ISSUE 08

WINTER 2024

INVESTOR

WATER WONDERFUL WORLD

INFLATION HEADING IN THE RIGHT DIRECTION

UNSUNG HEROES

THE APPLE OF YOUR EYE

WELCOME

As we near the end of 2023, we at Hawksmoor are reflecting on a turbulent year.

Inflation has remained a key issue over the last 18 months or so, but as our Head of Research Simon Reynolds mentions in his market update, some good progress is being made in getting this under control. Increasing geopolitical risks also remain a concern, with markets breathing a cautious sigh of relief that other countries have not yet been drawn into the conflicts in the Middle East and Ukraine.

At Hawksmoor, we have continued to remain client-focussed, with our Investment Managers juggling portfolio management in this climate alongside maintaining excellent client service.

As always, ***Investor*** offers a range of articles with the aim of providing you with a market update, as well as giving you a flavour of some of the broader elements that help us manage your investments.

Senior Investment Manager Greg Sellers responds to a client query about returns on cash deposits, offering his view on whether investment portfolios are still attractive in the current market.

Elsewhere, Senior Research Analyst Robert Fullerton and Trainee Research Analyst Emily Cave offer their thoughts on water as an investment theme.

Our regular 'Funds in Focus' feature is written by Assistant Fund Manager Dan Cartridge, who outlines his 'Unsung Heroes' of the funds world.

I hope you enjoy reading the newsletter and, as always, if you have a question about any aspect of our service to you, please don't hesitate to contact your Investment Manager.

I would also like to take this opportunity to wish you an enjoyable festive season and wish everyone a very Happy New Year as we move into 2024.

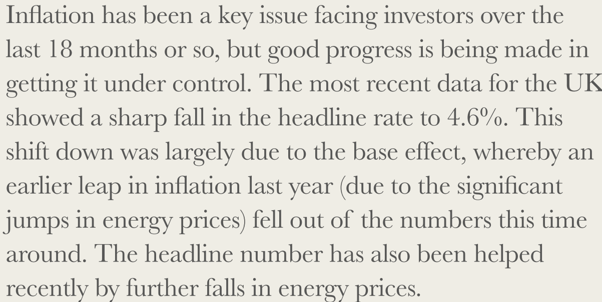
Sarah Soar
CEO

IN THIS ISSUE

MARKET UPDATE

INFLATION HEADING IN THE RIGHT DIRECTION

Simon Reynolds
Head of Research



Inflation has been a key issue facing investors over the last 18 months or so, but good progress is being made in getting it under control. The most recent data for the UK showed a sharp fall in the headline rate to 4.6%. This shift down was largely due to the base effect, whereby an earlier leap in inflation last year (due to the significant jumps in energy prices) fell out of the numbers this time around. The headline number has also been helped recently by further falls in energy prices.

The number the Bank of England is more concerned with is core inflation (which excludes more volatile sectors such as energy and food). This is also falling, but more gradually, with the latest print coming in at 5.7%. When we look more closely at the breakdown of the components of the inflation measure, this is still largely being driven by inflation in the services sector, which remains robust. One of the key drivers of this sticky inflation has been wage growth, and the private sector in particular has been increasing wages at rates much closer to headline inflation. Psychologically, though, if the headline number is coming down, perhaps this will begin to break the wage-inflation cycle.

Inflation elsewhere has shown further declines. The latest US headline rate came in at 3.2% and US core inflation is now running at 4.0%. The equivalent numbers for the Eurozone are 2.9% and 4.2%, respectively.

This all suggests we are gradually heading in the right direction, but the hard work is still to be done. It is generally accepted that getting inflation down from, say, 10% to 4% is the easy part. Getting it from 4% to 2% is a bit more tricky as this involves breaking the more ingrained wages and services inflation cycle.

With inflation high and Central Banks raising rates sharply and persistently, this was a year it was widely thought we might fall into a global recession. But economies have so far coped remarkably well with all the price rises and digesting the rate hikes. There appears to be a few main explanations for this resilience. First, interest rates do not bite quite as quickly as they perhaps once did. A much larger proportion of mortgages are now on fixed terms so rate hikes do not feed through immediately as they do with variable rate mortgages. Second, post-Covid, households were sitting on much higher savings than previously, which has helped soften the blow of higher prices. The other factor post-Covid has been the strength of employment, as the workforce has shrunk and companies have been hiring. There has also been support from government spending, with the fiscal boost in the US being particularly significant.

The jury is still out on how long these economic props will remain in place. Higher mortgage rates will no doubt take their toll and certainly have an impact on those looking to take out new mortgages. This is the underpinning of keeping house prices buoyant, and house prices have been under pressure in the UK. The US market has almost seized up, as homeowners are reluctant to move house and trigger a re-mortgage from their long-term, lower, fixed mortgage rate to the higher rates in the market today. Similarly, there is only so long households can draw down on their built-up savings, and unemployment is slowly creeping upwards. The lowest income households will see these savings depleted first, and they tend to drive marginal discretionary spending.

Another factor to consider as the rate rises gradually take hold is corporate debt re-financing. Like households, many companies were able to lock in debt at lower levels and will therefore be re-financing at higher rates, although this is likely to be more of a headwind into 2025 and beyond.

The key question is whether Central Banks can walk this tightrope of keeping rates high enough to keep a lid on inflation without a delayed recession taking hold. It is likely that any rate cuts will be reactionary rather than pre-emptive. So, as long as the economic slowdown remains orderly, markets may be able to negotiate the coming months reasonably well.

Bond markets have been trying to grapple with a combination of sticky but slowly improving inflation, economic resilience and increasing levels of debt. And, until recently, developed market sovereign bonds saw yields continue to climb (and prices fall), with worries around the oversupply of US Treasuries becoming more acute since the summer. However, having raised rates significantly, Central Banks are reaching the point where they are perhaps nearing the peak of their hiking cycles and the market is beginning to price in no further hikes and the prospect of some easing.

What we have seen over the last couple of years is that we have moved into a period of much higher volatility of inflation. This has been reflected in an increase in volatility in bond yields, which can have an outsized effect when looking at short-term portfolio returns. However, the defensive characteristics of high-quality bonds during periods of disinflation remain attractive, and they continue to play an important role in portfolios, particularly if a deeper slowdown emerges and Central Banks need to react.

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The key question is whether Central Banks can walk this tightrope of keeping rates high enough to keep a lid on inflation without a delayed recession taking hold

Equities have trodden water somewhat over the last few months, coming under pressure as bond yields moved up since the summer, before rallying again as the prospects of peak rates and declining bond yields helped provide support. Company margins have generally remained solid as inflation has supported revenues. However, as we saw during the most recent earnings reporting season, where companies were missing expectations the stocks were being punished heavily.

In the UK, the consumer has been under increasing pressure from the rate rises and the economy has seen barely any growth. The larger UK companies are less affected by domestic issues, however, and many are old economy companies, with growth expectations reflecting this. That said, valuations appear attractive and a lot of the bad news is priced in.

The US equity market has continued to show relative strength with consumer-led growth and less intense inflation pressure. But a lot of the market return has been driven by what has become widely known as the Magnificent Seven – essentially, seven large cap US tech-related growth companies (Alphabet [Google], Amazon, Apple, Meta [Facebook], Microsoft, Nvidia [which makes microchips] and Tesla).

Asia has continued to provide something for everyone. China remains a conundrum: the economy has clearly struggled to recover from lockdowns, especially the over-leveraged property sector, but with monetary policy being steadily loosened, this support could help China and beyond. Japan continues to make progress after its strong gains earlier in the year. Like the UK, Europe has been battling with a flatlining economy and sticky inflation, although there are signs that inflation has fallen sufficiently to allow the European Central Bank a bit more wiggle room to help spark some growth.

A further wildcard in all this is the increasing geopolitical risks. Whilst out of the headlines for now, the war in Ukraine rumbles on and tensions in the Middle East have erupted once again, although markets are breathing a sigh of relief that the conflicts have not yet drawn in other countries. However, one can't ignore the widening of the political divide between the West and Russia, China and Iran. A recent meeting between President Biden and President Xi may at least suggest a change in tone in the rhetoric.

As 2023 draws to a close, maintaining a well-diversified portfolio should help provide some protection against the many risks. Whilst the difficulties faced by bond and equity markets this year have created opportunities as we move into next year. In the meantime, we wish you a wonderful festive period.

THEMATIC RESEARCH

WATER WONDERFUL WORLD

Robert Fullerton, *Senior Research Analyst* & Emily Cave, *Trainee Research Analyst*

Water consumption

Water as an investment theme is often overlooked; we (the human race) have set a goal to ensure the availability and sustainable management of water for all (Sustainable Development Goal 6). This is quite a feat considering only 3% of the water on Earth is fresh water and only 0.26% of that is concentrated in lakes, reservoirs and river systems where water is most easily accessible for our economic needs.

The Earth's water supply is not evenly distributed across the planet; there are large surpluses and deficits. The world faces a significant water gap which the UN predicts could be around 40% by 2030. This refers to the growing disparity between the world's demand for water and its available supply, which has significant implications for both human populations and ecosystems. The International Food Policy Research Institute forecasts that current water management and use could negatively impact global GDP by 45% by 2050.

The world faces a significant water gap which the UN predicts could be around 40% by 2030

When water availability in a country exceeds the water requirements for food production and domestic use, the country is viewed as being in water surplus. Professor Malin Falkenmark (a hydrological scientist) suggests that a water surplus country is one which has more than 1,300 cubic metres of water available for food production and domestic use per capita per year. Which countries have this? Currently 166 countries have a water surplus. Of these, 62 countries could be viewed as having an abundance of water with 10,000 cubic metres per capita per year – more than seven times the basic requirements. Seven countries have in excess of 100,000 cubic metres per capita per year: the Republic of Congo, French Guiana, Greenland, Guyana, Iceland, Papua New Guinea and Suriname. Greenland has 10,578,950 cubic metres of water per capita per year.

The United Nations estimates that global water demand will increase by about 55% by 2050, partly driven by population growth (projected to be nearly 10 billion by that time), which will come with significant urbanisation. Urban areas are particularly challenging for water management due to the high concentration of users and often limited local water resources. In many urban areas, up to 30–40% of the total water supply can be lost due to leakage in old and inefficient piping systems. This is not just a developing market issue – if anything richer countries waste more water, which is relatively cheap compared with, for example, energy or other utilities. In the UK, we lose around 25% of our water to leakage through old pipes.

The Massachusetts Institute of Technology (MIT) has forecast that 52% of the world will live in water stressed areas by 2050. This is likely to affect around 5 billion people living in countries experiencing high water stress. About 4 billion people already experience severe water scarcity during at least one month of the year. North Africa, the Middle East and India are the key areas.

Water consumption naturally increases with population growth, which increases demand not just domestically but also in agriculture and industry. Agriculture is by far the largest consumer of global freshwater and accounts for around 70% of total withdrawals.

Industry also consumes significant amounts of water. Manufacturing a single smartphone, such as an iPhone, requires a significant amount of water, largely due to the water-intensive processes involved in producing its various components. According to a study by Friends of the Earth, it is estimated that almost 13,000 litres (nearly 13 tonnes) of water are used to make a typical smartphone. As of April 2023, there are an estimated 6 billion smartphones in the world, so that is 78 trillion litres of water.

Around 60% of this is 'grey' water (relatively clean recycled wastewater from, for example, washing machines or desalination but not toilets); 28% is 'green' water (this is naturally present in the soil and comes partly from rainfall) and 12% is 'blue' water (freshwater extracted from groundwater, lakes and rivers).

These figures account for the entire manufacturing process, which includes the extraction of raw materials, refining those materials, and the actual assembly of the device. The water footprint is largely due to the production of semiconductors and other electronic components, which involves water-intensive chemical processes. Additionally, the mining and processing of rare earth metals, gold and other materials used in smartphones also contribute significantly to the overall water usage.

Water management

Climate change affects weather patterns and reduces water availability, as does pollution, adding to the scarcity of water. Climate change is expected to alter precipitation patterns, potentially reducing renewable surface water and groundwater resources in most dry, subtropical regions by as much as 10–30%, as per the Intergovernmental Panel on Climate Change (IPCC).

Regarding pollution, over 80% of the world's wastewater is discharged into the environment without treatment, contaminating usable water supplies, according to the UN.

The consequences of this are:

1. Water scarcity, which can lead to crop failure, energy shortages, and economic disruption.
2. Health risks including dehydration and waterborne diseases.
3. Environmental impact including loss of biodiversity and the degradation of ecosystems.
4. Social and political tensions, which can lead to increasing social inequalities and conflicts over water resources.

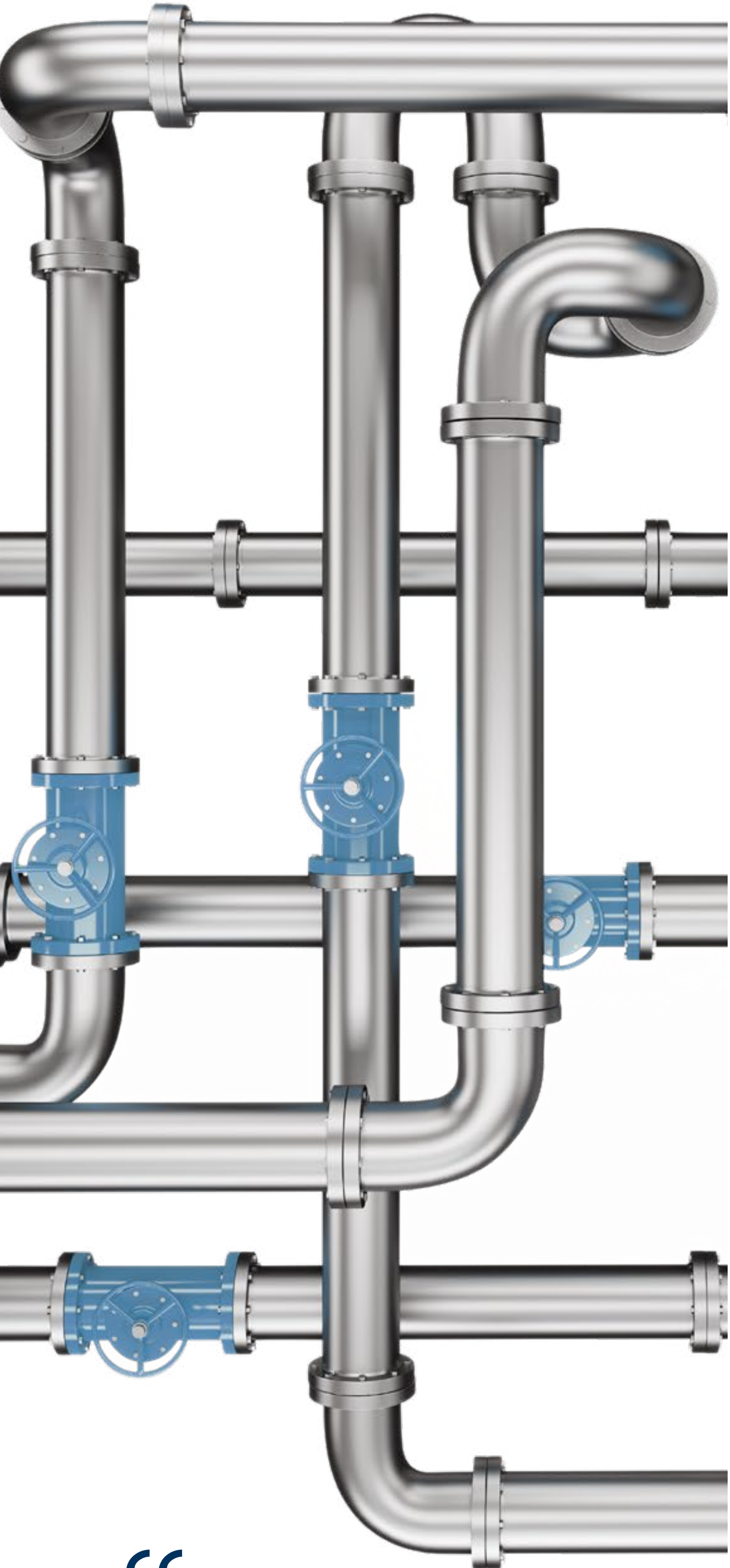
This means there is a need for solutions and efficiencies around water conservation, sustainable waste management, investment in infrastructure, pollution control, technology and innovation, and climate change mitigation.

Addressing these issues will require concerted efforts at the global, national and local levels, encompassing policy reform, investment in infrastructure, technological innovation and changes in consumption patterns.

Water investment

There are many direct and indirect ways to invest in water. It has become a favourite theme of Michael Burry of Big Short fame. He has been investing in water-rich farmland, which grows food and then transports it to water-poor areas. This redistribution of water resources is less contentious, which will make it more profitable and sustainable.

Other potential investment options would include beverage providers, utilities, water treatment/ purification firms, and equipment makers, such as those that provide pumps, valves, and desalination units.



There are a number of water indices:

- The Dow Jones US Water Index consists of 29 companies that are affiliated with the water business and have a minimum market capitalisation of $150 million.
- The ISE Clean Edge Water Index contains 35 stocks and represents water distribution, water filtration, flow technology, and other companies specialising in water-related solutions.
- The S&P 1500 Water Utilities Index is a sub-sector of the Standard & Poor's 1500 Utilities Index; this index comprises just two companies, American States Water and Aqua America.
- The S&P Global Water Index falls into two areas: water utilities and infrastructure, and water equipment and materials.
- The MSCI Global Sustainable Water Index provides another look at the water industry from an international perspective. The index focuses on developed and emerging companies that earn at least 50% of their revenue from sustainable water products and services.

Water is classed as a commodity, so it can be good for portfolio diversification, and partly with this in mind we have held the Regnan Sustainable Water and Waste Fund at Hawksmoor since early 2022. Regnan is part of J O Hambro. The same team previously managed a similar fund at Fidelity, which we had held since early 2020 and we followed the managers across to Regnan, where they have significantly outperformed their old fund.

Regnan Sustainable Water and Waste is a global equity fund, which invests in companies across the value chains of both water and waste, with at least 80% purity of these themes at the portfolio level (it is 93% currently) and 40% at the company level. It is a fairly concentrated portfolio of 35–50 holdings with c.60% water and c.40% waste exposure. The portfolio is constructed around 'core compounders' (c.50% of the portfolio), 'medium-term winners' (c.30%) and 'emerging winners' (c.20%). The managers look for low correlations between stocks and sub-sectors, typically keep portfolio turnover low, and have a bias towards medium-sized companies.

We like actively managed funds, but other options are available. We also cover direct equities such as water utilities Severn Trent and United Utilities, plus there are many available exchange-traded funds (ETFs), such as the iShares Global Water ETF. Interestingly, this has a higher cost than our actively managed fund (65bps expense ratio vs 50bps OCF on Regnan) and has also underperformed the Regnan fund since Regnan's inception. There is a long way to go to secure the water needs for the future, but with investment into new technology, research into less water intensive practices and effective management of water resources it can be achieved.

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Other potential investment options would include beverage providers, utilities, water treatment / purification firms and equipment makers

FUNDS IN FOCUS

UNSUNG HEROES

Dan Cartridge, *Assistant Fund Manager*

Generally, I'm not a big fan of award shows. I find them too long, too boring and, often, too self-congratulating. However, one that stands above the rest to me is the Pride of Britain Awards. For those who don't know, it is an annual award ceremony that honours British people who have acted bravely or extraordinarily in challenging situations. It is full of amazing, inspirational stories and is a welcome tonic to the doom and gloom that seems to be on our newsfeeds on a permanent basis these days. This year's awards took place in October and got me thinking about the positions in our funds that have performed well despite an extremely challenging investment backdrop over the past 12 months. What have been the unsung heroes of our funds?

We prefer to view it as the re-birth of opportunity in active credit funds for the first time in a decade

For me, the answer to that question is our fixed income exposure. 2022 was touted as the death of the bond bull market that had lasted for 40 years. We prefer to view it as the re-birth of opportunity in active credit funds for the first time in a decade. Like a phoenix from the ashes.

As a reminder, at the start of 2022 we had effectively zero exposure to vanilla credit and government bonds. Why own them when government bonds were yielding less than 1% and credit spreads were at all time tights? Not exactly a great starting point for inflation-beating net returns, the minimum objective we aim to beat. This positioning helped insulate our funds from the worst of the market falls through 2022. However, following the Truss/Kwarteng budget debacle in September last year and the ensuing bond rout, we materially increased our exposure to actively managed credit funds which were offering the highest prospective returns in well over a decade. This was at a time when many investors were panicking out of fixed income. We mainly funded this increase through reducing our exposure to alternative asset classes that we access through investment trusts.

A year later and this has worked out very well in absolute terms.

Man GLG Sterling Corporate Bond **+20.2%**

Morgan Stanley Emerging Markets Debt Opportunities **+13.6%**

TwentyFour Income **+12.5%**

Man GLG High Yield Opportunities **+11.1%**

Schroder Strategic Credit **+10.5%**

TwentyFour Monument Bond **+10.2%**

Close Select Sustainable Select Fixed Income **+8.3%**

(FE fundinfo 24/10/2022 to 24/10/2023) have all performed admirably.

What about bond markets overall? Have we just ridden a wave of recovery for the asset class after a very tough 2022? The ICE BofA Global Broad Market Hedge GBP index (a broad index covering government bonds, corporate bonds, mortgage-backed securities and asset-backed debt) is up just 1.1% over that period. The active credit managers we have backed have trounced passive options.

The funds we own span many areas of fixed income, from investment grade to high yield, plain vanilla bonds to more esoteric areas like residential mortgage-backed securities and emerging market debt. What they all have in common is that they are run by talented, highly active fund management teams that have been able to take advantage of significant valuation dispersion and market dislocations across the asset class, to deliver inflation-busting returns.

Unfortunately, it has not all been rosy and coming back to my first line we are certainly not in self-congratulating mode! One area of our fixed income exposure that has not performed well has been US and UK inflation-linked bonds, which we have been steadily adding to as real yields have risen. In recent months this has resulted in a gentle increase to the duration profile of our funds at the expense of some credit exposure which has performed so well and benefited from spread tightening.

A big frustration from our perspective is that the strong returns from our fixed income exposure have been swamped by difficult periods for other parts of our funds – in particular the investment trust exposure which we have written extensively about previously. Hence the tagline that fixed income has been our unsung hero.

Despite the strong returns over the past year, all of our fixed income holdings continue to offer a yield to maturities close to the highs of the past 15–20 years that anchor their return profiles and should ensure they continue to be unsung heroes of our funds in the years to come.

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> *... fixed income has been our unsung hero*

DEAR HAWKSMOOR...

I have been doing an online search of financial comparison websites and see that I can earn over 5% on a cash deposit! I think this is an attractive return for no risk whatsoever and begs the question as to why I should have an investment portfolio now? Perhaps you can convince me!

This is a perfectly valid question and we have had numerous queries of a similar nature from clients. Such thinking is supported by the fact that it has generally been a miserable time for investors since markets peaked in the heady post-Covid days in 2021. Many global indices are typically 15–40% below those highs. To make matters worse, it has not been just shares that have struggled of late. Notably in 2022, other asset classes did too, including those deemed as lower risk and which in the past have offered some defence in a well-constructed diversified portfolio of investments. An example in 2022 was UK government bonds (gilts) which fell just over 20% in value on average.

Given this backdrop, I would like to share some compelling information to suggest that now is not the time to give up on investments, tempting though that might be. I should start by saying that investing is clearly not for everyone. The last two years have shown just how difficult investing can be and that if you cannot afford to lose capital in the short term, then keeping your savings in cash is sensible. Similarly, you should always have some cash saved for a rainy day or short-term spending requirement.

Taking a longer term view, however, the perils of having too much cash become clear. Financial regulators will tell us that past performance is not a guide to the future. This can be true but, more often than not, history is the only guide we have and it does not paint a pretty picture for holding excess cash. There are numerous studies supporting this. For example, the excellent JP Morgan Guide to the Markets highlighted that (as at end of June 2023) £1 invested in in equities (shares) in 1900 would be worth £386 by the end of 2022, giving a real annual return of 5%. Holding that same £1 in cash would have grown to just £2 in real terms over the same period! This is a real annual return of just 0.6%. What do I mean by a real return? Real means after the effects of inflation and is an important concept. Even now, with interest rates on cash at 5%, because UK inflation rates are at 5.6% (as of October 2023), your real return is negative 0.6%. To put it another way, if you put £100 in a bank account and received £105 back after a year, you may feel richer. However, if your shopping bill has risen from £100 to £105.60 due to inflation over the same period, the purchasing power of your cash has dropped by 60p! The annual Barclays Equity Gilt Study makes an equally powerful observation about cash.

> *“£1 invested in equities (shares) in 1900 would be worth £386 by the end of 2022... Holding that same £1 in cash would have grown to just £2 in real terms over the same period!*

> *... if you are a basic rate taxpayer paying tax at 20% on your savings interest, a 5% return on cash will generate a return of just 4% after tax*

Over any two-year period since 1899, cash has only outperformed shares 30% of the time and this drops to just 9% over any 10-year timeframe. Of course, nothing moves in a straight line with investing and the last couple of years has been one of those rare times when cash has trumped most investments. However, if you have a long-term investment timeframe (typically more than five years), history suggests that cash is an inferior asset class compared with equities (and even bonds) for generating returns.

A flash in the pan?

There are other important aspects to consider. Assuming interest rates have peaked, the attractive cash returns are unlikely to be around for ever. For example, the government-backed National Savings & Investments (NS&I) recently issued a one-year Guaranteed Income Bond cash account offering a very attractive 6.2%, only to pull it in the following month.

When looking at returns on cash and making comparisons with other investments, check that you are comparing apples with apples, are not falling for marketing gimmicks and are aware of any restrictions.

Taking the first point – if the account advertising the rate is taxable, consider your true after-tax (net) return. For example, if you are a basic rate taxpayer paying tax at 20% on your savings interest, a 5% return on cash will generate a return of just 4% after tax. In an investment portfolio, investments can usually be held in a tax-efficient Individual Savings Account (ISA) meaning the income return quoted is the actual return achieved. To obtain the rate advertised, some cash products have restrictions or other stipulations. For example, the bank or building society may require a minimum deposit amount or will only allow you to make a limited number of withdrawals in any year. Another common marketing ploy is to advertise a rate which is not achievable. As an example, a leading building society recently launched an account advertising an interest rate of 8% for a one-year savings account. However, the maximum amount you can invest is just £200 per month. Over a 12-month period, only the first £200 invested will earn the full 8% return. At the end of year one, the full investment of £2,400 would be worth £2,504 – a good return of 4.3% but not the 8% headline grabber.

A wide opportunity set…

As the withdrawal of the above-mentioned NS&I cash account shows, these compelling cash rates will not be around forever, especially if Central Banks start to cut interest rates in 2024. In contrast, the opportunities for investors willing to take capital risk are compelling. For example, European, UK, Emerging Market and Asian shares are now trading at valuations below the 30-year average. Many bonds are offering income yields far more than cash. Investment trust shares are trading at discounts last seen in the aftermath of the Great Financial Crisis. In other words, the shares are trading below the value of the assets the investment trust holds (less the value of any debt). Even UK government bonds (gilts) that will be repaid as early as 2025 are offering a return of approximately 5% and due to the special tax treatment of gilts, any capital growth is entirely tax free. For a higher rate (40%) taxpayer, this is the equivalent of receiving a return of over 8% on a taxed cash account for what should be a relatively stable investment and only marginally riskier than cash. Of course, these non-cash assets may become cheaper before the picture improves but they are pricing in a lot of bad news. On anything other than the very short-term, given the undemanding starting valuations, experience suggests that the long-term returns should be good and far superior to the returns available on cash.

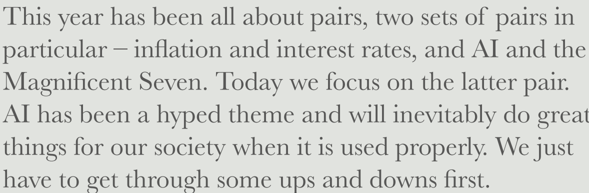
In conclusion, cash is a useful short-term asset and it certainly makes sense to ensure you are obtaining the best interest rates available on your cash reserves. As an investment though, history suggests it will almost certainly make you poorer over the long term.

Greg Sellers, *Senior Investment Manager*

NEXT GEN

THE APPLE OF YOUR EYE

Emily Cave
Trainee Research Analyst



This year has been all about pairs, two sets of pairs in particular – inflation and interest rates, and AI and the Magnificent Seven. Today we focus on the latter pair. AI has been a hyped theme and will inevitably do great things for our society when it is used properly. We just have to get through some ups and downs first.

Let us use Gartner's Hype Cycle, which attaches descriptions to the evolution of technology. This theory states we need to navigate past the 'peak of inflated expectations' through the 'trough of disillusionment' to the destination which is the 'plateau of productivity' (when mainstream adoption takes off). Where we are on that journey with AI is up for debate, but it feels as though we could soon be going past the hysteria of peak expectations and start approaching the dreaded trough.

However, the success of the Magnificent Seven companies this year shows they have had a fair wind behind them. In fact, they account for most of the growth of the S&P 500 and the MSCI World indices. The Magnificent Seven is made up of Microsoft, Amazon, Meta (Facebook), Apple, Alphabet, Nvidia, and Tesla. With a combined market cap of more than $10trillion, they represent just under 30% of the S&P 500 and close to 20% of the MSCI World.

Before third quarter reporting had started in October, a lot of emphasis was put on what the Magnificent Seven would report. Now, with six out of the seven having reported, how has it affected the wider market?

Microsoft reported strong growth in the three lines of its business. Amazon was also good, reporting revenue and profit both exceeding consensus estimates. Meta (Facebook) reported strong growth in earnings, however its shares dropped just over 3% on the back of disruption to the advertising outlook. Apple results were mixed, with revenue slightly ahead of expectations but iPad and Mac divisions delivering a slightly underwhelming performance globally. Alphabet had another mixed set, reporting revenue ahead of consensus but the 22.5% growth of the cloud business was lower than analysts had anticipated. Tesla's stock also fell as the company missed on both revenue and earnings expectations.

Interestingly, although Apple reported strong iPhone sales during the quarter, there has been some controversy around radiation emission levels with the iPhone 12 and an overheating issue with the iPhone 15 Pro models. In fact, France recently halted sales of the iPhone 12 due to the product failing their radiation test, although Apple has contested the results. As for the iPhone 15 Pro models, a big selling point is their case. It is mainly aluminium with a thin titanium layer, and some think the layer of titanium might actually be contributing to the overheating problem. Overheating doesn't sound like a big issue, but the more your phone overheats the more work the battery has to do, and you end up with a degraded battery. Not such a great selling point.

Global growth has been dominated by the US in 2023, and US growth has been dominated by the Magnificent Seven. The S&P market cap weighted index is up around 13% since the beginning of the year, but the S&P equal weighted index is only up 0.1%. There has never been such a narrowness in the market, and this leaves room for growth uncertainty if these companies cannot keep generating the previous numbers. Markets hate uncertainty.

US unemployment data was weaker than expected in October; indeed, unemployment has increased by 15% in the last six months. As at 6th November, the Federal Reserve strongly hinted that it was not planning any more interest rate increases. US manufacturing in October showed the largest monthly decline in over a year, and the US Treasury reduced the amount of long-term bonds it was planning to auction. The combination of the Magnificent Seven concentration and the inflation and interest rates pair could end up being a perfect storm for a hard landing in the US, which could impact global markets. On a positive note, history tells us that when the stock market falls it is an excellent investment opportunity.

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