Gibraltar Asset Management Stock Market Commentary

‘Investors ponder whether stocks have hit the bottom’

GIBRALTAR ASSET MANAGEMENT LIMITED

STOCKBROKERS & INVESTMENT MANAGERS

The S&P 500 has rebounded over 4% from its 2022 lows. But from a technical perspective, it is far too early to call the bottom. For this we need to see a huge improvement in the percentage of stocks trading above their 200-day averages. Unfortunately for investors seeking to call the bottom, that takes time. Price tends to run away from investors at a bottom, and often you will hear investors say that they will wait for the next pullback that never comes. The market does not let you in but rather just locks the door. News flow at the bottom tends to be terrible and those waiting for the all-clear sign on headlines will likely be disappointed as the market discounts better news in the future. Bad news is bought, which can be confusing to many - especially those that have not been through numerous bull/bear cycles. Generally, stock market lows are found when some type of bottom formation is seen, and the bullish breakout coincides with the break of the bear-market trendline. Quite simply, it’s a succession of higher highs and higher lows.

by Mark Maloney, Managing Director, Gibraltar Asset Management Limited

Market Outlook

Our allocation to the stock market remains at equalweight. As the second half of 2022 gets underway, the all-important US stock market is mired in its second bear market since 2020. The pullback in stocks has driven two-year forward P/Es on the S&P 500 20% below the historical (trailing five-year) level. While stocks are not back to fair value, they are priced more attractively than they have been since late 2020.

Right now, we see a tug of war between ‘bargain bulls’ anxious to get in and ‘badly burned bears’ looking to sell unprofitable positions on any rally. That may set the stage for a volatile market this summer, a period usually characterised by the doldrums.

We can see why many investors are nervous. Inflation recently logged its highest annual change in 40 years. Higher prices have spilled over from goods to services. If consumers are paying more for everything, eventually they will buy less of everything. The Russian invasion of Ukraine has devolved into a grinding war of attrition, with no end in sight. COVID lockdowns in Shanghai and other Chinese cities have reminded a pandemic-weary populace that the coronavirus has not gone away. One major bank CEO has spoken of a pending “hurricane”, a this perfect storm composed of inflation, a European war, and a restrictive Fed.

Yet that view is hardly universal. Other market watchers see an unfolding opportunity to buy growth stocks, in particular, at reduced rates. These bulls observe that current levels of interest rates, inflation and unemployment are much lower than those seen in the 1980s. Employment is high and this is the economy’s best hedge against recession. As long as consumers are working, they will spend. Meanwhile, the current high inflation appears to be the result of extraneous forces, including pandemic recovery demand, the supply-chain crisis, and rising energy costs due to sanctions on Russia.

To those investors who are unsure which side to take, it is a fact that stocks are more attractive than they were in January, a period of market complacency that now seems a lifetime away. For the long term, there is more money to be made in periods of anxiety than in periods of complacency.

Recommended Investment

The Law Debenture Corporation

Founded in 1889, The Law Debenture Corporation (LWDB) is an investment trust listed on the London Stock Exchange and aims to achieve long-term capital growth in real terms and steadily increasing income. The trust is unusual in that it is an investment trust but also has an Independent Professional Services business, which provides pensions (pension trustee services and outsourced administration), corporate trust (the original business of LWDB, which focuses on loans and bonds) and corporate services (corporate secretarial services). This makes up ~18% of NAV and is highly profitable with high single-digit growth in both revenues and profits over the last several years. Consequently, it funds ~35% of LWDB’s dividends. This gives the fund managers increased flexibility to select lower- or non-yielding stocks and have not been forced into the high-yielding blue-chips that dominate many income portfolios but have struggled to achieve capital performance in recent years.

The investment portfolio is managed by Janus Henderson Investors on a bottom-up basis, aiming to provide investors with a diverse selection of quality companies (~150 stocks), mainly made up of those listed in the UK (82%), although they have the flexibility to invest in overseas stocks where there is no compelling UK equivalent. The managers invest directly in the UK, North America, Japan and Europe while the small allocation to Asia-Pacific ex-Japan and other markets tends to come via funds.

Stocks are selected following a rigorous assessment of company fundamentals, with a focus on finding growing businesses whose current share prices are not believed to reflect their long-term growth prospects.

The managers are able to draw on the broad global research resources of Janus Henderson Investors and they aim to build and exit positions gradually, with an average starting position of ~0.3%, rising to an average of 0.7%. Portfolio turnover is relatively low at ~17%, implying a holding period of six years. The managers will gently trim positions that have done well and may also sell out of holdings where there has been a deterioration in fundamentals. Top ten holdings include such names as GlaxoSmithKline, Shell, HSBC, Rio Tinto & National Grid.

The fund has performed very well over the long term, with a NAV total return over the last ten years of +83%, significantly outperforming both the FTSE All-Share and its UK Equity Income peer group.

The fund has a record of +40 years of increasing or maintaining dividends to shareholders and has delivered annualised dividend growth of +7% over the last ten years.

The fund benefits from one of the lowest fees in the investment trust sector, with a Total Expense Ratio of just 0.5%. Combined with the trust’s strong track record and 4% yield, we rate the fund a strong buy.

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New website checker launched to combat online fraud

by **Martyn Landi, PA Technology Correspondent**

A new website-checking tool has been launched to help users confirm whether a site is legitimate before they visit.

Internet safety group Get Safe Online has worked with fraud prevention service Cifas to create the tool, which enables users to enter the address of any website to check if it a real site or a scam.

The tool is hosted on the Get Safe Online website and uses an algorithm based on more than 40 data sources and malicious website reports from law enforcement agencies, regulators and consumer brands to identify and vet the sites entered by users – providing a trust score for the website.

Fake or malicious websites, often impersonating genuine sites, are used by scammers to lure people into sharing personal and financial details which can then be used to facilitate identity theft.

Tony Neate, Get Safe Online’s chief executive, said: “For over 15 years Get Safe Online has been providing online safety advice and tips for individuals and small businesses to ensure all of us can use the internet safely and with confidence.

“The internet is amazing, but as with so many things, there are downfalls to look out for when using it: scams, fraud, people trying to exploit you and your personal information.

“Launching Check a Website today is revolutionary and we are very excited to be able to finally offer individuals the opportunity to literally check a website before they use it.

“We are also hugely grateful to our partners who have helped to make it happen. Now, we just want to let as many people know about it as possible so the UK can benefit from this new capability and help improve the united fight against scammers.”

According to the most recent data from Cifas, there was a 43% increase in cases involving identity theft filed to the National Fraud Database in the first three months of 2022, compared to the same period last year.

“This is a great tool for aiding consumers in the continuing fight against online fraud,” Cifas chief executive, Mike Haley, said.

“The devastating impact of fraud can result not only in the loss of income or sensitive personal information, but also a loss of confidence when navigating an increasingly digital world.

“By being able to quickly check whether the website you’re visiting is credible, you can be safer online, reduce your exposure to illegal websites and have peace of mind knowing that you are defending yourself from cyber criminals.”

The Get Safe Online website checker tool can be found at www.getsafeonline.org/checkawebsite.