Marlborough International

Nathan Sweeney
& Gurjit Soggi
04/01/2023

January 2023

Global Investment Commentary

This document is for your information only. It is not advice. If you have any questions in relation to this document please discuss them with your financial adviser.

- *Company earnings holding up quite well*
- *Some risks, but these already discounted*

Whilst equity investors do care about the state of the economy in a general sense, they care very specifically about the earnings generated by the companies they've invested in. So far, corporate earnings growth has held up quite well, despite the turmoil and travails of 2022. Some companies have struggled with rising costs: inflation has pushed up their input costs, and higher interest rates have pushed up debt servicing costs as well as the cost of rents. In addition, rising wage demands - reflective of a very tight labour market - are also having an impact. Despite some high-profile layoffs in recent months, in most developed markets unemployment remains close to record lows. In all major regions, vacancies still outnumber jobseekers.

That tight labour market - and especially the high levels of employment - have been the saving grace in this cycle. Despite the cost-of-living crisis, consumers have by and large carried on spending. This has kept the economy ticking over and helped companies avoid sharp earnings declines - so far.

Continued overleaf...

VIEW FACTSHEET

DEFENSIVE

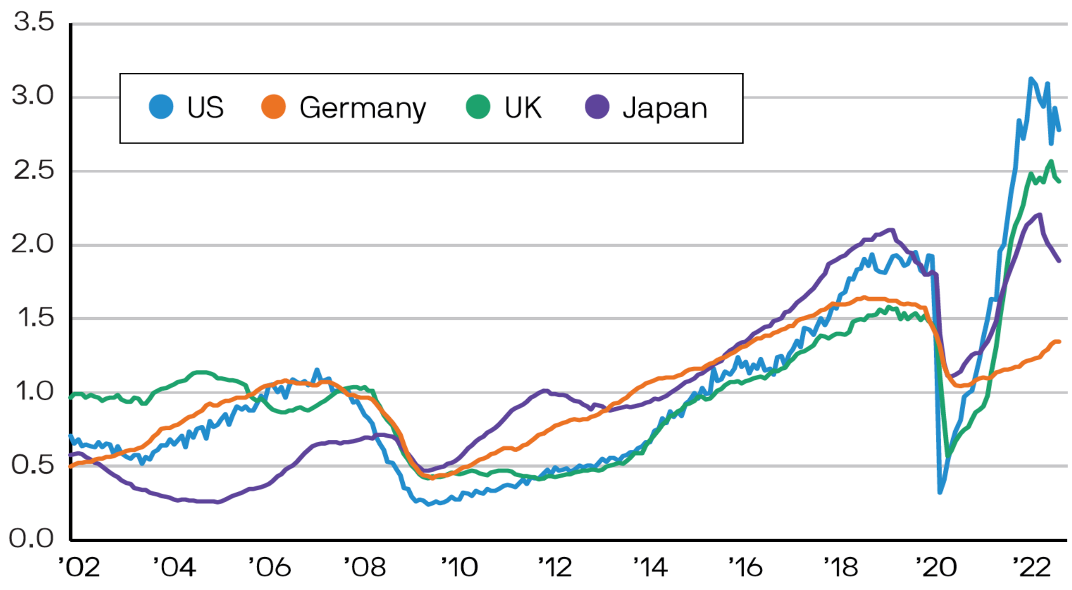
CAUTIOUS

BALANCED

ADVENTUROUS

Job vacancies versus unemployment

x, vacancies as a multiple of unemployed, relative to average



Source: Bloomberg, BLS, Eurostat, MIAC, Ministry of Health Labour and Welfare, ONS, J.P. Morgan Asset Management. UK vacancy data is a three-month average as published. Data as of 31 October 2022.

VIEW FACTSHEET

DEFENSIVE

CAUTIOUS

BALANCED

ADVENTUROUS

There are concerns that wobbles in the housing market have yet to weigh on consumer spending. There are also concerns that the rate rises seen in 2022 have not yet fully impacted the economy; such hikes operate with long and variable lags. But at the same time, inflation is now declining - quite fast in some areas. This may lead to slower rate rises in the months ahead. And at the same time, the easing of Covid measures in China could provide a boost to global spending. So, on balance, while there may be some decline in company earnings in the months ahead, we believe much of this has already been discounted in share prices.

UK

- ***Concerns about the housing market, but we are relatively sanguine***

Concerns about the impact of rate rises on the housing market have been circulating for a few months. This is an important point, because a weaker housing market drags down other areas: when fewer people are moving home, durable goods sales (like washing machines and refrigerators) suffer, and business falls for companies from lawyers to kitchen fitters, mortgage agents to landscapers.

Whilst there will undoubtedly be some pressure in this area, I noted last month that we don't think a crash is on the cards. About 68% of UK households own their home; of these, only about 28% are subject to a mortgage. At the start of the last rate hiking cycle, about 70% or mortgages were variable rate; today only 14% are variable.

The UK was the only major economy where equities were positive in 2022, thanks both to sterling weakness which boosts the overseas earnings of local companies, and to the high exposure to energy and banks which performed well last year. But despite the outperformance, UK shares remain attractively valued.

US

- ***Recession or no recession? Central bank policy will be key***

The jury is still out on whether the US economy will enter a recession in 2023. But even those expecting a recession concede that it is likely to be relatively mild: the jobs market is too strong for a deep and prolonged recession.

The economic resilience being shown is offsetting the risk of an earnings collapse discussed above. Much will depend on the interest rate decisions reached by the Fed. Jerome Powell is determined to avoid a wage-price spiral, which might imply that they will accept the risk of recession and err on the side of higher rates. But inflation peaked in the US several months ago, and the easing pressure might stay their hand; fewer or slower than expected rate rises will provide a boost.

The upshot is that, for the next few months at least, all the focus will be on exactly the same elements as it was throughout 2022: inflation and interest rates.

Europe

- ***High risk of policy error***

In Europe, the economic risks are linked more to energy costs. The risks on this front are reducing: thanks to the fairly mild winter so far, gas storage facilities remain relatively full, and the potential for rationing is limited. However, here too the labour market is tight, and the ECB President Christine Lagarde has reiterated the need to ensure that inflation does not become entrenched. So here too the risk of policy error - raising rates too high, or too quickly, and creating a recession - is high.

Continued overleaf...

VIEW FACTSHEET

DEFENSIVE

CAUTIOUS

BALANCED

ADVENTUROUS

Asia and Emerging Markets

- China Covid effects unclear

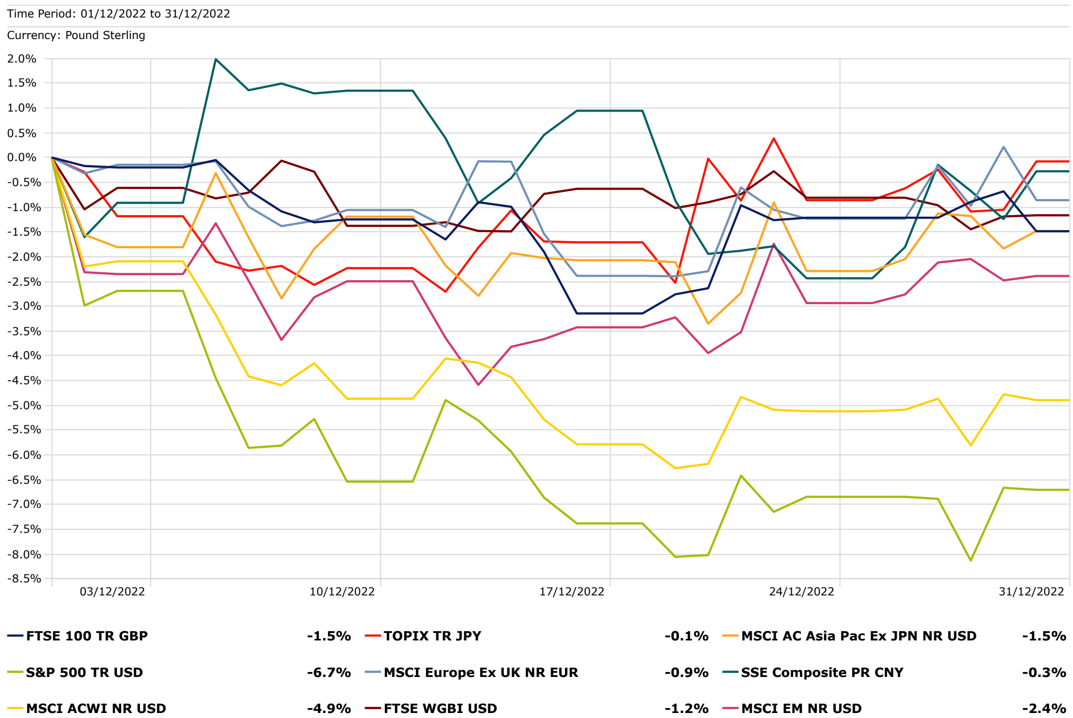
China has unofficially abandoned it's zero-Covid policy. The short-term impact of this is unclear. On the one hand, with fewer people caught up in lockdowns, there should be a boost to consumption and production. But with vaccination rates in China still relatively low, there is likely to be an initial spike in cases, which will create a headwind to consumption and production. In the medium- to long-term, the positives should outweigh the negatives, and the net boost to global growth should provide support for equities.

Fixed Income

- Bonds offer value

With central bankers reiterating their determination to squash inflation, bonds weakened once again. The drawdown in fixed income markets in 2020 was about four times worse than the average in the past 20 years. However, this means that valuations and yields are now quite attractive. In mid-2020, more than 90% of all bonds in issue had yields below 1%; that figure is now below 20%. Consensus is that we are unlikely to see rate cuts in 2023, but if the feared recession is deeper than expected, or inflation falls faster than expected, there is scope for bonds to deliver solid returns.

December 2022 Performance



Source: Morningstar Direct

Continued overleaf...

VIEW FACTSHEET

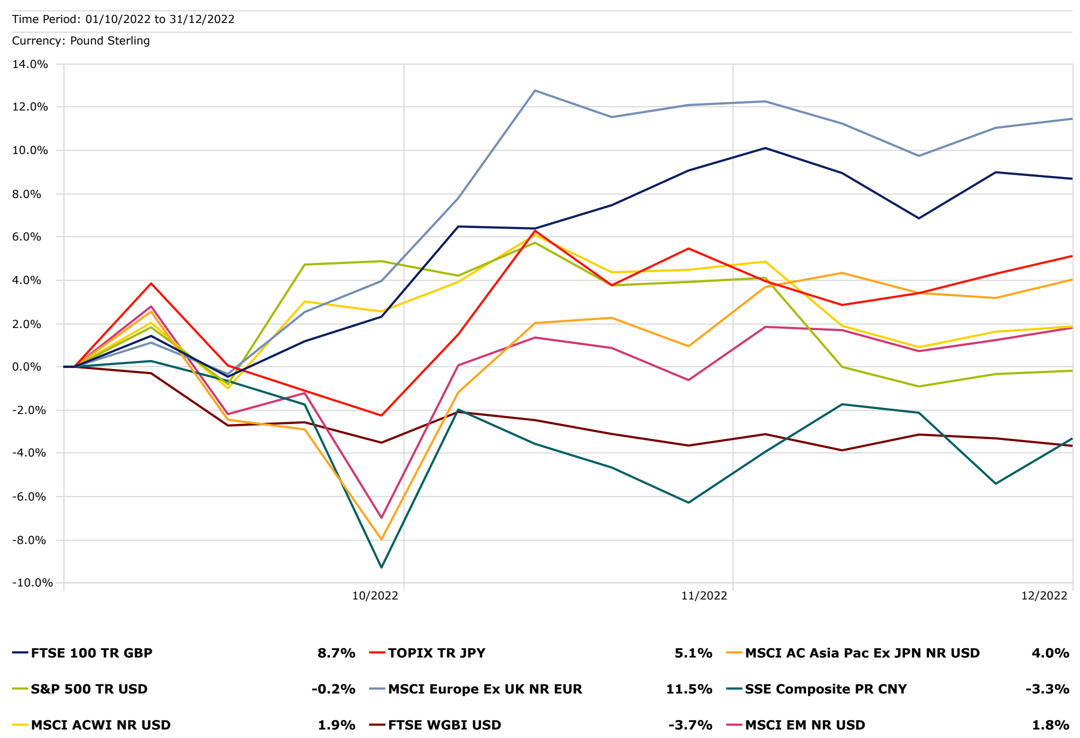
DEFENSIVE

CAUTIOUS

BALANCED

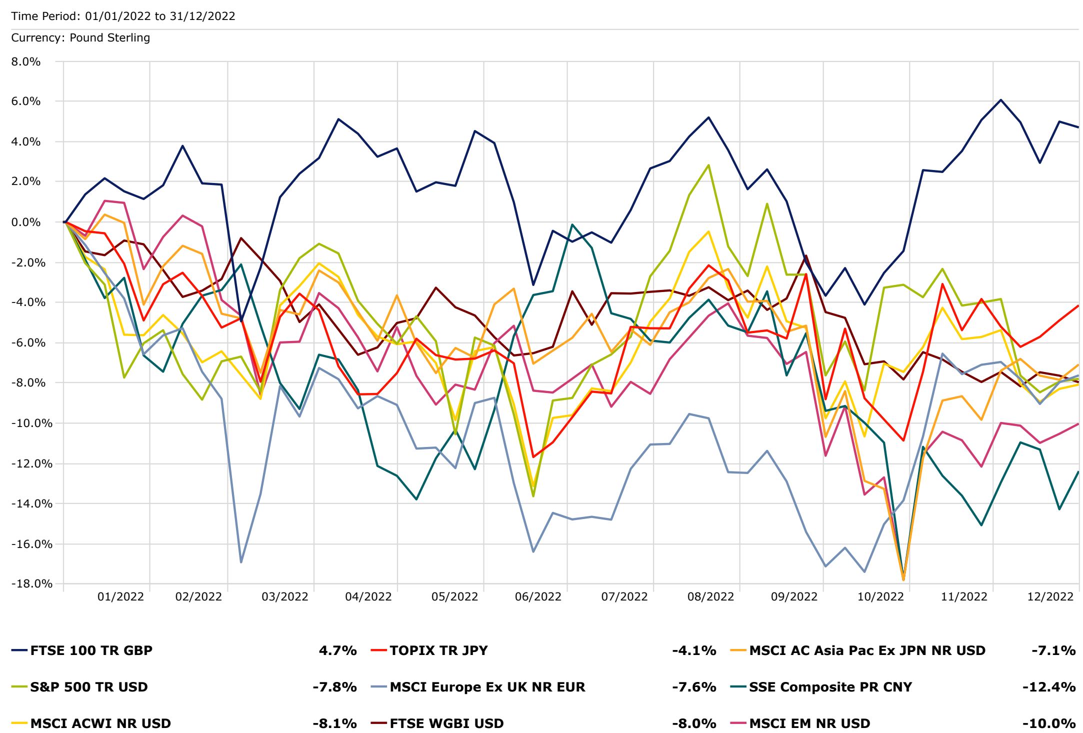
ADVENTUROUS

Q4 2022 Performance



Source: Morningstar Direct

12 Month Performance



Source: Morningstar Direct

Continued overleaf...

Market Round Up

Performance of major markets	December		3 Months to 31st December		2022	
	Sterling Terms	Local Currency	Sterling Terms	Local Currency	Sterling Terms	Local Currency
UK (FTSE 100)	-1.49%	-1.49%	+8.68%	+8.68%	+4.70%	+4.70%
US (S&P 500)	-6.70%	-5.76%	-0.18%	+7.56%	-7.79%	-18.11%
Europe (MSCI Europe Ex UK)	-0.86%	-3.39%	+11.46%	+10.25%	-7.62%	-12.58%
Asia (MSCI Asia Pac Ex Japan)	-1.48%	-0.49%	+4.03%	+12.10%	-7.08%	-17.48%
Japan (TOPIX TR JPY)	-0.08%	-4.57%	+5.12%	+3.26%	-4.14%	-2.45%
China (SSE Composite)	-0.28%	-1.97%	-3.31%	+2.14%	-12.38%	-15.13%
Emerging Markets (MSCI EM)	-2.39%	-1.41%	+1.80%	+9.70%	-10.02%	-20.09%
All World (MSCI ACWI)	-4.89%	-3.93%	+1.86%	+9.76%	-8.08%	-18.36%
World Govt Bonds (FTSE WGBI)	-1.17%	-0.17%	-3.65%	+3.82%	-7.97%	-18.26%

Source: Morningstar Direct

Risk Warnings

The following is a summary only of some key items in the Prospectus.
Capital is at risk. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment.
Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds.
The Master funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events.
It should be appreciated that the value of Shares is not guaranteed and may go down as well as up and that investors may not receive, on redemption of their Shares, the amount that they originally invested.
Investment in the Company should only be undertaken as part of a diversified investment portfolio.
Investment in the Shares should be viewed as a medium to long term investment.
Shares may not be redeemed otherwise than on any Dealing Day.
There will not be any secondary market in the shares of the Company.

Regulatory Information

This material is for distribution to professional clients only and should not be distributed to or relied upon by any other persons. The Cells referred to are a cell of Marlborough International Fund PCC Limited (the 'Company'), a protected cell company incorporated in Guernsey and authorised as a Class B Collective Investment Scheme under the terms of the Protection of Investors (Bailiwick of Guernsey) law, 1987, as amended. Investment may only be made on the basis of the current Prospectus, this can be found on the website www.marlboroughinternational.gg. Marlborough International Management Limited is incorporated in Guernsey. Registration No. 27895. Regulated by the Guernsey Financial Services Commission. It is not protected by any investor compensation scheme.
Licensed under The Protection of Investors (Bailiwick of Guernsey) Law 1987. Guernsey Office: PO Box 146, Level 2, Park Place, Park Street, St. Peter Port, Guernsey, GY1 3HZ. Tel: +44(0)1204 589336.

Marlborough International Management Limited, PO Box 146, Level 2, Park Place, Park Street, St. Peter Port, Guernsey, GY1 3HZ

Investor Support: +44 (0)1204 589 336

Email: enquiries@marlboroughgroup.com

Website: www.marlboroughinternational.gg

Administrator: EPIC Fund Services (Guernsey) Limited, Suites 7 & 8, Fourth Floor, Windsor House, Le Pollet, St Peter Port, Guernsey, GY1 1WF

Marlborough International