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### Market Commentary

As global Central Banks continue to tighten policy in the face of higher inflation, market volatility remains. Whilst global equity markets finished almost flat to slightly negative for the month of May, this was only possible after the late month end rally. Bond yields travelled higher, with the yield on the UK ten-year government bond moving to 2.10% from 1.97%.

Because of the continued hawkish actions, there is a growing fear of an impending recession, with the expectation that tighter monetary policy will stall economic growth. Following on from this, with some inflationary pressures unlikely to be impacted by tighter policy in the near term, stagflation is a distinct possibility. Sentiment is left even more vulnerable when you add in the continued devastating invasion of Ukraine to the mix.

As expected, the United States' Federal Reserve raised interest rates by 0.5% and have signalled that the same will be done at the next two meetings. At the same time, they warned of deteriorating liquidity conditions across key financial markets as a result of the war in Ukraine, monetary policy and high inflation. Biden used a rare meeting with Fed Chair Powell to declare that he is respecting central bank independence whilst simultaneously shifting responsibility for taming inflation ahead of the midterm elections.

As expected, the Bank of England raised interest rates, at the same time as warning of a growing recession risk. They forecast inflation at 10% in the 4th quarter of 2022 and an economic contraction in 2023. UK CPI came in at 9% year-on-year whilst data showed that the UK economy slightly contracted in March, emphasising what a difficult position the central bank is in. Governor Bailey spoke of the spike in food prices, which has been exacerbated by the war in Ukraine, as an "apocalyptic" event that the central bank can do little to mitigate. Comments from various members within the Monetary Policy Committee suggest that they will raise interest rates further in June.

Beyond energy, food supply is the biggest global concern currently surrounding the war in Ukraine. Wheat prices have risen by more than 50% as a result of Ukraine exports being blocked. The average person in the UK spends 8% of income on food, whereas in many developing countries the average person spends over 40%. This has the potential to cause humanitarian crises across the world, as well as social and political unrest, which we are already beginning to see.

The proposed EU ban on Russian oil saw resistance from Hungary over security concerns for the country. By the end of the month, EU leaders had agreed to pursue a partial ban on

Russian oil paving the way for the delayed package to go through. Furthermore, Finland and Sweden formally applied for NATO membership for security reasons. This is something Moscow has repeatedly warned against, but in reality, there is little they can do to prevent it. This is a significant policy failure for Putin whose own actions will likely cause the expansion of NATO, however this is subject to Turkey backing down from its current opposition.

Boris Johnson's government has come under increasing scrutiny in its efforts to tackle the cost-of-living crisis. The Chancellor announced a windfall tax on energy firms who are getting a lot more money for their oil and gas. He said this would raise £5bn over the course of the next year which will allow the government to help families with the cost of living without having to increase the debt burden. In other political news, the opposition Labour Party won the Australian election. An acceleration of climate policy was a key issue for them against the incumbents who have been lagging on this issue. With raging floods or summer wildfires, many are hopeful of more concrete action.

This month also saw the World Economic Forum take place in Davos. A big theme of the Forum were warnings that the three-decade era of globalisation is coming to an end. Since the last time they had met in January 2020, world events have scrambled the supply chains that underpinned the globalisation that existed a few years ago.

## Ethical News

Leaders at **Davos** have been criticised for avoiding major issues on climate change, including the lack of reparations for developing countries who are experiencing the worst effects of climate change despite contributing far less than developed nations. The key demand was less talk and more action to phase out fossil fuels. The energy crisis brought about by Russia's invasion of Ukraine has arguably delayed some countries' transition as they look to secure energy, regardless of the source.

As the world's first truck manufacturer to do so, **Volvo** is now introducing fossil-free steel in its trucks. The steel is produced by the Swedish steel company **SSAB** and the heavy-duty electric Volvo trucks will be the first to include it. The steel from SSAB is produced using a completely new technology, based on hydrogen. The result is a much lower climate impact than conventionally produced steel. Small scale introduction of the steel in Volvo's heavy electric trucks will begin in the third quarter of 2022.

A trial of hydrogen distribution via a pipe network is to be conducted using hydrogen supplied from the **INEOS Grangemouth** site. The trial, which is funded by the Energy Regulator and gas distribution companies, will use hydrogen supplied by INEOS in a 29 kilometre section of decommissioned pipeline between the Grangemouth site and Granton, to showcase how gas pipelines can be repurposed to transport hydrogen.

**Building Research Establishment**, the world-leading building science centre, announced a pilot scheme in partnership with regional residential developer, **Croudace Homes**, to evaluate the environmental and societal impact of homes, ahead of the Future Homes Standard. The scheme will see Croudace design and construct 10 'net zero ready' properties on its strategic site at Willowbrook Park in Didcot. These will be developed with a fabric-first approach and fitted with modern technologies including air source heat pumps and underfloor heating, making them suited to the Future Homes Standard – a proposed standard that will require new build homes built from 2025 to be future-proofed with high levels of energy efficiency and low-carbon heating.

Car maker **Fiat** will only sell EVs and hybrids in the UK starting July 1<sup>st</sup> with the arrival of new models this spring. The automaker's two EVs offered in the UK are the electric New 500 hatch and the E-Ulysse minivan.

The step is in line with the automaker's long-term plan to offer only EVs in all regions by the end of the decade, and it comes at a time of increased energy insecurity in Europe.

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