



Comment

April 2023

Uncertainty in the banking sector

Financials stand to benefit from rising Net Interest Margins (the difference earned between lending and borrowing) as interest rates increase. However, in the short run, pressure on the US regional banking sector has had a ripple effect on the financials sector more broadly including HSBC, one of the largest holdings in the fund.

A rising interest rate environment is generally positive for banks so the prospects for the sector remain encouraging, especially as the forecasted recession has thus far failed to materialise. Furthermore, HSBC is not materially exposed to the issues facing US regional banks.

Inflation data remains sticky with recent UK inflation data still in double-digits at +10.1%yy (March). Value-bias equity strategies could provide resilience in a higher inflation regime.

A weaker dollar/stronger sterling over the month weighed on more international companies share prices in sterling terms, such as in the financial and commodity sectors, that use the dollar for pricing their goods and services. That means earnings and dividends translate into slightly lower amounts in sterling.

The fund remains high yielding providing an income underpin to total returns.

The forecast for dividends to be paid by the largest UK companies next year has decreased slightly to £97.6 billion, this is a 0.8% decrease on the figure of £98.4bn at the end of March. The majority of this reduction is coming from a decrease in the forecast payout for Glencore, Shell, BP and Vodafone, with Sterling strengthening last month this will be contributing to the reduction in these larger index names.

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VT Munro Smart-Beta UK Fund

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