STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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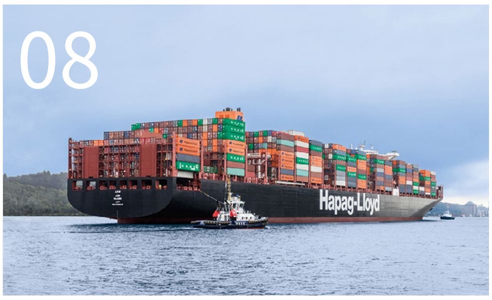
SHARES

WE MAKE INVESTING EASIER

10 BIG QUESTIONS FOR 2024

The outlook for markets in the year to come

Contents



Three important things in this week's magazine

10 big questions for 2024

The Shares team looks at some of the themes, trends and events which could drive markets in the coming 12 months.

What worked and what didn't for fund managers in 2023

How the professionals fared this year as they highlight their winning and losing investments.

Best performing UK stocks

A look at the star shares of 2023 across four different market valuation baskets.

Visit our website for more articles

Did you know that we publish daily news stories on our website as bonus content? These articles do not appear in the magazine so make sure you keep abreast of market activities by visiting our website on a regular basis.

Over the past week we've written a variety of news stories online that do not appear in this magazine, including:

Is department store Macy's about to depart from the stock market?

Can the latest music catalogue sale save Hipgnosis Songs Fund?

Discover why Lululemon's shares soured overnight despite forecast-beating results

New 'megatrends' fund aims to capture every theme under the sun

Why economists are adamant China does not face Japan-style stagnation

Parallels being drawn as China deflation deepens are 'well wide of the mark'

China is not on the brink of a major period of deflation, according to economists, despite the latest underwhelming growth data. China's consumer prices fell at the fastest pace in three years in November, dropping 0.5% both from a year earlier and compared with October, data from the Chinese National Bureau of Statistics showed.

The manufacturing sector was even quieter than the month before, as tentative shoppers held back from ordering anything they didn't need. With the service sector also clocking up lower-than-expected numbers, the government may need to bring in more drastic measures to avoid being left red-faced on the world stage.

China's economy has struggled to mount a strong post-pandemic recovery, held back by a deepening crisis in the property market, local government debt risks, slow global growth and geopolitical tensions. Some see a bleak future of stagnation like that which dogged Japan in the 1990s after its property and stock market bubbles burst.

'Let us be very clear, China is not on the brink of deflation, and the situation between Japan in 1990 and China today is very different', insists Robert Carnell, head of Asia-Pacific research at investment bank ING, who alongside others cautions against reading too much into a single month's dataset.

Carnell believes China's property market, while 'currently being kept on life support', is unlikely to embark on new investment which could risk pushing it over the edge.

'What follows is likely to be a period of much slower property price growth or even some slight declines. From an aggregate point of view, that is neither particularly worrying nor all that undesirable.'

Investors in China have also suffered over the past year with data showing funds typically having fallen 35%. Extended lockdowns and a drawn-out recovery from the pandemic, as well as geopolitical tensions with Taiwan and the US, have hurt sentiment.

Data from Investing.com shows the Shanghai Composite and Hong Kong's Hang Seng are among the worst major market performers in 2023, down roughly 3% and 17% respectively.

In contrast, Japan's Nikkei 225 has rallied nearly 26% evoking images of two economies passing each other on the stairs in terms of inflation and stock market performance.

'Corporate governance reforms are paying off, with a growing number of Japanese firms becoming more strategic and focused', said Sam Perry, senior investment manager at Pictet Asset Management.

According to the Tankan survey, Japanese companies are intending to invest faster than they have at any point in the last 40 years and this momentum will only strengthen as domestic economic activity picks up, believes Perry.

Economists at Pictet estimate Japan's gross domestic product will grow by around 1.5% in 2024, which is faster than the US and the euro zone. China will probably grow by about 5% this year, according to ING. [SF]

Nikkei 225 vs Hang Seng

Rebased to 100

— Nikkei 225 — Hang Seng

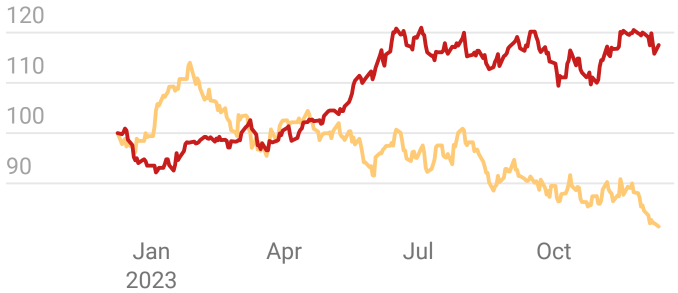


Chart: Shares magazine • Source: LSEG

Has British American Tobacco's future gone up in smoke?

Firm is taking a £25 billion writedown on its US brands but analyst remains positive

Shares in **British American Tobacco (BATS)** took a proper pounding after the firm lowered its full year 2023 sales outlook and said it would incur an impairment charge of around £25 billion.

Newly-appointed chief executive Tadeu Marroco explained the charge was due to 'the current macro-economic headwinds impacting the US combustibles industry' and a reassessment of some of its US cigarette brands which only have 'useful economic lives over an estimated period of 30 years'.

The tobacco firm now expects group organic revenue growth to be at the low end of its 3-5% guidance at constant rates.

Meanwhile, 'given planned investment phasing and an expected slow recovery in US macros, we also expect our performance in 2024 to be second-half weighted,' said the company, a phrase which never goes down well with investors no matter what business the company is in.

Year-to-date the shares have fallen over 31% to the £22.90 mark, inflicting heavy losses on investors who own the shares primarily for income, but not everyone is pessimistic.

Owen Bennett, consumer analyst at Jeffries, says in a research note: 'While we don't agree with US concerns, you can make a legitimate case for them. That said, they're weighing unfairly on the broader business.'

CURRENT VALUATION 'NOT RATIONAL'

Bennett argues the company's current market valuation is 'not rational', and while the downgrade was 'unhelpful [organic revenue at the low end of their 3-5% guidance], much reflects an assumed worst case in the US that we struggle to see materialise'. In fact, says Bennett, the US dynamics mean there could be an upside risk to earnings estimates.

In its latest trading update, the chief executive affirmed the group's commitment to 'Building a Smokeless World' with the aim of achieving

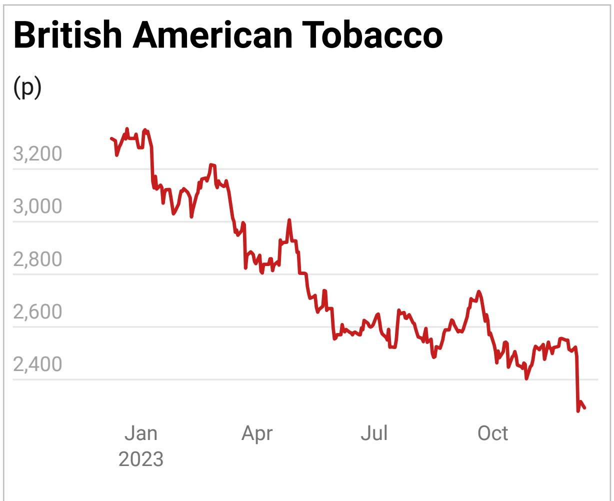


Chart: Shares magazine • Source: LSEG

50% of revenue from non-combustibles by 2035.

The company's New Categories division, which includes heated products Vuse, glo and Velo, has delivered more than £3 billion of revenue in less than a decade and should reach breakeven in 2023, moving into profit from 2024.

For all the headwinds, British American Tobacco remains a highly cash-generative business and is expected to deliver close to 100% operating cashflow conversion in 2023.

While its current priority is to maintain its gearing in a range of two to three times, with a year-end target of 2.7 times, the firm has said it will 'continue to seek and evaluate all opportunities to enhance balance sheet flexibility, including disposals and the exit of non-strategic markets'.

As well as a progressive dividend, once the middle of the leverage range is reached the firm says it will 'evaluate all opportunities to return excess cash to our shareholders'.

Disclaimer: The editor of this story (Ian Conway) owns shares in British American Tobacco

The *Afif* and inset, Rolf Habben Jensen, chief executive of Hapag Lloyd AG

Climate change and geopolitics could force transport costs higher again

Unrelated events on other continents are threatening to undo the fall in prices

Just when it seemed inflation was being brought under control, particularly in terms of input costs for businesses like energy and labour, events thousands of miles away are threatening to send prices back up again.

While they may seem to have nothing to do with UK consumers or investors, together a drought in Central America and an increase in the terror threat in the Middle East could rekindle inflation expectations.

The authority which operates the Panama Canal reports the region has experienced its driest October since at least 1950 due to the El Niño weather system.

During the first week of December, around 170 ships used the canal compared with 238 last year, according to *Marine Traffic*, and from February the number of ships using the 80 kilometre canal will be reduced to just 18 per day after the authorities cut the number of crossings for the first time.

Rolf Habben Jensen, chief executive of **Hapag Lloyd AG (HLAG:ETR)**, the world's fifth-largest container ship owner, called the drought 'a serious concern' in a *Financial Times* article.

The firm has diverted more than 40 ships from Panama to the Suez Canal, more than 11,000 kilometres away, for trade between the east coast of the USA and Asia.

However, missile attacks on commercial vessels and a drone attack on a US warship in the Red Sea last week by Yemen-based Houthi rebels have seriously escalated tensions and raised concerns over the safety of shipping using the Suez Canal.

'If the passage through the Suez would become more difficult, that would cause serious problems,' Habben Jensen is quoted as saying.

According to trade analysis group MDS Transmodal, more than half of the world's container shipping by volume linking Asia to North America used either the Panama or Suez canals in the three months to September.

As well as meaning a shortage of goods, which could lead to higher prices in the shops, problems using the canals are forcing up dry bulk freight rates after a long period in the doldrums.

Taylor Maritime Investments (TMI), which owns a fleet of 44 vessels, reported this week its average time charter equivalent rate per day over the six months to the end of September was above its benchmark indices, and its latest long-term charter was 'significantly above the prevailing index rate'.

Reporting on its half-year results a month ago, chartering and shipping advisory firm **Braemar (BMS)** said forward dry cargo prices were 'firming up' and chief executive James Gundy told *Shares* he believes now is the time to invest in that part of the business. [IC]

Alphabet's Gemini AI launch has Wall Street in raptures

'Crucial driver for the company's growth,' claims US investor

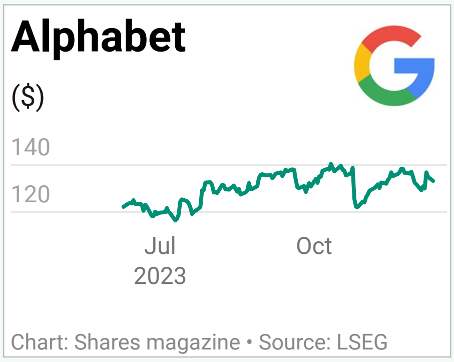
Google-owner **Alphabet (GOOG:NASDAQ)** hasn't been shooting any AI (artificial intelligence) lights out lately, but the launch of its Gemini AI model could mark a significant leap in the tech giant's quest to regain dominance in the sector.

That's clearly the thinking among Wall Street analysts, who dished out a swathe of positive updates on Alphabet helping blow the cobwebs off a stock which hadn't made much real ground since August. The shares surged more than 5% in response, adding an extra $80 billion-odd to its market cap.

JP Morgan analysts noted that the launch of Gemini addresses investor concerns about the high costs associated with running generative AI models, showcasing the firm's commitment to innovation in the AI landscape.

Despite Alphabet's big push in AI research, it is rival **Microsoft (MSFT:NASDAQ)** which has carved a lead in the race for AI-driven cloud revenue, an area where growth slowed for Alphabet in the September quarter.

Reuters cited Ken Mahoney, president of Mahoney Asset



Management in New Jersey, as acknowledging that some critics might label Alphabet as late to the AI party. However, Mahoney emphasised that the company's commitment to getting it right and seizing its opportunity in the AI space positions Gemini as a crucial driver for the company's growth. The full bells and whistles version of the model is set for launch early in 2024, most likely in January according to speculation. [SF]

Artisanal Spirits' down 50% in six months following profit warning dram-a

Sales disappointment delays premium spirit provider's path to profitably and free cash flow

Shares in **Artisanal Spirits (ART:AIM)** have dropped 50% over the past six months, and at 47p languish the best part of 60% below their June 2021 initial public offering (IPO) issue price of 112p. The latest dram of weakness was stirred by a profit warning (8 December) from The Scotch Malt Whisky Society owner.

Edinburgh-based Artisanal cautioned both sales and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) for the year to

December 2023 would be below market expectations.

Artisanal revised its full year 2023 revenue target down to 'around £23 million' against the £25 million consensus estimate, and now expects to achieve around breakeven at the adjusted EBITDA level versus the £1 million previously called for by Liberum Capital.

The downgrade reflects

a combination of a weaker performance in China and slower than expected sales of the group's brand new 50th anniversary member cask-sales programme.

On the positive side of the ledger, Artisanal is making progress on creating new revenue streams and its stock-backed balance sheet remains strong. Established in 1983, The Scotch Malt Whisky Society has now surpassed 40,000 members, a significant milestone in its 40th anniversary year. [JC]

Revival in De La Rue shares could be confirmed next week

The company has already lifted guidance once this year

Investors in bank note and passport printing firm **De La Rue (DLAR)** are enjoying a rare period of calm as the shares continue their recovery from their all-time lows of 30p over the summer.

With the stock currently trading at a nine-month high of 74p, and the firm having issued a pre-close update in early October, the first half results announcement on 19 December should be a formality.

Adjusted operating profits are now expected to be 'marginally ahead' of previous guidance, which was for 'broadly break-even' at the half-year stage and somewhere in the low £20 million range for the full year to next March.

Net debt is also expected to be better than the £100 million originally forecast for the first half and the year, coming in at around £80 million for the first six months and in the mid-£90 million range for the full 12 months.

Analysts are hardly pushing the boat out when it comes to earnings forecasts for the year to next March, with net profit now seen at just £1.4 million against a consensus of £3.9 million three months ago, meaning there is scope for a positive surprise in terms of the outlook depending on how strong recent trading has been. [IC]

De La Rue

Chart: Shares magazine • Source: LSEG

What the market expects of De La Rue

	EPS (p)	Revenue (£m)
Year to April 2024	0.7	321
Year to April 2025	5.9	357

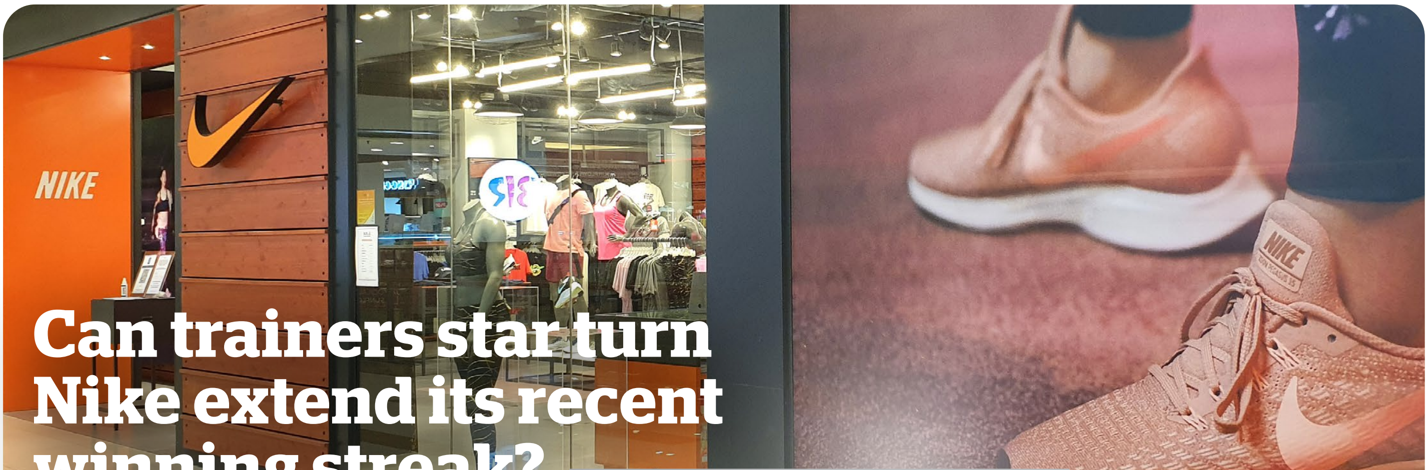
Table: Shares magazine • Source: Stockopedia

UK UPDATES OVER THE NEXT 7 DAYS

FULL YEAR RESULTS
December 18: Hollywood Bowl

FIRST HALF RESULTS
December 19: De La Rue

TRADING ANNOUNCEMENTS
December 20: Time Finance



Can trainers star turn Nike extend its recent winning streak?

Christmas sales, US consumer health and demand in Greater China will be in focus

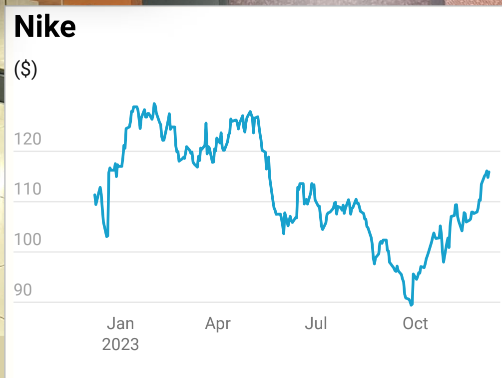


Chart: Shares magazine • Source: LSEG

2023 has proved a challenging year for the world's largest sportswear firm, **Nike (NKE:NYSE)**, due to headwinds from slowing consumer spending and difficulties in the key Chinese market.

Nevertheless, shares in the Oregon-based sneakers star have rallied strongly in recent months meaning Nike needs to deliver some positive news to sustain the momentum when it puts up second-quarter earnings on 21 December.

The outlook heading into the print for the quarter to 30 November, for which analysts are forecasting earnings per share of $0.83 on revenue approaching $13.4 billion, is mixed.

While more upbeat commentaries from key US retail partners including **Foot Locker (FL:NYSE)** and **Dick's Sporting Goods (DKS:NYSE)** instill a measure of confidence, athleisure peer **Lululemon's (LULU:NASDAQ)** fourth-quarter revenue guidance fell short of analysts' estimates raising concerns over the outlook for US consumer spending.

The market reaction hinges on Nike chief executive John Donahoe's comments around US holiday season demand, the competitive landscape and the outlook for Greater China, as well as Nike's gross margin and inventory levels.

At the first-quarter results (28 September), Nike reported a modest 2% rise in revenue to $12.9 billion along with an encouraging 10% drop in inventories to US$8.7 billion.

Finance director Matthew Friend said the results demonstrated 'the impact of staying on the offense over the past fiscal year. With a healthy marketplace and another quarter of brand and business momentum, we are strengthening our foundation for sustainable, profitable, long-term growth.' [JC]

What the market expects of Nike

	EPS (p)	Revenue (£bn)
Q2 forecast	0.83	13.39

Table: Shares magazine • Source: Investing.com, Year-end: 31 May

US UPDATES OVER THE NEXT 7 DAYS

QUARTERLY RESULTS

December 15: Darden Restaurants, Daily Journal Corp, Gencor
December 18: Heico
December 19: Accenture, FedEx, FactSet Research, Steelcase, FuelCell Energy
December 20: Micron, General Mills, Carnival Corp, Toro, Cal-Maine, MillerKnoll
December 21: Nike, Cintas, Paychex, CarMax, AAR, Blackberry, Apogee, Mission Produce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Recommended Provider
Which?
Investment Platforms May 2022
Capital at risk.

Why Dr. Martens' knock-down share price is too good to resist

Revenues have grown an average of 14% per year since 2020 showing the brand's appeal

Dr. Martens
(DOCS) 92p
Market cap: £893 million

Iconic British footwear brand **Dr. Martens (DOCS)** has been a disappointing investment since coming to the market in early 2021, with the shares losing around 75% of their value after delivering four profit warnings in the past year.

The investment case is straightforward - either the self-inflicted operational issues are fixed by the current management, or the business will be taken over by an opportunistic predator who recognises the untapped value of the brand.

Evidence of activist interest surfaced in July after *Sky News* reported Sparta Capital had purchased a stake in the bootmaker and was engaging with management to improve its financial and operating performance.

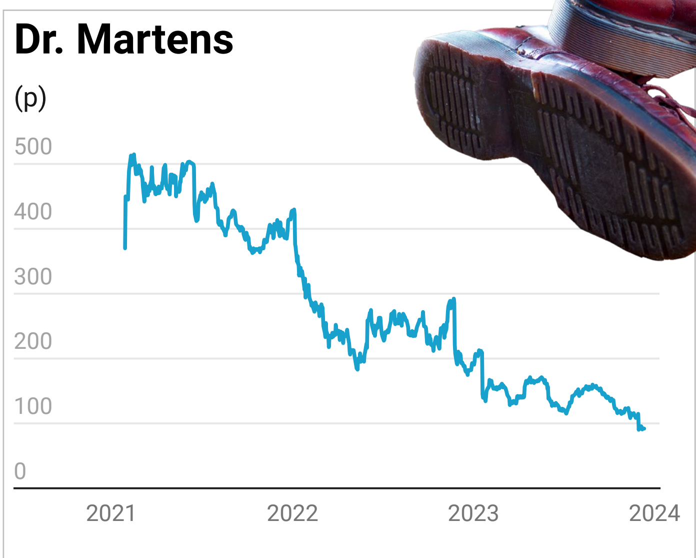


Chart: Shares magazine • Source: LSEG

Note, the investment case does not rely solely on the business being taken over – better operational performance should attract a higher valuation over time as margins are restored and the company delivers on its medium-term growth ambitions, which remain unchanged by current troubles.

Encouragingly, the company's new chief finance officer Giles Wilson brings a deep understanding of global brand management and wholesale distribution as well as public markets experience.

Dr. Martens has also created a new role of chief brand officer for Ije Nwokorie, who is joining from **Apple (APPL:NASDAQ)** where he has been senior director of Apple Retail since 2018.

Clearly the risks facing potential investors are higher than usual but *Shares* believes they are heavily discounted by a single digit PE (price to earnings) ratio based on March 2025 consensus estimates.

Unusually for a chief executive, Kenny Wilson has owned up to the firm's mistakes and has vowed to fix the issues along with returning the US business to growth.

Maintaining its confidence, the board has held the final dividend of 4.28p per share and announced a £50 million share buyback.

Dr. Martens' strategy is to sell more pairs of boots, shoes and sandals to more people through a multi-channel distribution system but with a priority focus on D2C (direct-to-consumer).

Management reckon there is scope to generate annual sales of £6 billion globally by selling into seven priority markets compared with around £1 billion today.

In its home market of the UK where it has been selling the iconic Dr. Martens boots since 1960, the company sells 32 pairs per 1,000 people.

The company believes there is significant headroom to grow given how underpenetrated the brand is in its priority markets. For example, in the US it sells 18 pairs of boots per 1,000 people and just 15 in Germany while in China it sells less than one pair per 1,000 people. [MG]

Headwinds are turning to tailwinds for JPMorgan Asia Growth & Income

Quarterly dividend-payer offers actively-managed exposure to exciting developing markets

JPMorgan Asia Growth & Income

(JAGI) 329p

Market cap: £293.8 million

BUY

Rising interest rates and China's unexpectedly difficult recovery from Covid are among the headwinds emerging markets have faced of late. However, the outlook for the asset class looks brighter in 2024 should interest rates plateau or fall leading to a weaker US dollar.

One savvy way to capture the opportunities across Asia, a vast region with favourable demographics, and hopefully profit from a strong re-rating, is through **JPMorgan Asia Growth & Income (JAGI)** which is currently at 52-week lows.

Shares believes a 9.7% discount to NAV (net asset value) presents a compelling entry point for a fund which has generated 10-year annualised total returns of 8.6%, well ahead of the 5.7% return for Morningstar's Asia ex-Japan Equity category.

Managed by Ayaz Ebrahim and Robert Lloyd, a valuation-conscious duo able to leverage JP Morgan's deeply-resourced research platform, the trust has the second-best 10-year share price total return in the AIC's (Association of Investment Companies) Asia Pacific Equity Income sector, with a 125% haul, and the sector's lowest ongoing charges at 0.69%.

'The key differentiation with some of the other Asian funds is the income element,' explains Ebrahim. A prospective dividend yield of 4.8% should limit downside from these levels and the payment of quarterly dividends equivalent to 1% of NAV should appeal to regular income seekers. 'You are getting capital growth over the longer term, but you still get an income stream within that,' says Ebrahim, although he stresses they are not simply buying high-yielding stocks.

Using an integrated ESG approach, the core of the portfolio centres around what Ebrahim calls 'fundamentally sound' cash-generative companies which can create shareholder value 'over multiple years'.

The portfolio offers exposure to high-quality corporates in China and India as well as Indonesia, Taiwan, Korea and others, while the biggest sector allocations are to information technology, financials and consumer discretionary. Top 10 holdings as at 31 October 2023 included Taiwanese firm **TSMC (TPE: 2330)**, number-one chipmaker for the likes of **Nvidia (NVDA:NASDAQ)** and **Apple (AAPL:NASDAQ)**, along with Chinese multimedia colossus **Tencent (HKG:0700)** and Korean electronics giant **Samsung (005930:KRX)**.

JAGI also offers exposure to the hot returns on offer in India through the likes of Mumbai-headquartered **HDFC Bank (HDFCBANK:NSE)**, **Infosys Technologies (INFY:NSE)**, the second largest Indian IT company after **Tata Consultancy (TCS:NSE)**, as well as **Maruti Suzuki (MARUTI:NSE)**, the Indian subsidiary of Japanese automaker Suzuki Motor Corporation. [JC]

JPMorgan Asia Growth & Income

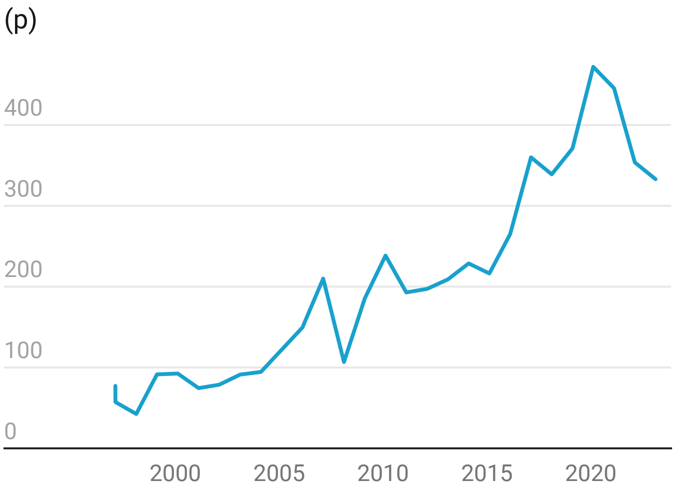


Chart: Shares magazine • Source: LSEG

Investors should lock in profits in Ten Entertainment

More and more UK mid-cap companies are being targeted by private equity

Ten Entertainment
(TEG:AIM) 411p

Gain to date: 90.9%

Original BUY at 214.7p on 29 September 2022

Just over a year ago we argued that tenpin bowling and entertainment group **Ten Entertainment (TEG:AIM)** was a great company trading at a great price.

Not many hospitality and leisure businesses have been able to hold their prices below 2019 levels, drive footfall, increase spend per head and at the same time increase sales per square foot, which is testament to the quality of the management team and the strength of the business model.

WHAT HAS HAPPENED SINCE WE SAID TO BUY?

At the time, *Shares* commented: 'If the market doesn't recognise the great value on offer from the shares now and drive a rerating in the stock, a trade or private equity buyer could feasibly step in and acquire it.'

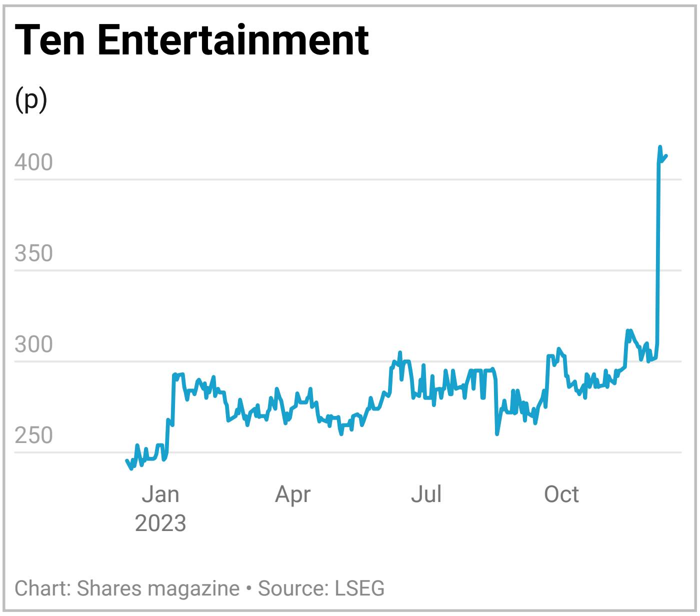
That is exactly what has happened, after news broke on 6 December the company had agreed an all-cash offer from private equity firm Trive Capital pitched at 412.5p per share.

The offer represents a 33% premium to the prior closing price and is 23.3% higher than the all-time high of 334.5p reached in 2020 just before the start of the pandemic.

While that may sound great, the average premium paid in 2023 has been around 60% according to law firm Ashurst.

In terms of valuation, the offer represents a multiple of 7.3 times the company's adjusted trailing EBITDA (earnings before interest, tax, depreciation, and amortisation) after rental costs.

'While clearly a striking premium to the closing price, these valuation multiples do not look stretched,' was the Numis view.



WHAT SHOULD INVESTORS DO NOW?

The company's directors are unanimously recommending the offer and Trive has secured the support of roughly 39.51% of existing shareholders including Harwood Capital, Slater Investments and Gresham House, who own 15.5%, 12.3% and 11% respectively.

With the shares trading close to the offer price and institutional shareholders backing the offer, it looks like a done deal. Therefore, shareholders should consider taking a profit and reinvesting the cash. [MG]

10 BIG QUESTIONS FOR 2024

What will happen with inflation, rates, China and US politics

***By SHARES team*, Tom Sieber** Editor, **Ian Conway** Deputy Editor, **Martin Gamble** Education Editor, **James Crux** Funds and Investment Trusts Editor, **Steven Frazer** News Editor

As we move into another year there is plenty for investors to consider. Are we on the other side of inflationary pressures? Will rates be cut in 2024? What will happen with the US presidential election? In this article we address these and some other big questions for the year to come.

IS THE BATTLE AGAINST INFLATION OVER, WILL RATES BE CUT IN 2024 AND WHAT WILL HAPPEN TO THE DOLLAR?

A big question facing investors in 2024 is whether the inflation battle has been won and if so, how quickly interest rates fall.

Before looking at the range of economic predictions, it is worth pointing out that bond markets have already priced in around 1.7% of rate cuts for the US in 2024. Whether this proves overly optimistic or too cautious is likely to play a big part in how stocks and other asset classes perform in 2024.

A key factor driving the actual outcome is how well economies perform in coming months and broadly, there are two opposing camps.

Goldman Sachs is in the bullish camp predicting the global economy will outperform consensus expectations in a similar fashion to 2023.

According to chief economist Jan Hatzius that won't prevent inflation continuing to fall back towards central bank targets. 'We don't think the last mile of disinflation will be particularly hard,' writes Hatzius.

'If anything, we think that the risks to the achievement of target-consistent inflation are on the earlier side.'

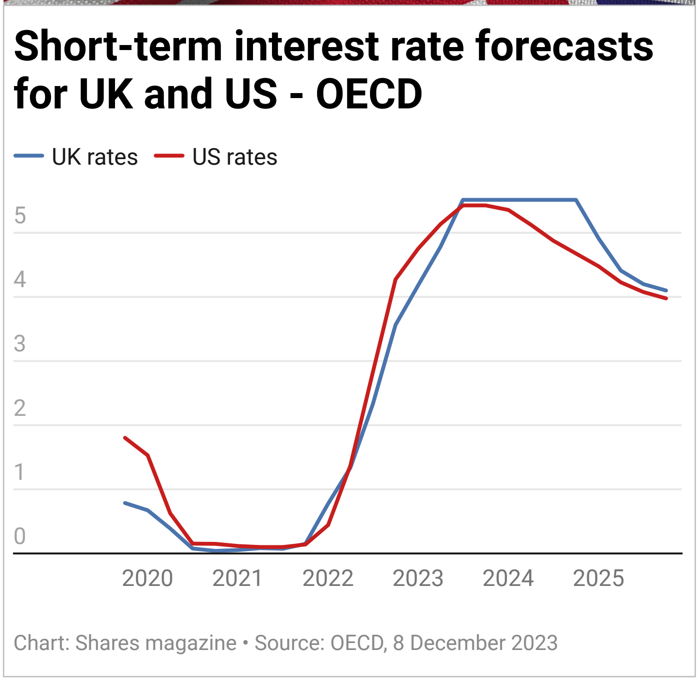
Goldman economists expect core inflation to fall from 3% to average 2% to 2.5% across the G10 excluding Japan.

Strategists at JP Morgan Asset Management take a more cautious view due to the 'long and variable lags in monetary policy that so often plague economic forecasters'.

They believe it is too early for central banks to take a victory lap on inflation and anticipate interest rate cuts will come later than many expect but then fall further than predicted.

'Averaging the last 12 recessions, US GDP growth in the quarter prior to a recession was 3% in real terms and 7% in nominal terms,' points out JP Morgan.

The latter part of 2023 was marked by a big decline in the US currency – what may become



apparent in 2024 is whether this is set to be a short-term phenomenon or the beginning of a more meaningful structural shift.

There is a definite trend among central banks outside the US to move their foreign exchange reserves into other currencies. A substantial budget deficit is another issue for the greenback with some suggestions there may be a return to quantitative easing as a result – effectively increasing the supply of dollars and thereby depressing their value. An extended period of currency weakness for the dollar could have positive implications for emerging markets and commodities. [MG/TS]

WHAT IS THE OUTLOOK FOR PROPERTY, INFRASTRUCTURE AND INVESTMENT TRUSTS?

Heading into 2024, investors in property, infrastructure and investment trusts will above all be hoping for interest rates to normalise and for discounts to NAV (net asset value) to narrow from the historically wide levels of 2023.

While property rents are expected to continue growing, liquidity in the sector is still a long way from normal so accurate valuations will remain hard to pin down.

The infrastructure market at least has a visible pipeline of work for 2024 from committed funding and long-term programmes. Both property and investment trusts are likely to see more consolidation as managers of sub-scale trusts look to merge and shareholders push for change at underperforming companies. [IC]

CAN THE UK (FINALLY) PLAY CATCH UP NEXT YEAR?

According to the Association of Investment Companies' (AIC) latest annual fund manager poll, the UK is predicted to be the best performing region in 2024 with nearly half of respondents highlighting it.

Bulls point to UK equity valuations near a 20-year low and the fact the FTSE offers the highest dividend yield of any developed market, providing investors with a strong margin of safety, although bears will stress the UK has been cheaper than many other markets since the Brexit vote and there are no obvious rerating catalysts.

However, with the UK economy remaining fragile and inflation continuing to fall, it is plausible that the Bank of England could be the first major central bank to cut interest rates, which would provide a strong tailwind for UK stocks.

In its 2024 investment outlook, JP Morgan Asset Management said UK stocks 'offer a relatively low beta to global stocks, and a high weight to the energy sector could prove a useful diversifier if higher oil prices challenge the disinflation narrative'.

Elsewhere Martin Currie's chief investment officer Michael Browne sees strong signs that UK macroeconomic conditions are turning positive heading into 2024 and points out that as conditions improve, 'the opportunity for attractive future returns is arguably at its greatest'. In contrast to some markets, Iain Pyle, manager of investment

trust **Shires Income (SHRS)**, remains 'very optimistic on the UK given the low valuations for equities and the likelihood that any downturn will be short and shallow and is already priced in'. [JC]

WILL MORE LONDON-LISTED COMPANIES BE SNAPPED UP?

Following a summer lull, M&A activity from private equity and corporate buyers of quoted UK companies picked up in the latter half of 2023. *Shares* believes 2024 could prove another busy year for takeover activity unless unloved UK equities enjoy a long-awaited rerating, which would further shrink the pool of publicly listed companies. Should investor sentiment towards the UK remain poor, expect overseas trade buyers and private equity bidders to pounce on high quality British assets, especially global companies with a UK listing and with a focus on the heavily discounted small cap end of the market. [JC]

CAN AI AND TECH CONTINUE TO DRIVE US MARKETS HIGHER IN 2024?

The US stock market is bang on track to be the 2023 performance leader for the major asset classes, by a wide margin. The key reason – big tech shares have been running hot. Strip out the 'Magnificent Seven' and US equities' year-to-date performance fades to grey, with mediocre returns in line with money-market funds and savings accounts.

'After a stock rally this year that has nearly erased

the decline in 2022, some small investors are taking profits and selling riskier investments, as they ponder whether or not the handful of technology companies that have propelled major indexes can continue to prop up markets,' reported *Bloomberg*.

Does this mean the slow deflation of the big tech balloon hamstringing US equity performance in 2024? Not according to Goldman Sachs. 'Our baseline forecast suggests that in 2024 the mega-cap tech stocks will continue to outperform the remainder of the S&P 500,' says David Kostin, chief US equity strategist at Goldman Sachs.

'Analyst estimates show the mega-cap tech companies growing sales at a CAGR (compound annual growth rate) of 11% through 2025 compared with just 3% for the rest of the S&P 500. The net margins of the Magnificent Seven are twice the margins of the rest of the index, and consensus expects this gap will persist through 2025.'

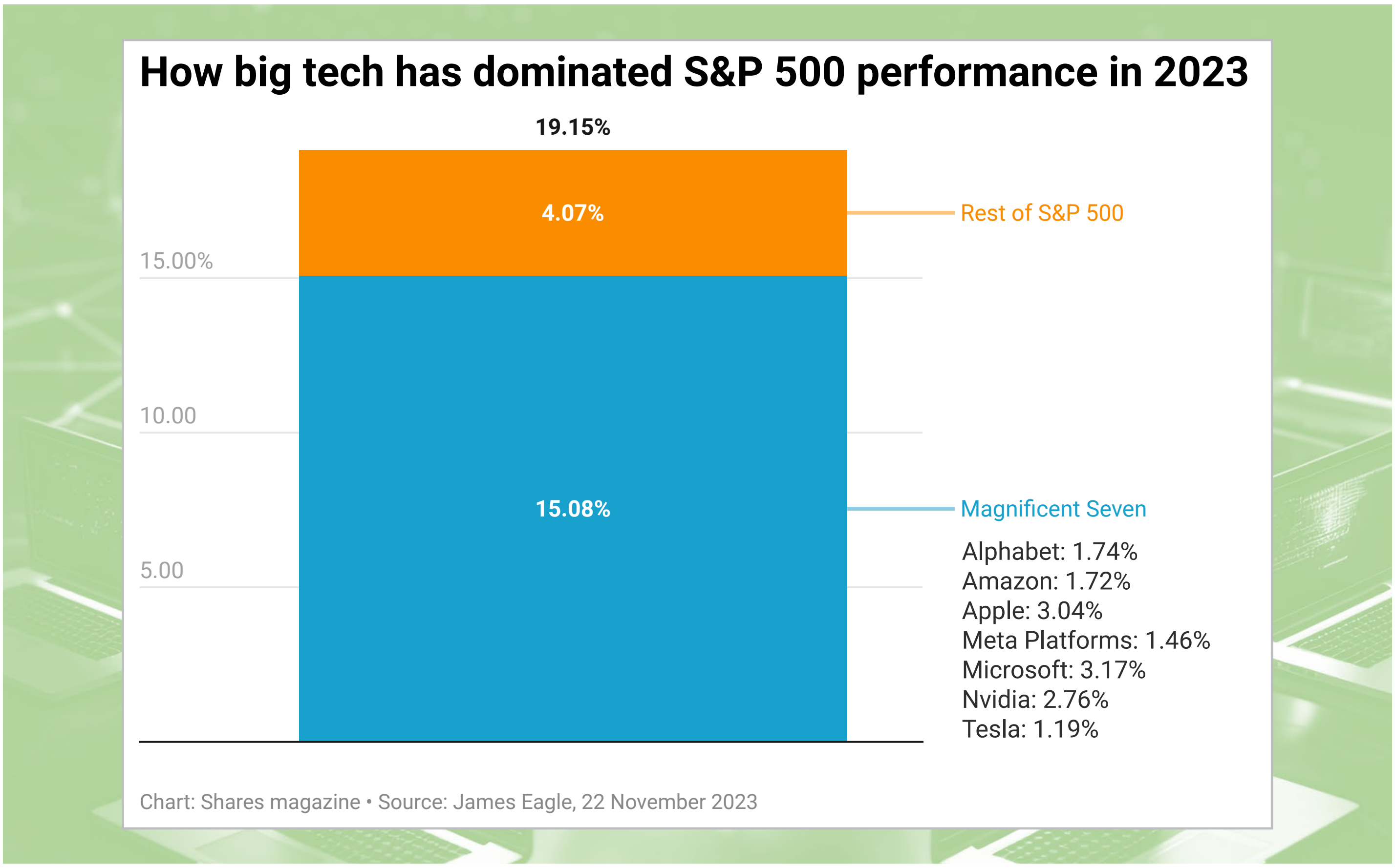
They are not alone. Booming spending on

WHAT DID WE GET RIGHT AND WRONG IN OUR 2023 OUTLOOK?

We were right inflation would dominate the agenda but also that it would begin to abate through the course of the year and that a pivot, or at least the promise of a pivot, away from high rates would help drive a rally in stocks. We were also correct to point to an encouraging outlook for gold which hit new records in 2023.

On emerging markets, we were probably right to be tepid on Chinese recovery hopes which have failed to live up to expectations and to point to India which has been one of the best performing markets anywhere in the world over the last 12 months.

Despite flagging the UK market as a value opportunity, it has failed to keep pace with global counterparts. Bond markets, while not facing the meltdown they endured in 2022, did not justify our description of their outlook as 'promising'. [TS]



AI (artificial intelligence) and cloud computing infrastructure has ignited a new tech bull market, claim analysts at US broker Wedbush. While overall IT budgets are expected to be up modestly in 2024, cloud and AI-driven spending will be up 20% to 25% over the next year, 'with usage now exploding' in the enterprise and consumer landscape.

AI is seen by many as the most transformative technology trend since the start of the Internet in 1995, and against a softening interest rate backcloth, big tech could again power US equities to the top of major market performance leagues next year. [SF]

WILL VALUE STOCKS OR GROWTH STOCKS SHINE?

Growth stocks outperformed value stocks in 2023 supported by expectations of central bank interest rates cuts to come and the hype over artificial intelligence, which fuelled the so-called 'Magnificent Seven' rally. Entering 2024, the outlook appears to favour growth over value again given the strong earnings growth emanating from the technology sector, and with investors anticipating rate cuts. In terms of the UK outlook, Martin Currie's Michael Browne sees 'clear market signals' that we are 'heading to a soft landing and will likely see a rotation from value to growth stocks'.

> "the top of growth stocks is coming"

However, across the pond, Ariel Investments' chair John Rogers observed to *CNBC's* Scott Wapner that 'the top of growth stocks is coming'. Noted value investor Rogers argues the mega-cap tech stocks that outperformed in 2023 are 'priced for perfection' and will face challenges heading into 2024; another reason for Rogers' bullishness on value names is the widening performance gap between growth and value. [JC]

WHAT WILL HAPPEN IN THE BURGEONING OBESITY DRUG SPACE?

Booming demand for weight loss treatments looks set to continue but a key feature of 2024 is increasing competitive threats to the market leaders **Novo Nordisk (NVO:NYSE)** and **Eli Lilly (LLY:NYSE)**.

So far, Novo's obesity drug Wegovy and type-two diabetes drug Ozempic have enjoyed huge success in a market which is predicted to grow to more than $100 billion a year in years to come.

Eli Lilly's obesity drug Zepbound went on sale in the US in early December and Berenberg points out that despite offering superior weight loss than

Wegovy its list price is 20% below.

UK pharmaceutical company **AstraZeneca (AZN)** recently beefed up its obesity portfolio and Swiss diagnostics firm **Roche (ROG:SWX)** entered the obesity race after paying $2.7 billion for Carmot Therapeutics. [MG]

WILL THE US PRESIDENTIAL ELECTION EXACERBATE GEOPOLITICAL CONCERNS?

One thing which seems certain for 2024 is the geopolitical outlook will be more not less predictable than 2023.

While we aren't necessarily forecasting an increase in regional conflict, politics will play a huge part in where markets go next year. The rise in recent years of 'outsiders' such as Giorgia Meloni, Geert Wilders and Javier Milei suggests voters around the world want a change from the norm, even if they don't fully support the views of the challengers.

With elections in the US in November and the UK potentially before the end of 2024, there could be wholesale change on the cards. In the US, president Biden has 'over-delivered' on his promise to be unexciting, says Michael Schaeffer of *Politico*, which could prove to be his undoing.

In a similar vein, *Vanity Fair* observes that the Biden's administration's 'superpower, its ability to slide under the radar while getting a lot done for the American people, may also be its Achilles heel, holding it back from getting the credit it deserves'.

The issue is, at least some Americans no longer care about policies or 'getting things done', because politics has descended into reality television and needs to be exciting, full of flamboyant characters who can make them feel emotion, especially anger.

In other words, it is the perfect environment for made-for-TV candidate Donald Trump, who despite his trail of destruction still leads the race to be the Republican nominee.

Some of Trump's actions in his first term and his rhetoric since leaving office suggest the US political system's checks and balances could be tested if democratic norms are going to be preserved in Washington. While Trump's reported ties with Russian premier Vladimir Putin could have wider ramifications outside the US.

As we move closer to election day on 5 November the latest polling data and the nature of the political debate may start to have a greater bearing on global markets. [IC]

PRESIDENTIAL ELECTION ON A KNIFE-EDGE

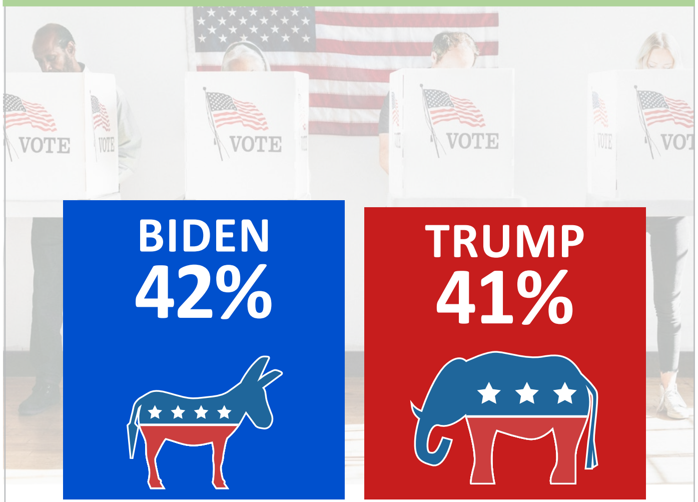


Chart: Shares magazine. Source: YouGov for *The Economist*, 5 December 2023

WHAT'S THE OUTLOOK FOR GOLD AND OIL?

Gold and oil prices have diverged in recent weeks with the precious metal outperforming crude to reach new record highs. WisdomTree head of commodities Nitesh Shah observes that while gold demand to date has been concentrated among central banks and the retail sector, 'institutional investors are likely to be increasingly concerned about global risks – geopolitical and financial – and seek more hedging tools'. BofA energy strategist Francisco Blanch thinks OPEC+ cuts can support oil despite an uncertain economic outlook. A key thing to watch is how disciplined members of OPEC are at sticking to quotas as that will dictate the cartel's credibility with the market. [TS]

CAN CHINA GET ITS ACT TOGETHER AND WILL OTHER EMERGING MARKETS SHINE?

The expected rebound in the Chinese economy following its decision to abandon a zero-Covid policy has struggled to gain traction.

Adding to the country's woes credit rating agency **Moody's Corp (MCO:NYSE)** downgraded China's sovereign credit rating from 'stable' to 'negative' on 5 December.

Moody's is concerned that Beijing's possible bailout and support of distressed local governments and state-owned enterprises will push up debt to unsustainable levels.

While Moody's retained China's long-term rating it expects GDP growth to slow to 4% in 2024 and

2025 and average 3.8% from 2026 to 2030.

Investment manager Camignac sees China's first half growth stabilising at around 4% in 2024 but is doubtful of an improvement in the second half.

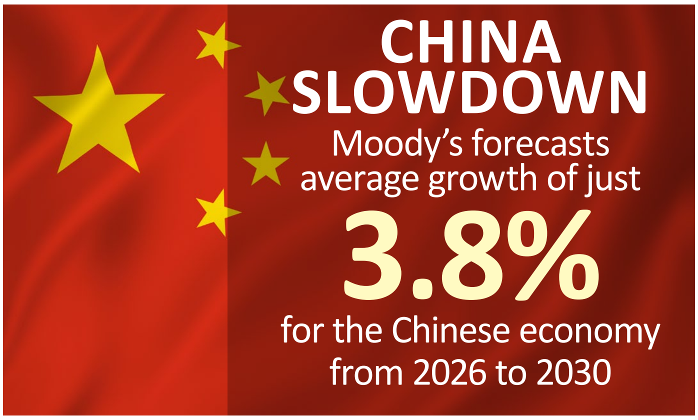
'A reacceleration in H2 2024 requires the leadership to abandon its gradualist approach for a strategy combining a restructuring of all housing-related debts, nationalisation of losses, bank recapitalisation and consumption stimulus.'

An additional challenge for the world's second biggest economy is that large multinationals have been busily reshoring supply chains following the pandemic.

This means more manufacturing based in China serves the local market rather than overseas.

The multiple challenges China is facing is arguably already reflected in poorly performing stock prices and low valuations. The CSI 300 index of leading Chinese stocks has dropped more than 40% over the last two years.

Invesco is in the camp which views Chinese shares as cheap on a cyclically adjusted PE (price to earnings) basis with earnings momentum likely to improve as economic stimulus kicks-in.



'Given our belief that economic momentum will be better in China than in the West (due to policy support), we remain optimistic that Chinese equities will rebound (given how cheap they are), though we are less optimistic about Chinese bonds.'

A possible negative for China in 2024 is a continuation of the trend which has seen countries like South Korea and Vietnam eat its lunch. Tensions with the West driving more big global companies to shift to these alternative manufacturing hubs.

In terms of broad positives for emerging markets heading into the next 12 months Nick Price, portfolio manager of **Fidelity Emerging Markets (FEML)** says: 'The strong fiscal position of many emerging economies also stands the asset class in good stead. Unlike many developed countries, emerging markets were largely slow to extend fiscal subsidies during Covid lockdowns.

'We see lower levels of debt-to-GDP in many emerging market countries, particularly relative to the US, where the near-breaching of the debt ceiling brought the country's unsustainably high levels of debt into sharp relief.' [MG/SG]

WHAT SHOULD INVESTORS DO?

Faced with all this information and possible outcomes how should investors respond? For genuine long-term investors the answer is probably not too much – sticking to your plan and your investment goals is probably the best way of seeing your portfolio through what could be a volatile 12 months. The traditional strategy of investing in a mix of stocks and bonds may be a more successful way of achieving diversification in the coming 12 months as asset manager Pictet observes: 'For investors, 2024 will be less of a banner year, which is why we are sticking to a defensive bias. However, we expect some of the tight correlation between asset classes that characterised the markets during the past few years – where equities and bonds moved in lock-step – to ease, which should allow balanced portfolios to show better diversification.'

Morningstar comments: 'In terms of portfolio positioning, our base case macro-outlook of lower growth, inflation and rates, but without a recession, is supportive of classic multi-asset portfolios invested in bonds and equities. Bonds in particular have become more attractive as yields have increased.' [TS]

SAXO BANK'S OUTRAGEOUS PREDICTIONS FOR 2024

Each year, Saxo Bank chief investment officer Steen Jakobsen and his colleagues put together a number of scenarios involving 'unlikely but underappreciated events which, if they were to occur, would send shockwaves across the financial markets'.

While they are always entertaining, they also have a reasonable 'hit' rate, particularly when it comes to the gold price, bitcoin, market volatility and political upheaval.

This year's list begins with a scenario where the US Federal Reserve tightens interest rates again due to a second wave of inflation at the same time as the government increases defence spending due to geopolitical uncertainty.

This sends the budget deficit above 10%, a level only surpassed during WWII and the pandemic, so under 'intense pressure' from the White House, Congress makes capital gains and interest income on US Treasuries tax-free.

The yield curve flattens as investors lock in the highest yields in decades, but the stock market collapses as cash is sucked into the bond market apart from companies with large cash piles whose shares are chased higher.

Another provocative prediction sees a criminal group developing the most deceptive generative AI 'deepfake' in history, phishing a high-ranking government official from a developed country to hand over top-secret information.

In its wake, the EU and US introduce new regulation which kills the generative AI hype, causing investment to dry up, and **Adobe (ADBE:NASDAQ)** shares collapse after it is discovered the deepfake was made using the company's software.

Meanwhile, with social unrest in Europe rarely far from the surface and household bills soaring due to the cost of the energy transformation, the wealth inequality becomes a polemic, and the EU introduces a 'Robin Hood' tax sending shock waves through the luxury goods industry.

Earnings expectations for firms like **Ferrari (RACE:NYSE)**, **LVMH (MC:EPA)** and **Porsche (PAH3:ETR)** collapse, as do their share prices.

Finally, with attention turning back to the US election, a recession takes hold bringing with it 'greater potential for a sea change in political attitudes'.

Seeking alternatives to the 'geriatric' Biden and the 'narcissistic' Trump, voters from both sides warm to Robert F Kennedy, Jr, whose 'third way' shatters the old psychology of either being fervently for or against one of the traditional two parties' and sweeps him into the White House.

In response to his promise to 'end the abuses of the healthcare system and break up excess corporate power', defense, drug and healthcare shares nosedive while technology stocks languish.

The UK stocks which did best in 2023

We split the market into four baskets by market value to identify the biggest winners

It has been an up and down year for the UK stock market but some names have really shone over the course of the last 12 months. In this article we go through the market cap ranks to identify the best performing large-, mid- and small-cap stocks in 2023.

£5 BILLION+ MARKET CAP

£5 billion+

Company	Share price change 2023 (%)
Rolls-Royce Group	207.0%
Carnival	97.4%
3i Group	66.5%
Centrica	53.2%
Sage	51.9%
CRH	51.6%
Associated British Foods	51.6%
B&M	45.4%
Wise	40.4%
Auto Trader	39.3%

Table: Shares magazine • Source: Sharepad, data to 5 December 2023

While **Nvidia (NVDA:NASDAQ)** has dominated headlines globally as excitement around AI (artificial intelligence) helped drive its stock to new highs, **Rolls-Royce's (RR.)** performance has been not too far off what is widely considered one of the hottest stocks of 2023.

The aerospace engineer has seen its fortunes transformed under tough-talking CEO Tufan Erginbilgiç who started in the role on 1 January. His harsh rhetoric on the company's previous failings convinced the market he was serious about fixing them and at an investor day on 28 November the company outlined ambitions to quadruple profit in five years. Evidence of whether or not it is executing on this plan will likely dictate its performance in 2024.

Cruise line operator **Carnival (CCL)** has seen its shares almost double in 2023 driven by booming demand from returning travellers. Carnival's chief executive Josh Weinstein said in September that 2024 volumes will recede due to the firm running out of inventory to sell despite adding 5% more capacity in 2023. According to the Cruise Lines International Association around 35.7 million passengers are expected to set sail in 2024, up 13% on 2023 and 6% higher than 2019.

Investment company **3i (III)** has had a banner year in terms of returns, driven principally by its stake in Dutch discount retailer Action. Action, the firm's largest holding, continues to gain market share with its value-for-money offering, racking up

like-for-like sales growth of more than 19% in the first nine months of 2023 and helping to generate a 10% total return for 3i in the six months to September.

2023 has been all about reclaiming organic growth for accounting software firm **Sage (SGE)** after a few years where progress got soggy. With operating margins stabilised at around 21%, there is genuine hope that the UK's largest software stock by market cap can confidently aim for the high 20% margins earned historically. With typically strong free cash flows and a handy dividend yield of 1.9%, Sage might be the sort of tech stock to win further backing in 2024.

The strong showing for Irish building materials group **CRH (CRH)** does not paint a particularly positive picture for the UK market as a whole as a big driver has been the company's decision to transition its primary listing to the US. It seems to have provided the hoped-for kicker to its valuation it hoped in the short term. To back this up, CRH needs spending on US infrastructure and construction to stay robust in the medium term.

Online car marketplace **Auto Trader (AUTO)** has had a good year, experiencing record buyer levels in the first half of 2023.

The firm has managed to gain market share in the new car market due to structural changes. Its 'Deal Builder' product – which allows buyers to value their part-exchange vehicle, has brought success, expanding from 50 to 500 dealers due to demand.

With cost savings from the integration of its new car leasing proposition Autorama, the firm looks in a decent position despite some recent turbulence in the used car market.

£2 BILLION TO £5 BILLION MARKET CAP

£2 billion to £5 billion

Company	Share price change 2023 (%)
Marks & Spencer	104.0%
Burford Capital	63.6%
Deliveroo	58.8%
Dechra Pharmaceuticals	46.3%
EasyJet	42.4%
Computacenter	40.5%
Polar Capital Technology Trust	38.3%
Intermediate Capital Group	35.9%
Darktrace	35.1%
Glanbia	31.7%

Table: Shares magazine • Source: Sharepad, data to 5 December 2023

British retail institution **Marks & Spencer (MKS)** saw its market value double in a banner year which saw the foods-to-fashion firm deliver a string of earnings upgrades, reduce net debt and restore the dividend after a four-year absence. The high street stalwart also made a triumphant return to the FTSE 100 as investors rewarded the turnaround progress made under the stewardship of CEO Stuart Machin and chairman Archie Norman. Their strategy to reshape Marks & Spencer, which has cut costs whilst reconnecting with its customer base, is demonstrably working, so much so that broker Peel Hunt called the half-year results on 8 November 'embarrassingly good'. The £360 million pre-tax profit achieved in the six months to 30 September smashed the lowball £275 million figure called for by consensus.

Litigation finance provider **Burford (BUR:AIM)** won a significant US court ruling in September in its eight-year legal case against Argentina on behalf of former shareholders in oil company YPF.

Damages could reach $16 billion, although the Argentine government is likely to appeal the ruling so it is not a 'done deal' yet. Meanwhile, the firm

swung to a third-quarter profit of $272 million from a loss last year after revenue soared in the first nine months.

Built in Britain, pan-European enterprise IT infrastructure supplier **Computacenter (CCC)** is just the sort of partner many medium-sized businesses rely on in a world of AI, cloud computing and other fast-changing tech trends. Beating expectations has become the norm in 2023 and with the promise of regular dividends and surplus cash being returned to shareholder's pockets, more of the same is possible if tech bulls are right about 2024.

Food delivery platform **Deliveroo (ROO)** is expected to make a small profit in 2024 compared to the more than £50 million of losses which analysts were forecasting at the beginning of the year. Investors have welcomed the pivot towards profitability rather than sales growth, sending the shares sharply higher.

It could be argued that **Darktrace (DARK)** remains one of the UK's few tech world leaders yet it has become something of a Marmite stock for many investors. Analysts have recently been banging its drum, believing the cybersecurity group's products have got better over time and seeing strong tailwinds for demand from rising cybercrime and new regulation, and investors have agreed, hence the strong 2023 run. With a shorting attack now behind it, following an independent clean bill of health probe, there could be more to come from its artificial intelligence and behavioural analysis cyber-attack protect and fix kit.

Nutritional products and ingredients company **Glanbia (GLB)** is up more than a third in 2023 driven by strong demand for its performance nutrition brands. In November the company upgraded its outlook for full year 2023 earnings per share growth to 17% and 20% from 12% to 15% in August which was an upgrade from the first quarter expectation of 7% to 11% growth.

£500 MILLION TO £2 BILLION MARKET CAP

£500 million to £2 billion

Company	Share price change 2023 (%)
Hotel Chocolat	136.0%
Zegona Communications	102.0%
Resolute Mining	95.8%
Bank of Cyprus	89.7%
THG	78.7%
AO World	73.8%
Mitchells & Butlers	66.0%
Wetherspoon (JD)	62.1%
Moonpig	59.4%
FirstGroup	59.1%

Table: Shares magazine • Source: Sharepad, data to 5 December 2023

The shock €5 billion acquisition of **Vodafone's (VOD)** Spanish operations in September 2023 is what has powered **Zegona Communications (ZEG)** stock this year. It might seem mad that a cash shell consolidator set up in 2015 by former Virgin Media executives Eamonn O'Hare and Robert Samuelson worth just £1.9 million could pull off such a deal, but it has form in Spain, previously acquiring then selling Spanish cable TV companies Telecable (sold in 2017) and Euskaltel (2021). Zegona claims an 88% return on shareholders' net invested capital on those two deals, returning £335 million cash to shareholders in 2021.

Pubs and hotels Groups **Mitchells & Butlers (MAB)** and **JD Wetherspoon (JDW)** have benefited from punters going out to the pub this year and a recovery in investor sentiment towards hospitality.

Both shares have gained around 60% for the year but they remain well below pre-pandemic trading levels. While sales have been rebuilt back to 2019 levels, profitability still lags as the sector struggles to digest higher energy, food, and labour costs. The good news is that cost pressures appear to be abating which should allow a full profit recovery in the next couple of years.

After earlier profit warnings had melted the value of their holdings, there was a sweet end to the year for investors in premium chocolatier **Hotel Chocolat (HOTC:AIM)**. Shares spiked in November after the Angus Thirlwell led company recommended an all-cash offer from privately-owned US food giant Mars, which resulted in a tasty 2023 gain of 136%. Mars' 375p offer price represented a 170% premium to Hotel Chocolat's undisturbed share price.

Africa-focused gold miner **Resolute Mining (RSG)** has been a beneficiary of strong precious metals prices and operational progress over the last 12 months. The company has been pursuing a turnaround of its Syama mine in Mali and as Berenberg analyst Richard Hatch observes: 'Production and costs at the mine should benefit from improved plant stability and more consistent delivery from the underground mine, augmented by feed from the open-pit oxide mine.'

The Mako operation in Senegal has performed more robustly but its short mine life means exploration success here could be key to Resolute's fortunes moving forward.

£10 MILLION TO £500 MILLION MARKET CAP

£10 million to £500 million

Company	Share price change 2023 (%)
Plexus	1110.0%
Empire Metals	521.0%
Upland Resources	385.0%
IMC Exploration Group	384.0%
McBride	249.0%
Ondo Insurtech	219.0%
Gulf Marine Services	189.0%
Software Circle	143.0%
Metals Exploration	133.0%
Windar Photonics	130.0%

Table: Shares magazine • Source: Sharepad, data to 5 December 2023

Oil wellhead technology play **Plexus (POS:AIM)** has seen a very significant bounce in the last few months as a highly bombed-out share price has shown signs of life. The driver for the market's reappraisal is a series of important contract developments – including in August the increase in value of a major contract from £5 million to £8 million as well as further news such as a rental agreement with Neptune Energy struck in early November.

Shares in **McBride (MCB)** surged 249% higher as the private-label cleaning products maker benefited from earnings upgrades stoked by the cost-of-living crisis, which boosted demand for its budget laundry detergents, dishwasher liquids and surface cleaners. The Manchester-headquartered company demonstrated positive turnaround progress in the year to June 2023, generating a swing from losses of £29.6 million to adjusted pre-tax profits of £300,000 amid a return to volume growth and improved profitability in all five divisions.

Despite uneven metals prices in 2023, several small cap miners shone. **Empire Metals (EEE:AIM)** soared on record titanium grades unveiled late November at its Pitfield project in Western Australia. Philippines gold producer **Metals Exploration (MTL:AIM)** has climbed throughout the year as it benefited from record prices for the shiny stuff as well as a ramp up in output from its Runruno project, while a reverse takeover of the owner of an Armenian gold mine in October was the major catalyst for **IMC Exploration (IMC)**.

If you've never heard of AIM tiddler **Software Circle (SFT:AIM)**, you are not alone. It claims a 20-year history in the UK software industry as a serial acquirer of 'vertical market software businesses' and changed its name from Grafenia in October. It now appears to have a family of companies under its umbrella covering the graphics, e-commerce, finance, property and care management sectors, although what has driven the stock higher this year is harder to discern beyond excitement at potential M&A.

By the **Shares Team**

What have been this year's highs and lows for fund managers?

We asked some of the UK's top institutional investors for their thoughts on 2023

There were several trends in the UK stock market this year which, if you managed to identify them, served you well.

Most obviously, although it may not have seemed it at the index level, large-cap stocks generally performed better than small- and mid-caps, although for the lucky few the small-cap space has been rife with takeover activity.

In terms of sectors, aerospace and defence topped the FTSE 350 leader board this year, followed by software, food producers, construction materials and media.

Against the odds, considering the relentless rise in interest rates and fears of a cost-of-living crisis, the consumer came through with retailers, leisure goods, travel stocks and even housebuilders performing strongly.

The worst-performing sectors were telecoms equipment, personal goods, chemicals, tobacco, beverages, metal and mining stocks and life insurers.

Below, some of the UK's top fund managers reveal what worked and what didn't work for them this year. We would like to thank everyone who responded for giving their time and baring their souls.

In the next two issues of *Shares* you will hear from managers on where they are seeing the best opportunities in 2024, stocks on which they have changed their minds and what they think will be the impact of artificial intelligence on their portfolios in the future.

Kartik Kumar

Artemis Alpha Trust (ATS)

WHAT WORKED FOR YOU IN 2023?

'UK consumer discretionary stocks worked well for us in the second half of the year. Earnings were more resilient than most people expected in the face of weak sentiment, and airlines have been our strongest performers with share prices up 30% to 40%.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'UK banks have been a let-down. **Natwest (NWG)** is down 18% and **Lloyds (LLOY)** is flat, materially underperforming their European peers. Deposit margins have risen sharply, but that is taking time to come through in earnings because of hedging policies.

'More generally, half the portfolio is in FTSE 250 stocks, which have struggled as investor sentiment towards domestic UK companies remains poor. A good example is investment trusts, where discounts have widened despite NAVs rising.'

Simon Barnard

Smithson Investment Trust (SSON)

WHAT WORKED FOR YOU IN 2023?

'Our four top-performing holdings in 2023 were all software businesses, with the best being (German firm) **Nemetschek (NEM:ETR)**, which provides design software for the construction and media industries, up 68% year to date.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'Our worst-performing companies were unsurprisingly those whose results came in below expectations, such as **Cognex (CGNX:NASDAQ)**, which provides factory automation equipment, and which suffered due to a slowdown in construction of new factories for semiconductors and consumer electronics. However, we believe these sectors will grow their plants in the near future.

Thomas Moore

Aberdeen Equity Income Trust (AEI)

WHAT WORKED FOR YOU IN 2023?

'Large caps such as **BP (BP.)** and **Shell (SHEL)** worked well for us, producing solid results and strong cashflows as they benefitted from the choppy macro environment caused by rising interest rates, political change and war. Defence and aerospace giant **BAE Systems (BA.)** was another stock which benefited from this instability.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'Some small- and mid-cap stocks struggled in 2023 due to the difficult macroeconomic conditions and higher inflation. Buy-to-let lender **OSB Group (OSB)** was negatively affected by successive UK rate hikes which led their main customers, UK landlords, to change their behaviour considerably. Spread betting company **CMC Markets (CMCX)** was hit by a downturn in revenue after expanding into new markets in Australia. Year-to-date its shares are down 61%.'

Simon Gergel

The Merchants Trust (MRCH)

WHAT WORKED FOR YOU IN 2023?

'Our strongest performance contributors were distribution company **DCC (DCC)**, Irish building materials giant **CRH (CRH)** and fashion retailer **Next (NXT)**. Overall, the portfolio has seen a continuation of the strong recovery in income generation since the pandemic. Sectors such as energy and banks remain well capitalised and strongly cash-generative, which supports future income generation.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'It was a difficult year for medium- and smaller-sized companies, as money flowed out of UK equity funds putting selling pressure on that part of the market in particular. We have actually added positions in medium-sized companies, because that is where we have found the most compelling value opportunities.

'At the portfolio level, the biggest impact on performance came from wealth manager **St James's Place (STJ)**, renewable energy company **Drax (DRX)**, and transport company **Mobico (MCG)**.'

Guy Anderson

Mercantile Investment Trust (MRC)

WHAT WORKED FOR YOU IN 2023?

'Our greatest success this year came from some longstanding investments in the financial and technology sectors, including private equity company **3i (III)** thanks to its stake in (Dutch) discount retailer Action which continues to make substantial market share gains.

'Our holding in alternative asset manager **Intermediate Capital (ICP)** was another bright spot, with their fund management company continuing to attract new assets and deliver strong financial performance.

'In the technology sector, our investments in **Bytes Technology (BYIT)** and **Softcat (SCT)**, the value-added resellers, benefited from robust corporate demand for IT infrastructure. These companies have also seen gains in market share and there is scope for revenue to accelerate as customers begin to adopt generative AI solutions.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'Like many consumer discretionary names, luxury retailer **Watches of Switzerland (WOSG)** has felt the impact of inflation on disposable income. However, we continue to believe in the management team who have recently released their long-range growth plan, which if achieved, should drive sales and profits over the next five years.'

James Henderson

Henderson Opportunities Trust (HOT), Law Debenture (LWDB) and Lowland (LWI)

WHAT WORKED FOR YOU IN 2023?

'We were fortunate to have holdings in **Marks & Spencer (MKS)** and **Rolls-Royce (RR.)**, two companies which have 'rediscovered their mojo'. M&S took the tough decision during COVID to close stores and that focus is now feeding through into operating results, plus it is getting its flair back in clothing and offering better value.

'Rolls-Royce began the year with that statement from the new chief executive about it being a "burning platform", which seems to have given momentum for the business to face up to some serious problems. The rewards have fed through quickly. In smaller stocks we have been helped by several companies being taken over, often at big premiums.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'We were premature buying back some of the alternative energy companies after reducing our holdings a couple of years ago, and our lives would have been a lot easier more generally without the down-rating in valuations of medium and smaller companies.

'There have been some disappointments in earnings, but it's the downdraft from the rush of investors to the exit door on UK stocks that's been the biggest problem. When investors return the uplift could be dramatic.'

George Ensor

River & Mercantile UK Listed Smaller Companies Fund (B1DSZS0)

WHAT WORKED FOR YOU IN 2023?

'Given the extremely depressed valuations of UK micro-caps, we have seen takeovers return with bids for Instem (41% premium), City Pubs (46%) and Smoove (69%). Those three positions contributed significantly to performance since the end of June.

'We have also seen strong progress from our "recovery" investment cases where self-help to improve margins and depressed starting valuations combine to deliver strong returns. **Renold (RNO)**, up 49% year-to-date, is a good example, while more recent additions **IG Design Group (IGR:AIM)** and **Inspecs (SPEC:AIM)** have started to deliver on their margin recovery investment cases.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'Growth, and particularly AIM-listed small-cap growth, has been massively derated. The AIM market has fallen from a one-year forward PE ratio of 22 times in September 2021 to 11 times today and the AIM market has fallen by 46%.

'Smaller companies have underperformed the wider UK market by over 35% since September 2021. There have been outflows from open-ended smaller companies' funds for 26 consecutive months, meaning share prices have primarily been driven by flows and sentiment rather than fundamentals.'

Jamie Ross

Henderson Eurotrust (HNE)

WHAT WORKED FOR YOU IN 2023?

'**Novo Nordisk (NOVO-B:CPH)** has been one of our strongest contributors this year as it moved from being a diabetes-driven company to an obesity company. They launched their obesity drug, Wegovy, at the end of 2022, and the growth in demand has been exceptional. In addition, Wegovy reduces the risk of secondary cardiovascular events in obese patients with a history of cardiovascular issues.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'Our long-standing position in (food and health ingredient-maker) **DSM Firmenich (DSFIR:AMS)** had a disappointing year due to destocking in their core markets as well as a very weak market for vitamins, but we are sticking by our long-term focused investment case.'

Julian Bishop

Brunner Investment Trust (BUT)

WHAT WORKED FOR YOU IN 2023?

'The performance of **Microsoft (MSFT:NASDAQ)**, our largest holding, was particularly pleasing thanks to terrific results driven by its Office 365 suite of software and Azure cloud computing unit.

'(Danish drugmaker) **Novo Nordisk (NOVO-B:CPH)** also performed very well thanks to exceptionally strong demand for its products driving earnings growth approaching 50% for the year and making the company the most valuable in Europe.

'More obscurely, we also enjoyed good returns from Greek discount retailer Jumbo, where strong expectations for earnings growth coupled with a rerating and some significant dividend payments meant the stock delivered a total return of around 80%.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'US discount brokerage **Charles Schwab (SCHW:NYSE)** has suffered from rising competition in the US driving fees for trading down to a minimal level, so the company now makes most of its money from interest income.

'Higher interest rates were and are a good thing for their business, but at higher interest rates customers pay more attention and divert their cash into interest bearing accounts, impacting the company's key income stream.

'A second problematic name has been US beauty company **Estee Lauder (EL:NYSE)**, which has a lot of exposure to the skin care category in China, which has failed to recover as anticipated this year. Bloated inventories at key retailers have exacerbated the issue.

'We always review our underperformers as a matter of process and currently we're happy with the long-term portfolio investment cases for both.'

Charles Montanaro

Montanaro Asset Management and Montanaro UK Smaller Companies Investment Trust (MTU)

WHAT WORKED FOR YOU IN 2023?

'One of our best performers – which also happens to be one of the largest holdings – has been **Games Workshop (GAW)**. The shares have climbed 25% so far this year on solid trading across all channels.

'We are particularly excited about the potential for growth in the US and Asia as well as the partnership with Amazon, which could result in joint content production.

'Another holding that has performed well is **XPS Pensions (XPS)**, the pensions consulting and administration business, which enjoyed a 61% jump in its share price in the first 10 months of 2023.

'During the year we lost Dechra Pharmaceuticals to takeover. Although the business was acquired for a hefty 47% premium, we rarely celebrate the disappearance of one of our longest-standing investments.'

WHAT DIDN'T WORK SO WELL FOR YOU IN 2023?

'**NCC (NCC)**, the cyber-security consultancy, has been a disappointment. The shares took a hit in the early part of the year after the company issued a profit warning as demand in the US suffered from mass layoffs in the technology sector and the turmoil in the US banking sector (collapse of Silicon Valley Bank and bailout of First Republic Bank). The shares have recovered by c.25% since then (April 5th to November 24th).

'Another investment that fared less well than hoped is **Tracsis (TRCS:AIM)**, the provider of software and analytics to the rail sector and traffic data and events. Having been a strong contributor to returns in recent years, the shares fell by 26% (to November 14th) partly due to a de-rating of AIM in 2023.

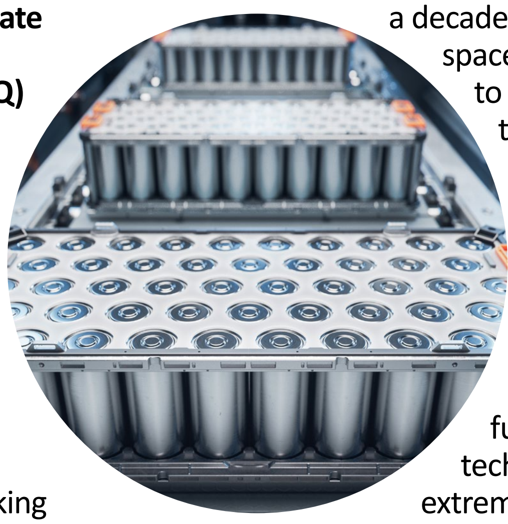
'AIM has underperformed the small-cap end of the main market for eleven consecutive quarters, including Q3 2023. Ironically, Tracsis has done well, reporting full year revenues up 19%, adjusted EBITDA up 13% and more than doubling operating profits. With plenty of opportunities especially in US rail, it remains a core holding.'

Don't get carried away with DG Innovate and its Tesla trio

It can be extremely difficult to commercialise promising technologies

On 11 December 2023, a teeny company on the UK stock market saw a sudden surge in interest.

Shares in Yorkshire-based EV (electric vehicle) technology firm **DG Innovate (DGI:AIM)** almost tripled as three former senior **Tesla (TSLA:NASDAQ)** executives joined the board.



Taking over as chief executive is the magnificently-named Peter Bardenfleth-Hansen, joined by Christian Eidem and Jochen Rudat as executive directors.

The trio are taking a combined 40% stake, with Eidem - a classmate of Elon Musk at Wharton business school and an early investor in the EV leader - taking a 29% shareholding.

Current chair Nicholas Tulloch remains in place and chief executive Peter Tierney is set to become an executive director.

The share price surged more than 170% on the news – though to put this in context the firm it is still only valued by the market at just over £13 million.

The company is working on sodium-ion batteries for EVs, flagged as a potential alternative to the lithium-ion technology widely used at present. It is also working on an electrical drive system.

Many investors will have been pulled in through the fear of missing out – particularly after online comments from an equity research firm suggested the shares could '5 to 10 bag into New Year' or in other words increase by five to 10 times in value.

It is easy to get carried away by the promise of a breakthrough technology but it can be a real slog for a small-cap company to take an innovation, however interesting, and make it mainstream.

This is particularly true for industries like the automotive sector which are traditionally fairly conservative and risk-averse given the emphasis placed on safety and the heavy regulation they face.

This author's experience, based on more than a decade of following the resources space, is minnows really struggle to achieve scale and traction and the financial backing to turn a promising idea into reality.

Agreements with large industry players, while helpful, can also involve surrendering control over the timetable.

Take **Velocys (VLS:AIM)**, which makes SAF (sustainable aviation fuel) from waste products – a technology which in theory could be extremely useful as well as valuable as the world looks to limit the environmental impact of fossil fuels.

Excitement over its potential drove the firm's market valuation to more than £250 million in the mid-2010s. However, after running out of cash it was recently acquired in a heavily discounted £4.1 million deal which rescued it from insolvency.

"minnows really struggle to achieve scale and traction and the financial backing to turn a promising idea into reality"

Another alternative fuels developer, **Quadrise Fuels (QED:AIM)**, which once had a promising agreement with shipping giant **Maersk (MAERSK-B:CPH)** to test its marine fuel, saw that relationship fizzle out and reported a widened loss in the year to 30 June 2023 as it flagged delays to two of its key projects.

DG Innovate has raised £2.4 million through a convertible bond issue to advance its existing technologies and there are plans for it to become an acquisition vehicle in the EV and energy storage space. This could help build scale and diversification, but shareholders should ready themselves for further fundraises in 2024.

Can the hospitality sector continue its post-Covid recovery?

Companies face a challenge to rebuild margins to pre-pandemic levels

The UK hospitality sector has been one of the biggest casualties of the pandemic and the slowest to rebound.

Enforced closures during lockdowns, surging energy, labour and commodity prices post pandemic and ongoing train strikes mean hospitality has faced more than its fair share of obstacles over the last three years.

The extra challenges mean hospitality has been slower than other sectors to regain lost ground. While annual sales across the sector are broadly back to or above pre-pandemic levels, regaining lost profits is proving a harder nut to crack.

It's not all doom and gloom though with most pubs and restaurants reporting strong summer trading and with the important festive season starting soon, investors will be hoping for more cheer.

Premium pubs and hotels group **Young & Co (YNGA:AIM)** told *Shares* that Christmas day bookings are up 12% compared with record bookings in 2022 mirroring comments made by **Marston's (MARS)**.

However, rail strikes could still spoil the party. In recent weeks 37 of the UK's biggest hospitality brands have written an open letter in association with UK hospitality, urging rail unions not to hold further strike action over the Christmas period.

REBUILDING PROFITABILITY

There is still a lot of catch-up potential in terms of profitability across the sector given operating margins have been mauled by rising costs since the end of the pandemic.

Leading pub and hotels group **JD Wetherspoon (JDW)** lagged the pace of recovery seen at other operators coming out of the pandemic, but sales momentum has increased in recent months and the firm appears to have got its mojo back.

For the 14 weeks to 5 November like for like sales were 9.5% higher than the same period last year. Wetherspoon has outperformed the underlying market as measured by the Coffer CGA Business Tracker for 13 consecutive months.

Profit is a far more important financial metric than sales to investors. This goes a long way to explain why share prices languish well below pre-pandemic levels as the following table overleaf demonstrates.

Hospitality share prices vs pre-pandemic levels

Company	Price 2019 (p)	Today v 2019
Loungers	240	-4%
Whitbread	4,140	-26%
Fuller Smith & Turner	970	-34%
Young & Co	1,644	-35%
Mitchells & Butlers	413	-43%
Average		**-45%**
JD Wetherspoon	1,676	-57%
Restaurant Group	162	-60%
Tortilla Mexican Grill	186	-69%
Marston's	129	-75%

Table: Shares magazine • Source: Stockopedia, LSEG, data to 6 December 2023

On average hospitality shares are trading 45% below where they were in 2019. One standout performer on a relative basis is all-day bar/ restaurant group **Loungers (LGRS:AIM)**.

Loungers has delivered industry leading like-for-like sales growth since the pandemic and is executing an accelerated expansion plan which puts it on track to end its financial year to 1 April with more than 250 sites.

This means sales will have doubled since the business floated on AIM in 2019 while EBITDA (earnings before interest, tax, depreciation, and amortisation) will have more than doubled if analysts' forecasts are delivered.

The wooden spoon goes to pubs and hotels group Marston's whose shares languish 75% below pre-pandemic levels. Chief executive Andrew Andrea surprisingly stepped down (17 November) after only two years in the post.

Andrea will be replaced by Justin Platt who was most recently chief strategy officer at Merlin Entertainments. Platt has more than 30-years' experience in hospitality and consumer-facing businesses.

Marston's board said Platt's combination of operational and strategic experience equips him 'perfectly' to lead the next stage of the company's development.

MERGERS AND ACQUISITIONS ON THE RISE

Given floundering share prices it is perhaps no surprise to see greater merger and acquisition activity in the sector from both trade buyers and private equity.

Wagamama owner **Restaurant Group (RTN)** has attracted interest from activist investors and private equity over the last few months. The group finally succumbed to an all-cash offer from private equity giant Apollo Global Management on 12 October.

The deal was struck at 65p per share equating to a 34% premium and representing an enterprise to trailing EBITDA multiple of nine times.

It seems like an odd decision to sell after management have already radically restructured the group by jettisoning underperforming leisure brands and increasing profitability.

In other words, much of the hard work of getting the business back in shape has already been done, arguably leaving Apollo to reap the upside after a lot of the financial risks have been removed.

Greg Johnson, leisure analyst at Shore Capital argues the proposed takeover price doesn't fully reflect the potential of the group. Johnson reckons a more reasonable starting point for discussions would be 80p per share.

However, with activist shareholders Oasis and Irenic Capital, who own 17.8% and 1.9% stakes

respectively, voting in favour of the offer, it looks increasingly like a done deal.

If Restaurant Group were to disappear from the stock market it would leave a big hole in terms of large quoted hospitality businesses for UK investors.

Mitchells & Butlers (MAB) would be the closest substitute because it owns Harvester, a family-friendly restaurant chain with the same number of sites as Wagamama, Toby Carvery and Miller & Carter steakhouses, albeit with only a few situated on the high street.

The All Bar One operator is the largest player in the sector by market capitalisation (£1.4 billion) and annual sales (£2.4 billion).

The group, which also owns Ember Inns and O'Neill's, reported better than expected full year results on 30 November with sales up 13% to £2.5 billion as it delivered a record like for like sales outperformance.

Despite higher wage costs from April next year due to the increase in the national living wage the company expects overall cost headwinds to reduce to around £65 million for the year ahead as energy and food inflation pressures to abate.

'This should allow us to start to rebuild margins back towards pre-pandemic levels,' the company said.

Another option for UK investors is Premier Inn owner **Whitbread (WTB)** which also operates restaurant brands including Beefeater, Brewers' Fayre and Whitbread Inns.

High levels of occupancy in the hotels have given a boost to the food and beverage businesses in the first half of the year taking revenues back to pre-pandemic levels.

However, management said it is looking at a range of options to mitigate the impact from higher inflation on the branded restaurants businesses.

WHAT'S IMPORTANT WHEN ASSESSING HOSPITALITY STOCKS

A useful metric which companies and analysts focus on when looking at pubs and restaurants is like-for-like sales growth which represents the underlying change in sales on an apples-to-apples basis.

Comparing different companies like this gives a good idea of who's gaining and who's losing out. This is important in hospitality because historically there has been an excess supply of restaurants and bars.

This means companies must fight for a share of consumers' wallets to grow their business. Understanding the customer proposition of a brand is key to forming a view about its likely success.

Luckily most investors can do this by visiting a restaurant as a customer and getting opinions from friends. The most successful brands have a higher proportion of repeat business.

The Coffer Peach CGA business tracker provides market information for different segments in hospitality and is a useful guide to how various companies are performing relative to the market.

Positive like-for-like growth also allows firms to mitigate cost inflation. When considering restaurant or pub chains which have an organic growth strategy it is useful to understand how the growth is financed.

Self-funding growth situations are less risky than those which need borrowed money. Many companies have come under financial pressure from building up too much debt.

For pub groups and to some extent restaurants it is useful to know if the sites are owned or leased. Most of the quoted pub groups predominantly own the freehold property in their estates.

Banks are more likely to lend to companies have freehold-backed properties. Franchising can be an attractive alternative for growing a business quickly and with less risk. Franchisees provide the capital in return for using the brand name and ingredients. **McDonald's (MCD:NYSE)** is one of the world's most successful franchised businesses.

OTHER OPTIONS FOR INVESTING IN CASUAL DINING

If Restaurant Group delists, the choice for larger eating-related listed companies will narrow to fast food joints or pubs/bars/cafes.

There are options among US-listed quick service restaurant companies with a presence on the UK high street including McDonald's and **Wingstop (WING:NASDAQ).**

It should be noted their earnings are sourced from multiple countries, so they are not a direct way to get exposure to UK hospitality.

The 'golden arches' has had a good couple of years as its value for money proposition and strong pricing power have allowed the firm to prosper through the cost-of-living crisis.

At an investor day on 5 December the company said it plans to open 10,000 restaurants across the globe by 2027 and more than double revenue from its loyalty programme.

The expansion would take McDonald's footprint to about 50,000 restaurants across 100 countries and mark the fastest period of growth in the company's history.

Wingstop shares are up 86% in 2023 and trading at record highs. They have delivered shareholders an eight-fold return since listing on Nasdaq in June 2015.

Earnings per share jumped 53% year on year in the third quarter to $0.69 which smashed analysts forecasts of $0.52 while revenue increased 26% to $117 million.

On 16 November premium pub and hotels group Young & Co agreed to buy **City Pub (CPC:AIM)** for £162 million comprised of 108.75p per share in cash plus Young's shares.

The implied value of the transaction is 145p per City Pub share equating to a premium of 46% to the 99p prior closing price. Both sets of directors have unanimously recommended the deal.

On 6 December ten-pin bowling and entertainment group **Ten Entertainment (TEG:AIM)** agreed to an offer from private equity company Trive Capital.

The all-cash bid of 412.5p per share equates to a 33% premium to the prior closing price and is 23.3% higher than the all-time high of 334.5p reached in 2020 just before the start of the pandemic.

NATIONAL LIVING WAGE HEADWIND

Hospitality is labour intensive given it is essentially a service industry. In addition, the industry employs a larger than average proportion of younger workers.

Impact of increased national living wage on hospitality firms

Company	Labour/Sales (%)	Pre-tax profit impact (%)*
Restaurant Group	38%	15%
JD Wetherspoon	37%	18%
Loungers	36%	17%
Mitchells & Butlers	33%	6%
Fuller & Co	30%	8%
Marston's	24%	N/A
Gym Group	22%	N/A
Ten Entertainment	22%	1%
Hollwood Bowl	21%	1%

** per 1% increase in wages*

Table: Shares magazine • Source: Numis

The Government has announced a 10% increase in the national living wage lifting the hourly rate by £1.02 to £11.44 from April 2024 in line with recommendations made by the low pay commission.

The qualifying age will fall from 23 years to 21 years of age which Numis reckons will 'materially' widen the labour pool impacted.

To mitigate the impact from higher wages UK chancellor Jeremy Hunt gave some help to the hospitality sector after freezing alcohol duties until August 2024 in the recent Autumn statement.

Help was also forthcoming in the form of an extension of the 85% business rates relief to the 2024/25 tax year.

However, increasing wage costs will have a major impact on the hospitality sector. Numis commented: 'we deem it unhelpful that sector wage inflation will now persist to April 2025 at a time when other costs (utilities, food/beverage) are starting to normalise.

'Similar to the inception of the NLW in 2016, companies most exposed are labour intensive with low margin buffer, such as JD Wetherspoon and Restaurant Group.'

As the table above shows, Loungers is also relatively labour intensive. To reflect the increase in the living wage Numis has upped its forecast for labour costs as a proportion of sales from 33% to 36%.

Numis still sees scope for Loungers to increase EBITDA margins as scale benefits (better buying power) and operating leverage kick in as the group expands.

Chief executive Nick Collins told *Shares* that the company anticipates regaining pre-pandemic EBITDA margins as it grows the size of the business.

It is interesting to note that bowling firms **Hollywood Bowl (BOWL)** and Ten Entertainment are far less labour intensive than pubs and restaurants.

Hospitality shares – snapshot of financials

Company	Forecast price to earnings ratio	Price to book
Marston's	4.5	0.3
Mitchells & Butlers	12.2	0.7
Whitbread	14.1	1.5
Tortilla Mexican Grill	15.9	16.9
Young & Co	16.8	0.9
JD Wetherspoon	17.9	2.2
Loungers	19.1	1.7
Restaurant Group	22.1	1.2
Fuller Smith & Turner	22.7	0.9

Table: Shares magazine • Source: Stockopedia, LSEG, data to 6 December 2023

JLEN

THREE TRENDS SHAPING THE FUTURE OF SUSTAINABLE INFRASTRUCTURE

Chris Tanner and Ed Mountney, Investment Managers, JLEN Environmental Assets Group

The landscape for environmental and sustainable infrastructure is changing - yet the investment case remains stronger than ever. The sustainability megatrend has accelerated with new opportunities constantly emerging.

Hydrogen

The UK is still at an early stage in its hydrogen adoption journey but other countries can offer possible pathways into how the hydrogen economy could unfold. For example, the German government has already indicated that hydrogen is a preferred sustainable fuel for road-based heavy freight over the long term with incentives to stimulate this already underway. Gas networks are also interested in the potential for blending green hydrogen into the natural gas supply which, if effective, would create a major source of demand across the home heating network alone. Hydrogen electrolysis can also offer flexible demand on power networks, which is particularly useful where there is a high proportion of intermittent renewables generation as it can be turned up to help balance the grid during times of high generation when wind and solar plants might otherwise have to be curtailed.

Solar & Wind

The solar and wind energy sector has become established in recent years and so the return expectation has changed. However, we think this area still offers great potential to investors and see particular opportunities in both development and construction stage assets. As the sector has evolved, we now expect to invest in assets, enhance them and then be prepared to realise proceeds so we can continue the investment cycle. The market is extremely well-provided for as the renewable lynchpin for the UK and Europe, but there is still a great deal of scope for further investment.

Biomethane

Biomethane is 'one to watch' over 2024. Biomethane is an extremely useful resource which provides a source of renewable heat for sectors that otherwise find heating hard to decarbonise. It may also provide useful building blocks for the production of sustainable fuels. A recent DEFRA announcement stated that mandatory food waste collection – a feedstock for biomethane production facilities - will be implemented in England, creating an advantageous opportunity for investors in facilities that process these materials. We have begun to see interest from a variety of sources, investors, commodity traders, larger utilities and government included, regarding the expected lifetime of biomethane assets, which will also support , the already strong investment case.

JLEN provides investors with a unique opportunity to invest in a diversified portfolio of sustainable infrastructure assets that offer long term growth and income. The Company aims to provide its shareholders with a sustainable, progressive dividend, paid quarterly, and to preserve the capital value of its portfolio.

Five key lessons to take from 2023

Looking back at the key market drivers over the last 12 months

If 2021 was the year that inflation made an unwelcome reappearance and 2022 was when fears of recession stalked financial markets, then 2023 saw share prices (in developed markets, at least) start to discount a much rosier scenario, in the form of a peak in both inflation and interest rates, as well as a soft landing, as the much-discussed downturn failed to materialise.

As a result, technology stocks roared higher (buoyed by AI-oriented narratives), equities had a good year (except in the UK, Hong Kong and China), bonds rallied hard as yields sank in the second half of the year, gold surged, and Bitcoin went bananas.

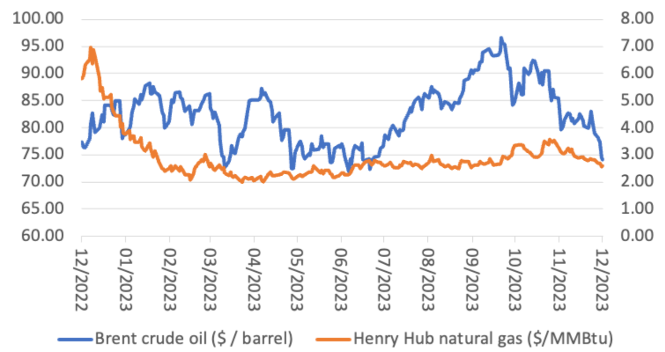
It is therefore tempting to argue that 2021-22 was a post-Covid aberration, and that the long-term trend of cheap energy, food, goods and labour that began in the early 1980s has reasserted itself. It is therefore worth thinking about what happened in 2023 and why, and whether these trends can continue in 2024 and beyond.

OIL AND GAS PRICES FALL

A surge in oil, and especially natural gas, prices in 2022 in the wake of Russia's invasion of Ukraine had markets on alert. Rising energy prices were seen as bad for inflation (and even food prices, given how diesel and fertilisers are two major cost components of any farm), bad for growth (as they function as a tax on consumers' pockets and pressure corporate profit margins) and bad for governments' stretched finances, given the many fuel and energy subsidies that were rolled out.

Had you then told everyone there would be a war in the Middle East in 2023, the result could well have been panic, given how similar events stoked major oil price spikes in the 1970s. However, even OPEC+ production cuts have not supported hydrocarbon prices as US shale output as surged this year. The issue now is whether oil price weakness is just about increased American supply or wider weakness in demand. If it is the latter, then the economic picture may not be so clear after all.

Energy supply worries seem to have passed (for now)



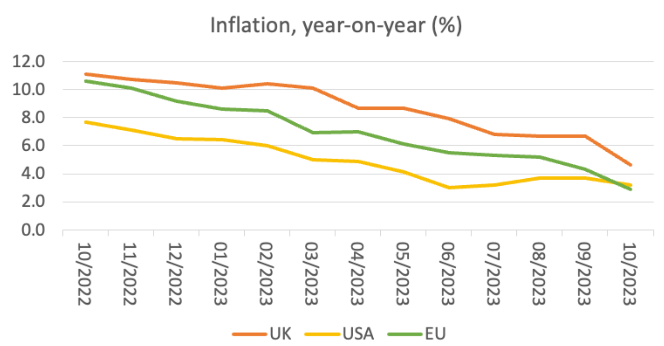
Source: LSEG Datastream data

INFLATION COOLS

Lower oil and gas prices have helped to take the sting out of inflation and boost markets' confidence the worst is behind us. The test now is whether we do get a repeat of the 1970s, when inflation struck in three major waves as wage and price spirals set in (and 1973's oil price spike after the Yom Kippur war was followed by another in 1979 when the Shah of Iran fell from power).

Russ Mould: Insightful commentary on market issues

Markets think we are past peak inflation



Source: Office for National Statistics, US Bureau of Labor Statistics, European Central Bank. US and UK based on consumer price index, EU on Harmonised Index of Consumer Prices

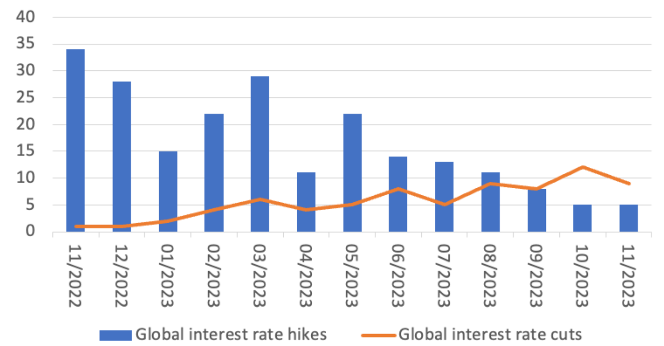
INTEREST RATE HIKE MOMENTUM SLOWS

Lower energy prices and cooling inflation mean Western central banks appear to be bringing a sharp cycle of interest rate hikes to a halt, while some emerging market monetary authorities are starting to cut headline borrowing costs.

This is sparking hopes that the longed-for pivot to lower rates and cheaper money is near. In the US, markets are now discounting five, one-quarter point interest rate cuts in 2024, and in the UK, investors are pricing in four, with the result that borrowing costs will be 4.25% by next Christmas. The Fed and Bank of England continue to protest that such talk is premature but two-year treasury and gilt yields are going lower (and they tend to pre-empt central banks by six to nine months).

Lower interest rates mean lower returns on cash and (usually) lower bond yields, which helps to increase the relative attractiveness of other asset classes, such as equities. But central banks must now deliver in 2024 to keep stock and bond markets happy.

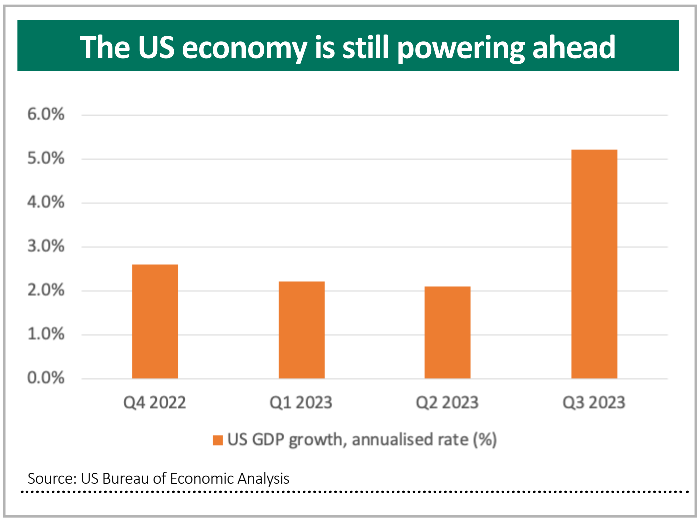
Interest rate cuts are gaining momentum



Source: www.cbrates.com

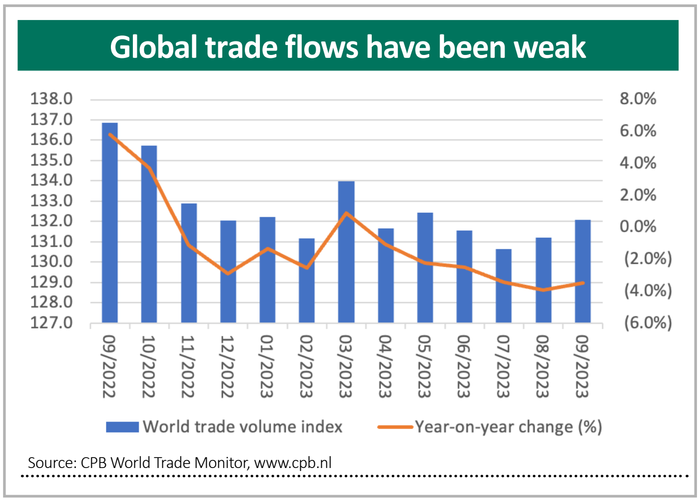
US SUPPORTS GLOBAL GROWTH

A global recession did not materialise in 2023, despite a disappointing post-Covid recovery from the world's second biggest economy, China. The world's largest economy, America, seemed to take up the slack, despite spring's banking crisis as it was buoyed by a still-confident consumer and Bidenomics, as the government spent heavily on the CHIPS and Inflation Reduction Acts. America's latest debt ceiling breach did not stop such spending, and president Biden is unlikely to turn off the taps ahead of November's election, but the consumer saving rate is ebbing and America's deficit is soaring. At some stage, there remains a risk both trends provide headwinds not tailwinds, should both slow their spending.



GLOBAL TRADE FLOWS STAY WEAK

American onshoring of key technologies, to buttress supply chains and reduce reliance on China is a major geopolitical and economic trend that will surely run (and run). The US economy is feeling the benefit and China's is taking the pain. Tensions remain elevated and global trade flows are still subdued, which is not normally a good sign for global economic growth. Any further trade and tariff tiffs in 2024 may not be helpful as the global outlook may be more delicate than it looks.



In next week's issue, we shall look at the key macroeconomic trends may be in 2024 and how they in turn could shape the performance of investors' portfolios.

By **Russ Mould**
Investment Director at AJ Bell

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Gaurav Narain, Co-Head of Equity

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How to give kids financial gifts this Christmas

There are several options to go for and it's worth considering the tax implications too

Lots of people think of giving cash or gift vouchers as Christmas presents, but other financial gifts are often overlooked. People can give cash into savings accounts, contributions to investment accounts or even gift shares directly. We'll look at some gifting options and how they stack up.

1

PREMIUM BONDS

There's a lot going for premium bonds: you can save as little as £25; they are government-backed, so couldn't be safer; and you have the added bonus that they might make your child or grandkid a millionaire. But, while the expected prize fund has improved recently, you'll still earn less than a cash savings account and the bonds you buy could win nothing. With inflation still high that means the spending power of your gift will be eroded year on year, particularly if the recipient doesn't cash the money in for a long time.

2

CASH SAVINGS ACCOUNT

If you want to put money in a cash savings account for a child, you'll likely need the child's parents to

open the account for you (assuming that's not you). You should hunt around for the best rate possible, and then make a note to check back on the rate in a year or two, as banks have a nasty habit of slashing the interest on offer and relying on people not moving their money.

Cash rates have risen recently, so you can get a decent return. But for longer-term savings inflation can eat into your spending power and you might be better off investing. That means if the child is young and has a long time until they'll need the money, you should think about investing.

3

JUNIOR STOCKS & SHARES ISA

It's probably not going to get yelps of excitement when a child opens the gift, but investing is the ideal long-term place for money, making it a good option for people who are gifting money to younger children. And the pot can build up over the years to be an exciting amount once children turn 18. For example, someone who saved £25 a month from birth to the age of 18 would generate a pot worth £8,000, assuming growth of 4% a year.

But the downside is that the money can't be accessed until the child is 18. Similarly, when they reach 18 they take control of the money, which means they could cash it in and go on a spending spree – despite your protests.

4

JUNIOR SIPP

It will surprise many to know that even non-taxpayers can get pension tax relief, so you can put up to £2,880 into a pension each year for a child and it will be topped up by the Government to £3,600. If you paid in the maximum each year until they reached 18, and then didn't make any further contributions, they would have a pension worth almost £410,000 by the age of 55, assuming 4% annual growth.

The fact that the pension is locked up for so long means you can be sure they aren't going to raid the money but clearly the downside is that this is a very long-term investment, that the child won't be able to benefit from until they are retirement age. Currently that's 55 but it's expected to rise and so it's impossible to predict what it would be for someone who is a child at the moment.

5

GIFTING INVESTMENTS DIRECTLY

You can gift shares directly to a child or grandchild, but there are a few tax implications to think of. Any shares handed to children will be classed as a disposal for capital gains tax purposes, meaning that if you've made a gain on the investment you could be handed a tax bill for passing the shares on – assuming it's more than any remaining CGT allowance you have. You'll also need to consider the inheritance tax implications (see below).

You also need to think about the tax implications if the shares pay dividends and you're gifting them to your children. Children can earn up to £100 a year in dividends free of income tax, but anything over this amount is taxed at the parent's marginal rate. This limit doesn't apply if the shares have been gifted by grandparents, other relatives or friends. One way around this is to hold the shares in a Junior ISA, but contributions to Junior ISAs must be made in cash, so you would need to sell the shares and then repurchase them within the ISA.

WHAT ARE THE TAX BENEFITS OF GIFTING?

There are potential inheritance tax implications if people gift money to others. In brief, it would only affect them if their estate is over their nil rate band and if they die within seven years of the gift, but you can read more about it in this article.

But anyone can gift up to £3,000 a year, as well as extra amounts when certain people in the family get married, without it being considered for inheritance tax purposes. This is an effective way of moving money out of an estate and protecting it from IHT in the future. Any gifts over that amount will be subject to the seven-year rule.

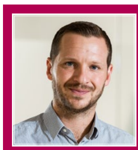
By **Laura Suter**
AJ Bell Head of Personal Finance

Should I invest my Christmas bonus in my pension?

There are other options for putting a one-off windfall to work

Our staff all got a bonus earlier this week as a nice surprise from our CEO. It totals £500 and I want to put it towards my pension. I'm only in my 30s, but I didn't save much towards my pension earlier in my career and I'm determined to put that right.

Obviously usually, you get tax advantages when your pensions comes out of your salary, but that isn't the case here, as I've already received the money. How can I put it towards my retirement as efficiently as possible, for tax purposes.
Beth



Tom Selby, AJ Bell Head of Retirement Policy, says:

Congratulations on earning a bonus and your very sensible decision to consider using it to boost your pension pot. However, it's worth taking a moment to make sure this is the best course of action.

If you have any high-cost debts, such as a credit card, it usually makes sense to get these paid off first, so you aren't unnecessarily racking up interest repayments. The next priority for most people is making sure they have an emergency 'rainy-day' pot of money in a high interest, easy access account, just in case you face an unexpected cost like your boiler breaking down or needing to pay for repairs to your car.

It's up to you how large you want this emergency fund to be, although financial planners often recommend you have enough to cover three to six months' fixed expenses.

LONGER-TERM INVESTMENT OPTIONS

Once you've got this sorted then you can start considering longer-term investments, including saving for your retirement. Although your £500 bonus has already been subject to income tax, you can effectively get this tax back by contributing to a pension.

This is probably easiest to illustrate with an example. If we ignore national insurance payments and assume you're a basic-rate taxpayer, the £500 bonus payment should be subject to 20% income tax, meaning you receive £400 post-tax. If you took that £400 and paid it into a pension, it would automatically be boosted back up to £500 via basic-rate pension tax relief.

If you are a higher- or additional-rate taxpayer, you can claim back additional relief from HMRC. Any extra tax relief you are entitled to will usually be paid via a refund directly into your bank account, or an adjustment to your tax code.

As you are employed, your company should have a pension scheme for staff already and it will usually be possible to simply voluntarily top-up your contributions to that scheme if you want to. Alternatively, you might decide you prefer to set up a non-workplace pension, such as a SIPP (self-Invested personal pension).

The benefits of this can include greater investment choice and flexibility, although you should be aware that while charges in automatic enrolment 'default' funds (the investment in your workplace pension scheme you'll be automatically placed in if you do nothing) are capped at 0.75%, no such charge cap exists outside workplace defaults.

It is, however, perfectly possible to build a diversified portfolio of investments on your own for less than 0.75%. If you don't have the time or inclination to pick your own investments, lots of firms also offer good value, diversified 'ready-made' funds aimed at investors with varying risk appetites. Keeping your costs as low as possibly is crucial, as even small differences in charges can reduce the value of your pension by tens of thousands of pounds over the long-term.

THE CASE FOR SHOPPING AROUND

It's vital to shop around before investing your hard-earned bonus, both for the right product and the best value provider. A pension is a fantastic long-term savings option, but it is not the only option. ISAs, for example, do not offer the upfront boost of pension tax relief but your money can grow tax-free, just like a pension.

In addition, ISAs can be accessed completely tax-free from any age, whereas a pension cannot normally be accessed until age 55 (with this age due to rise to 57 in 2028). A quarter of your pension withdrawals are normally tax-free, with the rest taxed in the same way as income.

As you are in your 30s, you also have the option of investing in a Lifetime ISA. These offer a 25% upfront bonus on up to £4,000 of subscriptions annually – the equivalent to basic-rate pension tax relief. You need to be aged 18-39 to qualify and once you've subscribed the government will keep providing the 25% bonus on any more subscriptions you pay in until your 50th birthday.

You can withdraw your entire Lifetime ISA fund tax-free from age 60, if you use the funds for a deposit on a first home valued at £450,000 or less, or if you become terminally ill. However, if you access your cash in any other circumstances, you will pay a 25% government-imposed early withdrawal charge, meaning you might get back less than you originally invested.

Whichever product you decide is right for you, choosing a provider that offers value for money is crucial. A big part of this equation is costs and charges, but you may also choose to consider things like service, choice and flexibility.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **asktom@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

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