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Everything Ethical Newsletter – June 2025

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Market Commentary

Equities continued their rebound, with major US equity markets approaching, and in some cases, reaching all-time highs. For the month, growth stocks significantly outperformed value, with an ETF of global equities returning +2.59% in sterling terms. This was led by the a rebound in tech stocks buoyed by renewed enthusiasm around Artificial Intelligence. This has pushed Nvidia, which has suffered under trade tensions and the Chinese DeepSeek breakthrough in January, to an all-time high, recapturing its title as the world's most valuable company.

The positive optimism was boosted in the latter stages of the month as China and the US appeared to make some progress in finalising a trade deal, which would include an agreement on rare earths. There were also more positive comments around a trade deal with the European Union and India. This softer tone coming out of the White House suggests a prolonged trade war amongst key partners could be averted. Meanwhile, easing tensions in the Middle East, which led to a spike in the oil price which subsequently eased, has further supported risk sentiment.

The US dollar remains under pressure, reaching multi year lows versus Sterling and the Euro. The dollar currency basket has fallen by more than 10% this year, weighed by trade concerns, as well as more recent political pressure on the Federal Reserve (Fed) to cut interest rates. A near term announcement of Powell's replacement would create a shadow Fed and undermine the existing rhetoric. Interest rate cuts whilst inflation is not yet completely tamed would lead to a steeper curve, and we maintain our duration at the shorter end as a result.

Safe haven flows, concerns over slowing growth, and the growing expectation for policy easing from global central banks saw fixed income rally during the month. The benchmark ten-year gilt yield fell around 16bps. A leading green bond index rose 0.34% which underperformed portfolios active sustainable and impact bond exposure which climbed between 1.27%-1.43%. With an easing in yields and improved sentiment towards the asset class, portfolios alternative infrastructure exposure continued its rally, returning 4.67% for the month, meaning a +9.77% return for the second quarter.

Following last month's strong rally, companies within the electrification and energy transition theme continued to recover, assisted by the improved optimism around AI focused Capex from large tech names. Portfolios holding, RobecoSAM Smart Energy, was the standout, returning +7.39% for the month. Underlying portfolio company Schnieder Electric, the electrical power equipment manufacturer, re-affirmed their guidance during a month end call with analysts which has alleviated concerns in the sector.

Renewable energy companies have been particularly volatile over the last couple of months, exacerbated in June by conflicting rhetoric as the Republican tax bill moves between lawmakers. They have faced large pressure given the expected amendments to tax credits, with residential solar and offshore wind facing the greatest pressure. A taxation on wind and solar projects with Chinese materials has further weighed on some equipment makers such as Vestas Wind Systems (manufacturer of wind turbines). Whilst renewables are still expected to grow given the rise in electricity demand brought about by datacentres, different technologies will be favoured, such as onshore wind. In many cases, renewables are cheaper and faster to deploy than fossil fuel projects, particularly given the current shortage of gas turbines.

In mid – July we will have Q2 reporting from the US and this will have to reflect a world post-liberation day. It is not just the numbers, but the outlooks that will count, and we see this as a risk (hence our recent rebalance). The big "whatever" US budget, the UK backtracking on cost cutting measures and Europe's sudden love of defence at the cost of more debt are all major concerns for bond markets at a time when interest rates are falling. Bond vigilantes are more vocal, but risks are skewed to governments and more opaque private debt/equity funds.

Although volatile, geopolitics are impacting the market less, but the real-world impact on shipping, the oil price and supply chains are still an issue, and a cost push inflation risk. Whilst there is little ambiguity with Donald Trump, how the world reacts still remains far less certain.

The current heatwave reminds us all climate change is still real, despite the short-term dynamics noted above, money is still being invested to address the environmental and social issues. This process has become far more global, and portfolios are reflecting this shift.

Model Portfolio transactions in the month:

We rebalanced portfolios during June. Please let me know if you require a copy of the minutes and rationale.

Performance:

Funds MPS	June 2025
Defensive	1.03%
Cautious	1.16%
Balanced	1.26%
Balanced Growth	1.40%
Growth	1.35%
Adventurous	1.58%

MPS Stock pick feature

Iberdrola is one of the largest global utilities companies with electric utility operations in nearly 40 countries. Boasting a 54-gigawatt portfolio of hydro, wind, natural gas, and nuclear power plants, it is the largest owner of wind farms in the world, representing nearly 40% of its portfolio. Iberdrola also owns and operates electricity and distribution networks in Spain, the UK, the US, and Brazil. They are committed to Net Zero Carbon emissions by 2040, which is not only an improvement of the industry average of 2050, but also within an increasingly important developing country, Brazil, which historically trades environmental sustainability for development.

Fund House Meetings

During a very busy June we met with representatives from Federated Hermes, Edentree, Columbia Threadneedle, Ark (Rize), AXA IM, Redwheel, Liontrust, UBAM, Carmignac, Stewart Investors & RobecoSAM.

Ethical News

The UK could see an **increase in the migration of sharks** and oysters towards the North Sea. This follows the heatwave in May, which caused UK waters to be up to 4 degrees warmer than normal. Over the past 50 years, UK seas have been among the 20 fastest-warming regions in the world. Mobile species such as sharks and oysters are expected to deal with changes more easily, with oyster habitats projected to double after having declined by 95% since the 1900s. Smaller, static creatures will struggle more to adapt to the change in temperature. According to a study by the Met Office, it is now 20 times more likely to see a 40°C day in the UK than in the 1960s, with the chances set to increase by another 50% over the next 12 years. This is a stark reminder that global warming is already having material impact, and emphasises the importance of factoring this into investment decisions given the reliance on natural resources by many businesses.

The UK Government has proposed a **ban on destructive fishing practices** involving dragging nets across the seafloor. The ban would expand the restriction on trawling from 18,000 km² to 48,000 km² off the UK coast. The proposed extension would protect 41 of the 181 Marine Protected Areas in the UK. Sir David Attenborough warned the UN Ocean Conference in France about the destructive nature of these practices. Environment Secretary Steve Reed said, "Without urgent action our oceans will be irreversibly destroyed." A 12-week consultation will run until 1 September to determine the views of the marine and fishing industries. In addition, 2,000 marine scientists recommend that deep-sea exploration be paused until studies into the potential impact on ecosystems can be examined.

Train company Southeastern has installed 150 water meters in order to reduce water wastage at depots and stations. These meters will cover 90% of stations and work by allowing live data to be sent to a central hub, which will enable the detection of leaks and unusually high-water usage in real time. This enabled the detection of a leak at the Slade Green depot that would have taken weeks to locate without the new system.

The Crown Estate has outlined a **£400 million investment in the UK offshore wind supply**. This investment will allow development in the supply chain for offshore wind, which has previously caused constraints in the industry. £350 million of the investment will go towards the construction of a new port and supply chain development. The Crown Estate will be working with public and private sector organisations to ensure the investments are effective. The remaining £50 million will support early-stage development to expand support for UK ports and port infrastructure. Ben Brinded, Head of Investment at The Crown Estate, said: "We will not unlock the full economic, social and environmental benefits of offshore wind without collaboration and investment into the UK supply chain."

BYD and Octopus Energy have announced the £300-per-month Power Pack – **Vehicle-2-Grid Bundle**, which allows **"free" home charging** through access to a smart tariff and bi-directional charging. Octopus Energy claims this could save an EV owner up to £620 annually compared to the standard charge, and almost £1,000 against fuelling a petrol car. The bundle allows drivers to plug in overnight and charge at home. This will allow EVs to become "batteries on wheels," charging when electricity is cheap and discharging to the grid when prices are high. Founder of Octopus Energy Group, Greg Jackson, believes this will be a game changer and will "revolutionise our energy system and help drive costs down." Chinese automakers have continued their expansion in Europe, given their dominance in battery technology and software.

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