more relevant and so should be beneficial for long-term shareholders

..………..

Debt

(compare debt funds **here, here, here, here**)

Philip Kent, GCP Asset Backed Income Fund, 28 September 2023:

Over the twelve month period to 30 June 2023, the yield on five year gilts has increased by over 150%. The dramatic and rapid change in the cost of borrowing has been driven by increases in central bank rates, which at the time of writing have risen to 5.25% in the UK. Higher rates are an attempt to reduce headline inflation, with year-on-year CPI peaking at 11.1% in October 2022, reducing to 6.7% in August 2023, materially above the Bank of England's target rate of 2.0%. Headline energy costs have reduced from their peak late in 2022, however the UK has continued to see labour market strength, with low unemployment strong wage growth and increasing costs.

The increase in yields available from traditional income sources has been accompanied by a flight of capital away from alternative assets into such sources; money market funds, bonds and government debt have been beneficiaries.

The outlook for private credit, however, remains strong. Periods of market volatility and economic uncertainty benefit non-bank lenders that are not subject to capital charges and reserve requirements, all of which have increased. Similarly, the returns available for private credit look increasingly attractive on a relative basis when compared with asset classes such as equities, which have not been repriced to the same extent as has been observed in private credit.

………..

Pieter Staelens , CVC Income & Growth, 27 September 2023:

After a strong recovery in the first half of 2023, the [manager] remains positive on the outlook for the remainder of 2023. Corporate earnings have so far held up reasonably well and default rates have – in line with what we anticipated in our full year 2022 report – increased slowly. Overall, these defaults remain manageable for the loan market. There have been some high profile defaults such as Orpea (nursing homes), Casino (food retail) and Genesis Care (healthcare) in Europe to name only a few. Even though these are more idiosyncratic events, rising base rates and more difficult access to capital markets have accelerated some of these defaults. The [manager] anticipates defaults in the market to continue to pick up over the next 6-12 months.

M&A activity remained very subdued in H1 2023, but we are starting to see some green shoots, with, for example, the announced public-to-private of Software AG for

€2.6bn by Silver Lake. There are further signs that M&A activity is picking up however we don't anticipate a major resurrection in volumes before the start of 2024, at the earliest. With limited new deal flow coming to the European leveraged loan and high yield markets, most primary activity will continue to be dominated by refinancing activities.

. . . .

Pharmakon, managers, BioPharma Credit, 27 September 2023:

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the Company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index ("BTK Index"). While there was substantial volatility during the period, the BTK Index decreased 1%. during the first six months of 2023, compared to a 16%t. decrease during the same period in 2022. Global equity issuance by life sciences companies during the first six months of 2023 was $22 billion, a 97%. increase from the $11 billion issued during the same period in 2022. This dynamic contributed to additional deal flow for the Company during the recent period from 4Q 2022 through 2Q 2023, as we deployed $207.5 million across three new investments and an additional tranche of an existing investment. We anticipate a continued slowdown in equity issuance coupled with greater appetite for fixed income as a source of capital during the remainder of 2023.

Acquisition financing is an important driver of capital needs in the life sciences industry in general and a source of investment opportunities. An active M&A market helps drive opportunities for investors such as the Company, as acquiring companies need capital to fund acquisitions. Global life sciences M&A volume during the first six months of 2023 was $34 billion, a 31%. increase from the $26 billion witnessed during the same period in 2022.

We expect our investment pipeline to grow as new products and companies enter the market during the remainder of 2023. Pharmakon's extensive network and thorough approach will continue to identify strong investment opportunities. We remain focused on our mission of creating the premier dedicated provider of debt capital to the life sciences industry while generating attractive returns and sustainable income to investors. Further, Pharmakon remains confident of our ability to deliver its target dividend yield to its investors.

. . . .

Managers, M&G Credit Income, 21 September 2023:

Risk sentiment in markets remains fragile, driven by a number of economic indicators which are closely watched by central banks to inform decision making on the path of interest rates. Two competing market narratives have been established. A 'hard landing' – in tightening rates to curb inflation a recession is triggered, and a 'soft landing' – economic growth slows enough to control inflation but remains high enough to avoid a recession. At present, the pricing of risk assets is being driven by perceived changes in the probability of each outcome.

Early summer optimism from a swifter than expected deceleration in inflation has now given way to concerns over the length of time it will take to return to the two percent average targeted by central banks. This has led to a growing acceptance by the market that interest rates will remain higher for longer and pushed out investor expectations for rate cuts. Recent key data points to divergent economic performance between Europe and the US. The former showing signs of a worse than expected contraction in both goods and services, whilst the latter proves more resilient and better positioned to engineer the much fabled 'soft landing'. The combination of deteriorating economic growth and expectations for a prolonged period of elevated interest rates has led to weakening macro sentiment as the third quarter has progressed.

Fundamentals in credit are generally supportive for now but look set to come under further pressure in the latter part of year as the effects of aggressive rate hiking cycles become more evident in the real economy and the capital structures of issuers are tested by the higher interest rate environment. Recent supply in investment grade has pushed credit spreads wider although they remain close to the tights of the year and the overall technical remains strong given the relative attractiveness of all-in bond yields.

Looking ahead, we anticipate interest rate volatility to continue as central banks struggle to return inflation to their desired two percent target in the face of a fundamental shift in price dynamics. We expect this to be driven by longer term structural trends including deglobalisation, a reduced labour supply, and decarbonisation which should support policy rates staying higher for longer. Ultimately, that would also see the Company's dividend (which has risen in line with SONIA) remain higher, with the dividend yield (based on share price at the time of writing) currently 8.1%. Uncertainty over monetary policy looks set to persist with central bank decisions remaining data dependent and markets seeking clearer signalling on the economic outlook. Against this backdrop the portfolio is cautiously positioned as we approach the latter part of the year, however we remain poised to add risk selectively when either issuer specific or wider market volatility presents itself.

Waters are now far more choppy. Constructing bottom- up portfolios based on fundamental credit analysis is at the core of our investment philosophy. We see clear strategic advantages in this approach for navigating financial markets in the changing times ahead where there will be a far clearer demarcation between winners and losers within asset classes, sectors and regions. Maintaining flexibility to invest across both public and private markets whilst remaining sector agnostic will, in our opinion, be essential to pursuing the most attractive relative value opportunities.

. . . .

Ian Francis, Investment manager, CQS New City High Yield Fund, 14 September 2023:

The economic outlook for the UK will be affected by several factors in the months ahead. These include any continued rise in interest rates, how fast inflation continues to fall towards Government targets and whether the UK falls back into recession. Another factor we look at is the UK housing market, how resilient prices are over the next 12 months and whether the recent weakness is set to continue. Finally, as we approach the end of 2024, the prospect of the general election with a possible (at this time according to polls) change of Government makes us look at how policies could change.

Globally, a lot will depend on the world's two biggest economies, the USA and China. The USA economy is moving along nicely but there will be a lot of political factors to consider in the run up to the 2024 Presidential elections. The Chinese macro-economic picture looks horrible with major weakness in the property sector which is 30% of their GDP.

As regards markets affecting the Company, we believe that we are nearing the top of the interest rate cycle and that we will see a recovery in capital values of higher yielding bonds in the next year or so which would positively impact the ability of companies to refinance debt. But a word of caution: all of this can be affected by external influences.

. . . .

Thomas Shandell, Investment manager, Marble Point Loan Financing – 13 September 2023

Although 2022 was certainly a challenging year for financial markets across the globe and the first half of 2023 has presented its own challenges, there is reason to be cautiously optimistic heading throughout the back half of the year. While we continue to believe there is a reasonable chance for a recession, we expect it will be a shallow one and that the impact on leveraged loans to be more issuer and portfolio specific as opposed to broadly distributed across the asset class. Supply chain challenges have moderated and businesses have adapted to manage commodity price and labor cost increases. While aggressive rate increases have impacted issuers' interest costs and free cash flow, we believe we are nearing the end of the monetary tightening cycle as evidenced by recent inflation data and Federal Reserve actions. While price volatility and ratings downgrades may continue throughout the year, loans and CLO financing markets have demonstrated their resiliency through a global pandemic and uncertainty stemming from significant geopolitical challenges in recent years. Still, we expect headline loan default rates to rise from their current levels and believe the sustained elevated levels of lower dollar priced loans are indicative of that expectation. Alongside higher defaults, we also expect lower recovery rates this cycle due to a higher percentage of loan only issuers, loose credit agreements and aggressive liability management exercises allowed under those credit agreements. We remain cognisant that tail risk measures in loan portfolios increased over the past year and indicate areas of concern in certain business models and subsectors. Our focus remains on insuring business fundamentals, earnings, and cash flows provide an appropriate margin of safety in this market. We expect 2023 may be a challenging year to navigate leveraged loan markets, but we also believe the team's capabilities, investment process and active portfolio management are designed to deliver strong relative performance, particularly in the face of potential volatility.

We continue to believe in the benefits of the CLO financing structure, particularly in periods of volatility. Despite a loan market having its weakest issuance figures in over a decade, the CLO machine has continued to create a stable buyer of loans and remains an important financing mechanism for businesses across the globe. In the midst of current events exposing the degree of duration mismatch in traditional banks' balance sheets, it is important to reiterate that CLOs finance their portfolio of floating rate loan assets with 12-year floating rate non mark-to-market liabilities. The reinvestment period within CLOs effectively allows CLOs to borrow long-term and lend short-term, further mitigating any duration mismatch.

. . . .

Investment managers, Starwood European Real Estate Finance – 7 September 2023

At the beginning of the year we saw inflation from energy costs beginning to moderate as we passed the anniversary of the start of the war in Ukraine. Some of these trends have continued over the half year under review particularly in the United States where June CPI was well received by the markets down to 3 per cent which is the lowest rate since 2021 but there are concerns of a longer period of high inflation especially in the UK.

Eurozone preliminary data for June shows the consumer price inflation rate decreased to 5.5 per cent in June 2023, down from 6.1 per cent in the previous month and slightly below market expectations of 5.6 per cent. The core rate, which excludes volatile items such as food and energy, was slightly up from the previous month at 5.4 per cent but below the March rate of 5.7 per cent and also slightly below market forecasts of 5.5 per cent. Energy prices were down 5.6 per cent (versus down 1.8 per cent in May). More concerningly, services inflation picked up to 5.4 per cent from 5.0 per cent. However, more encouraging aspects to note are that the Eurozone consumer price inflation is now at its lowest level since January 2022 having peaked at 10 per cent in October 2022 and recent data shows factory gate prices in the region fell 1.5 per cent in the year to May, the first outright decline since December 2020.

UK inflation has been higher persistently with concerns focused around the core inflation rate. Interest rate markets moved markedly higher on the recent numbers. While the April data showed a reasonable decrease in overall consumer price inflation which declined from 10.1 per cent in March to 8.7 per cent, it was less of a decline than markets expected and core consumer price inflation continued to increase to 6.8 per cent which was the highest rate since March 1992. May numbers continued to miss expectations with the overall consumer price inflation rate unchanged at 8.7 per cent versus an expectation of a fall to 8.5 per cent. However June data swung the other way with a decline to 7.9 per cent versus analyst expectations of 8.2 per cent and markets reacted quickly to the surprise with asset prices rising across the board. The FTSE 100 rallied by almost 2 per cent and the 10 year gilt yield fell from 4.34 per cent to 4.16 per cent on the day.

As expected, central banks continue to be hawkish on the persistence of inflation. During the half year under review, the Bank of England raised the UK base rate four times including a larger than expected 50 basis points move in June in reaction to the high inflation data. With the subsequent August increase the Bank of England has now raised rates from 0.1 per cent to 5.25 per cent in this tightening cycle over a twenty month period. The markets see more to come with the expected peak in UK interest rates having risen from an expected peak of 5 per cent as at May, to as high as 6.5 per cent at one point.

In Europe there have also been rate rises taking the key Euro interest rate to 3.75 per cent and markets expecting this to rise to a peak of around 4 per cent. Christine Lagarde has signaled that the ECB will remain vigilant commenting on “a more persistent inflation process” meaning that rate-setters “cannot declare victory yet”.

Higher interest rates expectations have fed directly into UK mortgage rates with fast changing rate expectations leading to a flurry of press reports on rising rates for residential mortgages. Headlines have highlighted the large numbers of mortgage deals being pulled from the market and in some cases leading UK banks repriced their headline mortgage rates twice in one week. During August a number of lenders have begun to cut rates however the 2 year fixed rate residential mortgages are still near their peak level at 6.8 per cent and the average rate for a five-year fixed mortgage stands at 6.3 per cent. These increases have begun to feed into house prices where average UK home prices according to the Halifax declined 2.6 per cent in the year to June which is the largest year on year decline since 2011.

Commercial real estate markets are looking for increased levels of certainty in inflation and interest rate expectations and until the outlook settles there is likely to be a decreased level of transaction volumes. This can be seen in the reduced activity in the first quarter of 2023 where investment volumes were down 62 per cent as a whole in Europe. Focusing on the office market where we commented last time on the differences between the US and European markets, observers might be surprised that volume decreases here are largely in line with the market as a whole with a 64 per cent decrease in office transaction volume. Looking at Central London office in particular the number of transactions is similar to the same period last year but the average lot size is down by 59 per cent which is in line with the reduction in overall transaction volumes. As is typical in slower markets the activity has been focused on high quality assets and as such London office transactions in the first quarter of 2023 have set the highest ever recorded average capital value per square foot.

Operating asset classes showed lower declines in investment volumes with hotel investment activity in the quarter ended 30 June 2023 versus the previous year being the strongest of the sectors. Hotels recorded a flat level of transactions reflecting strong underlying operating performance in the sector. All of the top 25 European hotel markets have recorded higher average room rates in the 12 months to end of May 2023 than they did in 2019.

One of the underperformers in transaction volumes for the quarter ended 30 June 2023 was logistics where volumes were down 76 per cent, however this may be a sector that picks up volume following a rapid repricing. Valuation adjustment in the UK during 2022 has been very swift with the move having been compounded by a high starting point due to strong performance in recent years. As a result of the rapid correction we had seen some evidence that yields were nudging off the recent highs. The fundamentals of high demand combined with supply being unable to keep up are still leading to a positive outlook for growing rental levels in this area which will attract investor interest to the positive income dynamics.

The wait for stability in the inflation and interest rate markets has been longer than many expected. This will continue to be a key driver for real estate markets and until the outlook settles further market volumes are likely to remain lower.

Growth Capital

(compare growth capital funds here)

Managers, Schroders Capital Global Innovation – 26 September 2023

Across developed economies, the six months continued to be dominated by the prospects for inflation and interest rates. The US Federal Reserve (Fed) raised interest rates three times in the period, taking the Fed Funds rate to 5.00-5.75%. The hikes came despite turmoil in the US banking sector in March, when three regional lenders collapsed. One of these - Silicon Valley Bank - was a key lender to the technology sector and start-ups in particular. The Fed paused its rate rises in June as data for May showed that US inflation was cooling. However, core inflation remained above the Fed's target rate and the labour market was still strong with unemployment at only 3.6% in May, suggesting further rate hikes may be required. In the UK, inflation remained elevated so that in June, the Bank of England accelerated the pace of its interest rate rises with a 50 basis point increase to 5.0%.

Global equity markets made gains over the period despite fears that rising inflation and interest rates could lead to recession in many developed markets. However, the resilient economic backdrop and some robust corporate earnings helped markets move higher. The MSCI World index returned 15.1% (in US dollar terms). The information technology sector led the gains with semiconductor stocks in particular performing well. This came in the wake of the release of Chat GPT and a wave of investor enthusiasm about the potential uses of generative artificial intelligence (AI). Other sectors that registered a strong advance included consumer discretionary and communication services. Laggards were energy and utilities.

Against this backdrop, global venture capital deal activity continued to fall in Q1 and Q2 2023, representing the fifth and sixth consecutive down quarters, with a year-on-year decline of 52% by value (from $270 billion in H1 2022 to $130 billion in H1 2023) and 36% by volume (from 21,855 deals in H1 2022 to 13,982 deals in H1 2023). This sees a return to the levels of deal activity seen prior to the COVID-19 pandemic. The number of mega-rounds - funding rounds of more than $100 million - which declined sharply in 2022, saw some stabilisation in the first quarter although weakened again in the second quarter resulting in a year-on-year decline of 59% by value (from $133.4 billion in H1 2022 to $55.3 billion in H1 2023) and 69% by volume (from 649 deals in H1 2022 to 200 deals in H1 2023). The market cooling was also evident as only 33 new unicorns were created in the first half year, moderately down on the 45 created in H2 2022, and a fraction of the 217 created twelve months earlier.

The environment for exits also saw continued weakness. The number of M&A transactions, the predominant exit route for venture backed businesses, declined 25% year-on-year (from 5,654 in H1 2022 to 4,214 in H1 2023) with a modest 7% decline from H2 2022 (from 4,522). The number of initial public offerings ("IPOs") was also notably weak declining 44% year-on- year (from 339 in H1 2022 to 189 in H1 2023) and 51% from H2 2022 (from 388).

. . . .

Managers, The Schiehallion Fund – 22 September 2023

We have continued to prospect globally for the best long-term growth investment opportunities in the later stages of the private markets. This has involved thematic work in supply chains, large language models, semiconductor design and emerging sports formats. Team members have also been spending time on the ground in South-East and East Asia, Australia, Israel, mainland Europe, Mexico, Brazil and of course the USA.

Following the Silicon Valley Bank crisis and Stripe's very public 50% down-round in the first quarter of 2023, pricing expectations among management teams have begun to normalise. This has been uneven between geographies. The US remains the market with the widest price expectations gap between companies and investors. We have seen more reasonable pricing expectations in Europe, Israel and Korea. China is its own story, with a continued forced sell-off of the more liquid names by American investors. We are trying to strike a balance between understanding our limited ability to assess geopolitical black swan risks, and the increasingly bargain-basement prices we are being offered for stakes in remarkable businesses

Hedge Funds

(compare UK property funds **here, here, here, here**)

Managers, BH Macro, 14 September 2023:

Entering 2023, soft inflation readings from late 2022 had led markets to price in a lower path for the Federal Reserve ("Fed") funds rate. During this period of late 2022 and January 2023, the Fed slowed the pace of its rate increases to 25 bps per meeting from the previous 75 bps. As the economic data surged, the market's complacency over inflation was dispelled early in the year. US job growth was exceptionally strong in January and measures of inflation firmed. This led the market to adjust its expectations to include additional Fed rate hikes. Chairman Powell's testimony to Congress in early March further implied that the Fed might resume hiking at a pace of 50 bps per meeting.

Over the course of Q2 2023, these more muted expectations for Fed rate hikes slowly reverted to an anticipation of further tightening. This culminated in a surprise signal from the Fed in June that it expected to raise rates twice more in 2023, which was more than the market expected, especially as the Fed kept its own funds rate unchanged at one of its meetings for the first time since early 2022.

In aggregate, expectations for interest rates shifted back and forth repeatedly in the first half of 2023, creating a difficult trading environment for our core macro strategies. Overall, US inflation and economic growth slowed in the first half of 2023 but both remain above the Fed's target and what would be consistent with stable 2% inflation.

There is potential for a further slowing of both economic data and inflation in the US during the second half of this year, culminating in a US recession in early 2024 and a focus in 2024 on Fed rate cuts.

Moving to the rest of the world; in the Eurozone, the European Central Bank ("ECB") has raised policy rates by 400 bps in the year to June 2023 and is likely to add to that further. So far, there has not been any major fallout from that hiking cycle in terms of financial stability in the Eurozone. With headline inflation falling since late 2022, real interest rates have become less negative, further reducing the tailwind to the economy. Core inflation on the other hand, has been stubborn in Europe and remains far above target as the monetary tightening feeds only gradually into the economy.

As the energy price shock related to the Russian invasion in Ukraine has started to fade, the associated fiscal support provided may slowly disappear and, if there was to be sustained fiscal consolidation over the next few years, this could help the ECB in its attempt to bring underlying inflation lower.

In Japan, inflation has risen this year to levels not seen since the early 1980s, with the inflation picture increasingly mirroring that of other developed market countries, albeit with a lag of over a year. Under Kazuo Ueda, who in April became governor of the Bank of Japan ("BOJ") following a decade of leadership under Haruhiko Kuroda, the BOJ modified its yield curve control ("YCC") on 28 July. The new YCC scheme, while complex, could in practice allow the yield of 10y Japanese Government Bonds ("JGBs") to rise as high as 1%, double the previous limit of 0.50%, a change that is significantly reducing the impact of YCC while technically maintaining most of the framework. This can be seen as a major first step in the slow normalisation of Japanese monetary policy, with the possibility of the BOJ further paring back YCC and raising its negative policy rate. Perhaps more interesting will be whether the BOJ will have to take even stronger steps to bring inflation back down to its 2% target.

Further, in Latin America, where real interest rates are at historical highs and with inflation showing a clear downtrend, albeit with still elevated core inflation levels, there could be a gradual start to rate cuts.

. . . .

Managers, Third Point Investors, 11 September 2023:

The first half of 2023 saw strong performances of major indices, with the tech-heavy rowtequal-weighted index as well as the Russell 2000. The S&P 500's returns continued to be defined by an unusual lack of breadth – 75 percent of its QTD and YTD returns through Q2 2023 were attributable to just seven names: Microsoft, Nvidia, Apple, Amazon, Meta (formerly Facebook), Tesla and Google. These stocks represent just 25% of the market value of the index, so managers who have had less than 25% of their funds in these companies or who have not had a massive bet on AI-related (artificial intelligence) names have found it incredibly challenging to keep up with "the market". Third Point is in that camp

While the results thus far in 2023 have been frustrating, Third Point has been careful to maintain its process and not either 1) abandon the risk management framework it has in place that allows it to be a liquidity provider when markets correct; or 2) dismiss themes like AI as "fads" and attempt to bet against the winners of this very important long-term theme. Through the firm's private investments, Third Point has long been familiar with the implications of AI. This year we have carried our research and reflection further, in considering the likely future impact of AI on public market equity valuations. Third Point is comfortable owning a select group of equities that are, in its opinion, the highest probability beneficiaries of AI-driven growth over the medium term, especially as AI transitions from consumer-focused applications like ChatGPT to solutions that large enterprises can monetize. The bulk of the equity portfolio, though, is comprised of high conviction, catalyst-rich names going through some kind of transformation, where Third Point sees significant upside potential moving forward. Third Point is already seeing signs of improvement in the fundamentals or the early stages of advantageous catalysts in these companies. Meanwhile, Credit continues to be a steady performer, and a ballast for the portfolio given the ability to reinvest at higher yield per unit of risk.

. . . .

Infrastructure

(compare infrastructure funds **here**)

Investment managers, Digital 9 Infrastructure – 28 September 2023

Throughout the year, there has been a notable shift in investor sentiment, market dynamics, and equity valuations in the sectors within which the Company operates.

In consideration of central bank strategies, the possibility of an extended period of elevated interest rates could potentially curtail valuation multiples expansion. In such a scenario, valuation dynamics would increasingly depend on a sustained earnings growth trajectory. As we look to navigate these evolving dynamics, our investment strategy remains on track to achieve growth and add value for Shareholders.

. . . .

Vagn Sørensen, chair, Pantheon Infrastructure – 27 September 2023

Infrastructure remains a key driver of economic growth, and therefore the need for investment into new infrastructure is arguably stronger than ever. Indeed, in the current environment, private investment is especially needed, and we believe will be ultimately rewarded, at a time where governments are facing significant budget deficits and rising debt levels.

The last few months have seen an even greater international focus on decarbonisation. According to the World Meteorological Organization, both June and July of this year exceeded prior record average global temperatures for the month by close to 0.2°C and 0.3°C, respectively. 2023 now looks set to be the warmest year on record and the world, as a whole, has warmed by approximately 1°C since 1970. The road to net zero globally will require sustained and extraordinary investment in new infrastructure. Private infrastructure has demonstrated a necessary role in filling that gap, and we believe it will continue to play an important part in funding global infrastructure investments. The market for infrastructure investments remains competitive and fundraising in private markets has been challenging so far in 2022/2023. Currently, it appears that much of the market is focusing purely on yield from gilts and bonds without considering prospects for capital appreciation. We also believe that infrastructure assets will provide much-needed resilience in the current uncertain world.

. . . .

Leasing

(compare leasing funds **here**)

Managers, Tufton Oceanic Assets – 26 September 2023

According to the US Energy Information Administration, world petroleum liquids demand is expected to grow 1.8% in 2023 and 1.6% in 2024 after growing by more than 2% in 2022. Tanker demand growth accelerated as the war in Ukraine partially replaced some demand for short-haul product tanker cargoes with demand for long-haul cargoes: increasing Russian exports to Asia and also increasing European imports from non-Russian suppliers including the Middle East, the US and Asia. The attractive fundamentals in the segment have attracted investment in newbuilds. The product tanker orderbook rose from c.6% of fleet at the end of June 2022 to c.9% of fleet as at the end of June 2023. This is still relatively low in historic terms. Most of the newbuild product tankers ordered are expected to be delivered only starting in 2025. According to Banchero Costa research, the chemical tanker orderbook remains low at c.5% of fleet. Supply-side dynamics are supportive for product and chemical tankers with very low fleet growth expected over the next 2 years.

During the financial year, 1-year time charter rates for MR product tankers rose to c.US$30,250/day in April, the highest since 2005. Time charter rates fell slightly towards the end of the financial year due to seasonal weakness. Refinery expansions in the Middle East and Asia as well as limited fleet growth suggest the product tanker market will remain strong for the next two years.

25-30% of MR product tankers are capable of engaging in the chemicals/vegetable oil trade. The chemical tanker market benefits as MR product tankers shift to the tightening product tanker market. The chemical tanker market also benefits from good supply-side fundamentals with a low orderbook and strong demand growth forecast. The Company's chemical tankers benefit from this trend as they are employed in a revenue-sharing pool and have spot market exposure. At the end of the financial period, the Company had 10 product tankers on fixed-rate charters with Average Charter Length of 2 years, and two chemical tankers that operate in a pool.

We believe the product and chemical tanker markets, well supported by good supply-side fundamentals, continue to offer potential for operating profit and capital appreciation.

. . . .

Private Equity

(compare private equity funds **here**)

Mangers, NB Private Equity – 26 September 2023

Given the ongoing economic uncertainty and the possibility of interest rates remaining higher for longer, underwriting from private equity sponsors is, in general, quite conservative. Coupled with different price expectations of buyers and sellers, this has led to lower overall transaction volumes. M&A has become an even more meaningful part of the overall investment thesis in many investments as private equity managers seek growth initiatives. In general, pricing has remained competitive and trading activity has been concentrated in high-quality assets, which helps explain why pricing dynamics overall haven't retreated meaningfully.

. . . .

Mangers, Hg Capital – 18 September 2023

The first half of 2023 has seen a marked improvement in investor sentiment towards software and tech-enabled services ('S&S') in the public markets. After stabilising in the second half of 2022, S&S multiples have rebounded strongly in 2023, with the valuation of the largest public software index up over 25% so far this year. We think it would be brave to extrapolate such valuation progression into the second half of the year, given we are already at pre-COVID valuation highs, but investor sentiment around the prospects for software and tech-enabled services is clearly much more positive than it was at the start of 2023. From a trading perspective, we commented in May that "the broader backdrop is less benign than previous years", based on the lack of growth in sector earnings forecasts in the second half of 2022. However, the first half of 2023 has seen an improvement in this metric, with sector earnings growth forecasts increasing by c.10% on an annualised basis over the period. As currency headwinds abate further, we see scope for this to sustain in the second half. Across the industry, although we have seen some companies report increasing pressure on new business (and we are seeing some similar effects within the portfolio), the impact of this is relatively minor.

The biggest news item of the first half is clearly the widespread publicity around generative AI (Chat GPT and its siblings), which has arguably been responsible for at least some of the renewed investor enthusiasm for software. This is not a new topic to us at Hg; in addition to a multi-year involvement in beta programs from some of the largest industry players in Generative AI products, our in-house data team continues to work across the portfolio on leveraging the capabilities of data analytics, machine learning and AI in its multiple forms. What has changed in the last six months has been the commercially available capabilities that we can leverage through all our businesses. Our investment philosophy revolves heavily around the automation of business processes, and Generative AI dramatically increases the range of processes we can cover. In the same way that SMB accounting software enabled nonaccountants to maintain their financial statements, AI opens a wide range of tasks up to non-specialists. Whether this will be automating graphic design (as demonstrated by Adobe, where its beta program for an AI enabled product saw uptake eighty-fold greater than management had expected) or legal workflow (as we are tackling within the Hg portfolio), we are very early in the democratisation of a wide range of additional software use cases that will drive a material increase in overall market opportunity. Innovation, in its multitude of forms, remains a secular long-term driver of opportunity.

. . . .

Investment managers, Apax Global Alpha – 6 September 2023

The economic outlook remains uncertain and short-term interest rates are likely to stay high in major economies with the timing of the pivot unclear. Higher borrowing costs are weighing on economic demand and whilst consumer spending has remained resilient, there are mixed signals from several confidence indicators. That said, with headline inflation and the labour market easing somewhat, the second half of 2023 should bring more clarity on the path of the global economy.

Forecasts for GDP have slightly improved, and developed markets are expected to grow by 1.4% in 2023 and 1.5% in 2024. However, euro area growth remains weak at 0.6% in 2023, and the outlook for the US uncertain.

Against a continued uncertain macroeconomic backdrop where valuations remained elevated, the cost of capital expensive, and visibility on prospective earnings muddy, private equity firms continued to act with caution in H1 2023.

Whilst pipelines for new investments picked up, the exit environment remained difficult. Nevertheless, private market valuations have proven more stable than public markets, likely as a result of longer-term perspectives, exit optionality and capital at private equity firms' disposal.

Private equity activity should continue to pick up once there is less uncertainty. In the near term, inflation easing could bolster transaction activity, but it could also see another pullback from a slowing economy.

The current cycle is proving complex to extrapolate with previously reliable gauges of bull and bear markets providing limited guidance as to what the future may hold.

Whilst still below the 2021 peak, equity markets have rebounded strongly in the first half of the year with the S&P 500 up 15.9% and the Europe STOXX 600 up 8.7%. What started as a rally driven by a handful of big stocks has turned into a cross-sector surge, ignoring more traditional recession alarms.

European and North American broadly traded secondary loan markets have seen significant tightening of spreads in the first half of 2023. Three-year spreads for trading US 1L loans tightened by c.84bps to an average of 532bps over Libor and EU loans tightened by c.116bps to c.589bps over Euribor.

Although overall spreads are still elevated versus recent years, higher quality credits have in general tightened more.

Inflationary pressures persisted in the first half of 2023 but there are signs of cooling with headline inflation easing somewhat. There are early signs of the labour market easing, albeit with mixed signals from confidence indicators.

US inflation has been moving closer to the Fed's 2% target after peaking at more than 9% last year. The Consumer Price Index fell sharply to 3.0% in June, highlighting the Fed's relative success at cooling down inflation. However, the US Core PCE Index, which measures inflation excluding food and energy, proved stickier and only fell modestly to 4.1%.

Euro area inflation has also cooled but remains higher than in the US. Euro area inflation fell from its peak of 10.6% in October last year, initially driven by a drop in energy inflation, to 5.3% in July. Core inflation, which was unchanged at 5.5% in July, has been more persistent and started to moderate only recently.

Whilst the cooling has allowed the Fed to slow down in tightening monetary policy and the ECB to signal a possible rate hike pause in September, price growth has yet to fall further. US and euro area core inflation remain well above central banks' target of 2%.

Rate increases have continued into 2023 as central banks look to control inflation. The Fed's latest rate increase took benchmark borrowing costs to their highest level in more than 22 years. The ECB deposit facility rate is at a record high last reached in 2001.

As at June 2023, most policymakers projected the benchmark rate peaking at 5.5% to 5.75%, with the Fed Funds Rate increasing from 5.25% to 5.5% in July. In August 2023 the ECB's deposit facility rate stood at 3.75% and the Bank of England confirmed a 14th consecutive increase, raising rates to 5.25%.

Whilst headline inflation has eased, indications from central banks suggest borrowing costs will remain high for some time with the timing of a pivot unclear.

Renewable Energy

(compare renewable energy funds **here**)

John Scott, chairman, Bluefield Solar Income Fund – 28 September 2023

If the world is to reduce its dependence on fossil fuels, we will need more electricity and much of this must come from renewable sources; there is, for example, little point in making us abandon the internal combustion engine in favour of electric cars if the energy for the latter has to come from a fossil fuelled power plant. In the UK the additional power is likely to involve substantially more solar and wind generation, sources which remain the lowest cost generators, while providing indigenous, clean and secure supplies of energy. My strong belief is that BSIF has a major role to play in the future of Britain's rapidly changing electricity mix and your Board looks with confidence at the challenges and opportunities which lie ahead.

Investment managers, Aquila European Renewables – 27 September 2023

Longer-term global trends for the renewable energy sector, including decarbonisation, energy security and affordability, continue to be strong. However, the first half of the year saw the sector experience several headwinds including power price volatility, supply chain bottlenecks and persistently high inflation driving higher interest rates. Electricity prices in the Company's key markets are forecast to continue to fall over the medium term, reflecting the downward trend of commodity prices witnessed in the first and second quarters of the year, as part of a normalisation of prices from the peaks experienced in 2022. Inflation is expected to remain at similarly elevated levels despite the continuing quantitative tightening of central banks, at least over the short term, in light of supply chain constraints aggravated by the ongoing war in Ukraine and historically low unemployment levels among the world's largest economies. However, the current slowdown in China's economy is already lowering prices for key raw materials, components, equipment or services in the renewable supply chain, especially solar modules, and a recovery in the country's economy may once again drive prices in an upward trajectory.

A prolonged period of monetary tightening and higher interest rates has led to a trend reversal in equity return expectations, as evidenced by the share price decline across the sector observed on the London Stock Exchange. Despite this, demand for renewable assets remains strong, leading to a mismatch between public market and private market return expectations.

The strong demand for renewables is underpinned by several positive tailwinds. The greater certainty and visibility over the European regulatory landscape is an encouraging tailwind for the Company and the sector, bolstered by the fast-tracking of permitting and greater access to public funding for renewable energy projects that is intrinsic of many national deployment and energy independence plans.

The repercussions of climate change, evidenced by the rise in extreme weather events and the latest summer heatwaves, are expected to add further impetus to net zero targets and decarbonisation rates. Grid access and the need for capacity upgrades also continue to be critical concerns across several jurisdictions, given the high quantity of projects coming to market with grid connection dates for the end of the decade and beyond. This is generating added urgency for public and private investment in the near future.

....

The managers, Gresham House Energy Storage – 27 September 2023

Frequency Response markets have commoditised over recent quarters, as expected, having reached saturation at the end of 2022. Firm Frequency Response (FFR) specifically has seen volume requirements reduced through the year with National Grid ESO announcing an end to the service by November 2023. This has been expected as the Dynamic suite of services can now accommodate all of National Grid ESO’s frequency response requirements. Despite reducing the volume requirement, the service has proven valuable in the period, particularly in the first quarter of the year.

Dynamic Frequency Response services (referred to here as Dx) including Dynamic Containment (DC), Dynamic Moderation (DM) and Dynamic Regulation (DR) are now the priority services used by National Grid ESO. Procurement for DM and DR has increased in the period and is expected to increase a little more as FFR is phased out. However, we do not expect an increase in procurement of Frequency Response services overall.

Energy price volatility is, and will continue to be, cyclical over the years to come. Energy price volatility, which drives our revenues, is affected by the overall supply of power relative to demand, gas prices and the level of renewable generation. Low demand will typically result in marginal power demand being met by lower cost generation.

An extreme example of this was seen during the lockdowns of 2020, when demand for electricity collapsed and peak prices were very low.

In H1 2023, there has been lower power demand in Great Britain as consumers have suffered higher energy bills following 2022's geopolitical events resulting in supply consistently outweighing demand and an unusually 'flat' (i.e., lower volatility) power market, especially when compared with the power price spikes seen in 2022. This, coupled with falling gas prices, which have fallen significantly from a peak in August 2022, has meant power price peaks being set at comparatively low levels.

We do not expect these conditions to endure. Consumers are starting to see lower energy bills, which is starting to drive demand back up across Europe and this is against an overall backdrop of increased electrification of energy demand, led by the increasing adoption of electronic vehicles (EVs).

Over the last couple of years, the main trading opportunity came from the trading described in the section above; locking in a spread between high prices often at the day ahead stage, and buying power overnight at low prices. Recent reduced volatility, outlined above, has made this less attractive in the short term.

BESS can also trade in the Balancing Mechanism (BM), which is operated by National Grid ESO, if registered as a Balancing Mechanism Unit (BMU). Registered BMUs all need to be dispatchable and include wind projects (which can be curtailed), gas fired generation, pumped hydro, and BESS. These BMUs enter Bids and Offers in the BM so that National Grid ESO can trade this capacity to balance the system increasing demand/decreasing supply or decreasing demand/increasing supply as required. The BM is an attractive market today but for the near term systems issues. BESS assets offer capacity to National Grid ESO very competitively and we would expect it to generate a substantial share of trading revenues.

We expect to see considerable upside from the promised modernisation of National Grid ESO's systems in the BM as BESS are currently highly under-utilised.

Reasons for under-utilisation include:

a) Procedural issues and lack of digitalisation preventing dispatch of BESS assets

This speaks to time constraints as control room engineers have to manually instruct BMUs. Given the choice between multiple BESS or other small assets compared with a large CCGT, the control room almost always chooses a CCGT.

National Grid ESO's new "Operational Balancing (trading) Platform" (OBP) along with their "Bulk Dispatch Optimiser" (BDO) announced for launch on 15 December 2023 should eliminate these constraints and see more efficient asset selection, increasing the acceptance rates for BESS.

b) Inadequate parameters creating an uneven playing field

A compounding issue is the fact that CCGTs are currently required to be used for a minimum of six hours at a time, while batteries can only display capacity for up to 15 minutes, irrespective of their available capacity. The six hours granted to thermal assets is known as the "Minimum Non-Zero Time" (MNZT). However, it is commonly understood that CCGTs, which are awarded the overwhelming majority of instructions in the BM, could be run for much shorter periods. The consequence of the current situation is that, once instructed, CCGTs can crowd out BESS for six hours.

We have previously reported that in May, July and September 2020 a National Grid ESO-led trial demonstrated the efficiency of batteries vs CCGTs. Unfortunately, National Grid ESO have taken until this year to announce any changes resulting from this trial that are expected to make BESS truly usable in the BM.

Until June this year the industry has understood that real improvements had already been made to National Grid ESO's skip rate measurement system. However, it has since been revealed that National Grid ESO's published skip rates presented a rosier picture than the underlying reality experienced by BESS operators.

It is worth adding that reliance on gas generation for flexibility results in higher carbon emissions and substantially higher costs of balancing the market, which adds to the problem of fuel poverty in the UK. We therefore look forward to the necessary changes coming through in a timely manner.

....

Phil Austin, chair, Octopus Renewables Infrastructure – 21 September 2023

The future requirement for larger amounts of clean electricity generation, coupled with an increasing focus on energy security, remain robust long-term drivers for the market. We therefore have a buoyant outlook overall, despite the difficult macro-economic backdrop which has characterised the first half of 2023.

Inflation has remained high for a prolonged period, and subsequent rises to central bank interest rates have only had a moderate impact, though there are now signs that inflation rates may be softening to more normal target levels. The corresponding rise in bond yields have put pressure on most real asset investments, and renewable energy is no exception. While demand for Renewable Energy Assets remains high, supporting valuations, investor returns have become relatively less attractive compared to what is available through generally lower-risk bonds. Higher discount rates are now feeding through into renewable asset and portfolio valuations.

Whilst wholesale power prices have cooled significantly since the peaks seen in 2022 (a mild European winter and lower Asian demand has lowered gas prices), they remain relatively high compared to long term historic averages. This has been helpful to offset the significant challenges for projects that have been exposed to inflation in construction costs and a tough supply chain environment. Nevertheless, in the UK a high-profile offshore wind project was recently shelved as a result of its CfD contract price being too low for the project to remain viable and no offshore wind projects at all bid into the fifth CfD allocation round due to the cap on prices being too low.

There are also policy changes happening. In Europe, the results of the European Commission's consultation on electricity market reform (announced in March) suggest that changes will be incremental, and the "Fit for 55" initiative continues to drive support for new renewable generation projects. The EU has also shown a desire to react to the success of the US Inflation Reduction Act which is proving a successful way to stimulate investment through tax incentives. In the UK, the market re-design process (the Review of Electricity Market Arrangements, or "REMA") is ongoing and significant reform such as a switch to locational marginal pricing (as opposed to the existing single national market price system) is being proposed as an option. Such a change to market pricing mechanics would require changes to the existing CfD mechanism and to Corporate PPA markets to ensure new investment into generation projects is not delayed. Reform of power markets is necessary as we move to a system dominated by weather-dependent generation.

Grid infrastructure remains a long-term challenge applicable to many jurisdictions. In the UK there is evidence that National Grid are making concerted attempts to address a backlog of over 200GW of projects waiting for connections by changing the way that grid connection applications and queues are handled.

The above factors have meant that market activity in the first half of 2023 has been somewhat slower than in the equivalent period in 2022, but transactions are still taking place with strong competition, new projects are starting construction and there is still reason to be highly optimistic over the longer term with respect to the outlook for renewable energy investment. One impact of the Ukraine war is that it has brought energy security firmly into focus and this should, over a longer period of time, be a powerful tailwind for renewables deployment alongside the requirement to achieve Net Zero targets.

Renewables are the cheapest form of electricity generation and receive widespread public support. The rapid maturing of batteries as a complementary technology will also assist with the deployment of intermittent generation, in addition to storage itself being a route to further capital deployment in its own right. Green hydrogen offers a route for renewable electricity to service energy demand which is hard to electrify directly. We can therefore be confident that there will be plentiful investment opportunities for players that have the requisite expertise and resources available to point towards an increasingly important sector.

. . . .

Investment advisers, HydrogenOne Capital Growth – 20 September 2023

Policy makers and industry are converging on clean hydrogen as a core technology to deliver net zero, improved air quality and enhanced energy security.

The Paris Agreement in 2015 has led at least 40 countries to set out hydrogen policies and US$70 billion of funding as part of net zero targets to deliver the energy transition.

According to the World Health Organisation ("WHO"), some 4.2 million deaths per year are caused by poor ambient air quality, and 91% of the world's population live in places exceeding the WHO's air quality guidelines. Much of this pollution is a result of emissions from internal combustion engines and fossil fuel power plants.

The 2022 Russian invasion of Ukraine has compelled decision makers across the world to focus on the importance of sustained investment and policy support for domestic energy production and, crucially, less reliance on energy imports from overseas. This new drive is further amplifying the demand pull for clean hydrogen from energy transition and air quality needs. As a result, governments and industries have responded with new initiatives to deliver affordable, secure, and sustainable low-carbon energy, with clean hydrogen set to play a vital role.

Alongside this, following Russia's invasion of Ukraine, consumers have seen a significant increase in fossil fuel prices. This change, combined with substantial increases in regional natural gas prices, has improved the relative economics of clean hydrogen compared to grey hydrogen, which is currently the lowest cost and most polluting form of hydrogen supply.

2020 saw EU targets for hydrogen to meet 14% of Europe's energy needs by 2050. In 2022, the EU reshaped its energy policy to the REPowerEU 2030 plan, which calls for an implied over 300GW of clean hydrogen by 2030, compared to 80GW in previous plans. Some EUR 5.4 billion in hydrogen subsidies have recently been approved under Important Projects of Common European Interest ("IPCEI"), which are expected to unlock a further EUR 8.8 billion of private investment. The Hy2Tech scheme, also announced in 2022, links 41 projects and 35 companies building out the hydrogen sector, and has qualified for IPCEI funding. The EU's Hydrogen Bank will auction EUR 800 million of opex subsidy to green hydrogen in 2023. There are additional sources of grant funding at a country level in multiple EU countries.

In the United States, the Department of Energy has announced a US$8 billion programme to develop clean regional hydrogen hubs across the country, as part of net zero ambitions by 2050. The 2022 Inflation Reduction Act set aside US$369 billion for climate and energy proposals. This is expected to make green hydrogen cost competitive with grey hydrogen, and make US clean hydrogen amongst the lowest cost in the world.

In the UK, 2030 clean hydrogen targets have been doubled this year to 10GW. The UK Government has recently announced a national clean hydrogen subsidy scheme called Hydrogen Business Model ("HBM"), which will use a contracts-for-difference style set-up to help fund an initial 1GW of clean hydrogen projects in 2023, as part of the target to reach 10GW of low-carbon hydrogen by 2030, in a potentially £9 billion sector. This is in addition to the Net Zero Hydrogen Fund ("NZHF") with up to £240 million of grant funding to support the upfront costs of developing and building low carbon hydrogen production projects.

So far in 2023, we have seen some £13 billion of industry investment in green hydrogen, which is a 380% increase compared to full year 2022 levels. Notably, the July 2023 IPO of Thyssenkrupp Nucera, a Germany electrolyser business, raised over EUR 500 million of fresh equity, with a valuation of some EUR 2.5 billion. In Saudi Arabia, the world's largest green hydrogen project, at NEOM, reached financial close, raising £6.6 billion for a 2+ GW project.

All of this underscores the positive industry outlook and supportive regulatory regimes for clean hydrogen. This improving outlook for clean hydrogen demand underpins the order books in many of the Company's investments, particularly in supply chain sectors such as electrolysers, fuel cells, storage and transportation businesses. Many of these businesses have world-wide customer bases for their products, and are attracting investment from international financial and strategic investors.

We are tracking over 170 projects on line today around the world, totalling 800MW, then 13GW in over 140 projects that are under construction or advanced development, with investment in land, electrolysers, FEED studies. Some 4.5GW of this is under construction today, and a further 1,200GW in over 480 projects that have serious intent to build.

Eleanor Fraser-Smith, VH Global Sustainable Energy Opportunities – 15 September 2023

Achievement of energy efficiency in our power grids continues to be a huge objective in the energy transition. The power grid (transmission and distribution) and its transformation to be more efficient in the transportation of electrons from production to consumption, is a bigger issue for the energy industry and for the race to beat climate change. According to DNV, the rate of expansion in renewables generation is quicker than the rate at which the grid can adapt to accommodate the growth, as it cannot yet adequately connect sources of renewable energy to areas of high demand. Ageing power grid infrastructure is a significant barrier to greater use of renewables, and therefore continued and increased investment in this area is important.

Meanwhile, global supply chain issues have abated somewhat in 2023. Whilst the price of solar PV modules is expected to fall this year as supply rebounds from several setbacks over the past few years, the local content regulations of the Inflation Reduction Act of 2022 in the US will place new pressures on the industry as it will take some time before the local supply chain takes shape or has the capabilities of other regions in the world (for example, China).

The road to net zero has an obvious need for very large sums in investments. This unprecedented requirement for mobilisation of capital into the energy infrastructure has to come primarily from private sources. Victory Hill firmly believes that the key to the success in this endeavor is to not only focus on quantity of capital but also on ensuring that investments are done intelligently. The Energy Trilemma is a complex equation to solve and without the correct understanding of the realities in each market, large investments may not deliver the desired outcome. Our mission is to make this journey a success.

. . . .

Investment advisors, Ecofin US Renewables – 14 September 2023

The outlook for the U.S. renewables industry, particularly in the solar and wind sectors, remains positive and poised for growth in 2023 and 2024. We continue to watch several key trends which are contributing to this positive trajectory:

Climate Change Awareness and Energy Security: Growing awareness and concern about climate change and the need for energy security in the U.S. are driving the transition towards renewable energy sources. This is resulting in long-term policy support for renewables development.

Policy Tailwinds: Structural policy support, such as the Inflation Reduction Act (IRA), is providing a strong foundation for sustained growth in the renewables sector. Tax benefits and capital allocation for renewable energy and climate programs are encouraging investment.

Cost Competitiveness: Solar and wind power have become increasingly cost-competitive compared to traditional fossil fuel alternatives. This has attracted the attention of investors, utilities, and consumers, further driving momentum in the sector.

Corporate Adoption: Corporations are embracing renewable energy supply, with contracts for substantial renewable energy capacity signed. This corporate interest not only helps achieve sustainability goals but also contributes to the overall growth of the renewable energy market.

Solar PV Growth: Solar photovoltaic (PV) capacity is expected to see significant growth, with projections indicating new capacity additions of 29.1 GW of utility-scale solar PV capacity and 9.4 GW of battery storage in 2023. This growth is facilitated by the steady reduction in the costs of these technologies, improved module efficiency, enhanced load factors, economies of scale created by larger project sizes, technological advancements, and improved maintenance practices. Solar energy accounted for more than half of all new electricity-generating capacity integrated into the U.S. grid in early 2023, led by strong growth in the utility-scale segment of the market.

Onshore Wind Growth: According to the U.S. Department of Energy, wind power accounted for 22% of new electricity capacity installed in the United States in 2022, second only to solar. The U.S. currently has over 140 GW of installed wind capacity and expectations for annual wind additions are ambitious, projected to double from around 10 GW to over 20 GW by the end of this decade. Clearing supply chain obstacles and innovation within the sector are driving this expansion which, in turn will reinforce investment in the domestic equipment supply chain, establishing the U.S. as a prominent player within the global wind industry.

Notwithstanding the positive outlook, some challenges remain, including international supply chain disruptions, trade restrictions, uncertainties around detailed application of certain IRA provisions, extreme weather and inflation. These challenges may impact project timelines, costs, and financial viability of some new projects in the short term.

In conclusion, the U.S. renewables industry, particularly in solar and wind, is set for significant growth in 2023 and beyond due to a combination of favourable factors such as policy support, cost competitiveness, and increased demand. While challenges persist, the sector's overall trajectory appears promising. Furthermore, we believe that the Company's current portfolio benefits from attractive sector fundamentals that support attractive and sustainable valuations.

. . . .

Royalties

(compare royalties funds **here**)

Mangers, Round Hill Music – 26 September 2023

7.5% year-on-year global recorded music revenue growth to US$28.2 billion in 2023, with music publishing expected to become a near US$15 billion industry by 2030, according to the Goldman Sachs Music 'In The Air report'. Continued upward trend in streaming, producing record numbers with on-demand audio streams on track to reach four trillion streams by the end of the year.[2] On 25 July 2023, in its second quarter 2023 results, Spotify reported 27% year-on-year growth in monthly active users to 551 million, 17% year-on-year increase in subscriptions to 220 million and 11% year-on-year uplift in total revenue to €3.2 billion.

. . . .

Property

(compare UK property funds **here, here, here, here, here, here** and **here**)

Richard Kirby, fund manager of Balanced Commercial Property Trust:

Interest rates and the high cost of debt have remained at the forefront of investment considerations as the rate of inflation peaked over the period at 10.4% in February 2023. While the rate of inflation has moderated since, the headline level remains high, and the Bank of England's monetary response has proven slow to cool pricing pressures. Consequent increases in the cost of debt have added a further layer of caution to investment underwriting given uncertainty around interest rates. This economic environment has resulted in muted activity in the real estate investment markets. Whilst there is no shortage of capital available for deployment into key sectors such as industrial, retail warehousing and alternatives, investment markets have been impacted by a lack of available stock, with investment volumes in the first half of 2023 down 53% year on year, and down 27% on the second half of 2022.

Against this backdrop, the MSCI UK Quarterly Property Index generated a subdued total return of 0.3% over the six months, constrained by a capital return of -2.0%. However, the headline position belies a significant divergence at the sector and sub-sector level.

This has been most notable in the office sector, where the popularity of hybrid working strategies has brought about a structural reduction in occupier demand. However, corporates are increasingly seeking to tempt employees back to the office and consequently occupier demand has been strongly focussed on high-quality accommodation in locations offering attractive amenity. This has served to reinforce the now-established bifurcation between prime and secondary accommodation. Retail warehousing remains the favoured sub-sector, delivering the highest total return over the six-month period. With large, flexible units, the sector forms a key part of an omni-channel retailing platform and we have consequently seen demand from an increasingly wide variety of well-capitalised retailers. Offering a yield advantage over other sectors, investor appetite for retail warehousing has remained robust but constrained by a lack of available supply.

The wider retail sector has seen a more benign period with both rents and yields having been substantially rebased across the sector in prior years. Central London in particular has seen renewed levels of occupier demand as rents have been reset to more viable levels and accompanied by significant reductions in business rates, combining to materially decrease occupational costs and boost retailer profitability.

Whilst demand for logistics space has fallen from the highs seen during the pandemic, the sector's fundamentals remain robust with demand stemming from a diverse range of occupiers within a well-balanced market. Supply has been constrained by a lack of speculative development due to tighter lending conditions and inflated construction costs. However, there is also evidence of occupiers trading down the quality spectrum in order to benefit from lesser rents and a slightly more muted rental growth outlook. We are yet to see a full recovery in pricing following outward prime yield movement of 150 basis point in the second half of 2022, with yields softening by 25 basis points over the first half of 2023, reflecting hesitancy within an uncertain economic environment.

. . . .

Will Fulton, fund manager of UK Commercial Property REIT:

UK real estate recorded a period of greater stability in the first half of 2023 following the significant repricing the sector experienced in late 2022. That repricing was principally driven by increased interest rates raising the cost of debt in what was a largely a debt-driven property market, while rising gilt yields reduced the yield margin available from property versus the risk-free rate. These sudden movements also dented investor conviction on asset pricing. Although this has served to help insulate UK real estate from economic volatility during the first six months of 2023, market volatility and macro headwinds continue to impact investor sentiment, which has remained weak. Underneath the bonnet of real estate, occupational strength endures in many sectors and, indeed, modest capital value growth has been recorded in those sectors that benefit from structural tailwinds, such as industrial and logistics.

According to the MSCI Balanced Portfolios Quarterly Property Index, all property recorded a total return of 0.0% over the first half of the year with capital values falling by 2.3%. However, this hides sector variance with the industrial sector recording capital growth of 0.3%. Office values remain under pressure and saw capital value declines of 6.7%.

Transaction volumes have also remained constrained during the first half of 2023 as investors have taken a risk off approach. According to Real Capital Analytics data, approximately £18.3bn transacted across the UK to June 2023. To put these number volumes in perspective, this is lower than the same period in 2020 during the onset of the COVID-19 pandemic and 37% below the 10-year H1 average. Proportionately, each of the three principal sectors – industrial, office and retail – accounted for broadly similar volumes representing between 20-26% each.

Interestingly, transactions in residential assets continue to rise, with the sector accounting for 19% of total half year volume. Transaction volumes are anticipated to remain subdued over the remainder of the year against a weak macroeconomic backdrop and volatile interest rates, with owners of good quality real estate likely to remain unwilling sellers. Improved investment activity is likely to be prompted by greater confidence around the path of the Bank of England's monetary policy, with an end to base rate rises likely to improve investor sentiment.

. . . .

James Clifton-Brown, chairman of abrdn Property Income Trust:

With a marginally positive total return during the six-months to 30 June 2023 we have seen the beginnings of a stabilisation in the UK property market. This remains a relatively fragile position, with inflation still running well ahead of UK Government targets, and therefore the threat of further interest rate increases continues to linger.

Whilst we have seen a recovery in some sectors of the UK real estate market during the first half of 2023, there has been a significant divergence in returns between the sectors. We expect this to widen and continue for at least the next 12 months, with the office sector in particular faring the worst.

Overall office demand is anticipated to continue to decrease, leading to a further weakening of investor sentiment towards the sector. The impact is likely to be most acutely felt on secondary assets as occupiers and investors alike favour “best in class” buildings. Ensuring that assets offer good levels of amenity that appeal to occupiers will be key, and the Company’s strong letting activity in 2023 to date is a positive indicator that its portfolio is well positioned.

The industrial sector is forecast to continue its recovery after the turbulence of 2022. Whilst supply levels have started to increase, with Savills reporting a June 2023 vacancy rate only marginally below the pre-COVID average, they remain at manageable levels given robust demand levels. The expectation is that this dynamic will result in more muted rental growth than has been seen over recent years.

With expectations that the squeeze on household incomes will continue, this will result in further pressure on the retail sector. Discretionary spending is anticipated to be most impacted, with food and discount retailers proving more resilient.

Nick Hewson, chairman of Supermarket Income REIT:

Despite the economic volatility, the UK grocery market has grown by 11% during the year and 30% since our IPO to a £242bn market today. This highlights the strength and resilience of grocery spending through the peaks and troughs of the economic cycle.

The robust performance of the supermarket operators is in stark contrast to the valuation declines experienced by the broader property investment market. The scale and pace of interest rate hikes since September 2022 has triggered a rapid decline in property values, with the MSCI UK All Property Capital Values Index declining by over 19% for the year to 30 June 2023. Supermarket property has been less volatile, but not immune, with a 14% like-for-like decline in our portfolio value resulting in a net initial yield of 5.6% as at 30 June 2023 (30 June 2022: 4.6%, 31 December 2022: 5.5%).

The property market experienced an initial rapid repricing to December 2022. We have since observed a stabilisation of pricing in recent transactions and our 30 June 2023 valuations are essentially flat to our last reported valuation as at 31 December 2022. It is also noteworthy that we have seen significant investment volumes in UK supermarket property which have exceeded £1.7bn. This total includes £483m of leasehold store buybacks by operators; a unique feature of the grocery real estate market. This elevated interest in grocery property highlights the positive long-term outlook for the sector. We are cautiously optimistic on the outlook for supermarket property valuations, though we recognise the general correlation of these values to Bank of England policy and interest rate movements.

While economic conditions look set to remain challenging in the near term, our unique high-quality portfolio of omnichannel supermarkets, let on long-term, predominantly inflation-linked leases, with strong tenant covenants, in the non-discretionary spend sector of grocery, continues to offer a compelling investment case.

The stabilisation of valuations in the short term and strong sector dynamics in the medium to long-term mean that the board is confident of the growth prospects for the company.

. . . .

Claire Boyle, chair of Life Science REIT:

The UK life sciences market, which is underpinned by some compelling long-term structural drivers, remains robust despite the ongoing macro uncertainty. In particular, our focus on the Golden Triangle of Oxford, Cambridge and London's Knowledge Quarter, where demand is strongest and supply is highly constrained, positions us well, and is why we have delivered a valuation uplift over the period, outperforming much of the property sector.

However, with five interest rate rises since the start of the year, the economic environment continues to be challenging. Occupiers are being more thoughtful about taking space, and we have seen the pace of decision-making slowing. Nevertheless, we are encouraged by the level of enquiries and, as a result, we are continuing to let at rents ahead of our own and the valuers' expectations.

The wider environment continues to be supportive for life science operators, with the funding pool diversifying to include sovereign wealth as well as venture capital funds, in addition to large pharmaceutical companies increasingly looking to invest in smaller businesses to supplement research and development. The UK Government also remains supportive of the sector, and we were delighted to see that the UK will rejoin Europe's Horizon programme under a bespoke deal. This provides UK scientists with access to the world's largest research collaboration programme.

Ultimately, having the right space is fundamental to the business model for life sciences companies. To support them, we have developed a deliberately differentiated offer, which even in the current environment appeals to a range of occupiers across the life science spectrum.

While we recognise that the economic environment continues to be challenging, our conviction in the longer-term prospects for our business remains strong. Occupier demand in our key markets is encouraging and is underpinned by powerful long-term trends, while supply is low, supporting rental growth.

. . . .

Tony Roper, chairman of abrdn European Logistics Income:

GDP growth in the Eurozone has been muted, with seasonally-adjusted quarter -on-quarter figures of 0.0% and 0.3% in Q1 and Q2 2023 respectively. Both were disproportionately affected by Ireland's volatile national accounts, creating the impression of a pickup in momentum that is not reflected across other Eurozone members. Indeed, surveys suggest the Eurozone carried poor momentum into Q3, and purchasing manager indices (PMI's) point to contraction in July.

Additionally, with retail sales falling, the industrial sector shrinking, bank lending conditions becoming more restrictive, and the impact of monetary tightening building, there is every chance that the Euro economy will fall into recession in Q4 of this year.

Encouragingly the ECB is no longer signalling further rate increases. It increased the deposit rate by 25bps to 4.0% from 20 September due to concerns around strong wage growth and sticky inflation. Ultimately a recession would likely mean a rate cutting cycle during 2024.

Prospects for both the sector and the company remain positive. As the uncertainty surrounding the macroeconomic backdrop begins to clear, we believe that the combination of strong underlying market fundamentals and positive structural drivers will continue to attract capital to the European logistics sector, and will support rental growth.

Interest rate rises and tougher economic conditions have undoubtedly left their mark on the real estate sector and have impacted valuations. Investor confidence has also been tested, with the share price falling as risk aversion took hold, as has been the case for many in the real estate sector. Nonetheless, with the Eurozone seeing an end in sight for rate tightening, the signs are promising for the European logistics occupier market. We should benefit in time from strong leasing momentum, with Europe still at a relatively early stage of its supply chain reconfiguration and e-commerce penetration still some way behind the UK. The incontrovertible shift in the way in which consumers shop, and the infrastructure required to service this new form of demand close to population centres, underpins the positive longer-term prospects for the Company's investment approach.

IMPORTANT INFORMATION

This note was prepared by Marten & Co (which is authorised and regulated by the Financial Conduct Authority).

This note is for information purposes only and is not intended to encourage the reader to deal in the security or securities mentioned within it.

Marten & Co is not authorised to give advice to retail clients. The note does not have regard to the specific investment objectives, financial situation and needs of any specific person who may receive it.

Marten & Co may have or may be seeking a contractual relationship with any of the securities mentioned within the note for activities including the provision of sponsored research, investor access or fundraising services.

This note has been compiled from publicly available information. This note is not directed at any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) the publication or availability of this note is prohibited.

QuotedData is a trading name of Marten & Co, which is authorised and regulated by the Financial Conduct Authority.

50 Gresham Street, London EC2V 7AY
0203 691 9430

www.QuotedData.com

Registered in England & Wales number 07981621,
2nd Floor Heathmans House,
19 Heathmans Road, London SW6 4TJ

Edward Marten (em@quoteddata.com)

Colin Edge (ce@quoteddata.com)

Nick Potts (np@quoteddata.com)

INVESTMENT COMPANY RESEARCH:

James Carthew (jc@quoteddata.com)

Andrew Courtney (ac@quoteddata.com)

David Johnson (dj@quoteddata.com)

Matthew Read (mr@quoteddata.com)

Richard Williams (rw@quoteddata.com)