

EVERYTHING ETHICAL

MONTHLY NEWSLETTER

- ETHICAL MPS

Everything Ethical Newsletter – December 2024

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Market Commentary

Market activity in the past few months has been driven by politics, and more specifically the re-election of Donald Trump. As we await his inauguration, the Federal Reserve (Fed) put monetary policy back in focus at their December meeting with hawkish comments that signalled the return of inflation concerns.

As was anticipated, the Fed cut interest rates by 0.25% for the third straight meeting but their outlook rocked markets. They indicated that they would probably only lower rates two times in 2025, according to the closely watched “dot plot”. This saw an index of the 500 largest US companies fall nearly 3% on the day, whilst an index of US small and mid-cap companies fell by over 4%. US equity weakness was followed around the world and global equities were broadly negative on the month. At the same time, US yields soared and the dollar strengthened, particularly against Asian and Emerging Market currencies.

As we have discussed at length previously, portfolios are naturally rate sensitive given their positive investment focus. Within this renewable energy is a particularly good example, given the effect of the cost of capital on its build-out, and this was shown again in the month with a clean energy ETF falling nearly 5%. Over the last few months, we have reduced some of the more rate sensitive renewable exposure, and have looked to increase larger-cap and more defensive exposure in portfolios, to increase their resilience amidst the higher for longer narrative.

UK long-term yields continued to rise during December and we remain shorter-duration in our fixed income exposure, which has been beneficial. At their meeting, the Bank of England left rates unchanged as expected, however it was seen as a dovish hold given 3 members voted for a cut. This increased chances for a cut at the next meeting, and we expect further steepening of the yield curve to come. Infrastructure holdings were under pressure once more as a consequence of the rising long-term yields. Portfolio allocation towards them has been reduced over the last couple of months in anticipation of this continued increase.

The Eurozone continues to be under significant pressure economically and politically. As expected, the central bank cut interest rates, and acknowledged that they will need to fall further in 2025 amidst expectations of lacklustre growth. In recent weeks French markets have been roiled by the former Prime Minister’s proposed deficit cutting budget that led to the Government being toppled, whilst in Germany the country awaits elections early in the new year. We continue to be negative towards Europe, but selectively positive on certain companies because of their global presence.

Model Portfolio transactions in the month:

There were no changes to portfolios during December.

Performance:

Funds MPS	December 2024
Defensive	-1.15%
Cautious	-1.69%
Balanced	-1.87%
Balanced Growth	-2.21%
Growth	-2.50%
Adventurous	-2.77%

MPS Stock pick feature

Energy Recovery Inc is a global leader in energy efficiency technology. They design and manufacture reliable, high-performance solutions that generate cost savings, increase energy efficiency, and reduce carbon emissions across several industries. Their core markets are Desalination (with a rising population & climate change, there is increasing stress on freshwater supplies), Wastewater (stricter government policies on water discharge) & CO2 (again government regulations driving transition from HFCs to CO2). Their solutions aim to address United Nations Sustainable Development Goals 6,7,9,12 & 13.

Fund House Meetings

During December we met with Columbia Threadneedle, RBC BlueBay, Schroders, Robeco, GIB, M&G, & Liontrust.

Ethical News

An insight from Ember in December showed that fossil generation in the EU continued to fall in the first half of 2024, generating a record 30% of electricity from wind and solar, surpassing fossil fuels' 27% share for the first time. **The same release also showed that US renewables are also pushing certain fossil fuels out of the mix.** According to Ember's data, wind and solar provided a record 17% of US electricity from January to November of 2024, overtaking coal's 15% share for the first time. Even wind alone produced more electricity than coal in March and April, reaching 13-15% compared to coal's 11%. **Republican states** Iowa & South Dakota leading the way in solar and wind generation. Fellow Republican state Texas also hit a milestone in March when solar generated more electricity than coal for the first time. For these reasons we believe the Inflation Reduction Act will be more protected than the market thinks.

In relation to the above the **UK's wind turbines have overtaken gas plants for the first time as the number one source of electricity**, representing 29% of the country's generation mix last year, with gas shrinking to just a quarter, according to data from the National Energy System Operator. The last time gas made up such a small share of generation in the UK was 2013, when coal dominated the system.

Panasonic Manufacturing UK announced the official opening of Europe's first Panasonic HX demonstration facility to be powered by renewable sources, based in

Cardiff. As part of Panasonic's efforts to enable greener manufacturing, the 50-year-old manufacturing plant in Cardiff has been fitted with a combination of hydrogen fuel cells powered by green hydrogen, solar PV and battery storage, all steered by Panasonic's proprietary Energy Management System (EMS). Microwave oven production represents the main electricity and overall energy need at the site; the Panasonic HX installation will power this microwave oven assembly using renewable energy.

In a groundbreaking advancement for sustainable river transport, **Uber Boat by Thames Clippers has announced that the UK's first fully electric zero-emission cross-river passenger ferry**, Orbit Clipper will launch in March 2025. Currently under construction at Wight Shipyard Co in East Cowes, Isle of Wight, this innovative vessel will provide an accessible, green and fast route across the Thames seven days a week, enabling over 20,000 Londoners and visitors to travel every weekday.

Triodos Bank UK announced its first private sector loan based on a biodiversity net gain (BNG) unit model, a landmark deal that could create a blueprint for financing nature-based solutions at scale. The loan has enabled environmental consultancy Nature Impact to purchase 70 acres of land on Rolvenden in Kent and another 52 acres in Wadhurst, East Sussex – two sites that offer huge potential to unlock underutilised and degraded farmland for BNG.

Winners & Losers

Winning this month was Finland's territorial waters and ecosystem. During December, the Finnish parliament approved a bill prohibiting the discharge of ship wastewater into the Baltic Sea within Finland's territorial waters. Valuable and fragile ecosystems in shallow coastal waters will benefit from this legislative change. Ship wastewater is also on the political agenda in Sweden & Denmark

Losing this month are producers of vapes. As part of changes to e-waste rules made by the UK's Defra in December, a new category of electrical equipment waste for vapes will be introduced to ensure that the costs of collecting and treating vapes fall fairly on those that produce them. Research from Material Focus found almost 5 million vapes are either littered or thrown away in general waste every week in the UK. This is good news!

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ESG and Impact investing, will by its very nature, have no or very limited exposure to some key sectors of stock markets and a higher exposure to a number of positive themes. It is therefore important to understand that both performance and the risks associated can differ versus a portfolio that does not include ethical exclusions. As the portfolios are housed on number of platforms there will be some variances in cost and performance depending on the platforms ability to hold certain share classes and their policy on execution, and the data is to provide a guide but each platform will vary.

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