Market Commentary - September 2024

FTSE 100	**8,181**	S&P 500	5,408
Resistance	8,380	Gold	$2,492
Support	8,000	GBP/EUR	1.1846
VIX	21%	GBP/USD	1.3090

Introduction:

Insider buying (purchases of a company's shares by its directors) tends to get more attention than insider selling. Indeed, Peter Lynch famously noted that *"insiders might sell their shares for any number of reasons, but they buy them for only one: they think the price will rise."* Up until recently, 2024 was a very good year for equity investors, with all-time highs booked on a regular basis. As insiders grew increasingly cautious over the past few months, it was easy to assume they were simply taking some money off the table. But about four weeks ago, the caution became more pronounced with insiders increasing their selling activity. Today, sell/buy ratios are at their most-bearish levels since February 2023. So, insider caution has turned into a bearish stampede. This will all turn eventually of course. But for now, caution remains the order of the day.

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 equalweight. The stock market has been marking time as of late. Not surprising given August has a reputation as a sleepy time for the markets. Investors head off on their annual holidays; trading desks are lightly staffed; and phone calls tend to dwindle. Little surprise that August on balance is an inconclusive month, rising just 0.4% on average.

Beneath the surface however, the market in August has been undergoing a meaningful transition at the sector level. We have seen profit-taking in the Magnificent Seven after an 18-month rally. Long-dated gilt prices are creeping up. There has been a rotation away from growth stocks and toward defensives. Investors' near two-year fascination with AI stocks has not gone away, but it has moderated somewhat. And AI stock winnings may now be a vital source of funds for investing in other areas perceived as timely in the currently unfolding interest rate environment.

This rotation is consistent with ongoing uncertainty. The nature of the presidential election has changed dramatically. And the Fed appears to be teeing up 50 bps or possibly even 75 bps of rate cuts by year-end. But with no cuts appear likely until mid-September, investors have been left dangling.

Over the long term, portfolios and markets are healthiest when they are diversified. For a while in the current bull cycle, AI appeared to have a full-nelson lock on the market. While we do not expect the AI

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Market Outlook (cont):

trade to unwind anytime soon, improved sector breadth across multiple equity sectors is a positive for preserving market momentum into year-end as well as for the years to come.

Yet the market must first get through the volatile and often negative month of September. After that the three best trading months of the year lie ahead. Since 1984, the FTSE 100 has risen on average 3.4% in the fourth quarter.

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Recommended Investment:

iShares MSCI World SRI ETF

Investor interest in ESG (environmental, social, and governance) factors has increased in recent years. Environmental factors relate to a company's impact on sustainability and the environment; Social factors relate to the community and societal values of a company; and Governance factors consider if management strategies at a company are sound and ethical. ESG offer both an outline for companies to follow as well as guidance for investors.

Modern ESG investing was developed from socially responsible investing ("SRI"). The origins of SRI date back to the 1960s, during the time of South African apartheid, when investors started to avoid equities that had a connection to apartheid. People then began to exclude stocks related to alcohol, tobacco, oil & gas etc. These days, instead of merely identifying industries to avoid, the discipline promotes *"sustainable"* business practices across all industries that can have an *"impact"* on global issues such as the climate, hunger, poverty, disease, shelter and workers' rights. With capital pouring in, such companies are clearly swimming with the tide. ESG investing thus allows investors to align their financial decisions with their personal values.

ESG investing also can be a powerful source of return on capital and interestingly, ESG funds have in recent years produced market-beating returns. The USD-denominated iShares MSCI World SRI ETF is up 82% over the last five years, compared with an 80% gain from the iShares MSCI World ETF over the same period. The acts of realising returns on investment and holding true to personal values do not need to be mutually exclusive. Also of note, governments and regulators increasingly are in support of companies that are leaders in ESG practices. Continued support from policymakers will likely lead to growing ESG opportunities.

Of course, with strength can come weakness. ESG investors are faced with the issue of *"greenwashing"*, where companies are not fully transparent about their ESG progress and initiatives, so as to appear being in alignment with the principles sought by prospective investors. Also needed is a benchmark or industry standard for defining an optimal ESG fund. It is not easy to establish *"universal"* ESG criteria and such an effort may be subjective and confusing for investors.

A recent ESG study from Bloomberg however suggests there is a bullish future for the ESG industry. Among many findings, they found that a majority of investors (85%) reported that ESG leads to better returns, resilient portfolios and enhanced fundamental analysis. The study also estimated that by 2030, there will be over $40 trillion invested in ESG assets (33% more than in 2022), comprising 25% of global assets under management.

We recommend the iShares MSCI World SRI ETF (SGWS.L, TER=0.23%) which trades on the London Stock Exchange and provides GBP-hedged access to companies with outstanding environmental, social and governance ratings in addition to screening out those operating in controversial industries.

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Post of the Month:

"Berkshire Hathaway's cash position has increased 67% since December. Is Warren Buffett taking profits ahead of a tax rise?"

By the time we get to view the third-quarter update from Berkshire Hathaway we should know who will be the 47th president of the United States. But the company's recent August update had many analysts thinking that political considerations are already high on the company agenda.

Leaving aside loss reserves tied to its insurance operations, Berkshire Hathaway held $272bn in cash and US Treasuries at the end of June, a 67% increase since December 2023. It is also broadly equivalent to the aggregate value of the group's publicly traded equity portfolio. Much of the comment surrounding the second-quarter update centred on the group's shrinking stake in tech giant Apple, a company recently described by Buffett as *"an even better business"* than both Coca-Cola and American Express. Together with Chevron and Bank of America, these stocks account for 72% of the aggregate value of Berkshire Hathaway's equity holdings. Yet Apple's share of the total allocation to equities has declined from around 50% at the end of last year to 30%. And since mid-July, Buffett has offloaded around 14.5% of Berkshire's stake in Bank of America – the group's third-largest equity holding.

Buffett has often pointed out that he and the late Charlie Munger focused on the quality of individual businesses rather than external factors to guide their capital allocations. So, it might be difficult to arrive at any meaningful conclusions from recent events.

But in an election year, investors are becoming concerned. Democrat Party nominee Kamala Harris has announced plans to tax unrealised stock gains. The proposed change would only directly affect people with a net worth of at least $100mn, although given the volatility of risk assets, it's difficult to envisage a workable taxation model on this basis. How would you prudentially account for losses when the unrealised value of an asset declines? A prospective Harris administration also plans to hike the federal corporate tax rate to 28%, while raising the top capital gains and dividend tax rate to 44.6%. Other proposals in the pipeline extend to new tax charges on share buybacks and carried interest. The list goes on.

Whatever the rights and wrongs of the upcoming tax changes and their eventual shape, it would be safe to assume that they will have a cooling effect on markets. Buffett was as sanguine as ever about the government's tax take in his recent review of Berkshire's second-quarter figures. But it's entirely understandable why he might have acted the way he did if he believed that cumulative taxes would outstrip forward gains. And though Buffett's investment philosophy lends itself to long-term holdings, the S&P 500 is trading on a lofty 22x P/E multiple, perhaps a little rich given the potential for volatility in the months ahead.

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Quote of the Month:

"Trump cash versus Kamala crash. We're going to have a crash like 1929 if she gets in. It will not be pretty" - Donald Trump

Kamala Harris has doubled down on her plans to introduce a 25% tax on unrealised capital gains. This will only be applicable to individuals whose net worth is above $100 million, meaning that the state will tax rich individuals if the value of their assets increases, even if they don't sell anything. Billionaire Democrat Mark Cuban agrees with Trump, stating the proposal will force big investors to sell their stocks and assets in order to pay their taxes, which will eventually lead to a crash in the market. Although it may be challenged through the courts, investors should monitor how the proposal unfolds in the months ahead.

Economics:

The UK economy has shifted from a period of stagnation, high inflation and recession to a more welcome environment of apparent growth. Although describing this as a 'Goldilocks' period might be overstating things, conditions are favourable for growth over the next 18 months. Real incomes and consumer confidence are on the upswing, boosting spending. Low inflation, falling interest rates and growing demand are enhancing business confidence and investment. Economic growth is forecasted at just over 1% this year and nearly 1.5% in 2025. But the upcoming budget, the first of the new Labour government, could present a risk to this prosperous environment. Implementing spending cuts and tax rises could weigh down on growth. However, this most likely won't give the BoE reason for concern, as there is still room to cut interest rates without fuelling inflation.

The Eurozone posted a modest growth of 0.2% in the second quarter, marking a slowdown from the 0.3% expansion observed in Q1. Germany, the largest economy in the Eurozone, continues to grapple with significant economic challenges with their GDP contracting by 0.1% in Q2. The rising cost of energy, increased borrowing costs, weak domestic demand, and global trade disruptions have collectively strained Germany's economic engine. Germany's economic woes are not just a domestic issue; they have significant implications for the entire Eurozone. As the so-called *"locomotive"* of the EU economy, Germany's struggles risk dragging down growth across the region. According to the Ifo Institute, the German economy is *"paralysed"* and facing a *"structural crisis"* as it transitions from a manufacturing-based economy to one more reliant on services.

Job growth in the US was weaker than expected last month, raising concern that the world's largest economy is starting to stumble under the weight of higher interest rates. Employers added 142,000 jobs in August, less than the roughly 160,000 analysts had forecast. The report is one of the most important gauges of the US economy and comes at a critical time, as voters weigh presidential candidates for the November election and the US central bank debates its first cut to interest rates in four years. The concerns about the economy are a key issue in the election. Polls suggest that a majority of Americans already believe the US is experiencing a recession, despite solid 2.5% growth last year. Donald Trump has claimed that the economy is headed for a *"crash"* and his campaign quickly seized on the latest figures to attack vice president Kamala Harris, issuing a press release titled *"warning lights flash as Kamala's economy keeps weakening"*. *"Although hiring has slowed, the US job market continues to generate solid job gains and wage growth that is consistently beating inflation,"* the White House Council of Economic Advisors retorted.

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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.*

September

After the summer lull, things get exciting again for investors in September in what is historically the worst performing month of the year, falling on average 0.7%, 52% of the time. It is even worse for the mid-caps with the FTSE 100 historically outperforming the FTSE 250. However, although the average return is bad for the month, about half of all Septembers do have positive returns. The problem is that when the market does fall in this month, the falls can be very large.

Third Quarter

The FTSE 100 has risen 25 of the 40 years (63%) between 1984 and 2023, posting an average gain of 0.6%.

Sell in May and go away; don't come back till St Leger Day

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.*

GIBRALTAR ASSET MANAGEMENT

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Investment Calendar:

3rd September	New Moon (markets tend to reach a high point around this time)
12th September	ECB Meeting
17th September	FED Meeting
18th September	Full Moon (markets tend to reach a low point around this time)
19th September	MPC Meeting
20th September	Options Expiry Day

Technical Analysis:

Last month we were neutral on the stock market and in the event the market rose just 8 points. The market has risen just 37 points over the last two months, not unexpected given the typically quiet summer months. Looking at the charts, we are taking a mildly bullish stance. The RSI has fallen to 34%, almost in oversold territory and the ADX is 18, signalling a market that is lacking direction. That means we look to the Bollinger bands for direction. The FTSE 100 is lying just 11 points above the lower Bollinger band with 234 points potential upside to the upper Bollinger band. Downside appears to be capped by both the psychologically-important 8,000 level as well as the upward-sloping 200-day moving average lying at 7,950. This, of course, barring a large September fall.

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

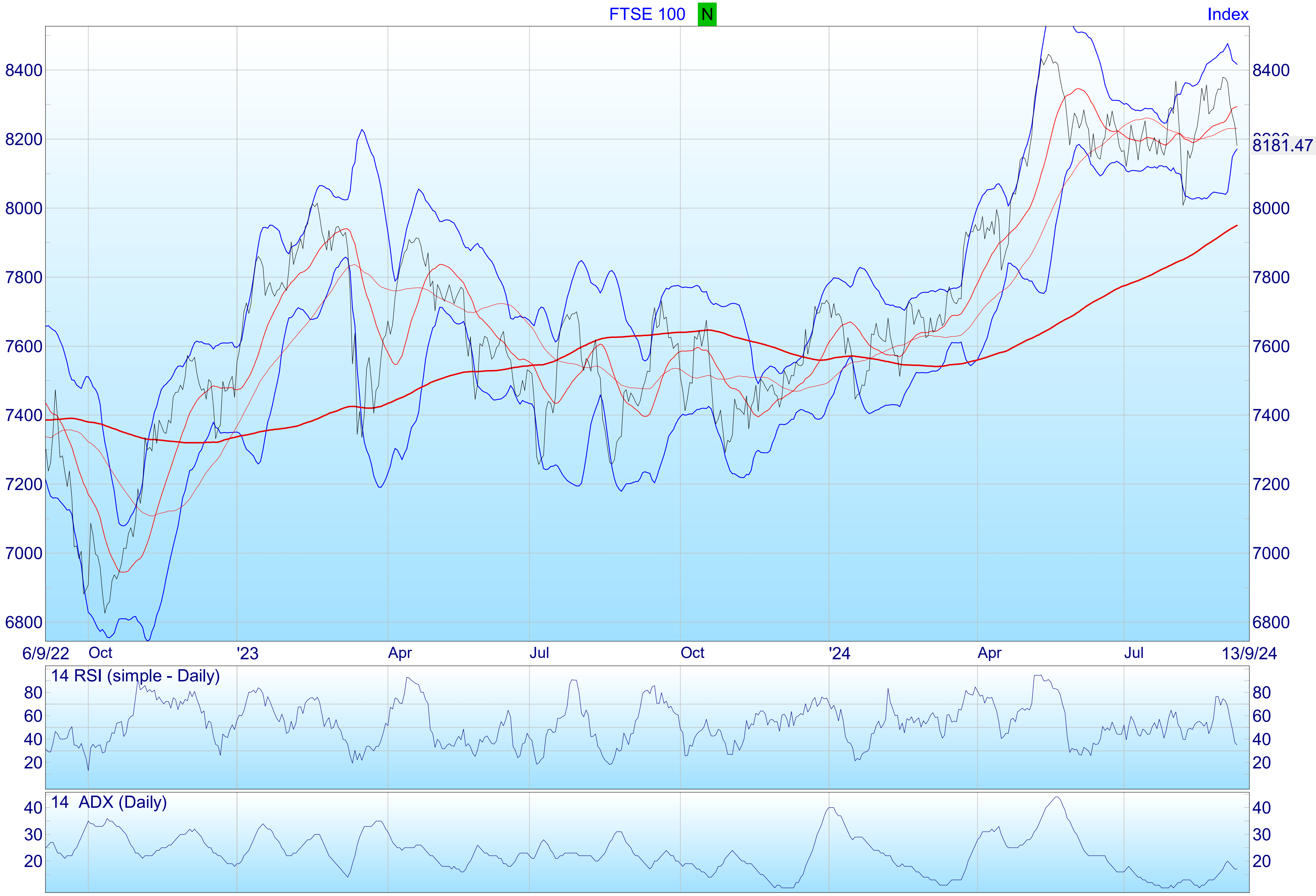
Chart Legend:

(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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13/9/24
14 RSI (simple - Daily)
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14 ADX (Daily)
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