MARKET REPORT

Thursday 23rd June 2022

Market Headlines

Federal Reserve Chair Jerome Powell said the US could face more inflation surprises, which he is strongly committed to bring down, whilst acknowledging a recession was a possibility (see 'Chart of the Day').

Japan's au Jibun Bank composite purchasing managers' index was 53.2 for June, up from 52.3 in May, driven by services whilst manufacturing slipped. Above 50.0 indicates expansion.

UK public borrowing (excluding banks) was £14bn in May, the third highest May figure on record, down from £21.9bn in April, albeit above the £12bn forecast due to higher interest payments on government debt.

The S&P 500 dipped 0.1%, the Nikkei 225 added 0.1%, the Hang Seng rose 1.2%, whilst the Shanghai Composite closed up 1.6%. European markets were lower.

Investments on our buy list

Urban Logistics REIT (SHED) – today released results for the year ended 31st March 2022.
Pre-tax profit increased by 261% to £171.8m, driven by significant asset management and rental improvements. Net rental income rose to £36.5m from £22.9m the year before. There was a property valuation uplift of £153m, 25.4% growth on a like-for-like basis. The EPRA net tangible asset (NTA) per share rose 23.9% to 188.8p. Loan to value (LTV) decreased to 11.3% (FY21: 27.9%). Acquisitions during the year of £282m aggregate consideration with a weighted average NIY of 5.3%.
Nigel Rich, Chairman, added "The business is well capitalised and continues to benefit from the structural tailwinds in our sector. With further acquisitions in progress and significant opportunities for asset management within the existing portfolio, the business is well placed in the current inflationary environment, and we are confident in its continued long term growth prospects."
The shares have fallen over the last 6 weeks and the price is now at a 13% discount to NTA with a 4.66% yield on offer. We believe this is a buying opportunity.

Source: Bloomberg

Odyssean Investment Trust (OIT) – the trust invests in a very concentrated portfolio of U.K. smaller companies with the objective to achieve attractive total returns principally through capital growth over a long time period. The manager's investment approach is to apply three core elements of the private equity investment philosophy to public markets : 1. Highly focused, 2.long term, 3. Engaged 'ownership' investment style.

The trust's concentration and low correlation with peers is positively reflected in its performance year-to-date. It is up 1.2% versus the peer group average of -22.07%. The trust's share price and NAV per share have held up well over the last 12 months while the U.K. small-cap indices have fallen significantly. The share price is testing the top of the 12-month range and a break on the upside should see strong upside follow-through.

Source: Bloomberg

Chart of the Day

In his testimony to the U.S. Senate Banking Committee yesterday Federal Reserve (Fed) Chair Jerome Powell gave his most explicit acknowledgement to date that steep interest-rate hikes could tip the U.S. economy into recession, saying one is possible and calling a soft landing "very challenging." The other risk he said was not managing to restore price stability and allowing inflation to get entrenched in the economy. He added "we can't fail on that task. We have to get back to 2% inflation."

Last week the Fed raised its benchmark lending rate 75 basis points – the biggest increase since 1994 – to a range of 1.5% to 1.75%. Powell said after the meeting that another 75 basis-point increase, or a 50 basis-point move, was on the table next month.

Source: Bloomberg

Recap of yesterday

Berkeley dropped 3.1% as full year (to 30 April) pre-tax profit rose 6.4% to £551.5m on revenues 6.6% higher. It had seen a stable start to the fiscal year with enquiries and reservations in line with the end of 2022.

Frasers gained 0.7% as it increased its investment in Hugo Boss to 4.9% plus a 26% stake via the sale of put options.

JD Sports Fashion rose 6.6% as full year pre-tax profit more than doubled on revenues up 28% and the dividend was increased 21% to 0.35p. It expected fiscal 2023 pre-tax profit to be in line with 2022 with further growth held back by global volatility.

Micro Focus fell 16.2% as interim results missed forecasts, the pre-tax loss narrowed to $52.9m from $280m a year earlier on revenues 11% lower with the dividend reduced by 9%. Full year forecasts were unchanged.

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