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EVERYTHING ETHICAL MONTHLY NEWSLETTER – ETHICAL MPS

Everything Ethical Newsletter – July 2025

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Market Commentary

(Returns quoted in GBP unless otherwise stated)

July marked the start of Q2 corporate earnings season, a pivotal period for market sentiment as we received fresh insights from the real economy for the first time since "Liberation Day." Overall, markets have taken these earnings reports in their stride, with global equities delivering positive returns. A notable feature of the month was a strengthening US dollar, with a leading ETF tracking the global basket of world stocks returning +1.02% in USD, but +4.77% in GBP terms. US growth was once again the driver, although breadth continues to improve.

Technology giants, including Nvidia and Microsoft, led the charge. Microsoft, fuelled by the AI rebound, reported that its heavy investments were starting to generate returns, while also announcing further capital expenditure. Microsoft shares rose +11% over the month. Similarly, Nvidia returned +16.76% and TSMC +10.64%, both benefiting from robust technology spending and easing concerns over trade policies. The introduction of the Hermes Sustainable Global Equity fund was to capture these big market weight returns, and the fund delivered +5.12% for the month.

Energy and energy efficiency focused funds continued to be supported once again, returning mid-to-high single digit returns for the month. Some of this was driven by the renewed AI optimism as well as strong results from key industrial players exposed to this theme, such as ABB or Prysmian. Interestingly, peer Schneider Electric, which has greater revenue exposure to data centres, disappointed, as concerns over cash flow and debt levels overshadowed results. The passing of Trump's tax bill was a turning point for the renewable energy. Although it eliminated several subsidies, impacting areas like US residential solar, it also ended a prolonged period of uncertainty. In some cases, pureplay clean energy funds returned double digits for the month despite the political outcome. Portfolios holding in RobecoSAM Smart Energy was once again a standout performer, returning +8.13% for the month.

We have touched on the healthcare sector a number of times recently, and returns were generally more subdued during the quarter compared to global equities. However, portfolios direct exposure through Polar Capital Healthcare Opportunities fund was a standout performer versus peers, and competitive compared to global equity returns, returning +5.23% for the month. Novo Nordisk's fall from grace continued, although this had limited impact as it is now rarely seen in funds we hold or monitor for our ethical MPS. They made headlines after cutting profit forecasts due to slowing demand for weight loss drugs in the US, resulting in a -27.98% decline.

Portfolios alternative exposure was subdued on the month, with RM Alternative Income Fund returning -0.14%. UK wind exposure was in the spotlight in the month, with Greencoat UK Wind returning -0.33%, and The Renewable Infrastructure Group declining -3.49%. Weakness stemmed from Net Asset Value reductions due to lower-than-expected wind power generation and softer power prices in H1. For UK Wind, generation was 14% below budget, but operational resilience remained intact. Importantly, policy clarity from the new government, including a resolution to the zonal pricing issue, was viewed positively.

In fixed income, the UK yield curve remained steady with a slight steepening, as short-term yields declined and longer-term yields rose modestly. In the US, yields were more volatile around the Federal Reserve's policy discussions, with Trump applying pressure for further rate cuts. The Bank of England is expected to cut interest rates in early August, and we have seen a lot of support at the front end of the curve as a result, with a consensus shift to a terminal rate of around 3.5%.

Model Portfolio transactions in the month:

There were no changes to portfolios during the month.

Performance:

Funds MPS	July 2025
Defensive	**0.58%**
Cautious	**1.22%**
Balanced	**1.52%**
Balanced Growth	**1.82%**
Growth	**2.14%**
Adventurous	**2.53%**

MPS Stock pick feature

Orsted Blue Bond – The health of the world's oceans is under significant threat. The challenges include pollution, including from plastic and sewage; ocean acidification; damage to marine ecosystems and biodiversity; and overfishing. Improving ocean health will be critical to tackling the global biodiversity and climate crises as oceans are a vital carbon sink. Orsted's blue bond promotes the sustainable use of ocean resources across its offshore wind activities and sustainable shipping fuels business, while preserving biodiversity and the health of the ocean ecosystem. Capital raised will be used to scale-up existing efforts on marine biodiversity to protect and support improvements in shellfish, coral reefs, seabird habitat, the blue economy and to support the transition to sustainable shipping by developing green ocean fuels and decarbonizing vessels.

Fund House Meetings

During a very busy July we met with Regnan, Edentree, Marlborough, Triodos, Montanaro, T Rowe Price, Franklin Templeton, Xtrackers, Pictet and Aegon AM.

Ethical News

Australia's Reefs Face Unprecedented Bleaching: Australia's Ningaloo Reef and the Great Barrier Reef are simultaneously experiencing widespread coral bleaching due to a marine heatwave, marking the first time both have bleached at once. This "underwater bushfire" is part of the fourth global bleaching event, impacting over 80% of the world's coral reefs. The primary cause is rising carbon emissions heating oceans, leading corals to expel vital algae and potentially die. Scientists stress that reducing emissions is the fundamental solution for reef survival.

Lapland Swelters in Record Heat: Finland's Lapland is enduring an unusual heatwave with temperatures around 30C, setting a national record for consecutive 30°C days since 1961. This highlights the Arctic warming four to five times faster than the global average. While not solely caused by climate change, its "fingerprint" is evident, making temperatures higher. The heat impacts wildlife, forcing reindeer into villages, and surprising tourists expecting colder weather. Even Santa Claus is staying indoors to avoid heatstroke.

UN Court Allows Climate Lawsuits: A non-binding ruling by the International Court of Justice (ICJ) enables countries to sue one another over climate change, including for past emissions. The court affirmed that nations have a legal obligation to protect the environment, regardless of Paris Agreement membership, and developing nations can seek damages for climate impacts. Governments are also held responsible for the climate impact of companies within their borders, including fossil fuel subsidies.

The development of stricter climate and environmental legislation is an example of liability risk, which is a subset of transition risk. The implications of the global transition are systemic for all sectors and firms, if we are to achieve the objectives of the Paris Agreement then some sectors and firms face existential threats unless they radically and rapidly transform their business models. Litigation is a driver of regulatory reform and changes to corporate strategy and governance, the aim of rulings such as these is therefore to speed up the transition.

The Office for Budget Responsibility (OBR) warned that climate change poses serious risks to the UK economy. It highlighted the rising costs of adapting to extreme weather, repairing damage, and implementing mitigation measures, all of which could strain government spending. The OBR now includes the effects of increased rainfall and temperature swings in its forecasts. It estimates that UK GDP could decline by 3.3% by 2060 if global warming reaches 2°C, and by 7.8% if it rises to 3°C. These are examples of physical risks, which relate to the material effects of climate change, the impact of which are greater now than ever before.

Compared to other parts of the world, the impacts of physical risks on the UK are not as extreme, with global losses to GDP expected to be much greater in difference warming scenarios. It is also important to recognise that many parts of the developing world face a higher level of risk, despite being the least responsible for its causes. The concepts of Physical Risk and Transition Risk were developed by the Task-force for Climate Related Financial Disclosures (TCFD) to provide investors and regulators a more consistent disclosure of sustainability risks, to allow for a better accounting of them in decision-making processes.

UK and France Set Solar Records: Both the UK and France achieved new national records for solar energy generation. The UK reached 14GW, supplying 39% of its electricity, driven by hot weather and rapid sector expansion. France surpassed 19.5GW, meeting almost 40% of its electricity demand.

Climate Change Tripled Deaths in European Heatwave: An early summer European heatwave in late June/early July 2025 saw human-induced climate change triple the number of heat-related deaths. In 12 major European cities, an estimated 2,305 excess deaths occurred, with 1,504 (65%) directly attributable to climate change. Milan had the most climate-attributable deaths in absolute terms, while Madrid had the highest proportion (over 90%). Early-season heatwaves are particularly deadly as people haven't acclimatised.

"Climateflation" Threatens UK Food Prices: A report warns of "climateflation" in the UK, projecting food prices could rise by over a third (34%) by 2050 under a high-emission scenario. Even with 1.5°C warming, prices could still increase by 25%. This surge, driven by extreme weather disrupting food production and supply chains, could push almost 1 million more people into poverty without government action. Lower-income households are disproportionately affected.

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