STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 25 / ISSUE 35 / 07 SEPTEMBER 2023 / £4.49

SHARES

WE MAKE INVESTING EASIER

REFRESH YOUR PORTFOLIO

The beer and spirits companies to buy now


INVESTMENT TRUSTS
WHAT MATTERS MOST TO YOU?
Investments give you a stake in the future. Whether you're looking for an investment that reflects your values and will help you to achieve your personal goals; or you're thinking more broadly about how your family, your community, or the planet could benefit when good decisions are made in the right areas; discover an investment solution that resonates in our Investment Trust range.
Schroders

Contents

Three important things in this week's magazine

1


Funds: Global tracker funds

How do global tracker funds like Fidelity Index World and iShares MSCI World differ?

They provide easy and low-cost exposure to what's happening in global stock markets

Global equity tracker funds are among the most popular choices for investors, but do you know how they each differ?

We look at five names, how they work and what you are really getting for your money

2


Feature: European shares

Can European shares finally shrug off their 'value' tag?

A lack of technology footprint has held back stocks in the 'old continent' in the past

Now is a good time to look at opportunities across Europe, with the region home to many high-class companies on undemanding valuations

Find out the key reasons why investors can have greater confidence in Europe going forward

3


REFRESH YOUR PORTFOLIO

The beer and spirits companies to buy now

Alcoholic beverage companies have considerable appeal thanks to strong brands and good margins

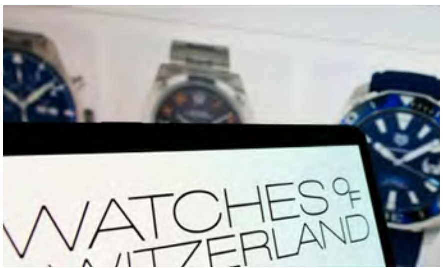
We look at the options for investing in this sector and pick two stocks for a long-term investment portfolio

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:


Yet another UK takeover: Ergomed agrees cash bid from private equity firm Permira



Watches of Switzerland ticks up 2.6% as directors snap up shares following sell-off

Stocks that were hot, and those that were not, in August


Wall Street Week: US markets in winning form and why Elf is trumping Nvidia

Risk appetite returns after softer US jobs data signals rate pause

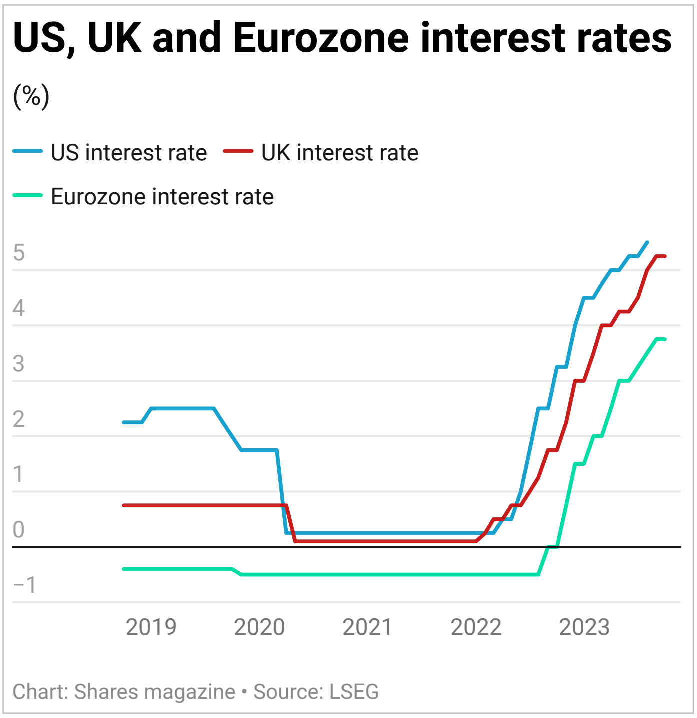
It is possible that both bond and equity markets will be disappointed with rates remaining high

While the US economy added more jobs than expected in August with non-farm payrolls coming in at 187,000 compared with 170,000, the markets took comfort from the big downward revisions to June and July which knocked a combined 110,000 from the prior labour market reports.

Stocks and bonds rallied (yields move in the opposite direction to prices) on hopes the Federal Reserve will pause rate rises in September and possibly in November.

With headline inflation moving in the right direction and a softening labour market it appears the 'Goldilocks' narrative is back in vogue whereby 'bad news' is perceived as 'good news'.

Investors sense the rate hiking phase is close to its peak which in previous economic cycles gave the central bank room to cut interest rates if needed to stimulate the economy. In theory lower interest rates also imply higher price to earnings ratios for stocks.



One problem with this take on events is that the current economic cycle is quite different to prior cycles and inflation may remain elevated, reducing the potential for rates to fall this time around.

There is an inherent contradiction between what stock and bond markets are saying. Bond markets are discounting falling interest rates in 2024 while equity investors are pricing in a re-acceleration of earnings growth according to Refinitiv data.

In other words, equity markets believe wholeheartedly in a soft landing (no recession) while bond markets are pricing in a recession. Clues to solving the conundrum could be at hand when the Fed reveals an update to its summary of economic projections at its 20 September meeting.

Ahead of this decision point the central bank will have further data points to mull over including a CPI reading on 13 September, PPI (producer price index) on the following day and the University of Michigan sentiment data on 15 September.

At least the US has the positive backdrop of a resilient economy to rely on while it is fighting inflation. By contrast the European and UK economies are showing signs of weakness while inflation remains higher than the US.

Eurozone core consumer price inflation dipped marginally in August to 5.3% compared with last year but headline inflation was unchanged versus the prior month (5.3%) as energy prices increased again.

Markets are pricing in a 25% chance of a quarter percentage point rate hike at the ECB's next policy meeting on 14 September.

A week later (21 September) the Bank of England meets to decide on interest rates with markets expecting the central bank to continue hiking until early 2024. UK consumer price inflation is running at 6.8%. [MG]

Experts rate shares in housebuilders as good value despite property price shock

Analysts are still beating the drum for a recovery in developers

As headlines go, last week's Nationwide house price report showing prices down at their fastest annual rate since 2009 takes some beating even if a decline was more or less expected by experts.

The building society's August survey showed the average house price was 0.8% lower than the previous month and 5.3% lower than August 2022 at £259,153, marking an annual fall of around £14,600 on the price of a typical home.

'August saw a further softening in the annual rate of house price growth to -5.3%, from -3.8% in July, the weakest rate since July 2009,' observed Robert Gardner, Nationwide's chief economist.

'The softening is not surprising, given the extent of the rise in borrowing costs in recent months, which has resulted in activity in the housing market running well below pre-pandemic levels.

'Mortgage approvals have been around 20% below the 2019 average in recent months and mortgage application data suggests the weakness has been maintained more recently,' added Gardner.

Not only are prices down, but transaction volumes have also fallen through the floor according to Nationwide with the sole exception of cash purchases.

Home-mover completions with a mortgage in the first half of 2023 were 33% lower than 2019 levels, while first-time buyer numbers were down around 25% and buy-to-let purchases involving a mortgage were nearly 30% below pre-pandemic levels.

The UK's largest mortgage lender Halifax, which is owned by **Lloyds (LLOY)**, was scheduled to have released its latest house price survey as this edition of *Shares* was published (7 Sep) and is likely to have reinforced the gloom around the housing market.

Yet despite a sluggish market and weak demand from first-time buyers, especially since the removal of the government's Help To Buy scheme, sector analysts argue the quoted housebuilders are worth a look.

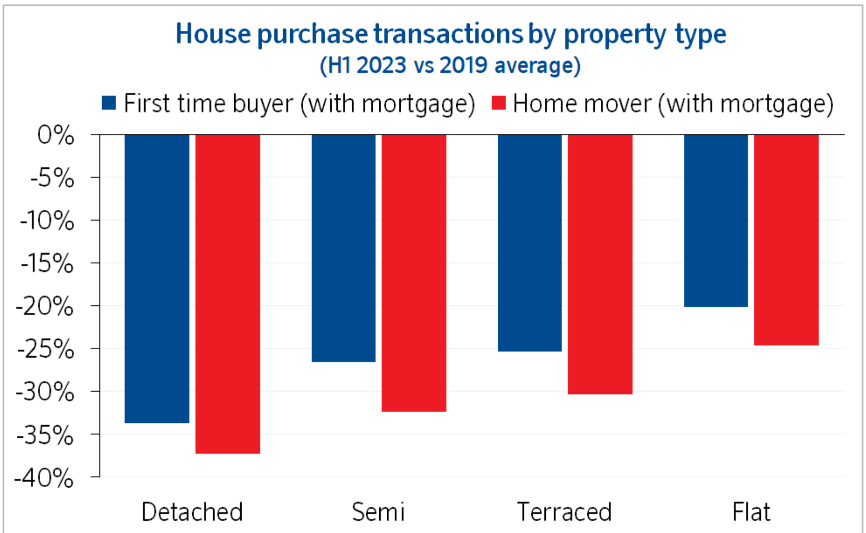
While they are forecasting a 30% decline in new-build activity this year, the team at Berenberg see a more stable market next year and argue the sector is attractively valued.

Although they don't expect earnings to bottom out yet, they believe 'the trough is visible and is now appropriately reflected in consensus forecasts'.

Among their stock picks, **Berkeley (BKY)** is 'best in class across the sector and offers compelling over-the-cycle value creation', while they say **Crest Nicholson (CRST)** offers the cheapest outright valuation.

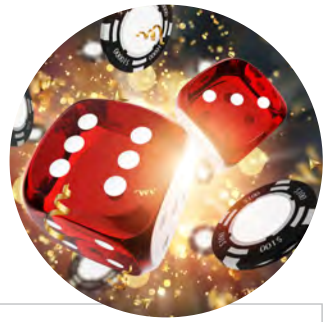
Meanwhile, Liberum sees over 20% total shareholder return upside in the sector, 'as valuations look very attractive', although its optimism relies on mortgage rates continuing to decline which isn't a given.

MJ Gleeson (GLE) is flagged by Liberum which believes its upcoming results (14 September) will show strong resilience, implying 'growth should be amongst the quickest in the recovery'. [IC]



Source: UK Finance Regulated Mortgage Survey / Mortgage Clarity

Analyst forecasts big increase in profits at Entain and Flutter Entertainment



We could be at a turning point for companies taking bets from the US

Gambling giants **Flutter Entertainment (FLTR)** and **Entain (ENT)** have seen their shares fall between 15% and 20% over the last few months. However, Shore Capital analyst Gregg Johnson flags declining regulatory headwinds and an inflection point in US profitability could lead to a step change in revenue growth and profitability for these companies from 2024 onwards.

The US sports betting market is dominated by three companies: fantasy sports betting groups FanDuel (majority owned by Flutter), **Draftkings (DKNG:NASDAQ)** and BetMGM (co-owned by Entain) which have a combined market share of around 80%.

The 'big three' delivered first half combined US revenues of around $4.8 billion and spent around $1.5 billion in marketing. This makes it difficult for smaller players to compete and build brand presence.

After many years of making losses with US operations, the three companies are close to finally turning a profit. FanDuel is guiding for 2023 EBITDA (earnings before interest, tax, depreciation, and amortisation) of between $120 million and $240 million.

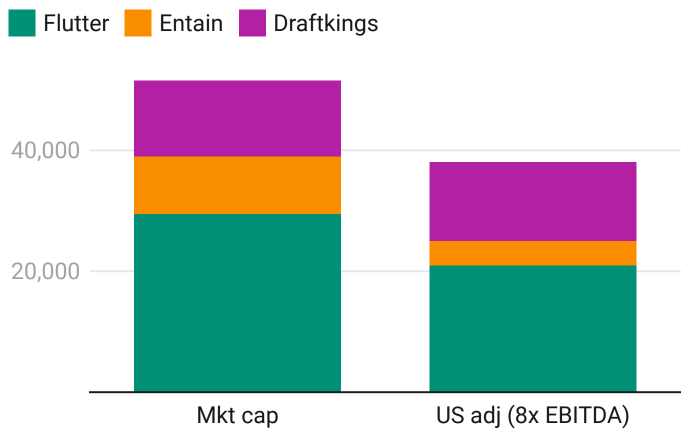
Entain expects to be EBITDA positive in the second half of 2023 for its US operations while Draftkings significantly reduced its expected full year loss.

Johnson argues that as marketing ratios normalise and benefits of scale kick in, industry EBITDA (earnings before interest, tax, depreciation and amortisation) margins could reach 25%.

Based on projected annual industry revenues of between $30 to $40 billion, EBITDA could reach $8 to $10 billion. For context, gross gaming revenues are expected to reach $17 billion in 2023.

Johnson ascribes a 10 to 12 times EBITDA multiple which is comparable with US casino and gaming sector multiples over the last 20 years. This implies a total market equity valuation of $100 billion which compares with a combined market value of the big three of around $50 billion.

Combined market caps of three largest US sports betting operators ($m)



Adjusted valuations strip out non-US EBITDA, debt and pro-rated for % holding

Chart: Shares magazine • Source: Company data, Shore Capital Markets

Adjusting for Flutter's and Entain's non-US facing markets Johnson estimates investors are currently ascribing just $30 billion to $40 billion to the US market opportunity. Johnson comments: 'The market would be expected to be well regulated, concentrated, with high margins and strong cash conversion.'

One potential fly in the ointment is **Walt Disney's (DIS:NYSE)** entry into sports betting through its ESPN sports platform. ESPN has partnered with regional casino group Penn Entertainment, but Johnson notes the company is currently a distant player with just 2% market share.

Entain is Johnson's preferred play on the US market given that it trades on just nine times his 2024 forecast EBITDA. 'The market appears to ascribe little value to (Entain's) BetMGM and/or the longer-term growth prospects of the group,' he argues. [MG]

Novo Nordisk shares continue to soar on strong demand for its weight-loss drugs

Around 50,000 patients in England could be prescribed Wegovy through specialist NHS weight management services

Shares in Danish diabetes specialist **Novo Nordisk (NVO:NYSE)** have been on a tear over the past 12 months, rising more than 83% in value.

Novo has been riding the crest of a wave as demand for its highly effective diabetes and weight-loss drugs has sent its earnings and share price to record highs.

Its weight-loss drug Wegovy launched in the UK this week (3 September) despite the company struggling to keep up with demand. The drug maker said its weekly injection would be made available through a 'controlled and limited launch'.

Wegovy has been shown to reduce bodyweight by around 15% in trials and is available in the US, Denmark, Norway and Germany.

Although the NHS will probably negotiate discounts, the list price varies from £73 to £176 per month while in

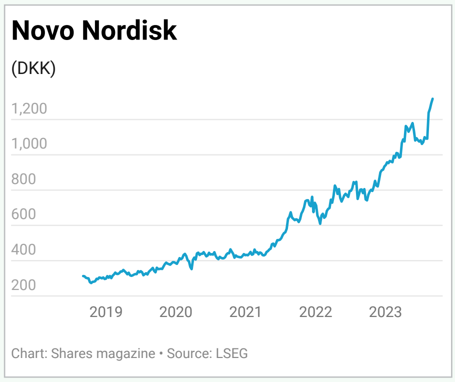


Chart: Shares magazine • Source: LSEG

the US it costs as much as $1,350. UK online pharmacy chain Simple told *Reuters* it would charge private patients between £199 and £299 for a month's supply. [MG]

Walgreens' shares droop as CEO Brewer steps down

The US retailer continues to disappoint the market

Shares in **Walgreens Boots Alliance (WBA:NYSE)**, the retail pharmacy giant behind Walgreens and high street chemist Boots, have fallen 37% year-to-date to $23.43 and are down more than 65% on a five-year view.

Walgreens' shares have struggled this year due to a drop in demand for Covid testing and vaccines, and slowing retail sales as the drugstore chain faces intense competition.

The latest downwards lurch was triggered by the news on 1 September that Rosalind Brewer has stepped down as chief executive. Lead independent director Ginger Graham, who has a background in the healthcare and pharma industries, will act as interim CEO whilst Walgreens searches for Brewer's permanent successor. It is already looking for a new chief financial officer.

A veteran of the retail sector, Brewer's departure comes as pharmacy chain Walgreens Boots Alliance continues its strategic pivot towards healthcare.

On 27 June, the $20 billion business delivered third quarter earnings which

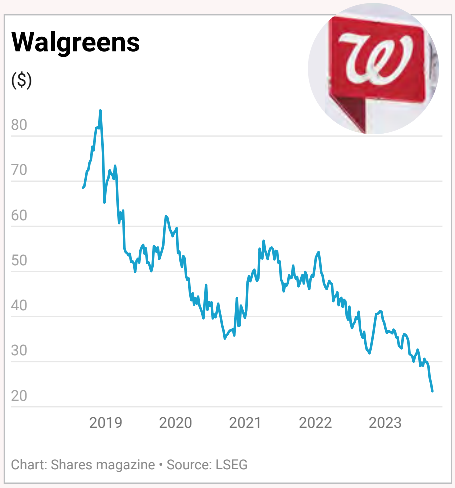


Chart: Shares magazine • Source: LSEG

missed Wall Street expectations and it cut profit guidance for the year.

Brewer's departure announcement was accompanied by a further downgrade from the Illinois-headquartered firm, which now expects full year 2023 adjusted earnings per share to be 'at or near the low end' of its previously stated range. [JC]

UK UPDATES OVER THE NEXT 7 DAYS

FULL-YEAR RESULTS

12 September: Mattioli Woods

13 September: Pan African Resources, Ricardo

14 September: Brooks Macdonald, Kier, MJ Gleeson, Renishaw

HALF-YEAR RESULTS

8 September: Computacenter

11 September: MP Evans, Inspired, Engage XR

12 September: Cornerstone FS, Dowlais, Elecosoft, Equals, The Gym Group, Hvivo, IQE, JTC, Smart Metering Systems

13 September: Argentex, Brave Bison, Central Asia Metals, Tullow Oil

14 September: Arecor Therapeutics, Checkit, Churchill China, Foresight Solar, Glenveagh Properties, Keystone Law, Oakley Capital, Spire Healthcare, THG, Uniphar

TRADING ANNOUNCEMENTS

8 September: Berkeley

12 September: Associated British Foods

14 September: IG Group, Trainline

Dowlais looking to get its shares back on track with maiden results

Spin-off from Melrose has made an uncertain start to life as a public company

Automotive engineer **Dowlais (DWL)** is poised to announce its maiden results as a public company after its spin-off from industrial turnaround specialist **Melrose (MRO)** in April 2023.

Shareholders will be hoping the first-half numbers on 12 September help provide a boost after a bumpy start to life on the market as an individual entity, the shares falling around 25% from their 143.5p peak.

Five years on from its controversial takeover of GKN, Melrose opted to demerge the car engineering parts of that business and retain the aerospace side.

Dowlais encompasses GKN Automotive, powder metal specialist GKN Powder Metallurgy and energy storage start-up GKN Hydrogen.

The market will be looking for evidence of the company's ability to deal with a cyclical car industry which is also in a major transition from petrol to electric vehicles.

Particular attention may be given to Dowlais' eDrive business, the company's solution for powering electric vehicles, and something it has invested in heavily, but where demand has been hit by more car manufacturers producing their own systems in-house.

The company's traditionally healthy cash flow generation will also be in focus as this is crucial to facilitate further investment in the business and underpin the dividend. [TS]

What the market expects of Dowlais

	EPS (p)	Revenue (£bn)
Forecast for 2023	14.1	5
Forecast for 2024	16.9	5

Table: Shares magazine • Source: Yahoo Finance

Dowlais

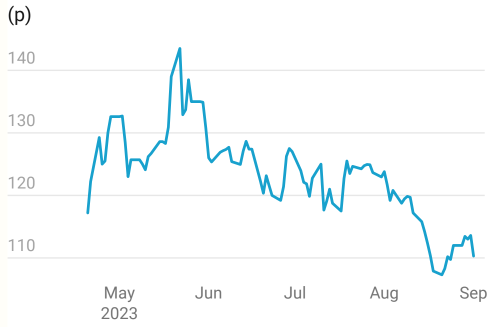


Chart: Shares magazine • Source: LSEG

After a 70% AI-driven advance for Adobe, could machines threaten the business?

The creative digital software specialist has been riding high ahead of its latest earnings report

Creative digital software outfit **Adobe (ADBE:NASDAQ)** is one of several names which joined the AI (artificial intelligence) hype train in 2023.

The shares are up nearly 70% year-to-date ahead of its latest quarterly earnings on 14 September which could determine if the momentum behind the shares can be maintained.

The company has a leading share of 50% in the creative software space through an offering which includes Adobe PDFs, Photoshop and image and graphic library Adobe Stock as well as products like InDesign and Premiere Pro.

Analysts and investors have been getting excited about the potential for AI to be incorporated into its products and services. A strong performance across all areas of the business helped the company top second-quarter estimates for earnings per share of $3.31 with a total of $3.35 per share.

Investor sentiment was soured a little thanks to guidance for third-quarter earnings which was a little short of what analysts had been pencilling in ahead of time.

One area investors will be watching is whether AI is turning from an opportunity to a threat to Adobe amid fears machines could replace its graphic designer customer base. Reports suggest that, internally, some staff are voicing concerns about the issue. [TS]

Chart: Shares magazine • Source: LSEG

What the market expects of Adobe

	EPS ($)	Revenue ($bn)
Q3	3.98	4.88

Table: Shares magazine • Source: Yahoo Finance

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

8 September: Kroger
14 September: Adobe, Oracle

Buy the trust which invests in 'quality companies for uncertain times'

Henderson EuroTrust's portfolio is full of blue-chip European stocks

Henderson EuroTrust	
(BP6QR38)	
Total assets:	£350 million

Class never goes out of style, as they say, and Jamie Ross, manager of **Henderson EuroTrust (BP6QR38)**, is a big believer in buying best-in-class companies in terms of growth, quality and consistency.

Ross invests across Europe, excluding the UK, seeking out businesses with high and sustainable returns which he believes are undervalued by the market, and to a lesser degree in companies which are undergoing 'a material improvement in their medium-term prospects'.

The fund's biggest exposure is to consumer stocks, financials, healthcare and industrials, and its top 10 holdings are a who's who of names with quality characteristics such as **ASML (ASML:AMS)**, **Hermès (RMS:EPA)**, **LVMH (MC:EPA)**, **Nestle (NESN:SWX)**, **Novo Nordisk (NOVO-B:CPH)** and **Roche (ROG:SWX)**.

While yield isn't a focus, over 10 years the net asset value total return has been a healthy 158%, more than 30 percentage points ahead of the 124% return for the FTSE Europe ex-UK index, and it has also beaten the index over one year despite the recent resurgence of value and cyclical stocks.

This value dynamic continued in July as European and US companies posted first-half results which on the whole were better than expected, and which in the minds of investors 'increased the probability of an economic soft landing rather than a recession following a period of softening economic data' says Ross.

Interestingly, despite a lower chance of a European recession, Ross has been cutting his holdings in banks and is now underweight the sector compared with the benchmark as he believes the net interest income-driven earnings upgrade cycle 'is nearing an end, and at this point in the cycle attention should start to turn to the potential for higher loan losses'.

At the same time, the manager explains his reasoning for adding new stocks to the portfolio such as Dutch duo **Heineken (HEIA:AMS)** and **Universal Music (UMG:AMS)**, whose qualities might be less immediately obvious.

In the case of Heineken, which is experiencing falling volume sales, Ross admits signs of improvement are limited for now but says he is 'very confident in the company's long-term positioning'.

UMG has also been 'a tough position to maintain faith in over recent quarters' due to softer than expected streaming growth and weak margins, but the firm's recent results give cause for optimism.

Another new purchase is Danish firm **Zealand Pharma (ZEAL:CPH)** which, like its much larger kinsman Novo Nordisk, has an obesity treatment, and which is potentially 'significantly undervalued' at its current price according to Ross.

Henderson EuroTrust trades at a 14% discount to net asset value and has a 0.75% ongoing charge. [IC]

Adriatic Metals on the cusp of big cash flow so buy now

Miner is about to commence production from its Vares project in Bosnia and Herzegovina

Adriatic Metals	
(ADT1)	
Market value:	£550 million

Miner **Adriatic Metals (ADT1)** is set to commence production from its Vares silver-zinc-lead-copper-gold-antimony project in the fourth quarter of 2023 and has exciting exploration potential.

It is a good time to invest in the stock and we see scope for significant gains in both the short and medium-term. The relatively small footprint of the project means costs are low and based on Berenberg's sums Adriatic trades at a little less than two thirds of its net asset value and on a 2024 free cash flow yield of 24.3%.

There are hazards attached to this investment – Adriatic will be generating revenue from a single jurisdiction (Bosnia and Herzegovina) and as a small to medium-sized mining company the shares could be prone to volatility, particularly given the current uncertainty around China – a key consumer of global commodities and a major influence on sentiment towards mining shares.

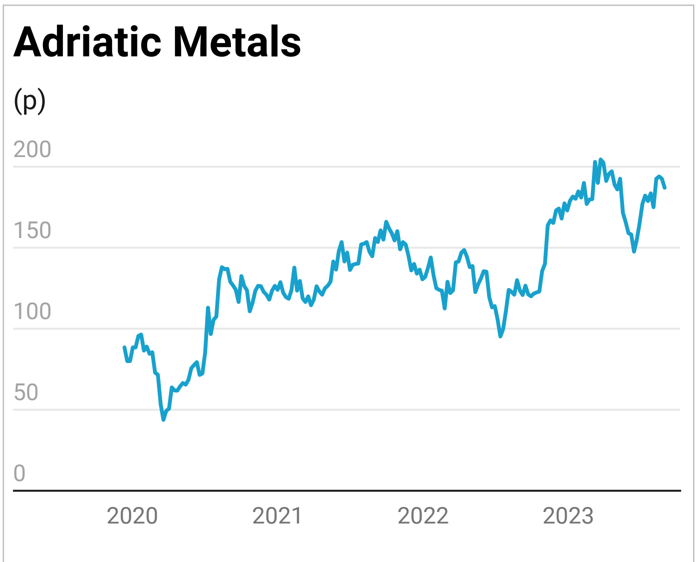


Chart: Shares magazine • Source: LSEG

Once fully up and running by 2025, Cronin believes Vares will deliver $250 million to $300 million of cash flow per year, money which can be reinvested in the company's existing portfolio, used to acquire assets to diversify the asset base and/or returned to shareholders.

Chief executive Paul Cronin tells *Shares* the company wants to 'build a commodity mix that supports a natural hedge in our revenues between economic cycles, but also recognises as Europe continues to transition its economy to a green economy it's going to require a lot more things like copper, nickel and silver, in particular, to facilitate that.

'Silver is primarily used in solar panels, but because it's very malleable and highly conductive it's also the metal of choice for high velocity electric vehicle charging.' In 2021, industrial demand for silver outstripped jewellery, photography, silverware and investment demand, according to the Silver Institute.

Cronin says Europe must buy the metals central to the energy transition from within its own borders thanks to the European Union's Critical Raw Materials Act.

Drilling at the Rupice deposit, which forms the main orebody for the Vares project, and at the Rupice Northwest extension recently drove a 93% increase in its overall resource estimate and is set to be followed by a reserve update in October which could see the 10-year mine life double to 20 years. Exploration work continues, with the company recently raising $30 million to help fund activities.

While Cronin acknowledges Bosnia can be bureaucratic, he says it is a good place to do business, helped by the fact Adriatic is the biggest overseas investor in the country. It has good infrastructure and the fiscal regime is attractive with a 10% tax rate and a 'favourable' royalty regime. [TS]

Time to book a 66% profit in Ashtead Technology shares

The company looks in great shape but the shares are trading at record highs and there are some warning signs in the renewables space

Ashtead Technology
(AT.) 414p

Gain to date: 65.6%

We added **Ashtead Technology (AT.)** to our *Great Ideas* portfolio a little less than a year ago at 250p and since then it has made great strides, rewarding our faith in spades.

We saw scope for the company, which hires out underwater equipment to the renewable and oil and gas industries, to benefit from two key themes – energy security and energy transition, and that's proved to be the case to date.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

The business and its share price have reached new highs in the interim, with first-half results (4 September) providing the latest catalyst.

Offshore oil and gas revenue grew by 50% to £33.5 million, and renewables revenue increased by 74% to £16.3 million, while group like-for-like turnover rose 40% with acquisitions contributing around 14% growth and around 3% coming from currency movements.

Gross profit grew faster than revenue, up almost 69% to £39.3 million, taking the gross margin to 78.8%.

Although growth is expected to moderate in the second half, after the 'unseasonal' strength of the final quarter of 2022, 'market fundamentals remain strong' and the full-year performance is expected to be well ahead of previous guidance according to chief executive Allan Pirie.

The strength of its performance underlines the fact this is not just a simple rental business – it also provides additional value through its technological capability, servicing and assembly offering.

WHAT SHOULD INVESTORS DO NOW?

We still think Ashtead Technology is an excellent business and see big long-term potential. However, it may be prudent to book some profit given the shares are at a record level.

This stance reflects the company's own, entirely understandable, warning of moderating growth in the second half and wider issues in the offshore wind market where costs are soaring and developments are being cancelled. [TS]

Shares in Rainbow Rare Earths have doubled since we said to buy three months ago

While the shares slipped back on news of a key milestone there remains significant scope for upside

Rainbow Rare Earths

(RBW:AIM) 16.4p

Gain to date: 103%

We flagged **Rainbow Rare Earths (RBW:AIM)** at the beginning of June at 8.1p – citing a big catalyst on the horizon if it could prove it could deliver rare earths at the required specifications from its Phalaborwa project in South Africa. This encompasses two stacks of gypsum, created as a by-product of historic phosphate mining, which contain rare earth elements.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

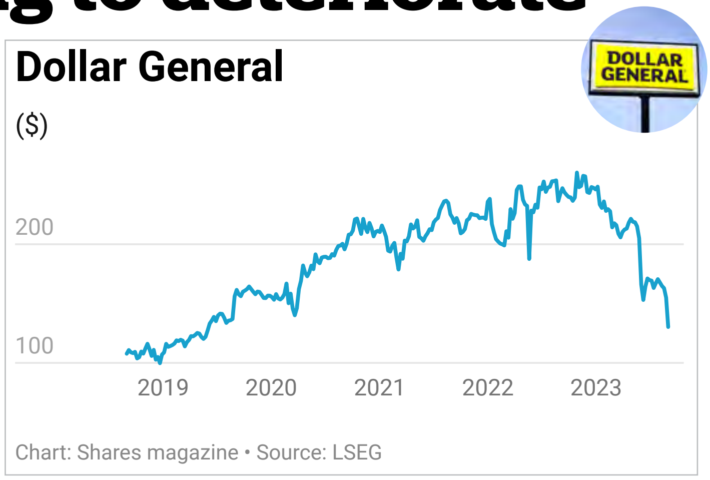
The shares have been driven sharply higher by a string of positive releases, including an agreement with phosphate miner **Mosaic (MOS:NYSE)** to apply the Phalaborwa blueprint in Brazil, and this culminated in news (5 September) of the successful production of the first batch of mixed rare earth sulphate from its pilot plant in South Africa which proves the concept.

WHAT SHOULD INVESTORS DO NOW?

A small drop in the share price as this key milestone was reported suggests it may have been better to travel than arrive, at least in the short term, but we remain believers in the long-term potential so stick with the stock. [TS]

Watch out for US consumer stocks as news flow is starting to deteriorate

The public has been happily spending excess savings, but experts believe their firepower could soon run out



The apparent resilience of the US economy has led market commentators to believe the Federal Reserve has little reason to stop raising interest rates to combat inflation. This tide might be turning, judging by the news flow from US companies.

Big name businesses are saying that life is getting tougher, while economists are worried that US consumer spending levels are unsustainable.

We saw a wobble on global stock markets in August and it seems reasonable to suggest the tremors could keep coming as we move towards the final quarter of the year.

A weaker economy could prompt a policy shift by the Federal Reserve. In theory, a pause or end to the rate hike cycle would go down well with investors. They might return to stocks which have been out of favour due to rate hikes.

However, a policy caused by economic weakness is not reason to celebrate. It would suggest weaker earnings prospects for companies and traditionally that is negative for share prices.

Over the past month or so, discount retailer **Dollar General (DG:NYSE)**, Jack Daniel's whiskey maker **Brown-Forman (BF.B:NYSE)**, electrical goods seller **Best Buy (BBY:NYSE)**, laptop maker **HP (HPQ:NYSE)** and trainers specialist **Foot Locker (FL:NYSE)** were among the US-listed companies either reporting weaker than expected sales or issuing a gloomier outlook.

LVMH (MC:EPA) said entry level product demand disappointed in the US, while **British American Tobacco (BATS)** recently flagged weakness in US cigarette volumes.

In June, Oren Klachkin, an US economist at Oxford Economics, wrote: 'The recession will be delayed as long as consumers continue to spend.' The areas to watch are the rate at which savings deplete and the amounts spent on credit cards.

Personal spending in the US increased by 0.6% month-on-month during July in real terms, suggesting we could see robust third quarter GDP figures. However, income only increased by 0.2% month-on-month in July.

ING suggests people feel secure in their jobs so they have maintained spending despite the cost-of-living crisis by running down savings and topping it up with credit card borrowing. That is unsustainable.

Interest rates on credit cards are high, banks are being tighter with regards to lending, and consumers continue to draw down on excess savings. 'At the current run-rate it will all be gone by the end of the second quarter of 2024 and for low and middle incomes that point will come far sooner,' says ING.

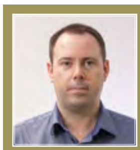
All this adds up to a frustrating situation. It suggests investors might start to take profits in consumer-facing names which have served them well in recent years. You can already see stocks like Best Buy and **CostCo (COST:NASDAQ)** start to pull back.

Plenty of other retailers remain in demand, yet investors might want to be alert to the shifting landscape. For example, home improvement retailer **Home Depot (HD:NYSE)** has been on a strong run since May and is the type of stock which might suffer if there is a slump in consumer spending.

While it may feel as if the US is doing well now, this geography is still capable of disappointing investors from time to time, and the outlook is starting to look a bit cloudier.

REFRESH YOUR PORTFOLIO

The beer and spirits companies to buy now



By **James Crux**
Funds and Investment Trusts Editor

Persistent inflation and higher interest rates are squeezing disposable incomes. In this scenario there is logic in investors putting their cash behind companies which make premium products which confer pricing power or sell affordable luxuries which help consumers to socialise or unwind at the end of the working day.

One sector that enjoys both these attributes is Beverages, the domain of soft drinks companies but also distillers and vintners, those producers of high-end spirits, beers and wines which can boast palate-pleasing strategic attractions.

Their appeal is underscored by the takeovers of SABMiller by **Anheuser-Busch Inbev (BUD:NYSE)**, the 2016 deal which brought together the world's two largest brewing empires, and of spirits-to-liqueurs business Stock Spirits by private equity outfit CVC in 2021.

Despite global economic uncertainties, the major spirits and beer producers continue to exhibit resilience, confounding fears hard-pressed drinkers will trade down to cheaper alternatives amid the cost-of-living squeeze.

This is thanks to strong brands that engender loyalty and trends towards premiumisation in the fragmented global drinks market.

There are three sub-divisions of the alcoholic beverages industry: beer, wine and spirits. Traditionally spirits stocks have traded on higher valuations than brewers or wine producers because of their superior growth prospects driven by rising Western consumption and increased emerging market affluence and the earnings quality

Which firms have achieved the highest returns?

Company	Return on capital employed (last financial year)
Diageo	17.7%
Brown-Forman	16.8%
Carlsberg	16.0%
Heineken	11.5%
Pernod Ricard	9.9%
Anheuser-Busch Inbev	8.3%

Table: Shares magazine • Source: Stockopedia, data as of 31 August 2023

Snapshot of alcoholic beverages sector

Company	Share price	Market cap	Prospective price to earnings ratio	Yield
Carlsberg	DKK1,012	DKK150.8bn	18.8	2.7%
Diageo	£32.56	£73.3bn	20.3	2.5%
Pernod Ricard	€185.40	€47.4bn	19.6	2.5%
Heineken	€90.50	€52.1bn	18.0	2.0%
Anheuser-Busch Inbev	$57.90	$99.1bn	18.6	1.9%
Brown-Forman	$66.30	$32bn	32.1	1.3%

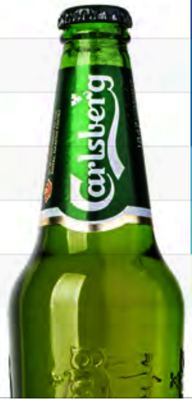


Table: Shares magazine • Source: Google finance, Stockopedia, data as of 31 August 2023

conferred by their brands and pricing power.

People buy wine by the grape variety not the name on the bottle, in contrast to spirits where no-one cares about the juniper or grain and the brand is key. Crop failure or a glut can also hurt wine growers.

But this makes little odds to spirits firms, whose products are low cost to make and command high selling prices. Beer makers benefit from brand strength and predictable demand, though their growth tends to be low as the worldwide beer market is highly developed.

According to drinks market analysis firm The IWSR, over the past five years the total beverage alcohol market has grown at a 4% compound annual growth rate (CAGR) by retail sales value, with spirits growing faster at a 6% CAGR.

Geopolitical and economic turbulence is leading alcohol drinkers to shift consumption behaviours, but major drinks firms are benefiting from premiumisation, the trend which sees consumers drinking less but spending more on premium tipples, whilst delivering pockets of growth in craft beers and low and zero alcohol products.

WHAT ARE THE IMPORTANT METRICS TO FOCUS ON?

Key metrics to study with beverages companies include organic sales and volume growth, indicators of rising or falling demand for their drinks, and also gross margin, calculated by dividing gross profit by revenue and multiplying the figure by 100 to get a percentage.

High gross margin drinks companies have more of a buffer to handle rising raw materials costs.

Other sector metrics worth monitoring include free cash flow, a measure favoured by famous investors including Warren Buffett and Terry Smith, and return on capital employed (ROCE).

WHICH COMPANIES ARE LISTED ON THE STOCK MARKET?

London-listed options include **Diageo (DGE)**, the drinks giant behind iconic alcoholic beverage names including Johnnie Walker, Smirnoff and Guinness as well as Captain Morgan rum and Tanqueray premium gin. Led by CEO Debra Crew, a recent successor to the late Ivan Menezes, the £73.3 billion cap boasts over 200 brands and sells in nearly 180 countries.

It has a worldwide distribution footprint and massive marketing clout. It also owns 'Local stars' such as Crown Royal, Buchanan's and Chinese white spirit Shui Jing Fang and a 'Reserve' portfolio of global luxury market-focused labels including Ketel One and Cîroc vodka and acquired tequila brands Don Julio and Casamigos.

Despite its status as the leading international spirits player, there is still plenty of global growth for Diageo to go for and the free cash flow monster is a source of progressive dividends and bumper buybacks. However, the share price has soured of late amid concerns over falling US spirits sales and declining sales in China.

Lower down the market cap scale is **C&C (CCR)**, the maker of cider brands Magners, Bulmers and Orchard Pig as well as beer brand Tennent's, though the cost-of-living crisis and rail strikes have impacted earnings and C&C's shares remain in the doghouse following a recent technology project debacle.

The premiumisation trend is a driver for June 2021 IPO and online premium whisky purveyor **Artisanal Spirits (ART:AIM)**. This company owns The Scotch Malt Whisky Society and the J.G. Thompson brand and has minimal market shares in all its territories, which means Artisanal has a substantial global growth opportunity if it can get the execution right.

Companies participating in the English wine sector include **Gusbourne (GUS:AIM)**, a currently loss-making producer and distributor of high-quality vintage English sparkling wines from grapes grown in its own vineyards in Kent and West Sussex, and Chapel Down, England's largest winemaker which is listed on the Aquis Exchange.

ARE THERE RELEVANT STOCKS OVERSEAS?

Another name exposed to the premiumisation theme is Diageo's smaller spirits rival **Pernod Ricard (RI:EPA)**, the world's number two wines and spirits producer whose portfolio spans everything from Absolut Vodka and Ricard pastis to Chivas Regal and The Glenlivet Scotch whiskies, Martell cognac, Havana Club rum, Jacob's Creek wine and Perrier-Jouët champagne.

Overseas options in beer include the aforementioned Budweiser-to-Stella Artois owner Anheuser-Busch Inbev. Though the stock is still recovering from a consumer boycott of its Bud Light brand following a backlash over its social media promotion with transgender influencer Dylan Mulvaney.

The rumpus benefited smaller rival **Constellation Brands (STZ:NYSE)**, the company behind Corona beer, Casa Noble tequila and wine brand Meiomi, whose Modelo Especial Mexican lager brand subsequently leapfrogged Bud Light to become the top-selling US beer brand.

European firms include Dutch brewing group **Heineken (HEIA:AMS)**, a running *Great Ideas* pick offering exposure to internationally renowned brands including the eponymous one as well as Amstel, Moretti, Sol and Tiger. Heineken is the world's most valuable and most-trusted beer brand, but the parent company also owns dozens of well-loved craft beer and cider products.

Another leading operator is Danish brewer **Carlsberg (CARL-B:CPH)**, which shrugged off cost inflation and the squeeze on drinkers' disposable incomes to deliver a 'solid' performance for the first half to 30 June, giving management the confidence to raise its 2023 earnings forecast.

Operating profit bubbled up 5.2% in the period as drinkers gulped down Carlsberg's premium brands including the namesake lager, Tuborg, 1664 Blanc, Brooklyn and Somersby, and the group enjoyed continued growth in key Asian markets.

CAN I PLAY THE THEME THROUGH FUNDS?

Funds invested in major drinks names, admittedly part of diversified portfolios, include Terry Smith's **Fundsmith Equity Fund (B41YBW7)**, which holds **Brown-Forman (BF.B:NYSE)**, the American-owned spirits and wines company best-known for Jack Daniel's. Brown-Forman has historically generated a high return on capital employed north of 20% which clearly appeals to Smith.

Heineken and Diageo represent 4.1% and 4% of the assets of the **Evenlode Global Equity (BMFX289)** fund and are positions in Nick Train's **Finsbury Growth & Income Trust (FGT)** which also holds cognac and liqueur maker **Remy Cointreau (RCO:EPA)**.

TWO STOCKS TO BUY

Heineken (HEIA:AMS) €90.50

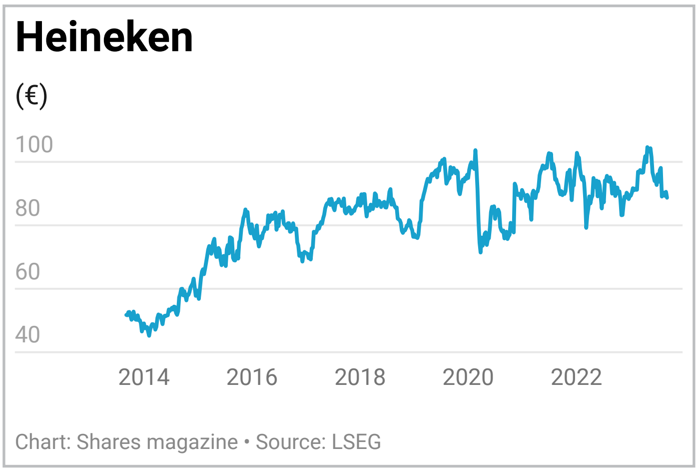
Recent first-half results (31 July) from Heineken came in short of expectations and a downgrade to full year operating profit guidance from mid to high-single digit growth to flat to mid-single digit growth was disappointing.

Yet *Shares* remains positive on the Dutch brewing group, which trades on a forward price to earnings ratio of 18 that is cheap relative to history and is gradually restoring dividend levels after suspending them during the pandemic.

Heineken has finally sold off its Russian beer business, albeit at a loss, removing an overhang on the stock, while price increases are expected to moderate for the rest of the year which should have a positive effect on volumes.

As Nick Train reminded investors in Finsbury Growth & Income's half year results review, Heineken's premium brands continue to 'deliver secular volume growth and exhibit pricing power that protects from inflation', while Bill Gates (or the Gates Foundation) has made a new investment in Heineken in 2023 to the tune of nearly $1 billion despite reportedly observing he is 'not much of a beer-drinker'.

Train says it makes sense for Gates and his foundation to 'ensure some of his wealth is committed to a business as enduring as Heineken, with 159 years of history already and the possibility of decades – or even centuries – of prosperity to come'.



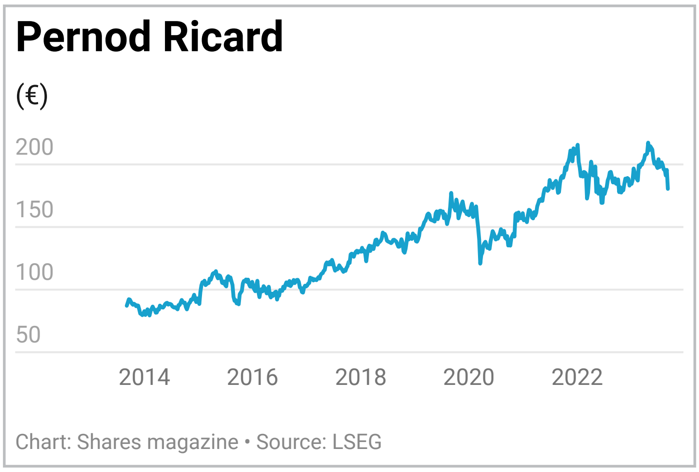
PERNOD RICARD (RI:EPA) €185.40

A share price hangover following full year 2023 results (31 August) presents a buying opportunity at Pernod Ricard.

The high-quality French drinks group trades on less than 20 times forward earnings, which is a significant discount relative to the firm's own history, and generates the free cash flow to reward investors with progressive dividends and share buybacks.

Pernod Ricard is a compelling play on the increasing global legal drinking age population, with growth driven by emerging affluent middle classes in China and India.

The results revealed forecast-beating 10% organic sales growth to €12.14 billion amid broad-based growth across all regions and with a boost from price increases, though the shares fell on a soft first quarter outlook for the US and China as Pernod Ricard laps tough comparatives. BofA Securities points out that organic EBIT (earnings before interest and tax) growth this year should be underpinned by 'solid' margin expansion supported by lower logistics costs among other factors.



What next for wind? Orsted shares blown over on big US warning

The company says it could face more than $2 billion in write-offs relating to American offshore wind projects

The collapse in the shares of Danish offshore wind developer **Orsted (ORSTED:CPH)** has been alarming and has wider implications for the renewables sector.

While the market reacted with shock to the company's warning of big impairments in the US, a combination of rising costs, permitting and grid connection delays and sharply higher financing costs has been brewing for some time, and has drastically shifted the economics of offshore wind projects.

According to *BloombergNEF* the cost of electricity of a subsidised US offshore wind project has increased almost 50% from 2021 levels to $114.20 per megawatt hour in 2023.

Developers, who struck offtake agreements when interest rates were near zero and inflation was negligible, are either trying to renegotiate contracts or exit them altogether – as Spanish firm Iberdrola did in Massachusetts recently.

Without access to capital and developers being able to achieve sufficient levels of return, the significant expansion in renewables required to hit net zero targets could be extremely difficult to achieve. Increased subsidies from the US IRA (Inflation Reduction Act) and similar initiatives elsewhere in the world are unlikely to be enough on their own.

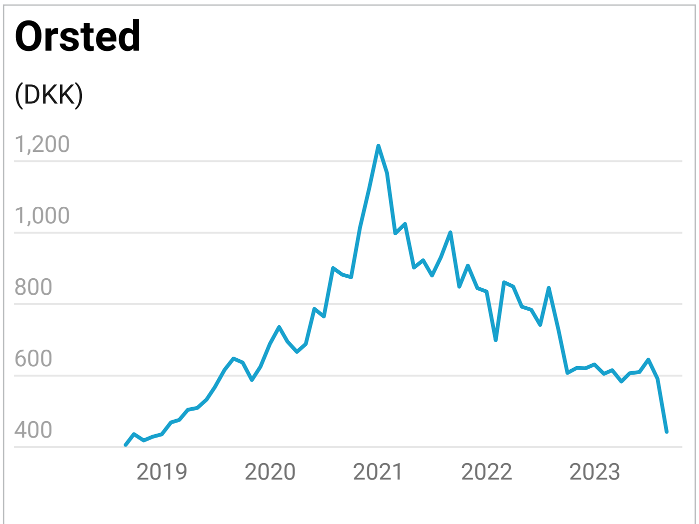


Chart: Shares magazine • Source: LSEG

Orsted has compounded these problems through poor communication and poor execution as it chalks up a potential $2.3 billion impairment on its Ocean Wind 1, Sunrise Wind and Revolution Wind projects. Around $700 million of this figure is thanks to cost overruns driven by supplier delays, but higher rates and a potential failure to get the better levels of subsidy available through the IRA could take us to the $2 billion-plus total.

As Morningstar analyst Tancrede Fulop observes, the news on subsidies is particularly damaging. He says: 'This is disappointing as the group has, so far, said it was confident of getting the 40% ITC (tax credit), deemed crucial for those projects to have a neutral net present value.'

Fulop adds: 'With high ambitions in the US, Orsted neglected the risks inherent to a new offshore wind market and in turn destroyed its goodwill built on a solid execution track record. This calls into question the company's risk management.'

Berenberg analyst Marc Ip Tat Kuen thinks the market has overreacted to Orsted's news, particularly as 80% of the firm's expected revenue until 2030 comes from regulated and long-term contracted earnings.

However, he adds: 'It may take time to rebuild investor confidence in the group's long-term vision for renewables growth and value creation.' [TS]

What should investors make of the big slump in small cap shares?

Up and coming businesses on both sides of the Atlantic are being shunned by investors

Making money from the financial markets is never easy – if it were, then none of us would be working and there would be no productive assets or companies in which to invest – but clear patterns are developing as 2023 works its way toward its conclusion.

In simple terms, 2023 is looking like a 'risk on' year, with technology stocks, Latin American equities, Indian equities and high-yield (or junk) bonds leading the way. By contrast, the laggards are China, the UK, small caps, and interest-rate sensitive options (or at least long duration assets) such as government bonds, infrastructure and healthcare.

There do appear be some apparent contradictions here. Markets are shrugging aside 2022's recession fears but at the same time they are neglecting small caps, while they are avoiding long duration assets (where cashflows are back-end end loaded over a lengthy period of time) but again embracing technology, which in many cases shows a similar profile.

The dominance of the Magnificent Seven of **Alphabet (GOOG:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Apple (AAPL:NASDAQ)**, **Meta (META:NASDAQ)**, **Microsoft (MSFT:NASDAQ)**, **Nvidia (NVDA:NASDAQ)** and **Tesla (TSLA:NASDAQ)** helps to explain why tech is doing well, as they are all profitable and cash generative and showing growth now. Even so, the performance of tech in 2023 represents a remarkable turnaround from 2022, when the sector was out in the cold, to beg the question of whether 2023's losers are capable of a similar renaissance in 2024 and – if so – what would be needed to trigger it.

NO SMALL COMFORTS

The most intriguing one here may be small caps. Global equity markets may be busily convincing themselves that a recession is no longer on the cards, not even a soft landing (let alone a hard one) but small caps do not seem to agree. This seems odd, when, by rights, younger, up-and-coming firms are more sensitive to their local economy, as they have yet to broaden out either their geographic

Top 10	2023 to date
Technology	24%
Latin America	12%
North America	10%
Europe ex-UK	7%
Europe incl. UK	7%
India	6%
Global	6%
Japan	5%
£ High Yield	5%
Global Emerging Market Bond (local)	4%

Bottom 10	2023 to date
Global Government Bond	-2.7%
Japanese Smaller Companies	-2.9%
Asia ex-Japan	-3.7%
US Government Bond	-3.7%
UK Gilts	-3.8%
Healthcare	-3.9%
UK Smaller Companies	-5.8%
Index-Linked Gilts	-5.8%
Infrastructure	-7.1%
China	-12.7%

Table: Shares magazine • Source: Sharepad, based on Investment Association classifications, from 1 January 2023 to the close on 30 August 2023.

reach or their offering of goods and services.

Based on Investment Association data, small caps in the UK and Japan are down by 5.8% and 2.2% respectively in 2023 to date, while they are squeezing out small gains in Europe and (0.8%) and the US (3.7%).

The modest performance of American small caps is particularly jarring, given the rosy scenario that markets are currently painting for the US economy. The main American small-cap benchmark, the Russell 2000, may be up this year but it is making very heavy weather of it and lags both the S&P 500 and the Nasdaq Composite by some distance, as the former is up 18% and the latter by 41%. In fact, the Russell still lies 22% below its 2021 all-time peak, which is intriguing given its current 17.5% weighting toward industrials, 15% to financials and 13.9% to consumer discretionary, sectors which can be seen as cyclical.

US small cap benchmark is lagging Nasdaq and the S&P 500

Source: Refinitiv data

PRICE POINTS

This soggy showing is in keeping with the dismal returns on offer from the UK's FTSE Small-Cap and FTSE AIM All-Share indices, even if it does not sit easily with equity markets' conviction that there is no economic trouble ahead. The FTSE Small Cap set a new all-time high in 2021 and the FTSE AIM All-Share reached a 20-year in the same year, but that optimism has long since dissipated.

The struggles of US small caps are at least in keeping with the monthly NFIB smaller businesses sentiment survey, which still stands 19 points below its peak of summer 2018.

This indicator must be watched in case it does not pick up speed. Further weakness could suggest the recovery might not be everything markets

UK small cap indices also continue to struggle

Source: Refinitiv data

currently expect. Equally, inflation-watchers will be intrigued by the NFIB's sub-indices on prices – and more particularly the balance between firms that are reporting higher rather than lower prices. US smaller firms seem much less optimistic here on this front, even if the reading is still relatively elevated.

If both trends continue, then small cap equities could be harbingers of tougher times ahead for larger caps (since markets always come looking for the lieutenants first and the generals later), but a more conducive environment for another laggard asset class, namely fixed income and government bonds in particular. Equally, improved performance from small caps (and higher prices for their goods and services) could point toward a recovery in 2024 in cyclicals and value names and a fresh shift away from long duration assets like technology and bonds.

US smaller company business sentiment also trails lags former peaks

Source: Refinitiv data, NFIB

By **Russ Mould**
Investment Director at AJ Bell

Can European shares finally shrug off their 'value' tag?

A lack of technology footprint has held back stocks in the 'old continent' in the past

As we have observed many times, when global investors look at Europe they tend to think 'value' rather than 'growth' due to the heavy weighting of somnolent sectors like financials, commodities and utilities and the lack of exciting technology companies.

Admittedly, that perception is changing thanks to the clear growth potential of firms like Dutch semiconductor equipment maker **ASML (ASML:AMS)** and Danish drug maker **Novo Nordisk (NOVO-B:CPH)**, both long-term favourites here at *Shares*.

Strategists at Morgan Stanley now argue there is 'ample scope' for Europe's price to earnings ratio to rerate going forward due to a secular shift to higher and more stable profit growth, which will be music to the ears of investors in the 'old continent'.

HIDDEN IN PLAIN VIEW

Over the last decade or more there has been a slow transition in the composition of the European market in terms of market cap, with the weighting of financial and commodity stocks falling from 45% in 2010 to around 30% today.

This is partly due to a derating of these two sectors, meaning investors are no longer prepared to pay the multiples they might have done previously, and partly to a *rerating* of higher-growth sectors such as consumer discretionary, industrials and health care.

That shift has been less obvious for the last two years due to the rotation into 'value' stocks in general. This lifted all boats and in fairness means Europe has been one of the best-performing areas but the Morgan Stanley team believe this is more of 'a pause in the evolution of the European market rather than a reversal'.

Shift in European sector weightings since 2010

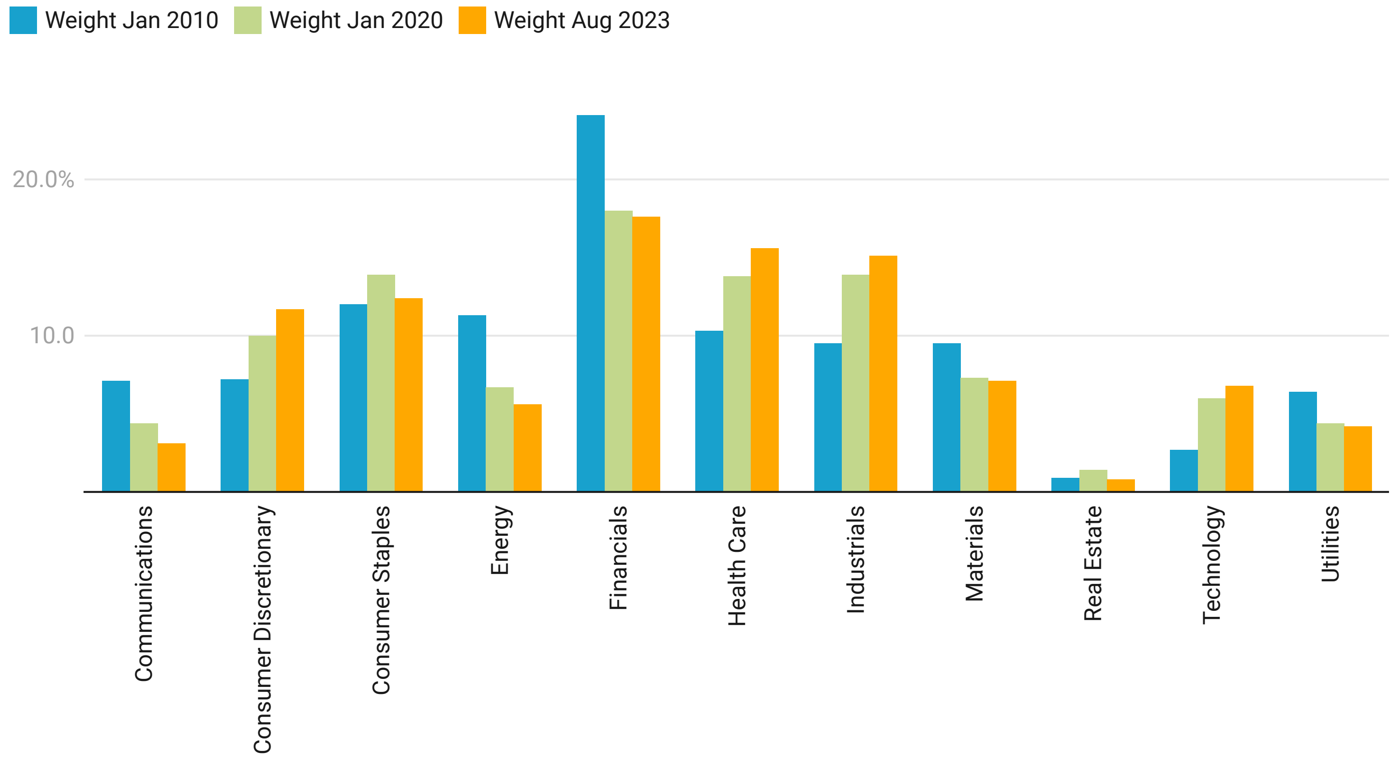


Chart: Shares magazine • Source: MSCI, Morgan Stanley

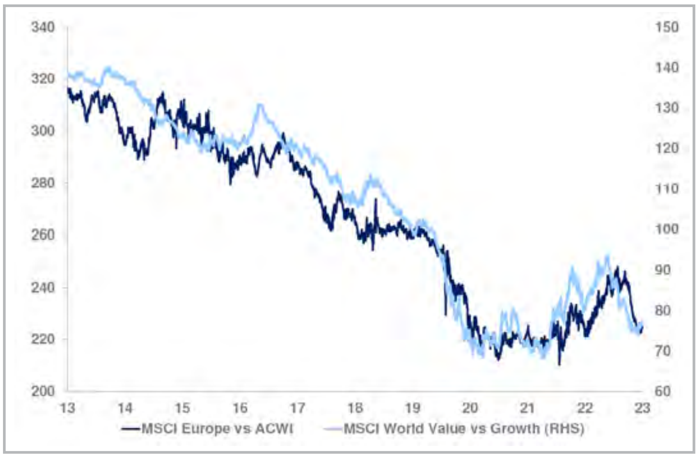
STILL SEEN AS THE 'VALUE' TRADE

The figures in the table are impressive, with health care and industrial stocks increasing their market weight by 50% or more, while the weighting in technology has risen by around 150%.

Despite this progress, however, 'there is little sign that Europe's sector transition has benefited from a valuation perspective,' say the team, citing the area's lowly rating compared with the MSCI All-Countries World Index (ACWI).

The performance of European markets compared with MSCI ACWI bears a remarkable resemblance to the performance of the MSCI World Value index versus the Growth Index, underlining the impression that Europe is a proxy for international value.

EUROPE REMAINS A PROXY FOR 'INTERNATIONAL VALUE'



Source: MSCI, Morgan Stanley Research

This may in part be because, while their market share may have increased, the contribution to overall earnings from sectors like consumer discretionary, health care and industrials hasn't

kept pace with prices.

At the same time there has been a large recovery in profitability in financial and commodity stocks in the last couple of years, which has lifted overall earnings for the region to a record high.

Based on trailing 12-month data, financials still make up nearly 25% of European earnings while energy, materials and utilities make up close to 30%, meaning Europe is still reliant on 'old economy' sectors as the analysts put it.

In addition, while the weight of technology stocks has increased significantly, the sector is still disproportionately small compared to countries like the US, Japan and other Asian nations.

MSCI Europe Sector Weights Relative to ACWI

Sector	Weight vs ACWI
Industrials	4.5%
Health Care	4.1%
Materials	2.5%
Financials	2.0%
Utilities	1....
Energy	0.9%
Consumer Discretionary	0.4%
Real Estate	−1.6%
Communications	−4.4%
Technology	−15.2%

Table: Shares magazine • Source: MSCI, Morgan Stanley

REASONS TO BE HOPEFUL

Despite these challenges, Morgan Stanley believes the shift in sector weightings 'points to a higher and less volatile profitability dynamic' which in turn should feed through into higher multiples for Europe as a region.

One way to illustrate this is to compare the 10 largest stocks in MSCI Europe today to those from 2010.

Today's stocks have higher ROEs (returns on equity) and gross margins than their 2010 counterparts and have grown their earnings much faster than the index over the last decade – on average by 6.1% against 0.6% for the benchmark – even though the absolute growth rate is lower than that posted by the 2010 cohort (9% versus 11% for the benchmark).

What's more, and this is a crucial plank of the analysts' argument, today's top 10 have grown their earnings *with much lower volatility* than their predecessors, even allowing for the market upheaval caused by the pandemic and the invasion of Ukraine.

That means investors have greater visibility, and therefore can have greater confidence in future returns, which in turn should translate into a higher rating as history shows there is a valuation premium for companies which have high but stable margins as well as strong earnings growth.

'Over time, Europe's sectoral transition towards

Top 10 European Stocks today vs 2010

2010 Top 10			
Stock	**Sector**	**10yr ROE**	**10yr Gross Margin**
GSK	Health Care	59.9%	75.9%
Novartis	Health Care	17.3%	73.5%
Telefonica	Communications	29.2%	72.3%
Roche	Health Care	17.8%	71.7%
Nestle	Staples	19.4%	57.8%
Rio Tinto	Materials	23.6%	38.1%
TotalEnergies	Energy	25.3%	36.9%
Siemens	Industrials	12.2%	27.7%
BP	Energy	19.1%	26.7%
HSBC	Financials	14.1%	n/a
Average		**23.8%**	**53.4%**

2023 Top 10			
Stock	**Sector**	**10yr ROE**	**10yr Gross Margin**
Novo Nordisk	Health Care	72.9%	83.9%
AstraZeneca	Health Care	27.2%	81.0%
Roche	Health Care	53.4%	73.9%
L'Oreal	Discretionary	15.3%	72.6%
Novartis	Health Care	16.5%	71.7%
Hermes	Discretionary	26.6%	68.6%
LVMH	Discretionary	18.1%	65.4%
Nestle	Staples	20.7%	49.7%
ASML	Technology	21.5%	45.7%
Shell	Energy	9.8%	18.5%
Average		**28.2%**	**63.1%**

Table: Shares magazine • Source: MSCI, FactSet, Morgan Stanley

a higher growth and lower volatility mix should justify a higher equity valuation on average than we have seen historically,' conclude the Morgan Stanley team.

By **Ian Conway** Companies Editor

Invesco

WHY WE THINK TAKING A CONTRARIAN VIEW WORKS FOR INVESTING **IN ASIA AND EMERGING MARKETS**

Author: Fiona Yang

A contrarian investor is an independent thinker who cares about the price they pay for an investment. They don't mind going against market trends and sentiments, and typically buy assets that are out of favour, while selling those that are popular.

When you buy into businesses or industries that are facing temporary challenges, you increase the odds of buying them for much less than they're worth. This can sometimes feel uncomfortable, but we believe focusing on the balance sheet strength of a company, for example the balance between outgoings versus income, can offer reassurance that there is some mitigation against potential risk of loss in an investment. Meanwhile, the potential return from capturing emerging trends or turnaround stories before others do can be very rewarding.

It's about getting value for your money

Valuation is our number one priority when considering an investment. When there's lots of negative news around, it can often be a good time to buy, which might seem counter-intuitive.

But just like buying branded clothing when it's on sale, this doesn't mean investing in bad companies. Quite the contrary – we simply acknowledge that companies go through cycles, and human psychology or emotion can push the market into overly negative territory, where perception is, we believe, a far cry from reality. In other words: markets are often irrational, and herd mentality can cause assets to be mispriced.

The importance of a well-established philosophy and process

Being a contrarian investor requires patience and a willingness to go against the market. It also needs a deep understanding of the market, the specific asset, and the underlying fundamentals.

We do the fundamental work and speak with company management to gauge where consensus is wrong. This gives us the confidence to lean into this perceived risk and buy potentially mispriced assets. The other side of the same coin is to avoid expensive assets

Invesco

during periods of euphoria.

The more complex and unpredictable the market backdrop, the more volatile and favourable the environment can be for contrarian investors. This is what we think makes Asia and emerging markets such a particularly fertile hunting ground for opportunities.

The economic cycle and inflation

Another investment factor that differentiates Asia is where it is in its economic cycle. Inflation in Asia is at its lowest in economic history compared to the developed world. Despite being used to dealing with inflation, they aren't facing the same pressures of the US and Europe this time around.

This makes the potential financial risk from excessive tightening of monetary policy, or more simply when a Central Bank raises interest rates with the aim of reducing inflation, particularly low. Therefore, leaving China and other Asian countries more room to encourage economic growth.

The abandonment of China's Zero Covid Policy, its support for the property sector, as well as the economic policy shift to 'pro-growth' signalled at the annual Central Economic Work Conference in December, were some of the main reasons behind China's market strength earlier this year. Reassuringly, China's household savings ratio, or the proportion of disposable income not used for household consumption, is at its highest level in a decade. We believe this bodes well for consumer spending as confidence is restored.

Investors need to consider many things when investing in Asia or emerging markets. While becoming hotbeds of consumption and innovation following decades of rapid industrialisation, investors must still be mindful of geopolitical risks and the global economic cycle. But as economies such as China continue to re-open and governments across the wider region get behind industry with pro-growth reforms and supporting measures, we believe the region to have some of the most exciting investment opportunities in the world.

Want to find out more?

Fiona Yang is a fund manager within the Henley-based Asian & Emerging Markets Equity team. Click the links below to find out more about the investment trust she manages:

Invesco Asia Trust PLC (LSE:IAT) - Share price | AJ Bell

Invesco Asia Trust plc

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

The Invesco Asia Trust plc invests in emerging and developing markets, where difficulties in relation to market liquidity, dealing, settlement and custody problems could arise.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

The Invesco Asia Trust plc uses derivatives for efficient portfolio management which may result in increased volatility in the NAV. In addition, some companies are suspending, lowering or postponing their dividend payments, which may affect the income received by the product during this period and in the future.

Important information

Data as at 26 July 2023 unless otherwise stated. This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

Views and opinions are based on current market conditions and are subject to change.

For the most up to date information on our investment trusts, please refer to the relevant Key Information Document (KID), Alternative Investment Fund Managers Directive document (AIFMD), and the latest Annual or Half-Yearly Financial Reports. This information is available on the website.

If investors are unsure if this product is suitable for them, they should seek advice from a financial adviser.

Issued by Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority.

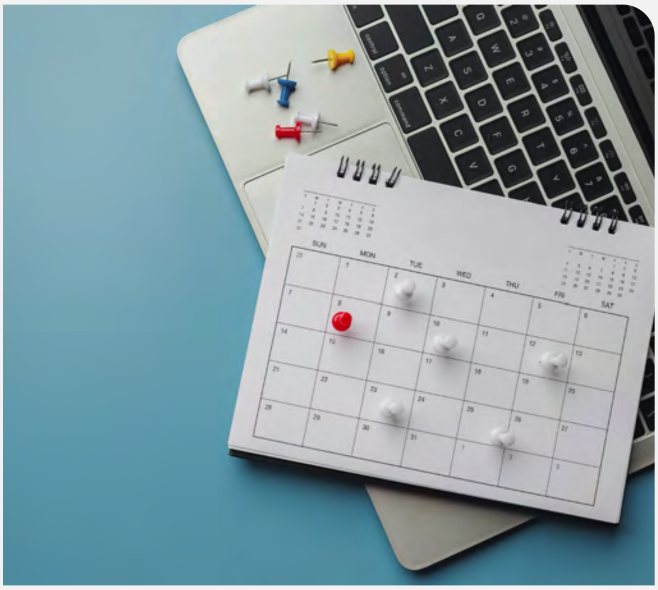
The economic data points every investor should follow and why they matter

We examine some of the key releases that can have the largest market impact

Markets are very data driven so it is important to stay on top of the latest economic information. This is particularly topical because investors are trying to work out how different data points might influence the decision making of central banks and the trajectory of interest rates.

In this article we provide a guide to a selection of the most significant monthly data releases, revealing when they are published and the reasons behind their significance.

Long-term investors should not be making wholesale changes to their portfolio based on what the markets are doing in any particular month, but it is very useful to have a clear idea of the market's mood music and key announcements which set it when weighing investment decisions.



INTEREST RATES

When are the upcoming central bank rate decision meetings?

US Federal Reserve

2023
20 September, 1 November, 13 December

2024
31 January, 20 March, 1 May, 12 June, 31 July, 18 September, 7 November, 18 December

Bank of England

2023
21 September, 2 November, 14 December

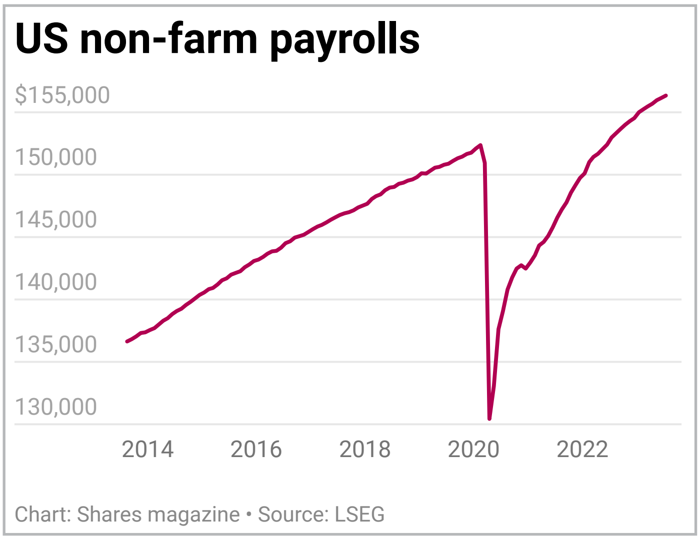
2024*
1 February, 21 March, 9 May, 20 June, 1 August, 19 September, 7 November, 19 December
*Provisional

European Central Bank

2023
14 September, 26 October, 14 December

2024
25 January, 7 March, 11 April, 6 June, 18 July, 12 September, 17 October, 12 December

NON-FARM PAYROLLS



Country: US

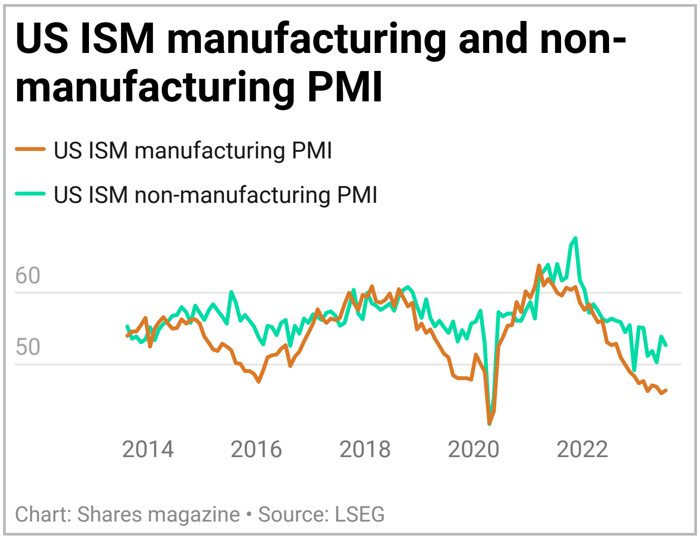
What is it? This data, which is released by the Bureau of Labor Statistics and excludes the seasonal farming industry, shows the number of people employed in the US during the previous month.

When is it released? On the first Friday of the month.

Why is it important? Although this number is volatile, subject to frequent revisions, and relates to job losses and creation, an activity that lags the economic cycle, it is also the earliest release, based on hard data, to give a snapshot of the health of the world's largest economy.

It has historically had the most capacity to move the markets of any global release. The strength of the jobs market is also a key influence on the US Federal Reserve and its decisions on interest rates.

PMI DATA



Country: Global

What is it? The purchasing managers' index, or PMI, is based on a survey of purchasing managers and typically encompasses the manufacturing, construction and services industries. Any figure above 50 implies growth whereas any number below this threshold indicates contraction.

When is it released? In the US the Institute of Supply Management's manufacturing PMI is released on the first calendar day of the month, with the services data following on the third calendar day of the month.

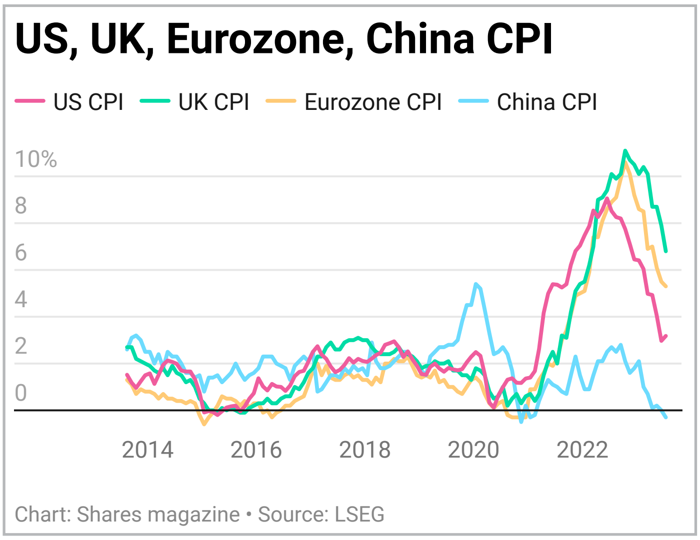
In the UK the manufacturing numbers are released on the first working day of the month, the construction figures on the second and the services data on the third.

Eurozone PMI data is typically out in the third week of the month. In China the

manufacturing and non-manufacturing PMI data is released on the final day of the calendar month.

Why is it important? PMI updates offer a good insight into the health of an economy because businesses tend to react quickly to economic conditions. Their purchasing managers have the most up-to-date view of these conditions. They need to have a good handle on what is going on in the economy in order to make informed decisions when buying the goods and services required by their company.

CPI DATA



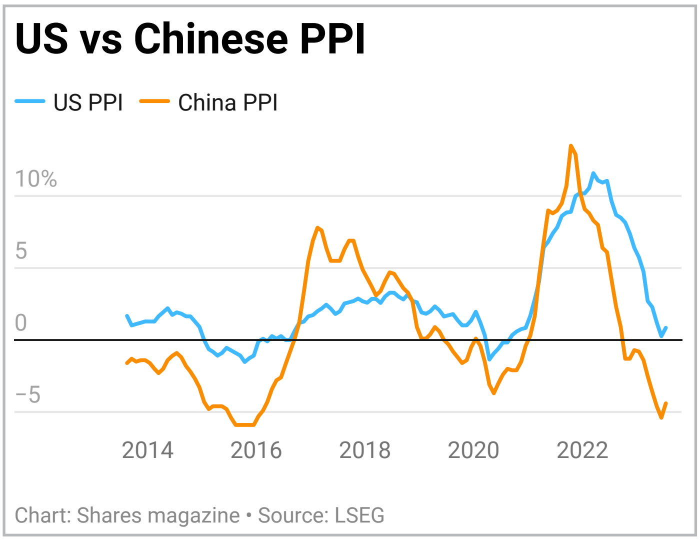
Country: Global

What is it? The consumer prices index, also known as CPI, measures the change in the price of a basket goods and services purchased by consumers – usually a year-on-year and month-on-month reading is provided.

When is it released? In the US, UK and Eurozone this data is usually posted roughly two weeks after the end of the month. In China this data is out around 10 days after the end of the month.

Why is it important? Consumer prices account for a majority of overall inflation. After a prolonged period after the 2007/8 financial crisis when inflation stood at negligible levels, upward pressure on prices has sharply increased coming out of the pandemic, exacerbated by the 2022 invasion of Ukraine alongside other economic factors. As a result, CPI is now one of the most widely followed economic announcements, by both investors and central bankers.

PPI DATA



Country: Global

What is it? Also known as factory gate prices, this shows the change in the price of finished goods and services sold by producers or manufacturers.

Where can I get the information?

Many financial data websites publish the economic data as soon as it is released. For example, Trading Economics, Investing.com and Forex Factory publish a calendar listing all the upcoming data points, including market forecasts, as well as recent data releases.

When is it released? Typically, this comes out concurrently with CPI data or a day or two after.

Why is it important? It is a leading indicator of consumer inflation. When businesses are charging more for goods and services the higher costs are usually passed on to the consumer.

IFO BUSINESS CLIMATE

IFO Business Climate Survey – Germany

Chart: Shares magazine • Source: LSEG

Country: **Germany**

What is it? The Ifo Business Climate index, which is aimed at gauging business confidence, is based on a survey of 7,000 individual German companies carried out by the Ifo Institute for Economic Research.

When is it released? Around three weeks into each month.

Why is it important? Germany is comfortably the largest economy in the Eurozone economic area and this survey is respected thanks to its large sample size and track record of predicting movements in German GDP.

CHINESE INDUSTRIAL PRODUCTION

Chinese industrial production

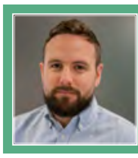
Chart: Shares magazine • Source: LSEG

Country: **China**

What is it? Change in the total inflation-adjusted value of output produced by manufacturers, mines and utilities.

When is it released? Around 15 days after the start of the month.

Why is it important? China is the world's second largest economy and is one of the largest consumers of many commodities produced by the miners and oil and gas companies which populate the FTSE 100 index of UK company shares. Industrial production is a leading indicator of economic health – it encompasses the dominant drivers of the Chinese economy and this data is sensitive to swings in the business cycle.



By **Tom Sieber** Deputy Editor

How do global tracker funds like Fidelity Index World and iShares MSCI World differ?

They provide easy and low-cost exposure to what's happening in global stock markets

Global equity tracker funds are popular among investors as they provide an easy and low-cost way to get exposure to stocks around the world. Choosing which tracker funds to put in your portfolio is not as straightforward as there are multiple products offering a similar approach. Read on to find out how they differ.

Five popular global trackers are **Fidelity Index World (Acc:BJS8SJ3/Inc:BP8RYB6)**, **iShares Core MSCI World ETF (IWDG)**, **iShares MSCI ACWI ETF (SSAC)**, **Vanguard FTSE Developed World ETF (VEVE)** and **Vanguard FTSE All-World ETF (VWRL)**. While they all provide diversified exposure to companies around the world, each fund has a subtle difference.

WHERE SHOULD I START?

You principally need to look at the index being tracked by each fund and the ongoing charges. None of the funds in this article are run by a manager, instead they track the performance of a basket of shares that meet certain criteria. The lack of a fund manager making active portfolio decisions means that ongoing charges are much lower than an active fund trying to beat the market.

Fidelity Index World has £5.4 billion of assets of management and a 0.12% ongoing charge. It tracks the performance of the MSCI World index, which contains approximately 1,500 large and medium-sized companies across 23 developed market countries.

The IWDG version of iShares Core MSCI World ETF follows the same index but is hedged to sterling and charges 0.3% a year.

Currency-hedged ETFs try to remove most of the currency risk that accompanies foreign investments. 'Currency-hedged ETFs typically hold a basket of foreign stocks or bonds as their underlying investment along with currency-forward contracts that perform the hedging function,' explains Morningstar. 'These contracts effectively lock in a predetermined future exchange rate. In doing so, they eliminate the uncertainty of exchange-rate movements.'

There are additional versions of the iShares Core MSCI World ETF. The one using the code IDWR is priced in dollars whereas the IWRD version is in pounds.

ARE THERE LIMITATIONS TO THESE FUNDS?

While Fidelity Index World and iShares Core MSCI World ETF provide exposure to lots of companies around the world, it is important to note their focus on developed markets. Anyone who wants to broaden their horizons and also include emerging markets should look at funds that track the widely followed MSCI ACWI index.

ACWI stands for All Country World Index and contains a basket of nearly 3,000 stocks from across 23 developed market and 24 emerging

MSCI World index country weightings

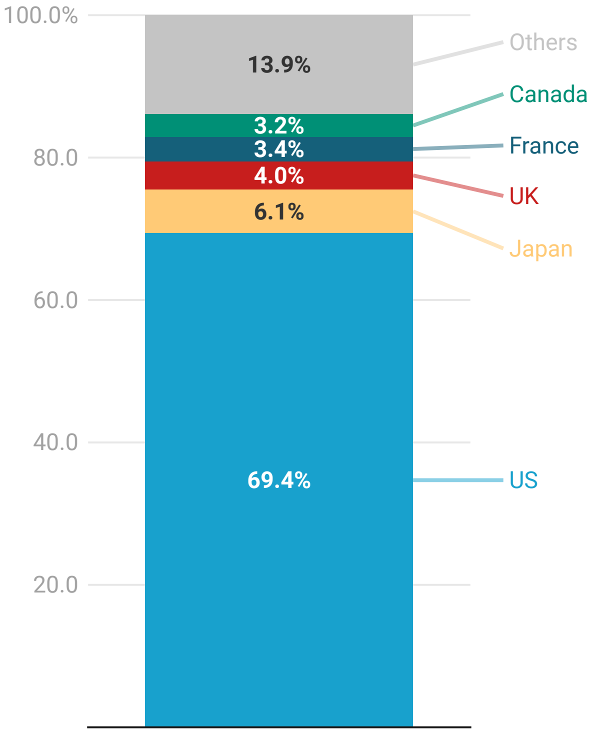


Chart: Shares magazine • Source: MSCI, as of 31 July 2023

market countries. iShares MSCI ACWI ETF tracks this index and charges 0.2% a year.

WHAT ABOUT VANGUARD FUNDS?

MSCI is not the only provider of indices used as the backbone of global equity tracker funds. FTSE, Amundi and Solactive are among the rival index providers, and Vanguard uses FTSE indices in many of its products.

Vanguard FTSE All-World ETF tracks the FTSE All-World index, which covers approximately 3,900 stocks in nearly 50 countries (both developed and emerging markets). As such, you will get broader coverage than iShares MSCI ACWI but the ongoing charge is slightly higher at 0.22%.

In contrast, Vanguard FTSE Developed World ETF chops out the emerging markets coverage you would get with Vanguard FTSE All-World and just focuses on the developed markets. It has exposure to just over 2,000 stocks and has a 0.14% ongoing charge.

WHICH COMPANIES WOULD I GET EXPOSURE TO?

Developed market companies dominate the top holdings of all the tracker funds discussed in this article. You'll get exposure to names such as **Apple (AAPL:NASDAQ)**, **Microsoft (MSFT:NASDAQ)**, **Amazon (AMZN:NASDAQ)**, **Nvidia (NVDA:NASDAQ)**, **Alphabet (GOOGL:NASDAQ)** and **Tesla (TSLA:NASDAQ)**, among many others.

Just remember that if you opt for one of the developed market tracker funds in this article over one that covers developed and emerging markets, you will get a large weighting to the US, as that is where many of the biggest companies are found. It's worth bearing this in mind if you are trying to build a balanced portfolio and already have a US fund.

IS DEVELOPED MARKET EXPOSURE ENOUGH OR DO I NEED EMERGING MARKETS AS WELL?

If you want exposure to global markets through a single tracker fund, you need to decide whether to go for developed markets or both developed and emerging markets. A tracker fund should in theory deliver the same return as its underlying index minus fees.

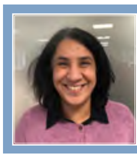
To compare past performance, we looked at four key indices priced in sterling over a short and extended period. Over 10 years, the two developed market indices outperformed the ones which also included emerging markets.

The MSCI World index returned 196% and the FTSE Developed index returned 193%, whereas FTSE All-World returned 179% and you would have got 177% from the MSCI All-Country World index.

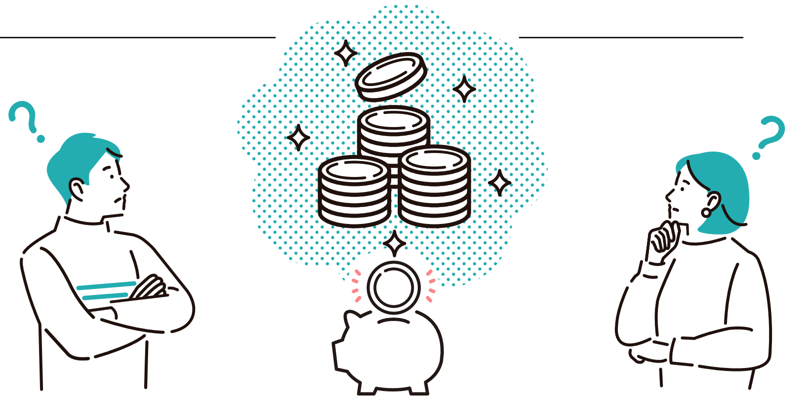
This outperformance trend was the same on a one, three and five-year basis, although the gap was narrow over the past year.

That's not to say the developed indices will always outperform. Emerging markets are volatile – when they're going through a bad patch, performance can disappoint, but historically they have delivered periods of strong returns when times are good.

DISCLAIMER: Daniel Coatsworth who edited this article has a personal investment in Fidelity Index World.



By **Sabuhi Gard** Investment Writer



Should I worry about a big Government-sanctioned pensions raid?

A reader seeks clarification over talk about pension scheme surpluses

I have a defined benefit pension from a former employer and read over the weekend some stories about the Government wanting to allow firms to raid workers' pensions. Surely this can't be right? What happens if the government allows this and then it all goes wrong? Will we never learn? And, most importantly, how worried should I be as a member of a defined benefit scheme?
Anonymous

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

At this stage, there is absolutely nothing for you to worry about because the Government hasn't proposed anything in this area. It has issued a call for evidence on 'Options for defined benefit schemes' which raises the issue of pension scheme surpluses.

A defined benefit pension scheme promises to pay you an income based on your years of service and salary. A 'funded' defined benefit scheme is required to publish details of both assets and liabilities. In this situation, liabilities are simply the scheme actuary's best estimate of the cost of paying promised pensions to all scheme members. If the estimated liabilities are valued higher than the scheme's assets, the scheme is deemed to be in 'deficit'. If the assets are worth more than the liabilities, the scheme is in surplus.

A number of things can impact a scheme's funding position, but one of the key factors is movements in gilt yields, which have a sizeable influence on the accounting value of liabilities. This is because defined benefit schemes invest in gilts to pay the incomes they have promised to members.

When gilt yields go down, there is less money coming into the scheme to pay its liabilities. Conversely, when gilt yields go up, there is more money coming in to pay out to pensioner members.

None of this affects your entitlement to a retirement income – it's just the way defined benefit accounting works in relation to liabilities.

While there have been stories about employers potentially being allowed to access any surplus they have early, there is nothing concrete yet. There are several protections that exist within the defined benefit system which should give you some comfort.

First, your defined benefit scheme is looked after by independent trustees with a legal duty to ensure decisions are made in your best interests. Second, even in the catastrophic scenario of a defined benefit scheme sponsor going bust, the Pension Protection Fund is a valuable lifeboat fund which should ensure you get a decent chunk of, if not all, your promised pension.

If we get more detail or some formal proposals on giving firms flexibility to use surpluses, we will return to this subject in *Shares*.

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.

Boom time for cash savers – but you need to be smart

Shop around for the best deals, consider locking up some of your funds and watch out for tax

It's boom time for cash savers. The best easy access account is now paying interest of 5% according to Moneyfacts. If you had forecast that two years ago, you would have been laughed out of town. But not all savers are benefiting from ballooning interest rates.

Around £250 billion sits in accounts paying no interest. Meanwhile MPs and the FCA are leaning heavily on banks to do more to pass higher interest rates onto their customers. Indeed, research from the Treasury Select Committee recently unveiled a range of everyday savings accounts from high street banks and building societies which are paying significantly less than the Bank of England base rate.

WHAT CAN YOU DO TO EARN A BETTER RETURN ON YOUR CASH?

It's probably going to take some time for this political and regulatory pressure to yield rewards for consumers, and even then, they may be disappointingly modest. However, there are some concrete steps savers can take to improve their own lot.

Almost everybody has a current account. It's a necessity for happy transactions like getting paid, as well as less welcome dealings such as paying energy bills. But the interest rates on these accounts tend to be really low. It's therefore a good idea to only keep cash in these accounts to cover your expenditure, plus a bit of a buffer, while moving the rest to higher paying savings accounts to maximise your returns.

Make sure you shop around for the best rates on savings too, rather than getting drawn in by an account from your existing provider. It might look attractive compared to your current account, but it may well be short-changing you in the context of what else is available on the market.

UK average fixed-term savings rate – banks and building societies

Chart: Shares magazine • Source: Refinitiv, Bank of England

THE PROS AND CONS OF LOCKING UP YOUR MONEY

It's also worth considering fixed rate accounts for some of your money. These lock your money away for a set time period, so you need to be willing to give up access to your cash. This wouldn't sound too appealing except at the moment you will generally get a higher rate as a result of locking your money up for longer.

Moneyfacts data shows the best easy access account is paying 5%, the best one-year fixed rate is 6.2%, and the best three-year fixed rate is 6% per annum. Longer fixed term accounts also give you some certainty over cash flows and protect you from falls in interest rates. Importantly you can mix and match fixed rate accounts of different terms with easy access savings to optimise returns while also maintaining some emergency cash and hedging your bets a bit on interest rate movements. There are even cash hubs out there now which allow you to do all this in one account and with one log in, rather than schlepping from pillar to post with bank transfers.

Savers also need to be more on their toes around tax than they have been for some time. A recent Freedom of Information request lodged with HMRC by AJ Bell revealed that 2.7 million Brits are set to pay tax on cash interest this year, up 1 million in a single year. This figure includes almost 1.4 million basic rate taxpayers, a number which has quadruped in the last four years.

THE RENEWED CASE FOR CASH ISAS

This drastic rise in the tax haul is being driven by higher interest rates, in conjunction with the personal savings allowance which permits savers to receive a certain amount of interest each year tax-free. That allowance is £1,000 for basic rate taxpayers, £500 for higher rate taxpayers, and £0 for top rate taxpayers. For many years savers have shunned Cash ISAs because interest payments have been so miniscule that tax was only ever a big issue for those with huge stashes of cash.

But now that dynamic has shifted considerably. You do tend to get slightly lower rates on cash ISAs than savings accounts, for example the current best easy access ISA account is paying 4.5%, compared to 5% from an unwrapped easy access account, again according to Moneyfacts. However, if you're paying 20%, 40% or 45% tax on that 5%, the Cash ISA comes out ahead.

Savers should also think about whether they have too much cash and might consider investing in the stock market for the longer term, in search of higher returns. The rough rule of thumb is that you should keep three to six months expenditure in cash to tide you over in the event of a financial emergency.

But recent data from the Financial Conduct Authority shows that 79% of adults with £10,000 to £20,000 of investible assets hold them in either all or mostly in cash. That suggests many people are holding more cash than they ideally need to and could afford to branch out a bit more into the stock market. But that's a difficult message to entertain when cash rates have come so far in such a short space of time.

DISCLAIMER: AJ Bell owns Shares magazine. The editor (Tom Sieber) and author (Laith Khalaf) of this article own shares in AJ Bell.

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

WATCH RECENT PRESENTATIONS

CleanTech Lithium (CTL)
Aldo Boitano, CEO &
Steve Kesler, Executive Chairman

CleanTech Lithium (LON:CTL) proudly sustainable, committed to net-zero. Our mission is to produce carbon-neutral lithium for the Electric Vehicle (EV) future. With proven sustainable Direct Lithium Extraction technology, powered by clean energy, we plan to be the leading supplier of green lithium to the EV market.

Hercules Site Services (HERC)
Brusk Korkmaz, CEO &
Paul David Wheatcroft, CFOr

A leading technology enabled labour supply company for the UK infrastructure sector, which has joined the AIM market. Founded in Gloucestershire in 2008 by CEO Brusk Korkmaz, Hercules provides labour-related and a diverse range of other services to many blue-chip clients in the infrastructure sector.

Invesco Bond Income Plus Limited
Rhys Davies, Fund Manager and Senior Credit Analyst

In this video interview, Rhys Davies discusses his sector expertise, how he manages the investment company Invesco Bond Income Plus Limited (BIPS) and what features he looks for when generating ideas and income for the BIPS portfolio.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

CLICK TO PLAY EACH VIDEO

SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos

WHO WE ARE

EDITOR:
Daniel Coatsworth
@Dan_Coatsworth

DEPUTY EDITOR:
Tom Sieber
@SharesMagTom

NEWS EDITOR:
Steven Frazer
@SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR:
James Crux
@SharesMagJames

EDUCATION EDITOR:
Martin Gamble
@Chilligg

COMPANIES EDITOR:
Ian Conway
@SharesMagIan

INVESTMENT WRITER:
Sabuhi Gard
@sharesmagsabuhi

CONTRIBUTORS:
Danni Hewson
Laith Khalaf
Russ Mould
Tom Selby
Laura Suter

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

DISCLAIMER

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for 30 days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within 30 days after the on-sale date of the magazine.