

# BRIGHTER WORLD MPS MONTHLY NEWSLETTER

## Brighter World Newsletter – May 2025

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### Market Commentary

Global equity markets continued their end-of-April rally into May, with a leading developed market index returning +4.91% in sterling terms. However, much of the attention has once again focused on government deficits, particularly the ballooning US deficit. This follows the progression of Trump's 'big, beautiful' tax and spending bill, which is set to add trillions to the US deficit due to tax breaks and increased defence spending.

Global equity markets continued their end-of-April rally in May, reflected with a +5.93% return for the Amundi MSCI World SRI Climate Paris Aligned Fund (held within the portfolios core). This risk on sentiment was also reflected in the returns of the satellite thematic allocation, notably the +14.91% return for the Vanedge Semiconductor ETF. However, much of the attention once again has been on government deficits, in particular the ballooning US deficit. This comes following the progression of Trump's 'big, beautiful' tax and spending bill, which is set to add trillions to the US deficit given the tax breaks and increased defence spending.

This development brought out the bond bears in full force, with a weak 20-year bond auction in the US causing some equity market volatility in the second half of the month. The \$16 billion issue of 20-year bonds by the US Treasury on 21/05 was awarded at 5.047%, well above the average of the past six auctions of 4.613%.

Longer term debt has borne the brunt of the selling and adds further pressure to government deficits as debt repayments are already spiralling. This has caused Moody's to strip the US government of its top credit rating. While Trump and Treasury Secretary Bessent have been quick to downplay the move, it certainly adds fuel to the fire. As we have previously mentioned, this is the reason we prefer to stay in the shorter area of the curve, with portfolios overall duration around the 4-5yr level. A leading green bond index returned +0.24% for the month which was an outperformance of UK sterling corporate index of -0.08% return, and an outperformance of a leading medium gilt index at -1.30%.

After a weak start to the year, there was a strong rebound in the climate and environment focussed universe, with the JPM Climate Solutions ETF returning +7.01%, whilst Rize Environmental 100 ETF returned +6.61%. There was initially some relief for clean energy names given the hope that the clean energy provisions would not be watered down as much in upcoming legislation. However, as part of the "One Big Beautiful Bill Act", we saw significant amendments to these provisions brought in through the Inflation Reduction Act in 2022. There are changes to a range of credits that predominantly cut their timeline much shorter, including clean hydrogen project credits, home improvement credits, and clean vehicle credits. There are also restrictions on projects that have certain foreign entities or foreign components

involved. The two key amendments include a shorter phase out of credits for renewable projects and removing third party-owned models from qualification for credits, which impacts a large part of the US residential solar market. There is some hope that as the bill passes through the senate, we may see some more positive revisions to the bill.

As with everything in the global economy, uncertainty is a major hurdle, so whilst the clean energy legislation sours sentiment, it will eventually lead to reduced policy uncertainty – an essential step for sector progress. As we have seen over the last few years, there is still demand from corporate America for clean energy, particularly when you look at the growth of US data centres. Whilst the basket of clean energy stocks looks cheap, there are areas that are under pressure, such as US residential solar, while other segments remain attractive. There will, however, be an element of patience required as the political landscape calms.

A lot depends on the volatility of the US government in the months ahead, and whether or not trade tensions will ease or escalate. We have already begun to see the impact of tariffs and trade wars on the US economy, and let's not forget, the 90-day tariff pause is up in early July. As a result, we are hesitant to add to equity risk at this moment in time.

#### Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

#### Performance:

Brighter World MPS	May 2025
3	1.04%
4	1.79%
5	2.66%
6	3.13%
7	3.71%
8	3.74%
9	3.91%

#### MPS Stock pick feature:

Yorkshire-based trade kitchen manufacturer **Howden Joinery** adopts sustainable behaviours right across its business, from material sourcing to manufacturing, right through to depot waste management and their distribution fleet. Their vision is to become the UK's leading sustainable kitchen and joinery supplier. Using innovative, recyclable, and recycled materials is key to controlling their emissions, in addition to manufacturing their products in-house. They produce 40% of their products in the UK, and look to source other UK products where they can to control and reduce their carbon footprint.

Since 2022, they've used renewable energy at manufacturing sites, distribution centres, and depots. The SBTi has approved their near-term, science-based emissions reduction target, and they have committed to set long-term emissions reduction targets to reach net zero by 2050. 96% of their depots and all of their manufacturing sites are powered by renewable energy and they use lower-emission fuels, like hydrotreated vegetable oil, producing 90% less CO2 per litre than diesel trucks

## Ethical News

England & Wales have **recorded their driest start to the year in decades**. River levels are well below their historical average and reservoirs depleted, fuelling fears of a summer drought. The Environment Agency believe that the changing climate will result in more summer droughts in the decades to come, which will require a more efficient use of water. This is a global problem, the American Midwest for example, which is a vital agricultural area, has been suffering from long-term precipitation deficits. Portfolio company Lindsay provides irrigation and water management technology that helps conserve resources whilst increasing yields, with their FieldNET system having saved over 550 billion gallons of water.

Scotland is set to become the first UK nation to **criminalise ecocide, which is the severe and reckless harm to nature**. The bill would make it a criminal offence to cause widespread, long-term or irreversible environmental damage, with potential penalties including up to 20 years in prison for individuals and unlimited fines for companies. This move would position Scotland at the forefront of the growing international effort to use criminal law to deter environmental destruction. The legal system is increasingly being utilised around the world to make claims against those who damage the environment, which is driving regulatory reform and changes to corporate strategies. There has been well over 2,000 lawsuits to date that are related to climate change.

The UK's National Wealth Fund has announced a £600 million loan to Spanish energy giant Iberdrola to **upgrade the British power grid**. The money will go towards two major subsea transmission cables between Scotland and England. The lines are needed to connect wind farms in remote parts of Scotland with areas of high electricity demand. Currently, some wind farms are told to curb their output, or incentivised to stop generating electricity, because the energy cannot be transported to where it is needed. It is estimated that in total 1,000km of onshore cables, and 4,500km of offshore cables will be required by 2030 to meet the government's transition plans. Portfolio company Prysmian are a leading provider of subsea transmission cables, to connect offshore wind farms to energy grids.

The **latest global climate predictions** have shown temperatures are expected to remain at or near records for the next five years, likely exceeding the 1.5 degrees above pre-industrial levels. Global average temperatures exceeded the threshold for the first time on record in 2024, partly due to the El Niño cycle in the tropical Pacific. The update is issued annually by the World Meteorological Organization (WMO) and is produced by the UK's Met Office. The report shows no signs of relief from rising temperatures over the coming years, which comes off the back of ten of the warmest years on record. The harmful effects of global warming are already being felt, from extreme weather events such as droughts or rainfall, to melting ice and heating oceans, all of which impacts liveability, food security, physical assets and natural capital. This creates both physical and transition risk that we need to consider when constructing investment portfolios.

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