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UK Sustainable Equity strategy

The landmark US climate bill was signed this month to drive carbon reduction over the next decade

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- Solid earnings from Reckitt Benckiser, Rentokil, Kainos, Diageo, Weir, Croda, Rightmove & L&G
- Persimmon was sold on fears around consumer spending and the prospect for house prices

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What's happening?

Markets started the month of August positively, but optimism quickly faded as fears of a global recession mounted. Central banks confirmed their commitment to monetary policy tightening at the Jackson Hole summit despite the inherent risks to global growth. The US Federal Reserve signalled their intent to continue to raise interest rates, while the European Central Bank confirmed that significant hikes in the cost of borrowing were needed to try to contain inflation. This hawkish rhetoric came despite most of the economic data showing further signs of slowing and this weighed on sentiment.

Domestic inflation hit a new milestone of 10.1% in July. The Bank of England predict inflation could reach 13.3% in October and will remain above their 2% target until 2025. The Conservative Party leadership race continued with contenders Liz Truss and Rishi Sunak setting out their plans to reduce tax, the former also pledging to cancel April's planned corporation tax increase. With energy costs remaining a point of major concern, for the first time since Russia invaded Ukraine, oil dipped below \$90 a barrel. Demand for oil has been hampered by manufacturing slowdowns, Covid lockdowns in China and the prospect of a global recession. Gas however continued to rise to unprecedented levels as supply concerns continued to escalate.

In the UK, the FTSE All Share (-1.70%)¹ and its constituent parts, the FTSE 100 (-1.06%)¹, FTSE 250 (ex-Investment Companies, -6.53%)¹ and the FTSE Small Cap (ex-Investment companies, -3.96%)¹ fell in August following a rebound in the prior month. Year to date returns for the FTSE All Share Index are down (-2.15%)¹, with the divergence of performance between the FTSE 100 (+1.53%)¹ and the Mid and Small cap indices mentioned (-19.03% and -16.90% respectively)¹ remaining pronounced.

¹ Source: Local Currencies, Bloomberg as at 31/08/2022.

Portfolio positioning and performance

Within our People theme, the holding in Persimmon was sold in August on fears around consumer spending and the prospect for house prices. Some profits were also taken in Kainos and BP following strong share price movements on excellent statements.

The strategy increased its holding in Treatt and Marshalls following disappointing results this month. The medium term prospects for these businesses are still felt to be very attractive and the share price weakness offers a good opportunity to increase our position. Other purchases included RWS & Bytes as we sought to take advantage of share price weakness.

In corporate news, Aveva was subject to takeover speculation following an expression of interest from Schneider. There were also solid updates from Reckitt Benckiser, Rentokil, Kainos, Diageo, Weir, Croda, Rightmove and Legal & General. Marshalls results were however taken poorly on increased costs and slowing revenue in their consumer landscaping, despite reiterating full year guidance.

From an Environmental, Social & Governance (ESG) point of view it is pleasing to note the landmark climate bill in the US was signed this month to drive carbon reduction over the next decade. The level of spending is such that UK companies exposed to our Planet theme such as Ceres Power & DiscoverIE could be set to benefit. During the month, ESG analysis was undertaken on SSE & Hollywood Bowl. The portfolio consists of 76% in companies that are deemed as ESG leaders and 24% that are 'in transition' and cash.

Outlook

Market direction continues to be shaped by inflation, interest rates and commodity prices. We continue to meet with company management teams and are reassured by generally strong results and cautiously optimistic guidance. Pockets of inflationary and supply chain pressures remain and will need to be managed by companies; however anecdotal evidence suggests that raw material inflation in particular is easing although utility and labour inflation still remains elevated.

Central banks are continuing their fight against supply side induced inflation despite declining economic data. Striking the right balance between controlling inflation and not slowing the economy as it recovers is a tricky balancing act and one the market is currently struggling to grapple with.

At times of heightened risk and uncertainty, it is easy to focus exclusively on the macro and geopolitical news flow and lose focus on the fundamental drivers of profitability and cashflow at the corporate level. Our approach remains centred on owning good quality businesses that can reinvest and compound their returns over time. We continue to believe that understanding longer term structural trends and identifying responsible, reliable and ultimately sustainable companies, in a targeted, focused and active approach, remains the key to longer-term success.

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