EF Tellsons Endeavour Q3 2023 Commentary

growth with income & downside protection

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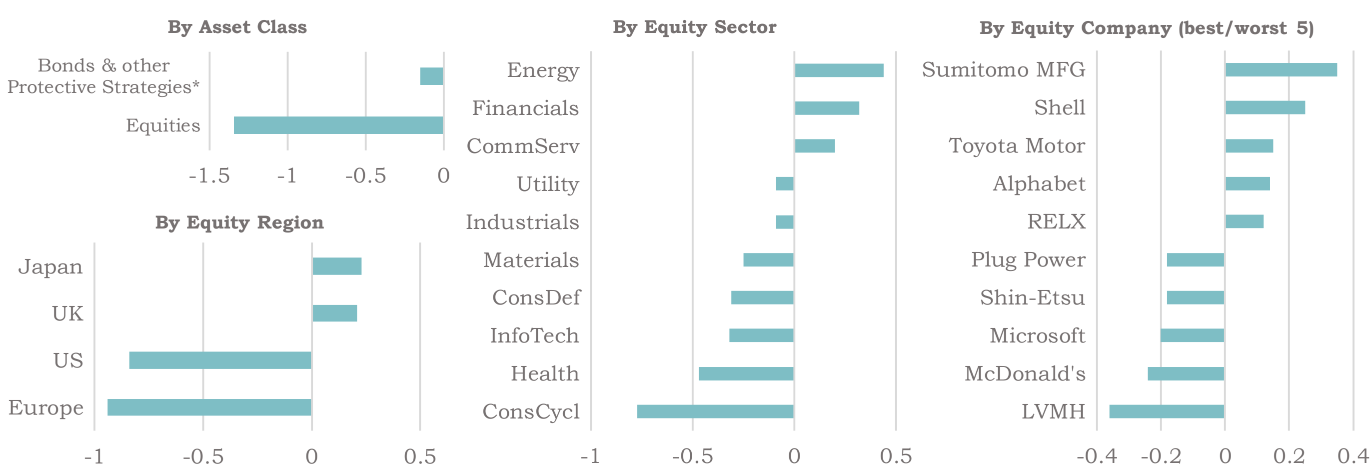
MARKET BACKDROP: Equity and bond markets started the quarter in a constructive tone, both generating positive returns as central banks appeared to pause the rate hiking cycles and optimism for a soft landing at least in the US economy took hold. However, this positive scenario disintegrated as the quarter progressed and gave way to the traditional holiday weakness of August, some areas of the market officially recording losses in correction territory from their year to date highs. The principal catalyst for this appeared to be a rotation out of high growth mega-cap tech stocks that had driven most of the market's performance for the year on hopes for artificial intelligence, investors taking some profits and reinvesting into more cyclical areas of the economy to take advantage of extreme valuation differentials. But this was then followed by comments from the Chairman of the US Federal Reserve Jerome Powell at the Open Markets Committee meeting in September where he failed to raise interest rates one more time but warned that borrowing rates would stay high for longer than the markets were expecting on continued strength in the economy, labour markets and stubbornly high levels of inflation. What followed was a dramatic increase in longer-term yields as prices dropped more rapidly over just a few weeks than at any time since the eighteenth century. Equity markets struggled to cope with the implications of borrowing costs that would be higher for longer on the consumer and corporate profits and so they fell in sympathy across world markets, compounding the difficulties of correlated equity and bond markets as they both moved in lock step together again.

FUND PERFORMANCE: The Fund delivered a loss of -1.7% (net of fees and costs) for the quarter compared to the Fund's benchmark which gained 1.7% (comprising 50% of Consumer Price Inflation rolling five-year average and 50% of the FTSE Actuaries UK Conventional Gilts index up to five years). Fund volatility was 8.1% compared to MSCI World GBP Hedged volatility of 17.4% (60-monthly returns, annualised). The peer group IA Mixed Investments 20-60 Sector returned -0.1% loss for the period. Cyclical equity investments in energy, financials and communication services performed well in the quarter but their 1.0% contribution was offset by the detraction from growth and defensive equities of -1.9%. Protective strategies in government bonds and precious metals dragged a further -0.9% but were offset to some extent by corporate bonds and efficient portfolio management use of derivatives contributing 0.7%. The worst performers amongst equity investments were LVMH where the poor recovery in China impacted revenue expectations, and McDonald's and PepsiCo suffered from the success of new weight loss drugs Ozempic and Wegovy which some market participants have concluded may lead to reduced consumption of popular lines of snacks, fast-food and sodas. Your managers remain skeptical of this outcome to any significant extent.

OUTLOOK: At the end of the previous quarter your managers were looking for resolution between higher interest rates, lower inflation and ongoing resilience in the economy. As they view the fourth quarter ahead to year end, your managers believe that the main developed market central banks have already completed or are close to completing their current hiking cycles, especially now that longer-term yields have also risen and will bear on future inflation expectations, assisting them in doing some of their remaining work. Should some stability take hold in bond markets from this point, markets can then shift their attention to the fundamentals of economic growth and the potential for a steady re-acceleration, especially in China and the manufactured and durable goods sectors showing tentative signs of life. The optimism that appeared embedded in equity market valuations for much of the year increasingly seems better aligned with the ongoing expansion of the economy now in prospect and in stark contrast to the gloom of bond markets which had so persistently flagged imminent recession. Worse outcomes may yet materialise though and geo-political instability in the Middle East, further deterioration in US/China relations, and any continued rise in the oil price could yet jeopardise the outlook. The upcoming corporate earnings season and inflation data will be closely monitored in markets for signs of continued growth and declines in inflation that will provide the foundations for such a recovery and extension to this economic cycle.

Tellsons Investors, October 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:** Protective Strategies*: please see description on Fund Factsheet.