

Investment Update

Dear Client,

The mini budget announced last week was intended to supercharge UK economic growth, enhance productivity and encourage overseas investment in the UK. The result has been quite the opposite.

Over the past week, overseas investors have sold UK assets, with the value of Sterling falling to near parity against the US Dollar, the weakest level on record. UK Government Bonds have seen significant decreases in value and investors have questioned the Government's ability to service current debt and also raise significant new debt to support the array of significant tax cuts announced in last week's budget. The Bank of England has also engaged in emergency purchases of UK Government Debt to shore up institutional pension funds. An additional interest rate rise is also a possibility.

Weaker economic activity and a negative short-term outlook has added to current problems. The result has been a marked downturn in equity markets as future earnings expectations are questioned against a backdrop of weaker economic activity. On the bright side, broad commodity prices are continuing to decline which should help ease inflationary pressures.

Portfolio performance has suffered as a consequence of the past week's political and economic events in the UK. We appreciate it is a very difficult time for investors right now. The current volatility, although severe by recent standards, provides opportunities for long term investors like ourselves and we are beginning to see value with the de-rating that has occurred.

Whether we are at the peak of interest rate expectations and bottom for risk asset valuations, is yet to be seen. However, valuations in some sectors are reaching levels not seen outside of an exogenous shock like COVID in March 2020. Multiples are contracting to long term averages or in some cases are trending below and previously persistent premiums have turned to discounts. At the same time the UK market looks cheaper to foreign investors given the depreciation in Sterling, which should be supportive of future M&A activity.

We are continuing to evaluate this fast-moving situation and will take action to reduce exposures where appropriate. Although there remain risks to the near-term outlook, we believe the current environment provides opportunities for the patient investor seeking to generate returns over the medium-to-long term.

If you have any questions, please speak to your Financial Planner.

Adam Sketchley FCSI, MBA

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