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SHARES

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THE BIG DIG

The best mining companies to back



TAKEOVERS GALORE

The latest bids, why they're happening and ways to get involved

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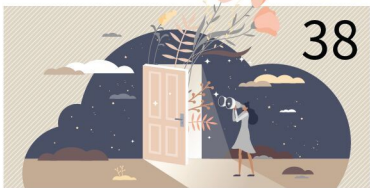
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Global Investors

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Three important things in this week's magazine



1

China's uneven economic recovery matters to the mining sector

While there is clear long-term demand for copper and other metals, share prices in the mining sector can still be knocked off course if economic news disappoints

2

It can pay to look at parts of the market that everyone hates

Share prices can overreact to bad news. This provides an opportunity to scout for discounted opportunities if you can look past negative market sentiment

3

Japan is delivering non-stop good news

It's the best performing market in Asia this year, Warren Buffett has just paid the country a rare visit and Japan's biggest IPO in five years jumped 40% in price on its market debut

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:



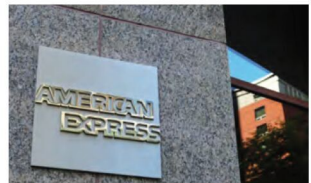
Recovery from Premier Inn lifts Whitbread's shares by 5.8%



ASOS shares targeted by 'dark destroyer' short seller Shadowfall



Find out how UK profit warnings hit a first quarter post-pandemic high



American Express ups bad debt provisions as Q1 earnings miss expectations

INTEGRATING THE FUTURE INTO YOUR PORTFOLIO: **GENERATING INCOME FROM EUROPEAN RENEWABLES**

Aquila European Renewables plc (Ticker AERI:LSE) has a diverse renewable energy portfolio that spans six European countries and four power markets, utilising hydro, solar, and onshore wind technologies.

Windpark Desfina, Gulf of Corinth, Greece



Hydropower plant in Rebordelo, Portugal



Solar PV plant Jaen, Andalusia, Spain



Latest results:



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McDonald's shares at new record high as earnings beat expectations

The fast-food giant is successfully navigating the challenges of a depressed consumer backdrop



Fast-food giant **McDonald's (MCD:NYSE)** beat analysts' expectations on 25 April after successfully shrugging off a challenging economic environment and rising costs.

The share price reaction to the quarterly results was modest, reflecting the fact the shares have already had a good run this year.

Its shares are trading 11% higher year-to-date against a 7% gain for the S&P 500 and are making record highs. McDonald's reported earnings per share of \$2.63 for the first quarter of 2023. Analysts were forecasting earnings per share of \$2.33 versus \$2.28 a year ago.

The fast-food giant's revenue has been boosted by higher menu prices in the US and more customer traffic – proving consumer demand for convenient and reliable food options at the right price point is still there even if household budgets are tight.

Total revenue rose by 4.1% year-on-year to just under \$5.9 billion. That compares to analyst forecasts of \$5.59 billion.

Chris Kempczinski, McDonald's president and CEO, said: 'Our strong first quarter results demonstrate that our

'Accelerating the Arches' strategy is working, as comparable sales grew 12.6% through a healthy balance of strategic menu price increases and positive traffic growth.'

The fast-food giant said marketing campaigns featuring menu items like the 'CardiB & Offset Meal' helped lift global company sales by 12.6%. Wall Street analysts expected same store sales would rise 7.5% in the US and 8.2% on a global basis.

As Kempczinski outlined, McDonald's is benefiting from a new strategy originally announced in 2020 which encompasses its key growth pillars, including maximising marketing (brand and affordability), committing to core products (burgers, chicken and coffee), and focusing on the four D's (delivery, digital, drive-thru and development).

McDonald's managed to keep its costs largely in check, with total operating costs and expenses only slightly higher year-on-year. It benefits from a franchise-based model, with most of its restaurants operated by franchisees. The company licences its operating model to franchise partners which has enabled it to expand without needing lots of extra capital.

In 2022, more than a third (circa 35%) of sales in the company's top six markets came through digital channels, namely the mobile app, delivery and in-store kiosks where customers tap a screen to order.

At the end of last year, more than 85% of McDonald's restaurants offered delivery capabilities. However, bringing food to customers' homes doesn't mean it is giving up on more traditional ways to serve people. It says that drive-thru will become even more important, with the vast majority of new restaurant openings in the US and international operated market segments set to include such facilities. It plans to open approximately 1,900 new restaurants in 2023 around the world. [SG]



McDonald's

	Q1 2022 reported	Q1 2023 forecast	Q1 2023 reported
Earnings per share	\$2.28	\$2.33	\$2.45
Revenue	\$5.67 billion	\$5.59 billion	\$5.90 billion

Table: Shares magazine • Source: Yahoo Finance, McDonald's

Optimism emerges that microchip equipment sales to China will ramp up in 2023



ASML and Lam Research are both confident in revenue recovery despite tech restrictions

Computer chipmaking equipment suppliers **ASML (ASML:AMS)** and **Lam Research (LRCX:NASDAQ)** remain hopeful that sales to China will ramp up later this year, despite US export controls on advanced microchip technology.

The world's two largest economies remain at loggerheads over advanced technology, with the US doing everything it can to stay ahead in the tech race, including the placement of tough export controls on China to stop the country from getting its hands on the market's most advanced microchips. There are also national security concerns in play.

Major regions across the world are trying to become more self-sufficient when it comes to making microchips because of the supply chain issues that emerged during, and directly following, the Covid pandemic.

Remarks by Dutch lithography giant ASML and the California-based Lam Research about the strong demand for less-advanced chips, like those used in electric vehicles, indicate that China may still remain a key customer for the sector this year.

The companies' latest quarterly earnings beat analyst expectations, though Lam's sales were lower than a year ago because of a downturn in the memory market. Both said they expect sales to Chinese companies to increase in the coming months despite the US imposing sweeping restrictions on China's semiconductor sector in October, because Beijing has been using US chipmaking technology to modernise its military.

Lam is subject to US export restrictions and ASML will face new rules from the Dutch government on China sales later this year. But those rules so far have only affected equipment used in making the most advanced chips. Lam and ASML said Chinese customers are buying tools for building less advanced chips that go into products like electric vehicles, mobile phones and personal computers amid the country's drive for more self-sufficient production.

Lam had previously estimated that restrictions into China would cost it between \$2 billion and \$2.5 billion in revenue in 2023, although the company now says it has received 'clarification' of the rules from the US government. The company now believes it could recoup 'a few hundred million dollars' worth of tool sales that it initially thought were banned, although few details were given.

Lam shares have rallied around 5% to \$514.38 since its results announcement. ASML remains largely flat at €566.

ASML reported March 2023 quarter earnings per share of €4.96 and revenues of €6.75 billion, beating expectations of €4.16 and €6.27 billion respectively. Lam's earnings per share and revenues for the three months were \$6.99 on \$3.87 billion, versus \$6.52 and \$3.81 billion forecast. [SF]

ASML

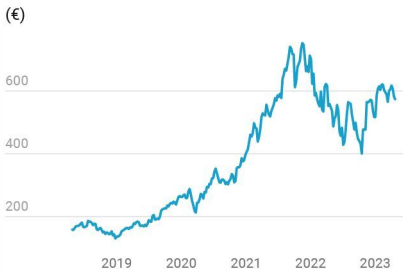


Chart: Shares magazine • Source: Refinitiv

The rate of small and mid-cap companies leaving the market is accelerating



A combination of takeovers and firms throwing in the towel means less choice for investors

It seems barely a week goes by without a UK firm falling prey to an opportunistic takeover approach. Typically, the bidders are non-UK and the targets are small and mid-cap companies.

Many UK stocks trade on cheap valuations and unless the market recognises their attractions and bids up the price, they could be vulnerable to takeovers.

Private equity companies, in particular, are sitting on lots of cash that can be used for deals. Predictions from various economists that the UK will avoid recession and recent government stability under Rishi Sunak won't have gone unnoticed by overseas buyers.

On 17 April, a private equity consortium led by CVC proposed to pay 387p per share for London-listed payments group **Network International (NETW)**. Four days later, a 400p per share counter proposal was made by Canadian investment group Brookfield, which owns the iconic Canary Wharf development in London's Docklands and last year snapped up household services company Homeserve for £4.1 billion.

Also on 21 April, private equity group Cap10 made an all-cash offer for energy services firm **Sureserve (SUR:AIM)**. On 24 April, telemedicine provider **Medica (MGP:AIM)** received a bid from private equity firm IK Investment Partners.

In the space of a few days, investors in all three firms have seen the potential for long-term investment returns vanish in exchange for a short-term pop in the shares.

In a rare case, Louise Kernohan and Georgina Cooper, fund managers at Newton Investment Management, have spoken out against the supposed attraction of EQT Partners' £4.6 billion takeover offer for **Dechra Pharmaceuticals (DPH)**.

'We do not think the price announced under the terms of the possible offer is an appropriate or fair reflection of the value of Dechra Pharmaceuticals,' say the managers.

'The possible offer appears opportunistic, and we don't believe it takes into consideration the recent strategic enhancements of the business and the value of the pipeline, with the recent acquisitions of Piedmont Animal Health and Med-Pharmex, and the licensing agreement with Akston Biosciences.'

However, takeovers aren't the only factor reducing the number of UK listed companies – some firms are quitting the market of their own accord saying it no longer makes financial sense to remain quoted.

Technology investment company **Asimilar (ASLR:AIM)** revealed plans to delist from AIM to reduce costs, sending its share price down nearly 40%. Business services firm **iEnergizer (IBPO:AIM)** made a similar announcement sending its shares crashing 80% in a day.

One senior City investor contacted *Shares* to question the legality of such announcements, highlighting the lack of redress for minority shareholders whose investments have lost so much value literally overnight. [IC]



DISCLAIMER: The author owns shares in Sureserve

Investors continue to be hungry for Hershey's shares

Iconic chocolate maker is in a sweet spot thanks to steady snack demand

Shares in snack products group **Hershey (HSY:NYSE)** have risen 22% to \$261.40 since late January, propelled by well-received results in early February which beat market expectations at both the revenue and earnings per share lines.

Importantly, demand remained 'steady' despite pushing up prices, according to the company. It guided for 9% to 11% adjusted earnings per share growth in 2023, with sales



growth and gross margin expansion expected to more than offset increased spending on marketing and technology, as well as higher pension and interest expenses.

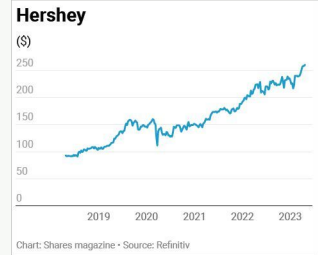
Investors liked what they heard and the stock has continued to tick up since the results, with the next quarterly figures set to be published on 27 April.

Hershey continues to expand its breadth of



products and production capacity. Earlier this month it bought two US-based popcorn manufacturing plants to support its SkinnyPop brand which was central to the \$1.6 billion acquisition of Amplify Snack Brands in 2017.

It has also expanded into the US vegan chocolate market with dairy-free alternatives of its iconic brands, Reese's and Hershey's. [SG]



Liontrust slumps nearly 20% in a month as GAM deal mooted

Analyst raises questions over asset manager's recent track record on M&A

Shares in growth-orientated asset manager **Liontrust Asset Management (LIO)** have fallen by nearly 20% in a month, with the stock losses exacerbated by news it might be interested in buying Swiss rival GAM.

Whether this suggests shareholder aversion to such a deal or is merely a reaction to the company's lacklustre first quarter when the company reported material outflows is open to question.

Assets under management fell 3.6% in

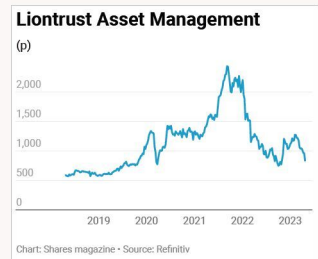


the three months to 31 March, which was worse than the performance of the wider peer group and worse than analyst expectations.

Discussing the potential GAM deal, which would boost exposure to fixed income, Numis analyst

David McCann notes the more recent track record on acquisitions has been patchy.

'Our view is that Liontrust has historically been best-in-class post-acquisition



at reducing ongoing costs and right-sizing acquisitions quickly, integrating into the Liontrust infrastructure and rebranding,' he says.

'However, we do consider that certain of the recent acquisitions, notably Majedie and Architas, have so far resulted in loss of shareholder value in our opinion, given a combination of paying too much (Majedie) and weaker than targeted operating performance / flows (both)'. [TS]

UK UPDATES OVER THE NEXT 7 DAYS



FULL-YEAR RESULTS

April 28: Morgan Advanced Materials, PureTech Health, James Fisher

May 2: Facilities by ADF

May 3: Cambridge Cognition, Inspiration Healthcare

May 4: Trainline

INTERIMS

May 3: Ten Lifestyle Group, Smiths News

TRADING UPDATES

April 28:

Computacenter, Industrials REIT, Smurfit Kappa, Rotork

May 3: OSB Group, Flutter Entertainment, TI Fluid Systems, Barratt Developments

May 4: Derwent London, Mondi, Morgan Sindall, Next

FIRST QUARTER RESULTS

April 28: NatWest

May 2: BP

May 4: Wheaton Precious Metals, Endeavour Mining, Shell



Continuing momentum expected at BP and Shell as they ready first quarter updates

Oil majors' commitment to energy transition and impact of windfall taxes will be in focus

The OPEC production cuts which helped drive a recent rally in oil prices will have come too late to be reflected in upcoming quarterly earnings numbers from **BP (BP)** and **Shell (SHEL)**, published on 2 and 4 May respectively, but investor expectations will still be pitched high.

Strong earnings are a double-edged sword as they will be welcomed by the market but will create further pressure for these to be taxed.

Shell teased its results in some detail on 6 April so there are unlikely to be too many surprises. For BP there may be interest in how the new strategy announced alongside its fourth quarter 2022 results is being implemented. The company has scaled back plans to reduce oil and gas production.

Berenberg analyst Henry Tarr flags some of the key questions investors will be asking. He says: 'Where is the additional capex announced at Q4 being spent? How much of it is linked to rising inflation versus new activity? Is the company experiencing higher tax rates across different countries through windfall taxes?'

Tarr adds that attention will likely be focused on the extent to which BP favours dividends or share buybacks when determining shareholder returns. He expects a cash return from BP of around 14% in dividends and buybacks for 2023. [TS]

Shell expects a rise in LNG volumes in Q1

	Q4 2022	Q1 2023 outlook
LNG volumes	6.8 million tonnes	7.0 to 7.4 million tonnes

LNG = liquefied natural gas
Table: Shares magazine - Source: Shell





What to expect from Apple's second quarter results on 4 May

The market will be hoping for a better trading period than its first quarter decline

Consumer electronics giant **Apple (APPL)** reports its second quarter earnings on 4 May with expectations set at subdued levels. Group earnings are forecast to be lower year-on-year as the company battles a difficult macro-economic backdrop.

In February the company posted its first annual drop in quarterly revenue for three-and-a-half years thanks to

supply chain disruptions in China. There will be hopes of an improvement on this front in the latest period thanks to the lifting of Covid restrictions in the world's second largest economy, also an important market for Apple.

There will be a focus on the company's new tie-up with **Goldman Sachs (GS:NYSE)**, which is offering a competitive rate on a freshly launched savings product only available to customers with an Apple credit card. Being a bigger player in the money channel could add another string to Apple's bow.

Services are an increasingly important part of the Apple story, as it derives repeatable and predictable revenue from an installed base of more than two billion handsets. Its current offering includes Apple TV, iTunes, the App Store and Apple Pay. Revenue from this area has been growing fast, nearly doubling from \$10.9 billion in the final three months of 2018 to \$20.8 billion in the final three months of 2022. [TS]

Apple: market predictions

Second quarter forecasts	
EPS	\$1.43
Revenue	\$92.9 billion
Same quarter one year ago	
EPS	\$1.52
Revenue	\$98.8 billion

EPS = earnings per share

Table: Shares magazine • Source: Yahoo Finance, Apple

US UPDATES OVER THE NEXT 7 DAYS



QUARTERLY RESULTS

April 28: Exxon Mobil, Chevron, Daimler, Aon, Colgate-Palmolive, Sega Sammy, WisdomTree

May 1: Stryker, Vertex, Southern Copper, Arista Networks, MGM, Everest, Expedia

May 2: Pfizer, AMD, Starbucks, Uber Tech, Thomson Reuters, Marathon Petroleum, Marriott International,

May 3: Estee Lauder, Kraft Heinz, MetLife, Phillips 66, Yum! Brands, Barrick Gold, Wolters Kluwer, Albermarle, Garmin, Tripadvisor,

May 4: Apple, Novo Nordisk, Anheuser Busch, ConocoPhillips, Shopify, Motorola, Infineon, AIG, Carlyle Group, News Corp



This Fidelity fund is a good way to play the rise in UK takeovers

As private equity firms snap up undervalued firms, manager Jonathan Winton is also spotting opportunities

Investors looking to take advantage of takeover interest among UK stocks should put money into **Fidelity UK Smaller Companies (B7VNMB1)**. It has an outstanding performance track record, scoring in the top 25% of funds in its category over three, five and 10 years.

On a three-year view the fund has achieved annualised returns of 26.5% which is perhaps better than one might expect on a longer-term basis. Returns were helped by the recovery from Covid lows.

However, the 10-year annualised return of 11.1% is particularly impressive given smaller UK-listed firms have endured a decade marked by the Scottish independence referendum, Brexit and the pandemic, all events which disproportionately impacted this part of the market.

Consequently, valuations are cheap, which helps explain why private equity bidders have been highly active in targeting UK small and mid-caps. Manager Jonathan Winton says: 'We're looking for companies which are under the radar and potentially enduring a period of difficulty where I can see a positive change dynamic over a three or five-year view.'

Winton explains that he tends to invest when shares have declined significantly and when he perceives margins have not peaked.

A portfolio of approximately 100 holdings ensures lots of shots at the goal with different companies likely to show earnings improvements at separate times, according to the manager.

Winton steers clear of structurally declining businesses. He will invest in indebted firms but these tend to be smaller position sizes until he is comfortable the balance sheet has improved. Areas

FIDELITY UK SMALLER COMPANIES (B7VNMB1)

Price: 371.1p Net assets: £503 million

Annualised returns	Fidelity UK Smaller Companies	Morningstar UK Small-Cap Equity
3 years	26.5%	11.4%
5 years	7.9%	2.1%
10 years	11.1%	7.4%

Table: Shares magazine • Source: Morningstar, 25 April 2023

like cash generation and accounting are also an important part of the due diligence.

The manager does not pursue a buy and hold approach, instead recycling capital into new opportunities once the valuation is 'pricing in what the company is capable of'.

He expects M&A to be a continuing theme with private equity prepared to look through the current economic uncertainty due to its firepower and the big discount UK small and mid-caps trade on. But although his potential universe is shrinking, he sees no lack of opportunities.

Current holdings include manufacturer **Essentra (ESNT)** 'which has changed from three businesses to one high quality business which is potentially undervalued' and several support services firms which Winton notes are very 'unloved'.

The top holding is a money market fund, which is just a more efficient way of managing the cash the fund has on hand to make investments. Ongoing charges are 0.92%. [TS]



Fidelity UK Smaller Companies

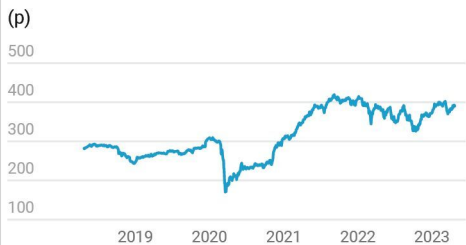


Chart: Shares magazine • Source: FE Fundinfo

How to play the dramatic growth in the private rented property sector

The lettings market is experiencing a major boom and this company stands to benefit

While the new-build property market may be going through something of a slump at the moment, anyone who has looked at the private rented sector of late will know rents are only going one way – up.

Recent updates from estate agents **Belvoir (BLV:AIM)** and **Foxtons (FOXT)** have highlighted both the strength of the rental market and the significant under-supply of prime properties.

With housing starts averaging around 180,000 per year compared with net migration of 500,000 people per year, plus individuals coming into the UK to study at university and on visas, upward pressure on rents is growing all the time.

The Property Franchise Group (TPFG:AIM) is the UK's largest property franchisor, with nine brands, 577 territories and 76,000 tenanted managed properties.

For 2022, the group generated £27.2 million revenue, up 13% on the previous year, and pre-tax profit of £8.8 million, up 38%. That led to a 12% increase in the dividend to 13p per share which was more than twice covered by earnings per share of 28.4p.

Chief executive Gareth Samples told *Shares* 2022 had been the busiest year he had ever seen for lettings due to 'a lack of stock, unprecedented demand and rising mortgage costs' which are all driving rental inflation.

Even the seasonally quiet first quarter of 2023 has been ahead of management expectations in terms of revenue and profit, helped by strategic actions last year which included assisting franchisees to make 19 portfolio acquisitions (up from 11 in 2021), adding nearly 1,900 properties to their books and £2.1 million in annualised income.

The lettings business is exceptionally cash-generative, allowing the firm to repay the £7.5 million outstanding balance of the £12.5 million loan it used to fund the Hunters acquisition in

THE PROPERTY FRANCHISE GROUP

(TPFG:AIM)

Price: 275p

Market cap: £89 million



March 2021 (its biggest deal to date), increase the final dividend and still end last year with a positive net cash balance of £1.7 million.

Admittedly the sales business, which includes EweMove, is likely to lag the lettings side as the volume of transactions in the UK housing market is expected to fall further this year towards the pre-pandemic level of 1.06 million, but it will be more than offset by growth in lettings.

On top of the growth, the chief executive is excited about the firm's adoption of a new customer relationship management software system and the pooling of data from its near-600 offices around the country which he believes will drive greater efficiencies and synergies in the way the company operates.

'As we grow, so does our data and the opportunity that represents in digital marketing,' says Samples. [IC]

The Property Franchise Group

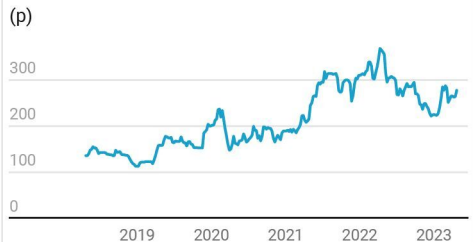


Chart: Shares magazine • Source: Refinitiv

Medica shareholders should sit tight after takeover offer in hope of a better price

We believe some shareholders might push for a better deal

Medica (MGP:AIM) 212.25p

Gain to date: 29.4%

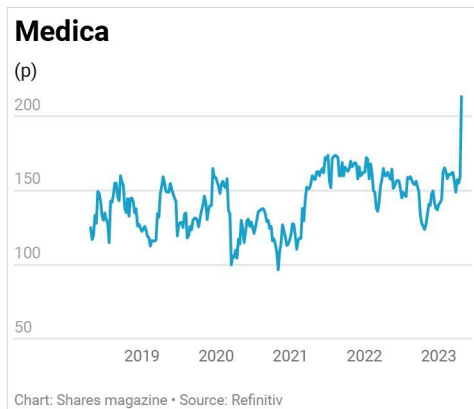
On 9 March we highlighted small cap teleradiology specialist **Medica (MGP:AIM)** as an underappreciated quality business with a market leading position and exciting growth opportunities.

We argued the shares had been unfairly derated over the last five years despite the business doubling in size and subsequently trading on a 2023 free cash flow yield of 5.8% based on Numis' estimates.

In addition, we highlighted comments made by fund manager Ken Wotton at **Strategic Equity Capital (SEC)** that the shares traded at a big discount to takeover valuations seen in past deals.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

Private equity group IK Investment Partners has made (24 April) an all-cash takeover at 212p per share. That represents a premium of 32.5% to



share price on the previous trading day.

Founded in 1989, IK Partners has a track record of investing in the healthcare sector, investing in 23 companies across Europe.

IK Partners said it believed taking Medica private would enable the group to achieve its full potential and help it meet the challenges of dealing with 'significant' demand for diagnostic imaging related to 'structural' shortages of radiologists.

WHAT SHOULD INVESTORS DO NOW?

While the board sees the exit price as a fair reflection of the quality of the business and offers a 'meaningful' premium, *Shares* has reservations at this early stage and would urge shareholders to sit tight.

There are two reasons for coming to this conclusion. Firstly, the premium isn't that great in the context of recent trends. The average premia in UK takeovers have increased from 30% to 46% over the last two years according to law firm Skadden.

Secondly, the bidder has only secured around 20% of the vote so far including directors' shareholdings which leaves plenty to play for considering other 'unsolicited inbound interest' according to the directors.

At the time of writing the shares were trading slightly above the offer price. [MG]

THE CASE FOR EMERGING EMEA FINANCIALS IN TURBULENT TIMES



Matthias Siller, Head of EMEA Equities at Barings, explains why emerging EMEA financial stocks are proving compelling as long-term portfolio holdings.

With the heightened volatility in the financial sector in developed markets, it could be an opportune time to look further a field for exposure to financial stocks. At Barings Emerging EMEA Opportunities PLC, our fundamental bottom-up analysis shows positive dynamics of the financial sector in Emerging EMEA. Here are some of the core factors driving our support:

1. Emerging EMEA banks are looking safer

The regulatory environment in many emerging EMEA markets is looking a lot more conservative than elsewhere. And as scrutiny of liquidity and loan provisions intensifies, that prudence may look especially attractive to investors.

In some cases that conservatism has been borne out of past bad experience. The Greek banking sector, for example, was significantly impacted by the 2008 global financial crisis. What came out of that is a much stronger banking sector as a result of major debt restructuring and economic adjustment programmes. This, combined with fiscal prudence from the government and the strong performance of the economy post COVID-19 means the country is close to regaining its investment grade status.

2. Their underlying growth potential is stronger

Across emerging Europe, financial penetration is lower than in other markets, so growth opportunities are more pronounced. This potential is supported by strong household finances and credit growth that looks set to remain well above the European Union average. Because the client base is underpenetrated, that also provides extensive potential among quality franchises for cross-selling in areas such as wealth management, insurance and pensions.

And banks aren't just about retail growth. The desire for governments to turbo-charge economic

recovery is driving loan growth in the corporate sector – especially to fund infrastructure projects. And in a higher interest-rate environment, the terms on which banks can lend are looking more attractive.

3. The competitive landscape is smaller...

EMEA financials also benefit from a more concentrated competitive landscape. In Poland, for example, six banks control around 70% of the market. This concentration means that deposits tend to be more 'sticky' and less vulnerable to outflows as interest rates change.

But that doesn't mean banks are complacent about their competitive position. We've also seen many banks work hard to increase efficiency – whether through branch rationalisation (a 40% branch reduction in Turkey since 2012, for example) or investing in IT to improve economies of scale. That, in turn, is translating into stronger earnings growth.

4. ...and the impact from disruptors is low

Of course, a big question in terms of competition is to what extent established brands are threatened by digital newcomers? In Emerging EMEA, we would say the answer is "Not much". Partly this is because of the generally conservative nature of consumers in the region. Also, many incumbent banks have invested extensively in IT to improve their digital functionality and compete with challengers.

Even among millennials – the ideal customers for online brands like neobank Revolut – our analysis shows a tendency to move back to established banks when the time comes for major financial commitments such as a mortgage.

To explore our current holdings and rationale for selection visit www.bemopl.com. Of course, these markets still present all the political, currency and market risks – and demand a long-term investment view. But they also offer valuable diversification for any global portfolio. To keep up to date on this exciting investment region, sign up at www.bemopl.com/preferencecentre

Investment involves risk. Value of any investments and any income generated may go down as well as up and is not guaranteed. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Changes in currency exchange rates may affect the value of investments. This article is for illustrative purposes only, is not an offer or solicitation for the purchase/sale of shares in the Company and are not indicative of any future investment results or portfolio composition. Prospective investors should seek independent advice as appropriate. The Key Information Document (KID) must be received and read before investing. Although every effort is taken to ensure that the information contained in this document is accurate, Barings makes no representation or warranty, express or implied, regarding the accuracy, completeness or adequacy of the information. Baring Asset Management Limited, 20 Old Bailey, London, EC4M 7BF, United Kingdom. Authorised and regulated by the Financial Conduct Authority.

Why is the S&P 500 heading towards a new high despite recession fears?

We take a look at the earnings context to see if investors' optimism is misplaced

It feels as though we are at a pivotal point for stock markets as we head into the second quarter, with investors willing the indices on in the belief the interest rate cycle is nearing its end at the same time as fears of recession seem to be growing.

Technology stocks have been strong with the Nasdaq 100 index up as much as 20% since the start of January, making it the best-performing index in the world, as traders bet stresses in the banking system will force the US Federal Reserve to halt its campaign of rate rises and begin loosening policy.

However, not everyone is convinced. Marko Kolanovic, strategist at JPMorgan, argues the US Federal Reserve has 'no intention to cut rates this year' and risk sentiment is likely to turn negative, sending markets to the lows they saw last year (in other words 3,600 points on the S&P 500 and 6,800 points on the FTSE 100, or around 14% lower than where both indices are today).

Kolanovic isn't alone – US hedge funds have the largest short positions on the S&P 500 index on record, and the monthly Bank of America fund

manager survey has just racked up its longest stretch of extreme pessimism towards equity markets on record.

The curious thing is, for all the pessimism, stocks keep climbing and there is no sign of a downturn in S&P 500 earnings – quite the opposite, in fact, as index earnings are seeing steaming to a new high of \$200 in 2023 and increasing a further 13% to \$226 next year.

Which raises the question, is an economic recession possible without an earnings recession?

WHY ARE FORECASTS RISING?

When we checked the latest forecasts for S&P 500 back in December, the consensus was calling for reported earnings per share of \$205 for 2023 which would be a new record and a 13% increase on what at the time were estimated to be \$181 of earnings for 2022.

Now, analysts are forecasting a little over \$200 for 2023 - \$5 less than previously – after a revised \$173 of earnings for 2022, meaning earnings are expected to climb more than 15% this year, and no less than \$226 of reported earnings for 2024.

Unsurprisingly, the biggest contribution to S&P 500 earnings – around 21% – is seen coming from

“**risk sentiment is likely to turn negative, sending markets to the lows they saw last year.”**

technology companies, which are expected to grow operating profits by around 12% this year and almost 20% next year.

Another big contributor is the financial sector, which is expected to contribute 18% of index earnings as operating profits soar 20% this year and a further 10% next year on higher net interest margins and continued inflows of deposits into big banks.

Healthcare stocks are seen contributing around 15% of S&P 500 earnings this year as profits climb 10%, but perhaps the biggest question mark is over the consumer discretionary sector – which contributes around 7% of index earnings – where operating profits are expected to jump 23% this year and 18% next year.

A strong labour market is good for consumption, and especially discretionary spending, but if a recession is pencilled in for the second half of this year, then expectations for earnings growth will surely have to be dialled back at some point.

As Lazard’s chief market strategist Ron Temple

puts it, even if a US recession is averted, he estimates the risk of one occurring at between 45% and 55% over the next 12 to 18 months, the fact is the global economy is likely to be ‘sluggish’ through to 2024, ‘creating a challenging operating environment across a wider range of industries’.

WHAT IS THE FED SEEING?

In the minutes of its 22 March meeting, the Fed for the first time forecast a ‘mild’ recession starting later this year, and in its latest Beige Book, which brings together data on economic conditions across the US, nine of the 12 Federal Reserve districts surveyed showed no change in activity during March with three reporting ‘modest’ growth.

Consumer spending was generally seen as ‘flat to down’ with travel and tourism the bright spot, while manufacturing activity was also ‘flat to down’ even though supply chains have eased and freight costs are lower.

Significantly, lending volumes and loan demand ‘generally declined across consumer and business

S&P 500 sector forecast earnings growth and contribution to index total 2023 and 2024

	2023 contribution	2023 growth	2024 contribution	2024 growth
S&P 500 SECTOR EARNINGS				
S&P 500 Index		11%		12%
Energy	8%	-25%	8%	4%
Materials	3%	-7%	3%	10%
Industrials	9%	10%	9%	16%
Consumer Discretionary	7%	23%	8%	18%
Consumer Staples	6%	13%	6%	9%
Healthcare	15%	10%	14%	10%
Financials	18%	20%	18%	10%
Information Technology	21%	12%	22%	18%
Communication Services	10%	14%	10%	16%
Utilities	2%	23%	2%	5%
Real Estate	1%	-10%	1%	10%

Table: Shares magazine • Source: S&P, Shares magazine



loan types' as banks tightened lending standards amid 'increased uncertainty and concerns over liquidity'.

All of which paints a picture of an economy which is muddling through at best, but the uncomfortable fact is cost pressures continue to build due to rising wages and higher prices for finished goods.

One thing the Fed wants to avoid at all costs is inflation expectations becoming embedded in the economy, which would make it much harder to bring inflation down to its 2% target.

Yet the University of Michigan inflation household expectations survey for April showed a surge in the one-year inflation outlook from 3.6% to 4.6% in the space of a month, meaning consumers already expect inflation to remain elevated.

The job of bringing inflation down is clearly far from done, and a cut in rates later this year (which the market is currently estimating at 0.6%) is by no means a foregone conclusion.

Therefore, we would take the current forecasts for S&P 500 earnings – which have underpinned the rally so far this year – with a large dose of salt and prepare for disappointment particularly in sectors which are expected to do the 'heavy lifting' like technology, financials and consumer discretionary.

WHICH ARE THE STOCKS TO WATCH?

The obvious place to start is technology, where a 19 April update from IT solutions provider **CDW Corp (CDW:NASDAQ)** has already put the cat among the pigeons.

The firm warned sales would miss its previous guidance due to 'intensifying economic uncertainty' and lowered its forecast for US IT spending this year from flat to a decline in the high single digits, dragging down shares in enterprise software stocks.

In late March, chipmaker **Micron (MU:NASDAQ)** reported its sales and earnings had cratered due to oversupply among its customers and flagging sales of PCs and smartphones.

So where is all the growth going to come from? As *Shares* went to press, the big tech beasts such as **Alphabet (GOOG:NASDAQ)**, **Amazon.com (AMZN:NASDAQ)**, **Intel (INTC:NASDAQ)**, **Meta Platforms (META:NASDAQ)** and **Microsoft (MSFT:NASDAQ)** were in the process of reporting.

After these, all eyes will be on **Apple**

Trailing 12-month and forecast reported earnings per share (\$) for S&P 500 1996-2024

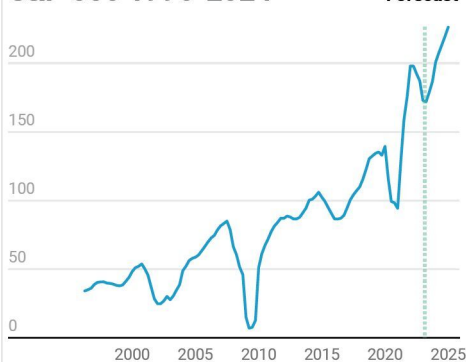


Chart: Shares magazine • Source: S&P, Shares magazine

(AAPL:NASDAQ), which is arguably more of a consumer discretionary stock than a technology company, but which delivered a whopping \$36 billion of operating profit in the quarter to December and is forecast to have generated even higher earnings in the three months to March. It reports on 4 May.

Away from technology, while most of the banks have already reported, earnings payment firms **Mastercard (MA:NYSE)** and **Visa (V:NYSE)** will give a useful steer on how confident consumers are and whether they are struggling financially.

Health care earnings should be resilient, but it will pay to watch how big players like **Abbie (ABBV:NYSE)**, **Eli Lilly (LLY:NYSE)**, **Merck (MRK:NYSE)** and **Pfizer (PFE:NYSE)** perform and how the market reacts if earnings come up short.

Finally, in early May we get the first quarter report from \$700 billion investment firm **Berkshire Hathaway (BRK.B:NYSE)** which, once its controlled holdings are considered, is 'more broadly aligned with the economic future of the United States than is the case at any other US company' in the view of owner-manager Warren Buffett.



By Ian Conway Companies Editor

Discover the power of Collective Wisdom.

We live in an uncertain world. For investors this can mean new levels of volatility. But at Witan we have consistently grown our dividend for 48 years. Our multi-manager approach offers a combination of collective wisdom, variety and expertise to our shareholders.

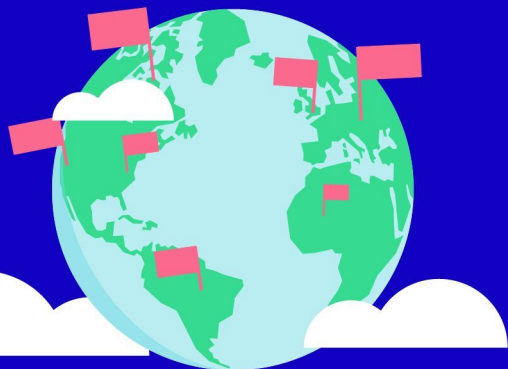
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Discrete Performance*	Q4 2017 Q4 2018	Q4 2018 Q4 2019	Q4 2019 Q4 2020	Q4 2020 Q4 2021	Q4 2021 Q4 2022
Share price	-8.1%	22.1%	2.7%	11.9%	-9.8%
Net Asset Value**	-8.4%	21.3%	4.2%	15.8%	-10.2%
Benchmark#	-6.6%	20.1%	9.5%	19.9%	-6.2%

This financial promotion was approved by Witan Investment Services Ltd FRN: 446227 on 13 February 2023. Please note that past performance is not a guide to future performance. Witan Investment Trust is an equity investment. The value of an investment and the income from it can fall as well as rise as a result of currency and market fluctuation and you may not get back the amount originally invested.

*Source: Morningstar/Witan. Total return includes the national investment of dividends.

** The Net Asset Value figures value debt at fair value. # Witan's benchmark is a composite of 85% Global (MSCI All Country World Index) and 15% UK (MSCI UK IMI Index). From 01.01.2017 to 31.12.2019 the benchmark was 30% UK, 25% North America, 20% Asia Pacific, 20% Europe (ex UK), 5% Emerging Markets.





Investors should follow Warren Buffett and seek out the attractions of Japan

It is the best performing Asian market this year and there is plenty of good news

It has been quite the year for Japan. The country has received a rare visit from the world's most famous living investor, Warren Buffett, who sees big opportunities in that part of Asia.

Japan has just had its biggest stock market flotation in five years with the listing of **Rakuten Bank (5838:TYO)**, whose shares soared by 40% on the first day.

One of the country's major stock indices, the Nikkei 225, is up 10% year to date, making it the best performing Asian market and even better than the UK's FTSE 100 which is up 6% and an 8% gain from the S&P 500 in the US.

That is impressive for a place considered to be 'stagnant' by investors. Ignoring the region might be a mistake as there are reasons to be optimistic about Japan.

'Japan shares have been underperforming every other market for pretty much 30 years, the yen went down last year, so it has been a dreadful place to invest,' says Simon Edelsten, manager of the **Mid Wynd International Trust (MWY)**. That is quite a surprise from someone with 11% of their portfolio invested in the country.

He says there are now good reasons to be optimistic. 'Valuations are low. You get a lot of company for your money in terms of assets. You are not just relying on growth and growth valuations which dominate American equity investing. Second, China's economy is reopening and they buy a lot of stuff from Japan.'

Wage inflation and lingering concerns about supply chains could drive greater spending from



various part of the globe on automation which suggests Japan's world-leading robotics companies could be in demand.

Edelsten also believes Japanese society has reached a point where you can take over businesses. Over the years, company bosses have batted off takeovers in the belief they would not bring any benefits. However, the Japanese political establishment has worked out that you cannot let the economy drift.

There is now pressure on Japanese companies to improve profitability and embrace change if it yields better results. Alongside that shift, companies are being more shareholder-friendly and paying more attention to dividends and share buybacks.

Whereas inflation has been a big problem in parts of the world, it is only just picking up in Japan and has led to one of the first significant wage hikes in a long time. That should trickle down to greater consumer spending and an improved domestic economy.

While higher wage costs put pressure on corporate profit margins, there are hopes that workers might be more productive thanks to higher pay and the long-awaited reopening effect – note that Japan only permitted residents to stop wearing masks as of March 2023. There is also the scope for Japanese companies to pass on extra costs through higher selling prices.

The most surprising thing about Japan in the past decade or so, according to Edelsten, is that the level of earnings growth is exactly the same on a local currency basis as the S&P 500. While US stocks with strong earnings have commanded a higher earnings multiple on the stock market, Japanese stocks with the same earnings growth have got progressively cheaper.

It is rare to have combination of stronger earnings and weaker valuations, suggesting that investors might have the opportunity of lifetime.

Fidelity Special Values PLC

An AJ Bell Select List Investment Trust

Portfolio manager Alex Wright's contrarian approach to the trust thrives on volatile and uncertain markets, when he believes stocks are most likely to be misjudged and undervalued.

Investing mainly in the UK, and supported by Fidelity's extensive research team, Alex looks to invest in out-of-favour companies, having spotted a potential trigger for positive change that he believes has been missed by others.

Turning insight into opportunity

Equity markets at both home and abroad have experienced significant volatility in recent months. While lower valuations could represent a great buying opportunity, it's also essential to recognise that not every undervalued situation is special. Some unloved stocks are cheap for good reason.

Special situations investing requires rigorous analysis and due diligence to back each position and this kind of proprietary research has long been the cornerstone of our investment approach. Our network of over 400 investment professionals around the world place significant emphasis on questioning management teams to fully understand

their corporate strategy. They also take time to speak to clients and suppliers of companies in order to build conviction in a stock.

It's a consistent and disciplined approach that has worked well; the trust has significantly outperformed the FTSE All Share Index over the long term both since Alex took over in September 2012 and from launch over 28 years ago.

To find out more visit www.fidelity.co.uk/specialvalues



Past performance



	Mar 2018 - Mar 2019	Mar 2019 - Mar 2020	Mar 2020 - Mar 2021	Mar 2021 - Mar 2022	Mar 2022 - Mar 2023
Net Asset Value	1.2%	-29.2%	57.3%	9.8%	5.0%
Share Price	0.1%	-31.5%	62.5%	10.5%	-3.7%
FTSE All Share Index	6.4%	-18.5%	26.7%	13.0%	2.9%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 31.03.2023, bid-bid, net income reinvested. ©2023 Morningstar Inc. All rights reserved.
The FTSE All Share Index is a comparative index of the investment trust.

Important information

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Investment professionals include both analysts and associates. Source: Fidelity International, 31 December 2022. Data is unaudited. The latest annual reports, key information documents (KID) and factsheets can be obtained from our website at www.fidelity.co.uk/its or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity, The Alternative Investment Fund Manager (AIFM) of Fidelity Investment Trusts is FIL Investment Services (UK) Limited. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0423/380131/SSO/0723

THE BIG DIG



The best mining companies to back

It has been a mixed start to 2023 for the mining industry, one of the few remaining sectors where the London stock market still has many of the world's biggest names.

A reopening of the Chinese economy helped drive a rally in miners of industrial metals in the first weeks of the new year before concerns about recession began to weigh more heavily. On the flipside the precious metals space has come to the fore as a banking crisis helped amplify the apparent safe haven credentials of gold.

SHORT TERM IS ABOUT CHINA, LONG TERM ABOUT TRANSITION

In the short term what happens in China, the world's largest consumer of a broad spread of commodities, may dictate sentiment towards mining stocks. In the longer term investors need to consider the role of mining companies in the



By Tom Sieber Deputy Editor

energy transition and whether now is a good entry opportunity into this theme.

Investment bank Morgan Stanley comments: 'The initial excitement about the impact of China's reopening on commodities has faded, as hard data points remain mixed and are hard to disentangle from the regular spring construction seasonality.

'While there are some pockets of strength, such as infrastructure, vehicle sales started the year on weak footing. There are some green shoots in China's property industry, but we are still far from a full reversal. It clearly takes time to turn around the oil tanker that is China's economy.'

There have been some more encouraging signs of late, with Chinese GDP growth of 4.5% for the

first three months of 2023 beating expectations. This represented the fastest pace in 12 months and has positive implications for commodities demand and therefore prices.

LOOKING BEYOND CHINA

A key thing for mining investors to watch is the extent to which Beijing looks to stoke growth by spending in areas like infrastructure and property which would make the reopening of the economy more metals-intensive.

But it is not all about China. Co-manager of **BlackRock World Mining (BRWM)**, Olivia Markham says: 'The previous super-cycle in mining was a China story but it is much more balanced this time and linked to energy transition in China but also in the US, Europe and other countries. It is about the impact that funding and legislation like the Inflation

Reduction Act in the US can have and how it feeds through to the sector.'

As well as China, a surge in gold has been dominating a lot of the recent discussion around the mining sector. Berenberg analysts Richard Hatch and Charlie Rothbarth say: 'In the near term, we believe that an overweight precious metals strategy is merited due to ongoing geopolitical concerns and risks in the banking sector. We believe this environment will result in a dovish stance from the Fed and a well-supported gold price – the gold/silver ratio has expanded, so our preference lies with gold names.'

In this article we focus on industrial metals but we will carry out a detailed examination of the UK-listed gold and silver miners in a future article.

Looking beyond the near future, other metals are likely to be draw focus away from gold and it was notable to see Azerbaijan-based miner **Anglo Asian**

Examples of UK-listed miners focused on industrial commodities

Company	Forecast dividend yield (%)	Area of focus
Adriatic Metals	n/a	Balkans-based silver and zinc explorer/developer
Anglo American	5.0%	Diversified metals, coal and diamond miner
Antofagasta	2.8%	South America-focused copper miner
Atlantic Lithium	n/a	Lithium exploration and development firm in Ghana
BHP	6.9%	Diversified miner
Central Asia Metals	6.8%	Copper and zinc producer based in Kazakhstan and North Macedonia
Ferrexpo	5.4%	Ukrainian iron ore producer
Glencore	9.7%	Diversified miner and commodities trader
Griffin Mining	6.9%	China-based zinc miner
Horizonte Minerals	n/a	Brazil-focused nickel developer
Kenmare Resources	7.2%	Mineral sands producer
Neometals	n/a	Battery metals developer
Premier African Minerals	n/a	Zimbabwe tungsten developer
Rio Tinto	6.8%	Diversified miner
South32	4.4%	Diversified miner
Tharisa	6.2%	South Africa-focused chrome and platinum group metals producer



Table: Shares magazine • Source: SharePad, Stockopedia, data as of 20 April 2023

Mining (AAZ:AIM) announce a five-year strategy that involves a big shift in focus from gold to copper. Primarily a producer of the precious metal right now, by 2026 it expects copper to supplant gold as its main source of revenue.

Anglo Asian vice president Stephen Westhead told *Shares*, 'Gold is obviously a powerful metal in global economics but copper was a specific target for the company. We have been cognisant of the global market and the demand for copper because of its role as a critical metal in the transition to net zero.'

While a lot of focus in the discussion of the role of the miners in moving the world away from fossil fuels is on battery metals and rare earths, copper could be just as important to the energy transition.

COPPER'S ROLE IN ELECTRIC VEHICLES AND RENEWABLE ENERGY

Copper is seen as a good barometer of the health of the global economy, earning it the nickname 'Dr Copper'. The metal is a critical component in the manufacturing of electronics, homes and infrastructure.

Discussing the metals required for large-scale adoption of solar, wind and electric vehicles, the International Energy Agency says: 'The types of mineral resources used vary by technology. Lithium, nickel, cobalt, manganese and graphite

are crucial to battery performance, longevity and energy density.

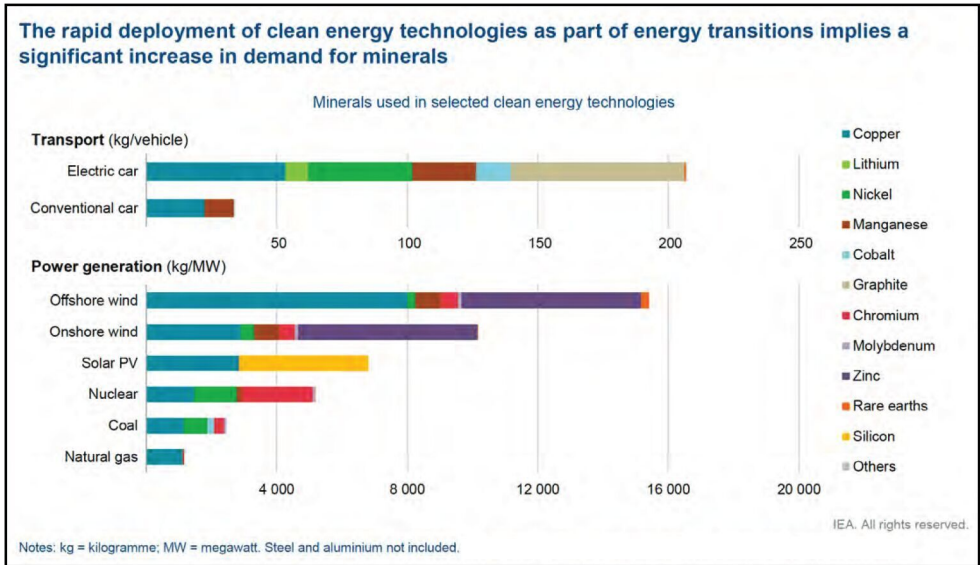
'Rare earth elements are essential for permanent magnets that are vital for wind turbines and electric vehicle motors. Electricity networks need a huge amount of copper and aluminium, with copper being a cornerstone for all electricity-related technologies.'

The IEA estimates renewable energy technologies are four to 10 times more copper intensive than conventional energy production.

Consultant McKinsey estimates annual copper demand will hit 36.6 million tonnes by 2031. Only 30.1 million tonnes are accounted for by current supply projections based on restarts, certain or probable projects and recycled production, leaving 6.5 million tonnes to be found elsewhere.

Their role in what is supposed to be a 'green' revolution means mining companies are having to consider how to get metals out of the ground with the lowest possible environmental impact. Renewable energy developers and electric vehicle firms are likely to consider these factors closely as they manage their supply chains.

BlackRock's Markham notes: 'This is something happening industry-wide, companies don't want to miss out on opportunities because they can't produce commodities in low carbon way. ESG (environmental, social and governance factors) is so important, it's all about having a social licence to operate.'



However, she also acknowledges that ‘in terms of the timeframe we are relatively early on in this journey’.

One issue facing the big UK miners, several of which have significant exposure to iron ore used in steelmaking, is the need to move towards low carbon steel. This is likely to involve the application of innovations like the use of green hydrogen to remove oxygen from iron ore and create a product called ‘direct reduced green iron’. That can be fed into renewable-powered furnaces to make steel with negligible emissions. Moving in this direction will have implications for costs and output.

WILL MINERS REMAIN DISCIPLINED?

As companies react to the increased demand implied by the shift to renewables and electric vehicles by investing in new projects and technologies, there is a risk the capital discipline and accompanying generous dividends which have been a marked feature of the sector in the past decade or so will be abandoned.

Dividends have already started to retreat from the high-water mark seen in 2022 when significant inflation in commodity prices lifted earnings and cash flow.

However, BlackRock’s Markham believes miners will remain committed to managing their capital sensibly and rewarding shareholders. She says: ‘We’ve got management teams which are really committed to returning capital to shareholders and are compensated by the metric of pay-out ratios.

‘It is also difficult to see how it’s possible for companies to spend lots of capital at present. There isn’t a huge pipeline of projects they can invest in internally and while they may look at M&A, companies remain wary of large-scale deals.’

INVESTMENT IDEAS: OUR PREFERRED MINING STOCKS AND FUNDS

The long-term direction of travel towards renewables and electric vehicles feels undeniable but in the short term the weaker economic outlook means sales of the latter are uncertain (unless prices come down a lot) and renewables investment could stall.

Battery metals like cobalt and lithium have already seen price declines, with cobalt also impacted by news Chinese mining company CMO



Different approaches to mining

There are three main methods of mining:

- 1. Underground mines:** These are more expensive and are used to reach deeper deposits. The entry from the surface to an underground mine is typically through a horizontal or vertical shaft and explosives and machinery are used to blast and tunnel through rock.
- 2. Surface and open-pit mines:** These are typically used for shallower and often less-valuable deposits and involve extracting metals and minerals from an open pit in the ground.
- 3. In-situ mining:** This involves dissolving the mineral resource in place then processing it at the surface without moving rock from the ground.

and its Congolese partner have struck a deal to resume sales from one of the world’s largest cobalt and copper mines. This will unlock a stockpile of the two metals worth a combined \$2 billion. Typically, more supply means lower selling prices, unless demand is growing faster than supply.

Lithium and cobalt prices dive

Lithium vs cobalt (rebased to 100)

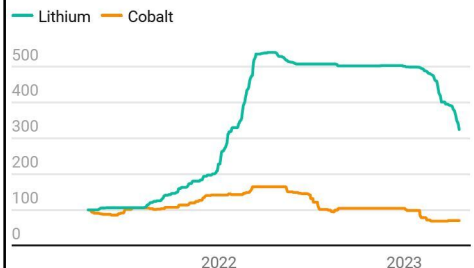
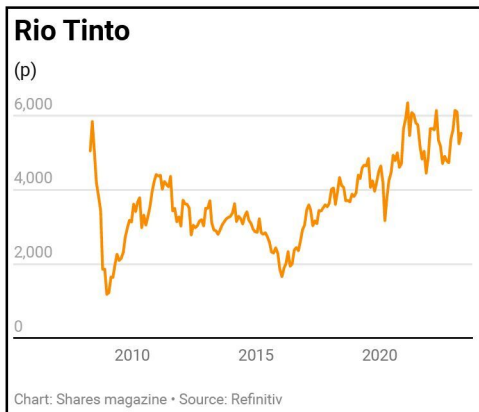


Chart: Shares magazine • Source: Refinitiv

This is a reason to avoid exposure to small producers and developers of battery metals which will find it more difficult to weather short-term fluctuations in prices. Miners with some level of diversification should be better placed.

Our favourite large cap miner is **Rio Tinto (RIO)**.

Jefferies analyst Christopher LaFemina says: 'We believe that Rio is defensively positioned at this point, given its low production costs, strong balance sheet, and significant capital returns.'

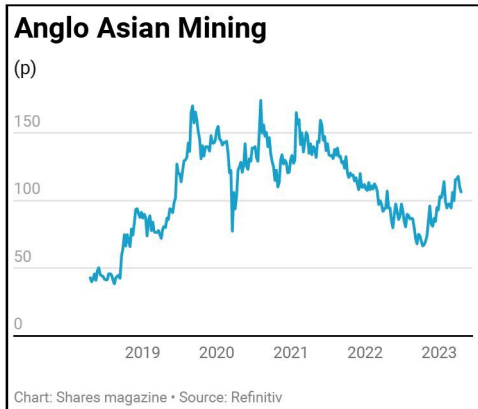


Rio is trying to leave behind a chequered history in terms of ESG with current chief executive Jakob Stausholm at the forefront of these efforts. In 2022 Rio created the Juukan Gorge Legacy Foundation, as part of its efforts to make amends for destroying two ancient rock shelters at Juukan Gorge in Western Australia in 2020, as well as publishing an unsparing report into a dysfunctional and abusive working culture. In the short term Rio Tinto's significant iron ore exposure makes it a good play on a recovering Chinese economy.

A small cap option with growth potential is Anglo Asian Mining. It has a target to produce 35,000 tonnes per year of copper by 2028 as it develops two new projects in Azerbaijan. This plan is underpinned by having a strong balance sheet with no bank debt, \$20 million of cash and the cash flow generated by its current gold production.

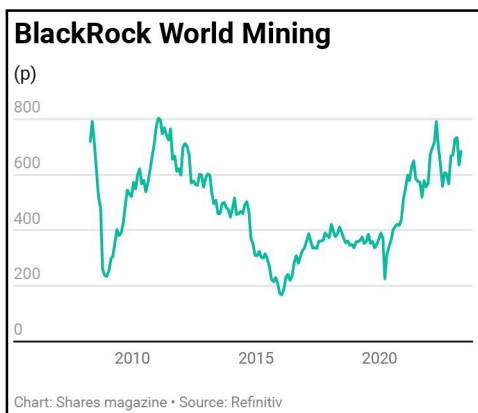
The company, which has a track record of successfully operating in Azerbaijan, remains committed to dividend payments in the interim, with the shares yielding 6% based on consensus forecasts. Broker SP Angel's estimated net asset value of \$300 million (£241 million) is more than double the current value of the company on the stock market (£117 million). Risks include the single country focus

and challenges in bringing its copper projects into production.



INVESTMENT TRUST AND FUND OPTIONS

Investors looking for diversified exposure to the mining sector have a few options. Our preferred name is investment trust BlackRock World Mining. Its 10-year annualised return is 8.5% and it has an ongoing charge of 0.95%, which compares well with the natural resources focused peer group.



A lower-cost alternative is tracker fund **Van Eck Global Mining ETF (GIGB)** which has ongoing charges of 0.5% and tracks a basket of global mining firms including **BHP (BHP)**, US-listed **Freeport-McMoRan (FCX:NYSE)** and Brazil's **Vale (VALE:NYSE)**.

If you prefer a 'picks and shovels' approach, based on the idea the people selling these items during the 1848 California Gold Rush were the



Jargon busting – some key terms and metrics to understand

RESOURCES AND RESERVES

The Joint Ore Reserves Committee code, also known as JORC, is one of several classifications of mineral deposits and is the most widely used by miners on the UK stock market.

An inferred mineral resource is where tonnage, grade and mineral content can be estimated with a low level of confidence.

Indicated resources are economic mineral occurrences that have been sampled to a point where an estimate has been made, at a reasonable level of confidence, of characteristics such as metal, grade and tonnage.

Measured resources are indicated resources that have undergone enough further sampling that a geologist has declared them to be an acceptable estimate, at a high degree of confidence, of the grade, tonnage and physical characteristics of the mineral occurrence.

A mineral reserve is the economically mineable part of a measured or indicated resource.

TAILINGS

This is the material left behind after the valuable minerals have been extracted from the ore. As mining methods have become more sophisticated, tailings have been reprocessed to recover any remaining minerals.

GRADE

This refers to the concentration of a valuable mineral or metal within an ore (i.e., the rock which contains the mineral or metal) and is typically measured as a percentage or sometimes per tonne. Ores are extracted from the earth through mining and then refined to extract the mineral.

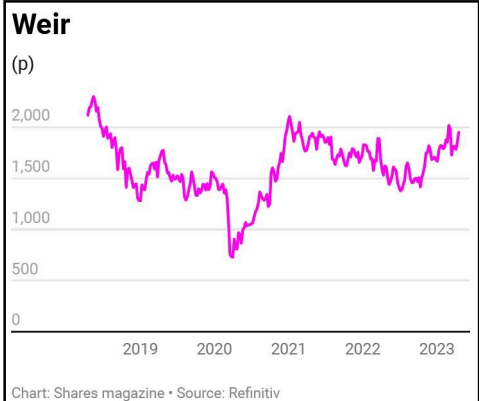
There is a grade below which it is not profitable to mine a mineral even though it is still present in the ore. If the material has already been mined there is also a grade at which it does not make economic sense to refine or process it. The minimum grades vary on a project-by-project basis.

A good copper grade, for example, is anywhere around 1% but some mines are economic at grades of 0.5%.

ones making the real money, then mining engineer and equipment specialist **Weir (WEIR)** could be a good option. The company became a more focused following the sale of its energy services arm in 2021 although the shares are not cheap on a 2023 price to earnings ratio of 18 times.

Shore Capital analyst Akhil Patel says: 'Population growth, the convergence of living standards, urbanisation, ore grade decline (i.e., more materials need to be processed to extract the same amount of metals/minerals) and the demand for metals/battery metals to support the global clean energy transition/decarbonisation all point in Weir's favour.

'Especially given the need for mining to become more efficient and reduce its carbon emissions.'



Revealed: the UK market's most hated stocks and our picks to bounce back



Stock prices usually bottom well before company news flow turns positive

This article attempts to uncover the least favoured stocks in the UK market. The idea is to identify contrarian investment ideas which have the potential for a strong rebound when sentiment improves.

Betting against the crowd when they are wrong is a sure-fire way to make money in the stock market, but it's much easier said than done.

Picking individual stocks is hard to get right. Even the professionals find it difficult to outperform the market and they have far greater resources and access to companies than the average investor. It

also takes nerves of steel to buy when everyone is saying you should do the opposite.

MOST LOVED AND MOST HATED

Investment analysts generate in-depth reports and give opinions on which stocks to buy and which to avoid. Conflicts of interest due to corporate relationships tend to result in more buys than sells.

AJ Bell investment director Russ Mould has analysed the most and least favoured FTSE 100 stocks as recommended by brokers over the last few years. He concludes: 'The bad news is the analysts'

Least Popular FTSE 350 stocks at start of 2023

Company	Sell recommendations (%)	Three-month relative performance (%)
Abrdn	60%	-2.4%
Ashmore	45%	-7.1%
TUI	43%	-48.4%
Kingfisher	37%	-2.7%
EasyJet	33%	17.2%
Rolls Royce	31%	39.1%
Sainsbury	31%	14.1%
ASOS	30%	0.3%
Bunzl	28%	5.7%
Ocado	28%	-28.8%

Sell percentage data as at 6 January 2023, three-month relative performance data as at 20 April 2023

Table: Shares magazine • Source: Refinitiv data, analysts consensus, Marketscreener

Least favoured UK stocks by analyst recommendations

Company	Number of brokers	Sell recommendations (%)
Abrdn	15	73%
Renishaw	5	60%
Hammerson	18	50%
Admiral	14	43%
International Distributions Services	7	43%
Aston Martin Lagonda	7	43%
Quilter	12	42%
Ocado	12	42%
Kingfisher	17	41%
Ashmore	10	40%
Jupiter Fund Management	11	36%
Wizz Air	14	36%
Persimmon	17	35%
Vodafone	17	35%
Hargreaves Lansdown	20	35%
Ninety One	6	33%
Bunzl	18	33%
Severn Trent	12	33%
Carnival	9	33%
Boohoo	16	31%
Supermarket Income REIT	10	30%
Currys	10	30%
ASOS	27	30%

Data as at 18 April

Table: Shares magazine • Source: Stockopedia, Refinitiv

top picks failed to beat the FTSE 100 index in 2015, 2016, 2017, 2018, 2020, 2021 and now 2022, despite all their diligence. Only two of the 10 most popular names generated positive total returns and beat the index for good measure.'

That said, the least favoured also did badly with an aggregate total return of minus 20.5% against the positive 4.7% provided by the benchmark index.

'Knowing which names to avoid can be every bit as valuable as knowing which names to buy.

'You can argue it is the picks when analysts go against the crowd that come with greater conviction and thus may be worthy of greater attention,' added Mould.

Building on the same theme we have used Stockopedia software to isolate UK companies with a market capitalisation above £500 million where 'sell' and 'underperform' recommendations represent more than a third of views.

BEATEN-UP HOUSEBUILDERS

A few trends jump out from the data. The housebuilding sector remains deeply unloved and one of the few industries where share prices remain significantly below pre-pandemic levels.

'Sell' and 'underperform' ratings make up 35% of all recommendations at **Persimmon (PSN)**.

Analysts have slashed their 2023 earnings estimates for Persimmon by 63% over the last 18 months, reflecting concerns over slowing demand, higher mortgage costs and rising raw material inflation.

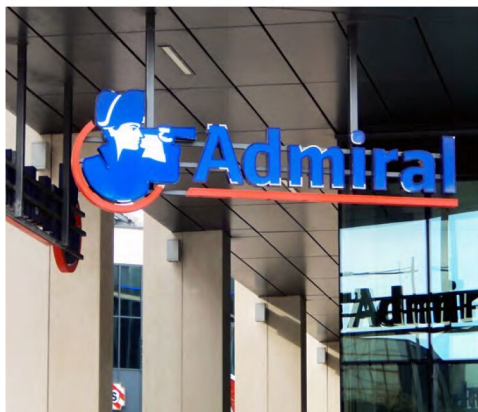
On 1 March the shares slumped 10% after chief executive Dean Finch warned completions, margins and profits would be 'down markedly' due to the sharp slowdown in the new-build market.

Reduced volumes, together with greater sales incentives and marketing costs, could further impact operating margins by around 8%.

Although mortgage rates have subsided from the spike seen after the disastrous mini-Budget last year, which saw two-year swap rates spike close to 6%, the latter remain a headwind for borrowers at around 4.7% compared with below 1% two years ago. This is relevant because UK mortgages are generally priced off two-year swap rates.

With share prices on the floor, could most, if not all, of the bad news already be discounted? That seems to be the view of analysts at HSBC who recently raised their rating on housebuilders

(13 April) and increased share price targets by an average of 29% across the sector.



INSURANCE WOES

Insurers initially benefited from lockdowns as traffic disappeared from roads which in turn suppressed claims and increased profitability.

Since the reopening of the economy the combination of rampant car repairs inflation, extreme weather, and higher interest rates (which lowers the value of bond portfolios) has impacted the sector.

Insurer **Admiral (ADM)** has seen its shares fall over 35% in the last 18 months as post pandemic claims inflation and rising interest rates have impacted profitability.

On 8 March the company cut its final dividend by 28% to 52p per share, taking the total 2022 dividend including specials down 40% to 112p per share.

The company observed an increase in average claims cost in double digits and said the frequency of accidents had increased coming out of the pandemic. The home insurance arm was hit by bad weather.

Fellow insurer **Direct Line (DLG)** shocked investors on 11 January after passing on its final dividend entirely to restore the balance sheet.

The news was unexpected in part because historically Direct Line has been a prodigious payer in regular and special dividends since 2013.

The company appears to have been hit by the perfect storm of weather-related costs combined with continued claims inflation. In addition, the firm's investment property portfolio

has suffered a worse than expected 15% drop in value. A few weeks later the fiasco led to CEO Penny James agreeing to part ways with the company.

GO BIG OR GO NICHE

Generalist mid-sized fund managers have been attacked on all sides in recent times, from competing lower cost exchange-traded-funds which continue to grab market share, to specialist boutique fund managers offering investors more focused exposure to investment themes.

Asset manager **Abrdn (ABRDN)** stands out as the most despised stock in the UK with 73% of analysts tagging it with a 'sell' or 'underperform' rating.

Consensus earnings estimates have been revised down by nearly 40% over the last 18 months.

The company is not alone in attracting 'sell' recommendations from analysts. **Quilter (QLT)**, **Ninety One (N91)** and **Jupiter Fund Management (JUP)** are also out of favour.

Just like the insurance sector, fund managers have suffered from a perfect storm with both stocks and bond prices falling in tandem last year, leaving investors nursing losses.

Abrdn has been particularly hard-hit which resulted in the shares being demoted from the FTSE 100 in 2022. The company has been cutting costs and streamlining its offering by closing or merging around 120 of the funds in its range.

Analyst David McCann at Numis believes the company would add more value by splitting the business up and returning capital to shareholders. The stock market seems to reward managers who have achieved greater scale or the specialists which means those occupying the middle ground may continue to struggle.

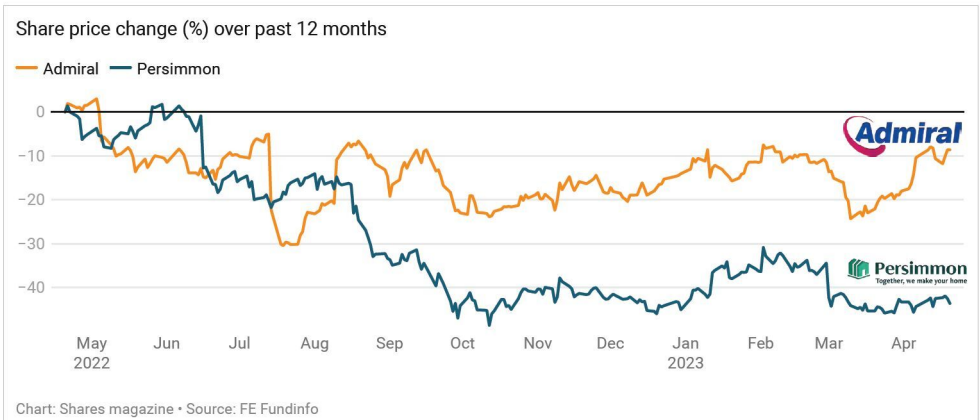
SHARES' TOP

CONTRARIAN PICKS

ADMIRAL (ADM) £22.64

Famed investor Warren Buffett is keen on saying that he prefers to buy stocks like he buys his favourite groceries, in other words, when they are on offer.

We believe investors have thrown the baby out with the bathwater in the case of car and home



insurer Admiral, presenting an attractive risk to reward contrarian buying opportunity.

The company has proven to be one of the best operators in the sector and has consistently generated an underwriting profit, 2022 notwithstanding.

Its capital light business model and keen cost focus means it generates plenty of cash and regularly pays out special dividends.

Admiral has an outstanding track record of providing strong shareholder returns. Total returns (share price appreciation and reinvested dividends) have increased 10-fold since 2005 representing a compound annual return of 14.4% a year.

The perfect storm impacting the sector in 2022 has probably done its worst, opening the potential for a strong recovery in profitability. Jefferies notes that car insurance pricing is improving at pace with premiums up 39% year-on-year in March.

Meanwhile, claims inflation is subsiding and second-hand car values are around 4.5% lower than last year. All the evidence suggests downward revisions to earnings have reached a trough.

PERSIMMON (PSN) £12.43

Arguably, investor sentiment couldn't get much worse for the UK housebuilders with the removal of Help to Buy scheme the final piece of bad news. Persimmon's shares languish around 60% below pre-pandemic levels.

According to an analysis of cyclically-adjusted earnings the price to earnings ratio is around six

times, which is on a par with the depths of the banking crisis in 2008.

Meanwhile earnings have fallen back to their long-term trend line. Therefore, unless investors believe the downturn in the sector is likely to eclipse the worst on record, the risk to reward ratio looks very attractive at current levels.

As discussed, HSBC analysts appear to have come to the same conclusion. Having downgraded the sector in autumn 2022, they are now more constructive, arguing that valuations reflect the worst of the downturn.

'We now have greater visibility about the shape of the current housing market downturn for the housebuilders' profits and cash flows and their recovery from it, which we believe to be more than priced-in to share prices.'

That's not to say the near term isn't likely to see further contraction in housing activity. The bank's analysts are forecasting 20% fewer completions in 2024 compared with 2022 and new build prices falling by around 5%.

Disclaimer: Financial services company AJ Bell referenced in this article owns Shares magazine. The author (Martin Gamble) and the editor (Tom Sieber) of this article own shares in AJ Bell.



By Martin Gamble Education Editor



Are extra bank holidays bad news for business and the economy?

The public will welcome more time off work, but companies may not be as enthusiastic

There has been a significant amount of debate surrounding the cost or otherwise of bank holidays to the UK economy. This year May is awash with four day working weeks as the country comes together to celebrate the coronation of King Charles III which is being marked with an extra public holiday.

Hospitality businesses and food retailers are already salivating at the prospect of extra pints being pulled and soaring sales of that quintessentially British quiche.

Greene King boss Nick Mackenzie reckons that pubs will get a 'much needed' boost as revellers put the cost-of-living crisis to one side and estimates that at his estate alone they will pour 1.8 million pints over the bumper weekend, with the chain helpfully crafting a coronation ale to mark the occasion.

Looking at last year's Barclaycard spending data from the Platinum Jubilee weekend, Mackenzie has every right to be hopeful. Pubs, bars and nightclubs saw spending shoot up 74.2% compared to the same (albeit disrupted by the pandemic) period the year before and hospitality spend was also up by over 40% as people made the most of their time off with family and friends.

This is emboldening for an industry which saw 153 pubs lost from English and Welsh communities

in the first three months of this year as pubs struggled with rising prices, particularly when it comes to energy costs.

WHICH SECTORS WILL BE CORONATION WINNERS?

In addition to pubs, supermarkets are in line for a big win from the coronation and extra bank holiday weekend. Although they will see opening hours cut, the celebratory nature of the day is expected to deliver the same kind of boost enjoyed by last year's royal festivities. Figures from Kantar suggested that sales over the Platinum Jubilee were £87 million higher than the average in 2022.

But with food inflation still at uncomfortably high levels supermarkets will be using every trick in the book to pull in punters. Investors have already seen how that dance is impacting profit margins with **Tesco (TSCO)** saying its pre-tax numbers had been seen in half in the year to February 2023.

Perhaps that's why investors don't seem won over by the potential gains of a bank holiday. Looking at the FTSE 350 in the two-week period on either side of the Jubilee weekend the only retailers to enjoy positive share price movement were Primark-owner **Associated British Foods (ABF)** and **Ocado (OCDO)** and not a single hospitality business made it out of the red zone.

B&M (BME) was the biggest loser over the period and travel operators **National Express (NEX)** and **Wizz Air (WIZZ)** made up the bottom three despite travel and leisure, retail and hospitality

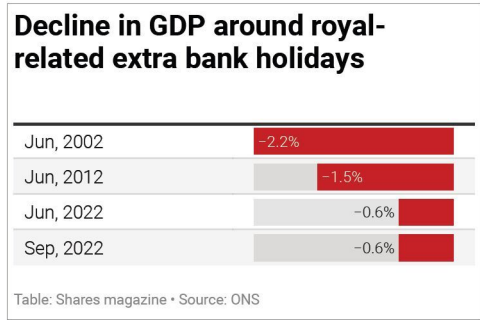


being sectors that traditionally benefit from bank holidays.

Nonetheless, it may not be that straightforward to look at share price reactions immediately before and after the events. In most cases, these extra bank holidays will have been known months in advance and investors will have priced in any benefits or disadvantages into market valuations well before the day.

WHAT ABOUT THE REST OF THE ECONOMY?

The rest of the economy comes to something of a hard stop. Looking back at UK economic activity in the months when the last four ‘exceptional’ bank holidays occurred you can clearly see the negative impact of giving Brits an extra day off work.



GDP fell significantly in both June and September last year and previous Jubilees had an even more discouraging impact on output.

While most shops, bars and restaurants will seize the day, many workplaces will shut and schools will also be closed for the bank holiday Monday, causing a major headache for parents working in sectors that remain open.

At a time when the UK is already struggling to find any kind of forward momentum the expected hit to economic growth will be an unwelcome one. Manufacturing, in particular, has been hit by supply chain issues and input costs and it is often the sector that struggles the most.

To put it in monetary terms government modelling puts the cost of these extra bank holidays at £1.36 billion though recent research from PwC has suggested that number might be closer to £831 million.

The hit to GDP is only half the story as the month



following these ‘short’ working weeks usually results in a pretty significant bounce back.

Plus, there’s the feel-good factor to consider, with plenty of voices on hand to call for a permanent addition to the bank holiday roster, or even the introduction of a four-day working week, which they feel would boost productivity, something the country has struggled to achieve and something which has been trialled at a number of businesses over the past year.

WON'T TOURISM GET A BOOST?

Then into the mix we must add the cost of staging the grand shebang and the rather slippery tourism boost, something that is impossible to quantify.

But when you hear stories about Americans booking airline tickets to England as soon as King Charles’ coronation date was announced it is clear these big royal spectacles give the country a special status.

Prime minister Rishi Sunak might be a self-professed lover of mathematics, but I dare say even he would struggle to pull all the disparate numbers together and come up with a definitive answer as to whether these extra bank holidays are bad news for business or not.

But one thing investors can be sure of, even if the sun doesn’t shine, the extra day off is a chance to recover from the onslaught of economic data, as long as they ignore markets in the rest of the world.

By Danni Hewson
Head of financial analysis at AJ Bell

Why China really needs its tech sector if it is to flourish



Innovation could be the answer to some of the big challenges facing the world's second largest economy

To take on the challenges of improving productivity, living standards and transitioning away from fossil fuels China will need a thriving tech space.

Beijing seems to have walked back some of its crackdown on the sector while the likes of **Alibaba (BABA:NYSE)** have announced plans to break up their businesses to help address monopoly concerns.

In 2021 a report from the International Monetary Fund commented: 'Stagnant productivity is a signal that China needs more innovation, and a diversified financial system to support it.'

'China has many of the ingredients that

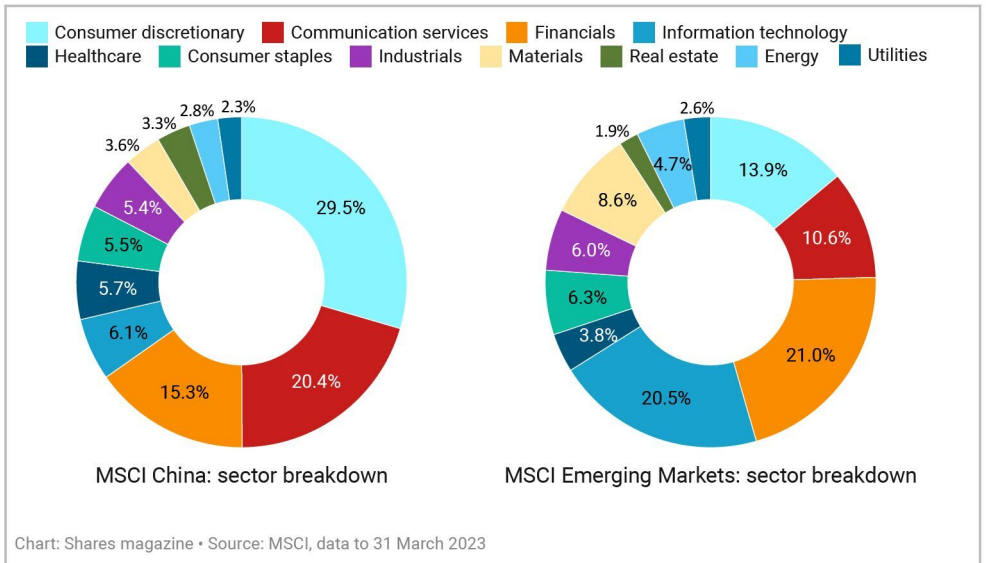
contribute to innovation—a large domestic market; high spending (2.4% of GDP) on research and development; millions of scientists, engineers, and software developers graduating every year; and gradually improving intellectual property protection. Still, innovation output is inconsistent.

'Innovation will be the key to meeting the country's environmental goals, especially the target of zero net carbon emissions by 2060,' added the IMF.

If you look at the MSCI China index true technology companies are relatively thin on the ground – with Alibaba and other internet-based businesses classed as either in the communication services or consumer discretionary universes.

Somewhat surprisingly information technology has a significantly higher weighting in the broader emerging markets space, which could hint at the progress China needs to make to become a true tech champion.

This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit [here](#)



Emerging markets: US green spending, Chinese tech and a banking crisis

Three things the Franklin Templeton team are thinking about right now

1. Implications of liquidity crisis in selected developed market banks. The liquidity crisis impacting selected developed market banks has unnerved emerging market investors. In our view, the risk of contagion to emerging market banks appears low given higher capital levels and tighter regulation. Implications that we are thinking about today include the impact of lower US bond yields and rising risk aversion among providers of capital. Lower US bond yields could result in a weaker US dollar, which is good news for liquidity in emerging markets. However, rising risk aversion among banks and alternative providers of capital could reduce the availability of credit. In the coming months, investors need to monitor both factors to gauge the impact of the liquidity crisis in selected developed market banks on emerging markets.

2. Reorganisation among Chinese technology companies. With its provisions on the storage and transfer of data, the Chinese data security law, which came into force in 2021, affected technology companies. The impact of the law was initially negative, but managers of these companies and investors have since become comfortable with the law, which is similar in its provisions to the US CLOUD Act. The implications of the law partly drove China's largest technology company to recently announce a corporate reorganisation, which the market received positively. Other Chinese technology companies could announce similar reorganisations to unlock value, resulting in more focused companies and investment opportunities.

3. Impact of US Inflation Reduction Act (IRA) on emerging markets. To benefit from the IRA, a country needs a free trade (FTA) or similar agreement with the United States. A quarter of the 20 countries that have a FTA are emerging markets, including Mexico, Chile and South Korea. Operating in a country without a FTA implies



companies exporting to the United States cannot benefit from the subsidies offered for renewable energy or the electrification of transportation. This is particularly relevant for emerging markets supplying raw materials for batteries. Indonesia is the world's largest supplier of nickel, a critical input to the production of batteries. The country is receiving increasing foreign direct investment on hopes of an agreement similar to that of Japan who recently signed with the US on critical materials for batteries. Commodity producers' recent and planned initial public offerings are deepening Indonesian capital markets and raising the country's profile among emerging market investors.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Portfolio Managers



Chetan Sehgal
Singapore



Andrew Ness
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

China investment trust shares fall as fears grow over pace of economic recovery

The share price rally which started in late 2022 has run out of steam

Shares in China-related investment trusts have fallen after a late 2022 rally amid fears the country's economic recovery is uneven. While first quarter GDP jumped by a better than expected 4.5%, there are concerns the pace of growth may now slow.

Markets immediately priced in a stronger economic environment when the Chinese government indicated late last year it would relax Covid-related restrictions. For example, the SSE Composite index of Chinese shares has risen by 14% since the start of November 2022. That index has stayed firm year-to-date, yet names such as **Fidelity China Special Situations (FCSS)** and **Baillie Gifford China Growth Trust (BGCG)** have more recently been in a falling trend.

Abrdn China Investment Company (ACIC) is down nearly 20% since the start of February. Its portfolio is focused on various themes including rising affluence, growing adoption of technology and the green movement.

This trust switched focus in 2021 from emerging markets to investing directly in the equities of

Chinese companies. Since then, it has been a hard slog after Chinese shares were hit by a clampdown on businesses by Chinese regulators.

Manager Elizabeth Kwik believes the recent China reopening story plays well to trust's portfolio as consumers start spending again. 'One of our key themes is domestic consumption. Upper-middle income households in China have a surplus of cash and the premium consuming class is rapidly expanding.'

But experts have warned China's economic recovery could take longer than expected and may ultimately disappoint. Ron Temple, chief market strategist at Lazard is particularly cautious longer-term, saying: 'The rebound from zero-Covid is likely to deliver 5.5% to 6% real GDP growth for China in 2023. However, the easy comparisons fade early in 2024, and I expect a significant downshift in Chinese growth thereafter as pent-up demand is sated and the lasting scars of the residential real estate reset and the zero-Covid policy fumbles reduce confidence in the household and corporate sectors.'

Kwik at Abrdn remains optimistic. 'Valuations are still attractive and the recovery can continue post reopening. In contrast to the rest of the world there is lower inflation which will bolster economic and earnings growth,' she says.

'There was an initial rally when the reversal of the Covid strategy was announced, and in February there was a bit of profit taking, which is fair, and at that time we hadn't seen any earnings yet or much visibility. But now, corporates have finished reporting their results for Q1, and companies are very positive on the ground for the rest of this year.'

China investment trusts take a tumble

Share price decline since 2023 peak

Trust	% decline
JPMorgan China Growth & Income	-28%
Baillie Gifford China Growth	-25%
Fidelity China Special Situations	-20%
Abrdn China Investment Company	-19%

Table: Shares magazine • Source: Shares, Google Finance. Data taken 21 April 2023



By Sabuhi Gard Investment Writer

BINGI!
BINGI!
BONG!



That's the sweet sound
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Troy fund manager: the secret to finding the best dividends

Having a dividend grow each year is a significant advantage to flat income from cash and bonds

Today's era of higher interest rates means shares face competition for investors' hard-earned savings money from the interest on cash and the coupons paid out by bonds. However, the purchasing power of cash is being eroded by inflation, while the coupons investors clip from bonds can only ever be fixed.

'The beauty of equities and equity income is the growth,' says Troy Asset Management's Blake Hutchins, who co-manages the **Troy Income & Growth Trust (TGIT)** alongside Hugo Ure and is lead manager on the sister vehicle **Trojan Income Fund (BZ6CQ39)**. 'When you look at the ability to get perpetuity growth off that dividend coupon, that is what differentiates us.'

Hutchins says equities – and by extension funds that invest in equities – can deliver sustainable growth which puts them at an advantage to cash and bonds. For example, an equity fund that delivers £3.30 for every £100 invested today, so a 3.3% dividend yield, has the potential to increase the annual payment into £3.50, £4 or even £5 annually over the coming years, which a bond cannot do.

RESILIENT INCOME GROWTH

As an asset manager, Troy is known for its cautious investing approach and Hutchins says the company's emphasis is on resilient income growth from high quality companies.

Troy Income & Growth Trust and Trojan Income do not have the highest dividend yields in the market at 2.8%, yet the fund manager says they could have among the most resilient sources of income. 'Over time we believe that will translate to better dividend growth than the market and better dividend growth than our peers,' he explains.

Rather than manufacture dividend growth by chasing high yielding stocks, the fund manager



prefers to focus on what he calls dividend compounders. 'The lower your starting dividend yield, the better your subsequent dividend growth (potential),' says Hutchins. 'And the opposite is the case, the higher your starting dividend yield, the less likely that dividend is to be realised and the more perilous that dividend growth is.'

He believes Troy has found a sweet spot with its income portfolios, which balance quality, growth and yield in order to sit around in the 2% to 4% yield range. Over history, that has translated to between 5% and 8% annual dividend growth over the long term.

DIVIDEND ARISTOCRATS

While both Troy Income & Growth Trust and Trojan Income are invested in London-listed large caps such as **Unilever (ULVR)**, **Diageo (DGE)**, **RELX (REL)** and **GSK (GSK)**, there is the ability to invest overseas.

That explains the presence in their portfolios of names like **Procter & Gamble (PG:NYSE)**, the world's largest manufacturer and distributor of branded personal care and home care products, payments group **Visa (V:NYSE)** and payroll services company **Paychex (PAYX:NASDAQ)**, stocks which provide additional dividend diversification for the funds' investors.

Troy Income & Growth and Trojan Income have stakes in companies with strong dividend growth track records such as Procter & Gamble, the Gillette razors, Pampers nappies and Tide detergent



Procter & Gamble - a good example of strong dividend growth

Dividend per share (\$)

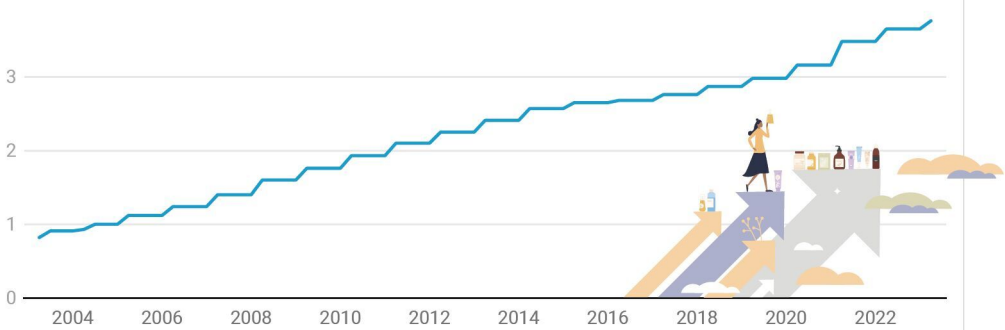


Chart: Shares magazine • Source: Refinitiv

supplier with 65 consecutive years of dividend growth under its belt.

In the FTSE 100, dividend aristocrats include **Bunzl (BNZL)**, the specialist distribution group which has grown its dividend at a 10% compound annual growth rate for 30 years, as well as **Croda (CRDA)**, the speciality chemicals concern which has also raised its dividend for more than three decades.

Hutchins' view is that taking dividends from companies is 'all about capital allocation, and capital allocation is all about people'. So, meeting management teams is something he prioritises. 'That capital allocation over time is going to make the difference in terms of value creation, but also dividend growth.'

NEW POSITIONS

At the end of last year, Troy Income & Growth and Trojan Income invested in enterprise software provider **Sage (SGE)** and Hutchins is bullish about the subscription software business' resilient recurring revenues and high cash generation.

A new position for the two funds this year is pharmaceutical giant **Roche (ROG:SWX)**. The Troy stock picker says Roche has 'an amazing track record of growth and in developing innovative drugs, which is such a challenge for the pharmaceutical industry' and sees Roche as a 'very defensive growth business which has great

income characteristics as well'.

Whereas some of the other pharmaceutical companies are much more acquisitive, Hutchins likes the fact that the emphasis at Roche is on 'internally generated innovation and research and development'.

SLOW GRIND

Risk-averse investor Hutchins says there are plenty of things for investors to worry about at the moment. For instance, companies are going to find generating sales growth more challenging, while maintaining margins will be tough given rising operating costs, and higher corporation tax is another headwind.

'Buybacks are going to be less prevalent as well,' he warns, 'because companies will be hoarding cash and there's less animal spirits out there, so I am cautious on earnings growth.'

That said, Hutchins says there is plenty of opportunity for resilient, high quality dividend payers to chug along. 'A cautious outlook doesn't necessarily mean negative returns. It just means more of a slow grind outlook than the buoyant one we've had in recent years post the pandemic.'



By James Crux
Funds and Investment Trusts Editor

As a sole director of a limited company, how much can I make in employer contributions?

Our expert helps with a tricky question on pension limits

I am planning to take the maximum tax-free lump sum from my pension pot and go into drawdown. I have a sum of money invested in my limited company and plan that the company will stay trading albeit on a limited basis for the foreseeable future.

I understand that the amount that I can personally pay into my pension pot from the point at which I go into drawdown is £10,000 per annum, but are employer contributions also capped at £10,000?

I understand the cap on personal contributions is to avoid double paying of HMRC tax relief, but the situation for employer contributions is different isn't it, and there is no personal tax relief on these contributions – so I thought the cap on employer contributions would still be the maximum £60,000 per annum?

Mark



Tom Selby, AJ Bell Head of Retirement Policy, says:

The main pensions annual allowance, which covers personal contributions, employer contributions and tax relief, recently increased from £40,000 to £60,000. The money purchase annual allowance (MPAA), which is triggered when you flexibly access taxable income from your pension, has also increased from £4,000 to £10,000.



In addition, the minimum tapered annual allowance, which applies to very high earners, has risen from £4,000 to £10,000. The 'adjusted income' figure beyond which the taper kicks in has also increased from £240,000 to £260,000. Where someone is affected by the taper, for every £2 of adjusted income they earn, a £1 deduction will be made to that person's annual allowance, to a minimum of £10,000.

You can read this [guide](#) to the annual allowance taper.

Once you make a pension withdrawal via drawdown you will trigger the MPAA. Unfortunately, this lower annual allowance will apply to *all* pension contributions made to your scheme – including any employer contributions.

Triggering the MPAA will also mean you can no longer carry forward up to three years of unused annual allowances from the three previous tax years.

That is not to say you shouldn't take a drawdown income – that is entirely up to you. But it's important to carefully consider the significant tax implications of doing so, as well as the sustainability of your income strategy.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to asktom@sharesmagazine.co.uk with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.



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SHARES
SPOTLIGHT

**11 MAY
2023**

The next UK
interest rate
decision



Are UK interest rates heading to 5%? Here are the pros and cons if that happens

The latest inflation figures have once again changed market expectations for the cost of borrowing

Inflation in the UK remains above 10%, according to the latest reading of the Consumer Price Index, a fact which has confounded markets and led to interest rate expectations spiking.

The market is now anticipating three interest rate rises this year, which would take the Bank of England's base rate to 5%. Before the release of the latest inflation data, the expectation was we would only see one more interest rate hike, possibly two. So there has been a considerable shift in sentiment.

WHY DOES THIS MATTER?

Higher interest rates potentially affect a wide range of personal finance matters. Probably the most obvious knock-on effect is on the mortgage market, which will concern the millions of people rolling off cheap fixed-rate deals this year, who will face a much more punishing rate of interest when they

come to remortgage.

Interest rates themselves don't have to rise, simply the expectations of higher rates can push fixed-rate deals up, and we may start to see a bit of upward pressure in the mortgage market as a result of this latest inflation data.

Businesses are also adversely affected by higher interest rates. This increases the cost of servicing their debt, and also puts pressure on revenues, because higher rates also mean tighter consumer finances. This could put pressure on company profits and by extension, share prices.

Bond prices are also adversely affected by heightened expectations of interest rate rises. Indeed, the yield on the 10-year gilt (UK government bond), which moves in the opposite direction to its price, is now approaching 4% once again. That also heaps pressure on government finances, as the Treasury has to pay more to borrow as interest rates rise.

CAN HIGHER RATES BE GOOD NEWS?

Every cloud has a silver lining, and cash savers

will be pleased at the prospect of an even higher return on their money, after more than a decade of deprivation.

The fact inflation still stands in double digits makes this a somewhat pyrrhic victory however, especially seeing as it's proving stickier than anticipated.

Those who are looking to buy an annuity with their pension fund might also be in for a better deal, as these are priced based on bond yields. Again though, high rates of inflation erode the value of level annuities, which pay the same income year in, year out. You can buy an inflation-linked annuity, but it starts at a much lower level.

MIGHT INTEREST RATE PREDICTIONS BE WRONG?

While the market now appears to be pencilling in three more interest rate rises this year, this may not come to fruition. It's very difficult to predict with any accuracy how the nine members of the Bank of England's interest rate setting committee will vote at any one of their policy meetings. The market has been shocked by persistently high inflation, but as

and when inflation starts to fall away, we might see a sharp reversal of market pricing.

The Bank of England's forecasts already show inflation falling below its 2% target in the medium term, which suggests the interest rate hiking cycle is close to done.

The turmoil in the global banking sector also helps to cool the economy and lessens the need for interest rates to rise significantly, as does the gradual slackening we have seen in the labour market.

Some might conclude that current market expectations for three more interest rate rises this year is a bit of an overreaction to one month's CPI reading. Inflation might be proving stickier than anticipated, but the market is still counting a lot of chickens before they're hatched.



By **Laith Khalaf**
AJ Bell Head of Investment Analysis

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Sukh Chamdal, CEO

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