Market Commentary

Market Outlook (cont):

explosive growth numbers seen earlier this summer - in industrial production and retail sales - have moderated to more normal levels after the recovery burst; but activity continues to move higher. Economic data in the late spring and summer was bouncing off trough levels, producing gaudy upside numbers. While the data is no longer so explosive, it has not levelled off or, worse, begun to pitch lower in a second-wave recession. The all-important housing sector remains strong, reflecting a combination of attractively low mortgage rates and an overdue millennial housing boom, spurred by the desire to get away from crowded urban spaces.

For eight months, investors piled into technology, resulting in a particularly crowded trade in a handful of tech giants. All of the tip-of-tongue tech names, including Facebook, Microsoft, Amazon, Netflix and Apple have at least hit correction territory with 10%-plus retreats from their peak. That leaves room for further upside as we head into year-end.

Despite its reputation for volatility (since 1984, seven of the ten largest one-day falls in the market have occurred in the month of October), for the most part the market posts a positive return in the month of October- rising 0.9% on average 76% of the time. This strength may not be unconnected with the fact that the strong six-month period of the year starts at the end of October (part of the Sell in May Effect) and investors may be anticipating this by increasing their weighting in equities during the month.

Recommended Investment:

Shires Income plc

Shires Income plc (SHRS) is an investment trust whose shares are listed on the London Stock Exchange. The Company's investment objective is to provide shareholders with a high level of income, together with the potential for growth of both income and capital.

SHRS is differentiated from the wider UK Equity Income peer group by its higher yield (5.6% vs. 3.7% average) and its preference share portfolio (making up 30% of the portfolio), which is funded by gearing (currently standing at 20%). Interestingly, the trust also obtains income by writing call options on stocks that it wants to sell and put options on stocks that it wants to buy. Typically, options are short-dated (1-3 months) and 5–10% out of the money (the share prices are under or over, as appropriate, the option exercise price). By doing so, the Company generates premium income. The upshot of all this is that SHRS's sources of income are much more diverse than would be the case for many equity income funds, especially given that a handful of stocks account for a significant proportion of the income available in the UK equity market.

When selecting equities for inclusion within the portfolio, the manager (Aberdeen Standard Investments) adopts a buy-and-hold strategy. It looks for good quality companies that are trading cheaply, defined in terms of the fundamentals that in their opinion drive share prices over the long term. Particular emphasis is placed on meeting the management of these companies, at least twice a year. This long-term approach helps limit portfolio turnover, although the manager does take advantage of gyrations in markets to trim holdings that have performed well and add to existing positions, where appropriate. Top holdings include preference shares issued by Ecclesiastical, General Accident & Standard Chartered and blue-chip equities such as Astrazeneca, Prudential, BATS, Chesnara & SSE.

The fund's shares are currently trading at a 7% discount to NAV, offering investors an attractive entry point

Gibraltar Asset Management

Stockbrokers & Investment Managers

Market Commentary

Recommended Investment (cont):

given its 12-month average discount of 2%. Long-term performance is good - over the last 10 years the shares have risen 95%, comfortably outperforming its benchmark. The company pays a quarterly dividend, the last declared was 3p. Based on the current share price, that equates to a 5.6% yield. **Buy.**