EF Tellsons Endeavour Q2 2023 Commentary

growth with income & downside protection

Fund Managers: Joe Bunting, Christoph Wiedebach

MARKET BACKDROP: Equity markets performed well in the second quarter as the global economy proved more resilient and consumer spending held up in the face of higher interest rates, even as bond yields rose (and prices fell) on expectations for higher policy rates for longer. Inflation in most economies continued to subside with producer input prices having declined in consecutive months. The first quarter corporate earnings season reflected this strength in the economy with results beating expectations. Instability in the banking system faded as various regulatory institutions shored up liquidity support and as central banks restored confidence. Manufacturing industries however showed continued weakness and on a global basis slumped further into contractionary territory as demand and supply imbalances of the Covid lockdown worked their way through the system. China's emergence from lockdown did not deliver the boost to global economic activity that had been hoped for and growth there slowed to its slowest rate in decades. The US Federal Reserve paused its series of rapid rate hikes in June to allow some time to observe the lagged effects of higher interest rates that can take many months to effect the real economy, but they also offered guidance that one or two more may yet be appropriate as some elements of inflation remain stubbornly high. Bond markets have maintained a pessimistic outlook for the economy whilst equity markets showed more confidence in continued growth allowing companies to re-accelerate earnings. Much of the performance in the US equity market has been driven by a handful of stocks including recoveries in Tesla and Meta but also by optimism around Artificial Intelligence, most notably Nvidia. Apple and Microsoft too have performed strongly and between just these five companies, an extra $3TN of market capitalisation has been created in the year to date: Apple alone is now worth more than the FTSE100, but then its earnings are forecast to grow three times faster over the coming years.

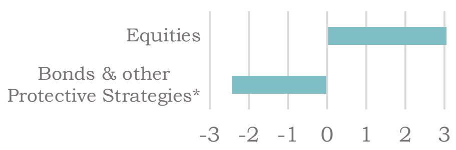
FUND PERFORMANCE: The Fund delivered a small gain of 0.4% (net of fees and costs) for the quarter compared to the Fund's benchmark which fell -0.6% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). The peer group IA Mixed Investments 20-60 Sector returned -0.1% loss for the period. The inflation component of the Fund's performance benchmark is expected to capture high current levels of inflation in the months and years ahead on account of its longer-term five year basis of calculation reflecting the investment horizon of the Fund. Growth investments contributed the strongest returns overall and matched the defensive and cyclical equity investment contributions combined, led by investments in Consumer Discretionary and Information Technology. The managers re-initiated investment in Apple after a few years recognising the company's defensive growth characteristics and in anticipation of what may be a strong product replacement cycle as 5G rolls out in the years ahead and the company continues to build out its exceptional device 'ecosystem'. Much of the performance from equities was offset by bond holdings as yields rose (prices fell) during the quarter, along with precious metals and other protective strategies detracting a combined -2.5%, mostly the depreciation of Japanese Yen exposure. However, the hedged currency exposure across the rest of the portfolio protected investors from the 2.6% strengthening of GBP Sterling and the fall in value of the foreign currencies of overseas investments.

OUTLOOK: Markets continue to search for resolution between higher interest rates, lower inflation and ongoing resilience in economies. In Europe and the UK inflation is higher, the economies weaker and there are likely more interest rate hikes to come. In Asia, Japan is enjoying growth, inflation and higher wages not seen for decades, whilst China's reopening appears to be running out of steam and in need of comprehensive stimulus measures that may not be readily forthcoming. To varying degrees central banks do seem closer to the end of their rate hiking cycles amidst the continued downward trajectory of inflation. In the meantime, economic growth continues in the US economy, though uneven between services and manufacturing. The optimism imbedded in equity market valuations does seem better aligned with the guidance of central banks for the ongoing expansion of the economy in contrast to the gloom of bond markets flagging an imminent recession that is yet to materialise. Monthly inflation data will be unusually pivotal and, along with the upcoming corporate earnings season, together they will provide perhaps the most important indicators for the likely path ahead and the kind of landing for the economy that investors should prepare for.

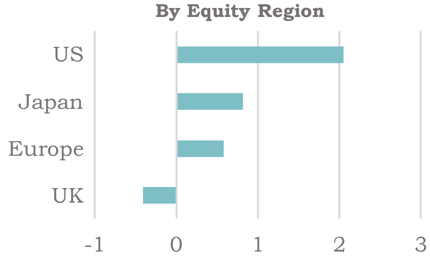
Tellsons Investors, July 2023

QUARTERLY RETURN CONTRIBUTION %

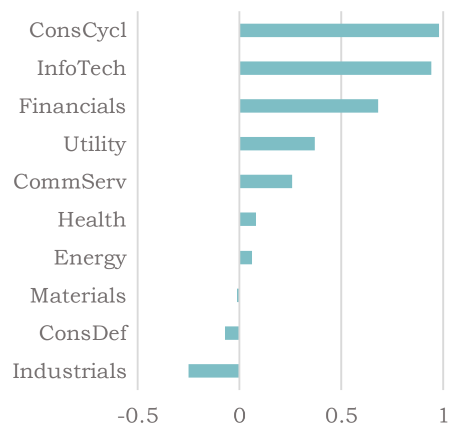
By Asset Class



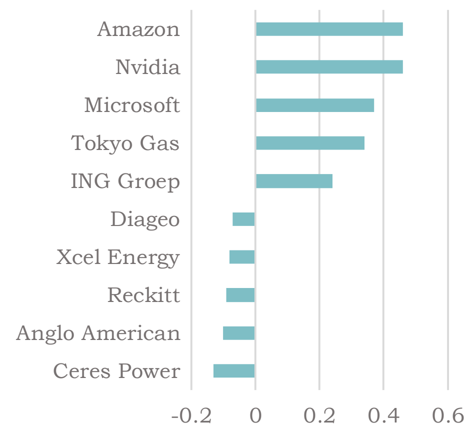
By Equity Region



By Equity Sector



By Equity Company (best/worst 5)



Quarterly Return Contribution: Local currency, gross of fees/costs. Materials sector excludes Precious Metals investments as they are included in Protective Strategies. **Notes:** Protective Strategies*: please see description on Fund Factsheet.