EF Tellsons Endeavour Q1 2023 Commentary

growth with income & downside protection

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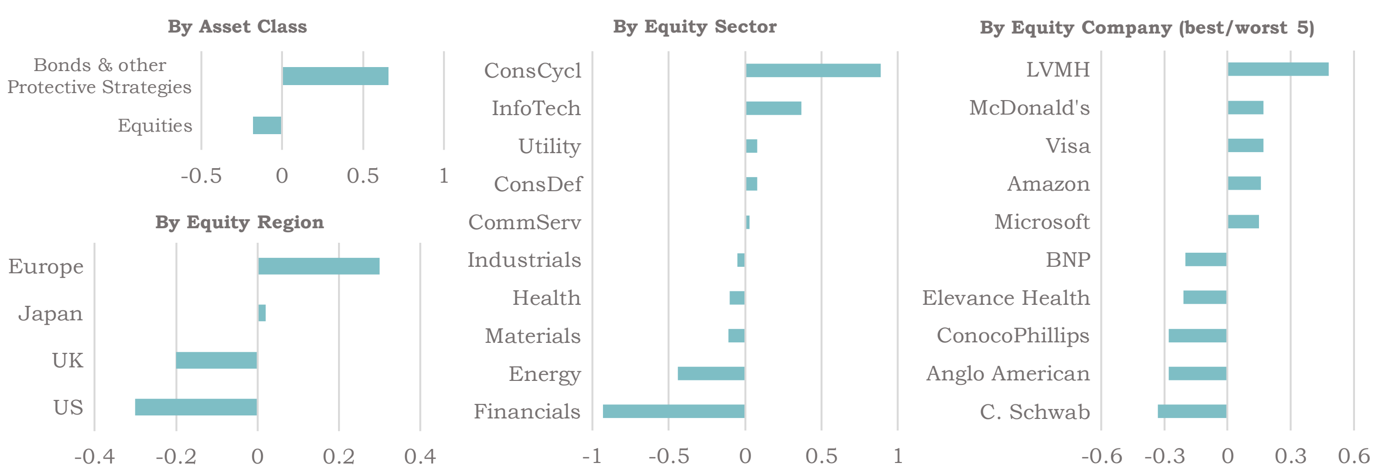
MARKET BACKDROP: Equity and bond markets performed well in the first quarter but with considerable volatility as expectations for inflation ebbed and flowed and markets struggled to assess central banks' response. The earnings season for the last quarter of 2022 was stronger than expected as consumers remained resilient even as manufacturing continued to decelerate. China's emergence from lockdown has led to increased activity there and in the wider Asian region but just as with previous re-openings in Western economies, this drove services activity with increased travel and tourism and not so much the goods sector and the boost to the global economy that was hoped for at the start of the year. As such market sentiment has ranged from expectations of a soft landing for the global economy - a pause to higher interest rates, continued growth and full employment - to a hard landing recession and rising unemployment. Economic activity overall has remained far more resilient than expected at the start of the year, and this may account for why equity markets remained relatively optimistic even as bond markets appear distinctly gloomy about the economy, with medium to long-term interest rates falling and indicating an imminent recession.

FUND PERFORMANCE: The Fund delivered a small gain of 0.2% (net of fees and costs) for the quarter compared to the Fund's benchmark which delivered 0.9% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). The peer group IA Mixed Investments 20-60 Sector returned a 1.6% gain in the period. Sector investments in the Fund's equities allocation generated widely dispersed returns with the standout IT sector returning a (fully-weighted) 24.7% total return against Energy a 10.0% loss. Significant contributions came from Consumer Discretionary and Communications Services, while Financials and Materials detracted. Healthcare also generated losses in spite of the defensive and highly visible earnings profile and reasonable valuations these companies represent in such an uncertain economic environment. For many years the Fund had benefited from successful investment in Silicon Valley Bank and fortunately avoided any significant loss when it collapsed during the banking scare of March, the managers having almost completely exited the investment last year on growth concerns and skepticism about its limited upside on net interest margin. As the problems emerged at SVB and other US regional banks, the managers exited investments in Charles Schwab and Bank of America where they had been concerned for some time that the primary investment rationale of rising net interest margins wasn't materialising, and subsequently transferred some of that exposure to European bank holdings where the potential for that theme may be more robust in the period ahead. The Fund's bond investments were more successful during the period as, while volatile, interest rates generally declined from the start of the year and inflation steadily slowed.

OUTLOOK: Central banks appear close to the end of their rate hiking cycles and the continued downward trajectory of inflation will be critical to the economy finding a floor before confidence in the corporate sector can stabilise and begin to lift again. Whether real destruction of jobs in employment markets will be necessary to achieve the central banks' 2% inflation target is the pivotal uncertainty in the outlook at this point. In the meantime, healthy household finances and strong corporate balance sheets offer support to continued growth in the economy, especially in the US, albeit likely to slow somewhat further in the near-term in what may yet look like the soft landing option. Employment markets throughout most of the developed world continue to add jobs and this may be best explained by the fact that still so many of the working age population remain out of the workforce since Covid, leaving many industry and service sectors structurally under-employed with worker participation rates at historic lows. Equity markets seem to be pricing an ongoing expansion and even a recovery in corporate profits in the second half of the year, seemingly more inclined to align with central bankers' guidance, whilst bond markets are pricing some degree of a recession and the imminent prospect of interest rate cuts. Until the economic data resolves the dilemma in the coming months, yields from bond investments do offer a more attractive complement to equities, still at relatively expensive valuations, than they have for many years, and together represent a cautiously optimistic approach to the possible outcomes at this finely balanced juncture in the post-pandemic business cycle.

Tellsons Investors, April 2023

QUARTERLY RETURN CONTRIBUTION %



Quarterly Return Contribution: Local currency, gross of fees/costs. Materials sector excludes Precious Metals investments as they are included in Protective Strategies. **Notes:** EPM* Efficient Portfolio Management as permitted in UCITS, including hedging.