GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary - November 2024

FTSE 100	**8,179**	S&P 500	5,728
Resistance	8,390	Gold	$2,738
Support	8,125	GBP/EUR	1.1894
VIX	22%	GBP/USD	1.2965

Introduction:

European companies will shortly be required to report data on water use, energy consumption, labour conditions, waste, chemical use and emissions throughout their supply chains. The reason is the EU's sprawling Green Deal climate law, which aims to get the EU to "*net zero*" by 2050 and to rewire the bloc's economy, switching it from one driven by consumption to one based on recycling, reuse and longevity. But the result is a bureaucratic machine that has spawned reams of legislation that businesses, especially small and medium-sized ones, are struggling to implement or even understand. The EU has itself found that the law will impose billions of euros in extra administrative costs on business - and all at a time when the bloc is struggling with lacklustre growth and losing out to rivals.

Market Outlook:

Over the long term *(since 1962), the FTSE All-Share has returned 7.2% per annum and that does not include the average 3.8% dividend yield earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at overweight. The fourth quarter is historically the strongest quarter of the year for stocks with the FTSE 100 rising 30 of the 40 years (75%) between 1984 and 2023, posting an average gain of 3.4%. And stock markets that are strongly ahead at the nine-month mark tend to add to their gains in the final three months, as bears capitulate and wealth managers window-dress their portfolios with the year's best stocks.

The three major US averages - the S&P 500, the Dow Jones Industrial Average, and the Nasdaq Composite - all set new all-time highs last month. That's a rare example of the blue-chip index, the broad market, and growth stocks all moving in concert. As the old saying goes, *"breadth equals validity"*.

This market has, however, more than breadth and momentum on its side. The key long-term factor for the market remains the Fed, ECB & BoE's just-begun rate-cutting cycle. Based on their own indications along with market expectations, they will be cutting rates for the next two years. That has the potential to be a market tailwind not just into year-end but potentially well into 2025.

With polls showing Trump and Harris in deadlock, the Presidential race will likely come down to a handful of in-play states. Depending on which party ends up controlling the Senate and the House of Representatives, the future President may or may not have a mandate to enact his or her party's agenda. Wall Street likes

Market Commentary

Market Outlook (cont):

gridlock in Washington.

We anticipate that an expanding economy, growing earnings, and declining inflation and interest rates can offset the political uncertainty from the presidential election, resulting in further stock market gains as we march towards year end.

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Recommended Investment:

Care REIT plc

Care REIT plc (formerly known as Impact Healthcare REIT plc) is a real estate investment trust listed on the London Stock Exchange (CRT.L). Launched in March 2017, the trust aims to provide shareholders with an attractive income stream through exposure to a diversified portfolio of residential care homes. The trust's strategy is to acquire, renovate and extend high quality care homes in the UK and lease them to healthcare operators under full repairing leases (where the tenant has total responsibility for the repair of the premises). Through such active asset management it also aims to deliver growth in net asset values over the medium term.

Changing demographics are favourable to this sector. A growing and ageing population is increasing demand for care. Over the next 25 years, people over 75 are forecast to be the fastest growing part of the UK population, accounting for 43% of population growth (making up 9% of the total population). At the same time, the number of dementia cases is anticipated to grow in the coming years which will further increase demand. Meanwhile, the supply of sustainable assets for providing that care is falling.

The property portfolio is currently comprised of 140 residential care homes (7,721 beds) worth £670.1m leased to 15 tenants. When identifying potential tenants, management looks for those with:

i-strong balance sheets with no debt
ii-a track record of delivering good quality care
iii-high occupancy levels
iv-a consistent trading performance; and
v-rental cover of at least 1.75x.

Leases are established with fixed terms of no less than 20 years, no break clauses, and the majority have annual RPI-linked uplifts with a 2% floor and a 4% cap. They also favour tenants that have a desire to add value and add more homes to the portfolio. Resident occupancy has recovered to pre-Covid levels and average weekly fee growth is averaging CPI +4%.

This is allowing the REIT to pay a quarterly dividend of 1.7375 pence, equating to a yield of 8%. The inflation-linked nature of the rental income is particularly attractive to income-seekers. The dividend is covered 1.06x by earnings and it has been increased every year since launch.

CRT is currently trading at a 27% discount to NAV, which we think offers value relative to history, with the fund having traded at a premium to NAV for much of its life. We think this discount offers a highly attractive entry point, with asset valuations supported by contractual rental uplifts and the downward interest rate trajectory in the UK, and recent disposals at book value partially demonstrating the accuracy of the NAV.

In our opinion, CRT provides well-managed exposure to UK care homes. We believe that this is a compelling proposition, with the potential for strong long-term returns from a strategy with supportive structural drivers and good ESG credentials as the portfolio provides crucial social care infrastructure for vulnerable elderly people. The trust utilises prudent financing with a current LTV of 28% of gross assets to seek to enhance returns and management has large equity stakes. The prospective yield of 8% is very attractive and the 26% discount to NAV represents tremendous value.

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Post of the Month:

"With polls showing Trump and Harris in deadlock, could the Misery Index swing the US election?"

The Misery Index is as cheery as it sounds: a proxy designed to measure the extent to which households are suffering. In its most simple form, it's calculated by adding up the unemployment and inflation rates for an economy. With the US election around the corner, the metric is worth taking seriously.

Research finds that if the index rises in the twelve months leading up to an election, the incumbent party typically loses. When the index falls, the incumbent usually remains in office: voters simply aren't angry enough about the state of the economy to kick them out.

At first glance, this looks positive for the Democrats. The US Misery Index has ticked down from 7.5% last September to 6.5% today, driven largely by a drop in the inflation rate.

Though the concept of an 'ideal' level of misery sounds jarring, economists believe that the natural rate of unemployment rate is 4.5% to 5.5%, and they strive for positive inflation of 2%. This means the index is at its 'equilibrium' level of around 6.5% to 7.5%.

But the good news isn't showing up in survey data. The latest Michigan Sentiment responses showed that consumer expectations have dipped while inflation expectations have risen for the first time in five months. Analysts think that the downbeat responses were partly due to Hurricane Helene, which hit just after the survey opened.

And despite the index's improving figures, extremely gloomy episodes under the Republicans and Democrats are still fresh in the memory. Before Covid-19 hit, Americans enjoyed a historically low Misery Index, thanks to near-full employment and at-target inflation. At the start of the pandemic (under Donald Trump), the measure surged to 15%, before easing to 12.5% under Joe Biden.

We could therefore find voters looking to punish either party for the economic misery they have recently endured.

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Quote of the Month:

"If you mix politics with your investment decisions, you're making a big mistake. The stock market will be fine over time, regardless of who wins the election" - Warren Buffett

Historically, US elections have caused short-term market volatility but had minimal long-term impact. Policy shifts between parties are typically minor, rarely affecting companies' growth rates or long-term profitability. Long-term investors are best served refraining from altering investments based on speculated political outcomes or anticipated policy changes. While responding to change is important, speculating on binary outcomes is not a secure strategy.

Economics:

British Prime Minister Keir Starmer promised reforms to speed up the economy and overhaul the public sector after the Labour government's first budget failed to boost the growth outlook and sent government bond prices into a two-day dive. Some analysts have said that without reform the government may need to raise taxes again in future to fix the public sector, despite Chancellor Reeves' pledge that her budget was intended to *"wipe the slate clean"*. The budget was quickly welcomed by the IMF and it also won applause from Mario Draghi, the former ECB president who said *"The UK government has chosen to significantly raise public investment over the next five years and has adopted precise rules to ensure that borrowing is used only to fund this investment"*.

The euro zone economy grew 0.4% in the third quarter, twice what was expected and an increase on the 0.3% recorded in the second quarter. The euro zone's biggest economy, Germany, recorded a surprise growth of 0.2% that allowed Europe's largest economy to avoid the recession that had been forecast by some economists, as it struggles with a downturn in its key manufacturing sector. *"Although a technical recession was avoided, the German economy remains barely larger than it was at the start of the pandemic,"* analysts at ING said, calling the nation a *"magnet for negative macro news."* Analysts say euro zone business activity and consumer confidence should cautiously pick up in the coming months, amid lower interest rates and cooling inflation.

The US economy added just 12,000 jobs in October, the weakest monthly job gain since 243,000 jobs were lost in December 2020 when Covid and its variants reared their ugly head. The number is far below September's 223,000 and expectations for a 112,500-job gain. The number was a reflection of temporary shocks to the US labour market, with this snapshot bearing the impacts and ripple effects of two major deadly hurricanes and large labour strikes. However, amid the murkiness in the payroll data, the unemployment rate (which is generated by a different survey that doesn't count weather-affected workers as unemployed) provided a signal of stability in the labour market: It held steady at 4.1%. Fed officials will be inclined to look through the noise and continue on their path of steadily cutting rates in an environment of cooler labour market dynamics and ongoing wage growth disinflation.

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Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

The January Barometer

Historically, the returns in January have signalled the returns for the rest of the year. If they are positive, the returns for the whole year tend to be positive and vice versa. First mentioned by Yale Hirsch in the Stock Trader's Almanac in 1972, a variant has it that returns for the whole year can be predicted by the direction of the market in just the first 5 days of the year. *Judging by the first 5 days, 2024 is likely to be a negative year for the stock markets.*

November

Since 1984, the FTSE 100 has risen in 58% of years in November, with an average return of 0.9%, making it the 4th best month of the year. In an average November, the market rises in the first three days, but those gains are then given up in the following few days. In the middle of the month prices increase and then fall back again, before finally rising strongly in the last seven days of the month.

Fourth Quarter

The FTSE 100 has risen 30 of the 40 years (75%) between 1984 and 2023, posting an average gain of 3.4%.

November - April

Delaying re-entering the market from St. Ledgers Day to Halloween has yielded statistically significant outperformance with the FTSE All-Share rising an average 13.4% from Halloween to May Day since 1965. There is a 1-in-2,000 chance of this arising by chance in random data. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

Fourth-Year US Presidential Cycle

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Dragon

The Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *The Year of the Dragon is believed to foster growth, progress, and abundance. For investors in Chinese stocks, that would be a most welcome break from the past few years.*

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Investment Calendar:

1st November	New Moon (markets tend to reach a high point around this time)
6th November	FED Meeting
7th November	MPC Meeting
15th November	Full Moon (markets tend to reach a low point around this time)
	Options Expiry Day
28th November	ECB Meeting

Technical Analysis:

We are bullish on the stock market at these levels. Following a +200 point pullback from its October highs, the FTSE 100 looks good value as we head towards year end, traditionally the strongest part of the year for equities. With the ADX at 12, the market is technically trendless so we look to the lower and upper Bollinger bands for levels of support and resistance. The index is just 54 points above the lower Bollinger band and has 211 points of potential upside to the upper Bollinger band. Further major support can be found at the 200-day moving average, just 94 points away at 8,085. That makes the risk/return trade to the upside a very interesting proposition.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

(red dashed line)	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
(red line)	50 day moving average	(signifies the medium-term direction of the security)
(thick red line)	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
(blue line)		(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

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