

Investec Market Review

October 2022

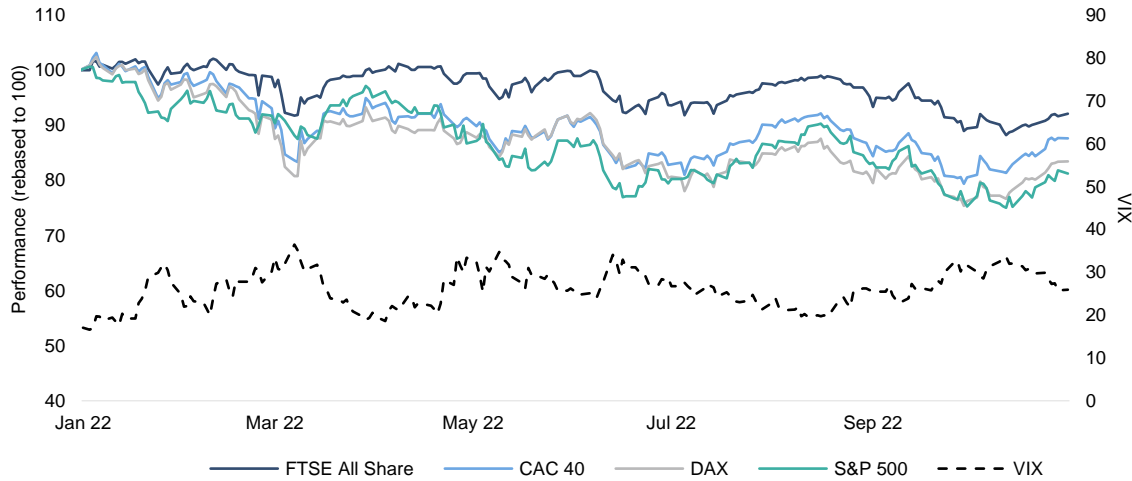


Executive Summary

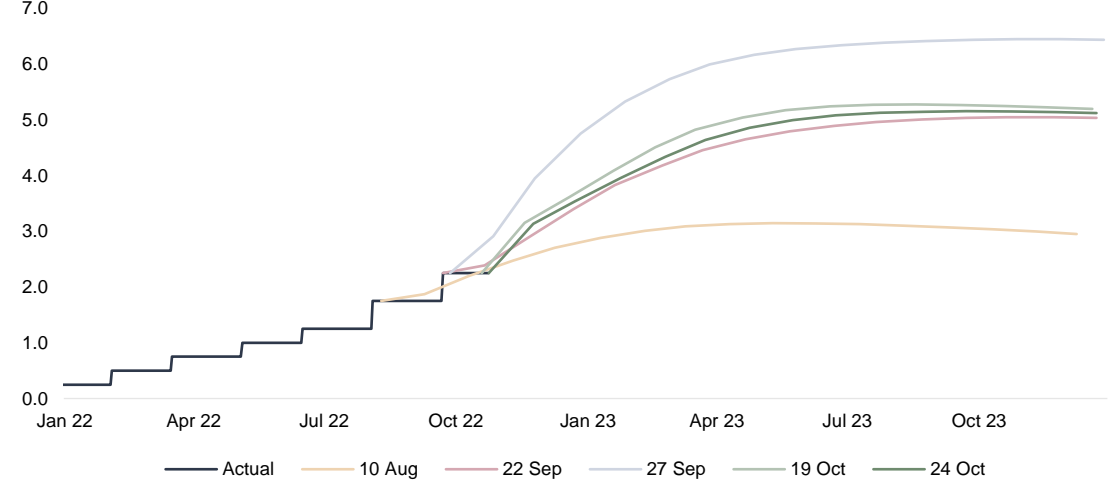
- ▶ October saw global indices recover some of the ground lost over September, although global equity volatility levels remain elevated
- ▶ Interest rates hikes continued in October, following the European Central Bank increasing its base rate during the month, however interest rate velocity is now widely expected to slow from December 2022
- ▶ Economic data released over the month painted a dimmer picture of the UK's economic backdrop, as inflation levels rose to a 40 year high of 10.1%, and consumer confidence reached its lowest point in 30 years
- ▶ Investec Equity Strategy posit the view that UK interest rate expectations have peaked, and therefore the FTSE 250 is poised to finally begin outperforming
- ▶ UK ECM activity remain subdued, with October seeing a further decline in the aggregate volume of UK public equity fund-raisings relative to September. The number of ECM transactions that completed was slightly elevated relative to the prior month
- ▶ Momentum in UK public M&A activity appeared to have slowed over October, with only three transactions being announced. It will be interesting to see how the landscape evolves over the remainder of the year in the context of a general increase in interest rates
- ▶ Please contact your usual Investec contact if you would like to discuss the contents of this pack

Market backdrop

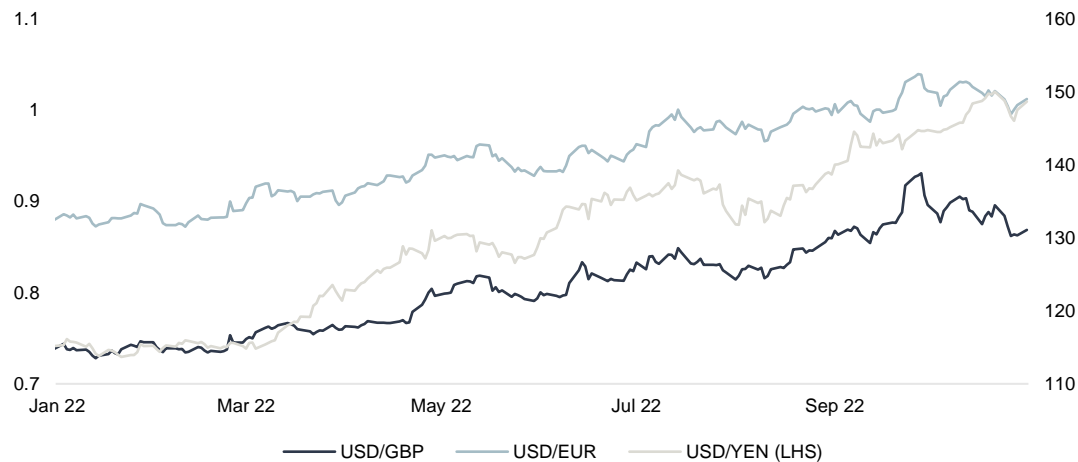
Global equity market performance & equity market volatility



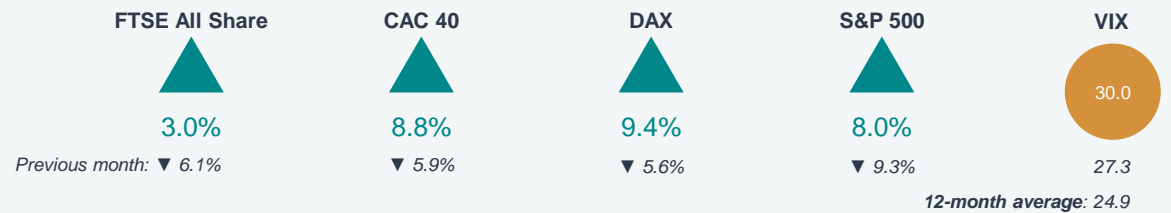
UK interest rate projections have risen and have potentially peaked



The dollar continues its onward march



Monthly market snapshot



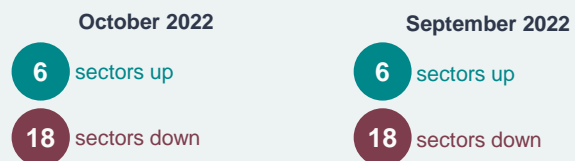
October's key market drivers

- UK gilts stabilise amid hopes of improved domestic political situation
- UK pound recovers lost growth against the US Dollar
- UK consumer confidence registered a 50-year low in the month of October
- Eurozone business activity contracted for a fourth month running in October
- UK inflation rose 10.1%, matching July's 40-year high
- ECB lifted its key rate by 75bps to 1.5%
- General expectation of slowing momentum in pace of interest rate increases
- President Xi Jinping elected for a third term

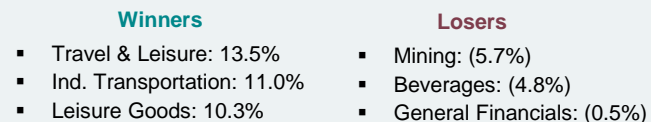
UK sector performance

Monthly sector snapshot

YTD share price performance:



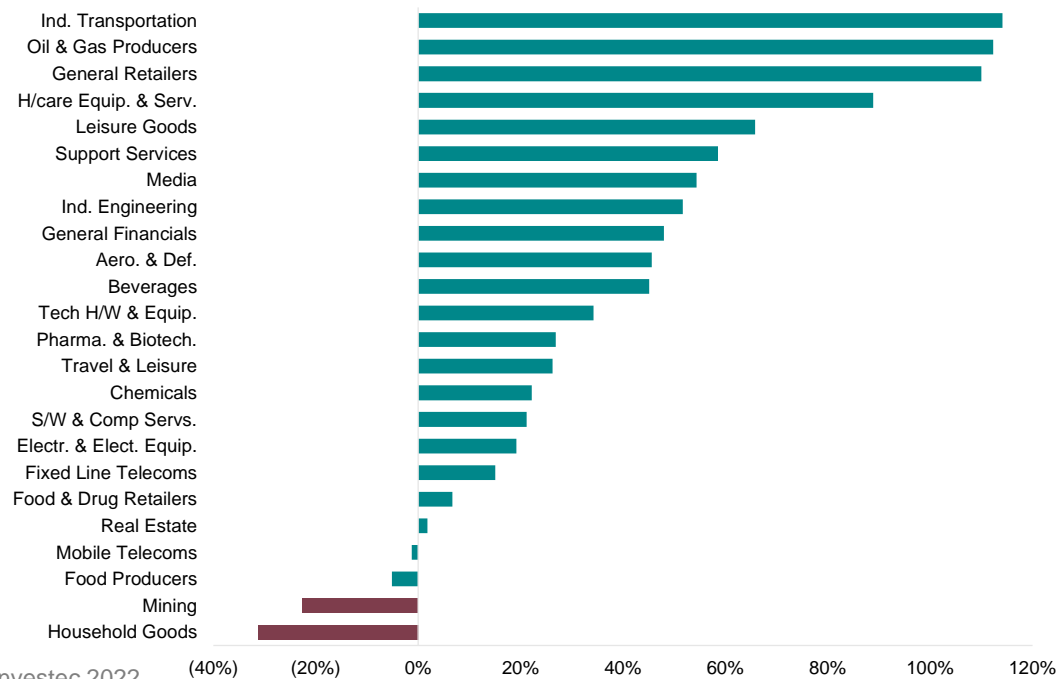
Monthly winners and losers:



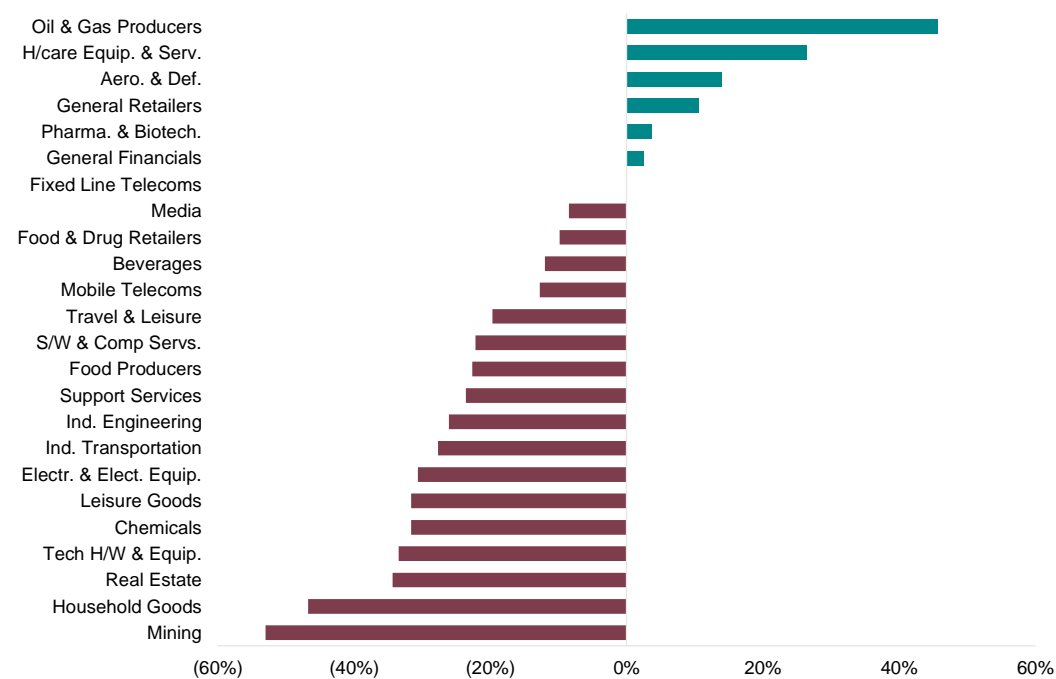
Sector performance drivers and outlook commentary

- **Mining** stocks retreated towards the end of the month. Uncertainty over wider economic activity and therefore demand levels may be a motivating factor behind the sectors share price fall
- **General Financials** lost some ground as the anticipated pace of interest rate hikes is anticipated to fall over the medium term
- The potential of a slower pace of interest rates hikes, helped recovery in growth orientated stocks, such as **Tech Hardware & Equipment**
- **Leisure Goods** and **Travel & Leisure** stocks benefited from recent shifts in UK economic policy and numerous corporates have reported a recovery in consumer activity

Sector performance (since mid-March 2020)



Sector performance (YTD)

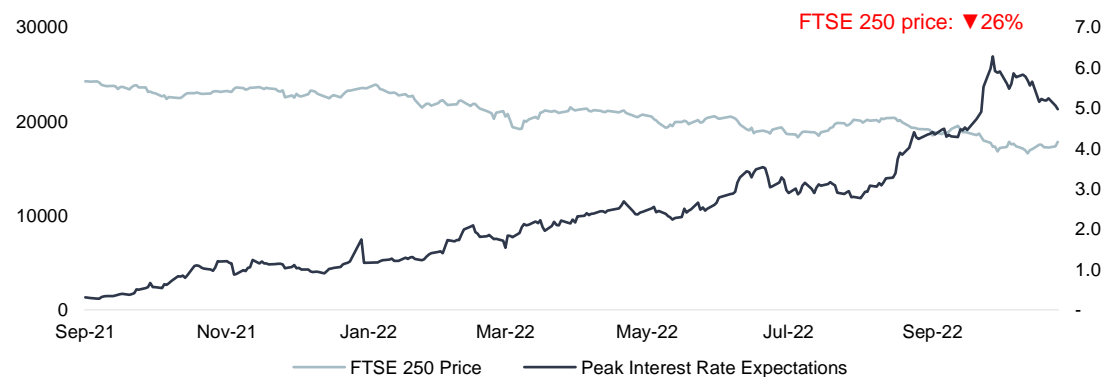


Looking beyond peak interest rate expectations

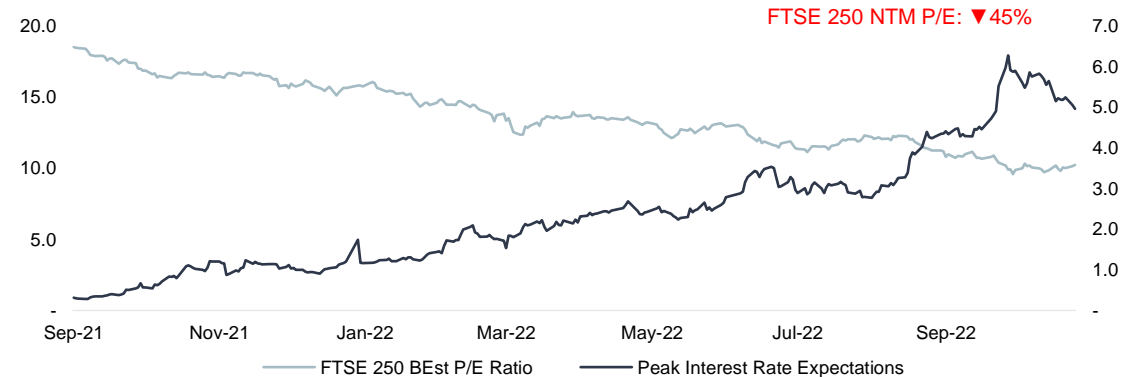
Investec analysts believe that the UK has passed the point of peak interest rate expectations. Given the close correlation between the performance of the FTSE 250 and interest rate expectations, it may be reasonable to expect that a fall in interest rates will be met with an outperformance by the FTSE 250

- Recent extreme moves in Gilt yield and interest rate expectations following the ‘mini-budget’ and LDI pension crisis supports the view that **we’ve reached ‘maximum strain’**
- If we have seen peak Gilt yields and interest rate expectations: **perhaps we have seen ‘the low’ for the FTSE 250 index**
 - We have seen peak interest rate expectations: almost doubling over the past few weeks to a high of c.6% for Summer 2023, before falling to the current level of c.5%
 - Sterling made a low against the US Dollar and Euro on 26 September
 - 10 year and 30 year Gilt yields have retreated since their high on 27 September
- **Key to peak interest rate expectations falling significantly is a fall in core inflation, and Investec economists expect inflation to peak in Q4 2022**, as energy prices and the Energy Price Guarantee come into effect
- Tighter fiscal stance may necessitate less monetary tightening to slow to UK economy in order to reduce inflation, and so **interest rates reductions may still have further room to run**
- This may result in the FTSE 250 finally starting to outperform, led by sectors most exposed positively to falling rate expectations

Peak interest rate expectations vs. FTSE 250 index price



Peak interest rate expectations vs. FTSE 250 index price to earnings

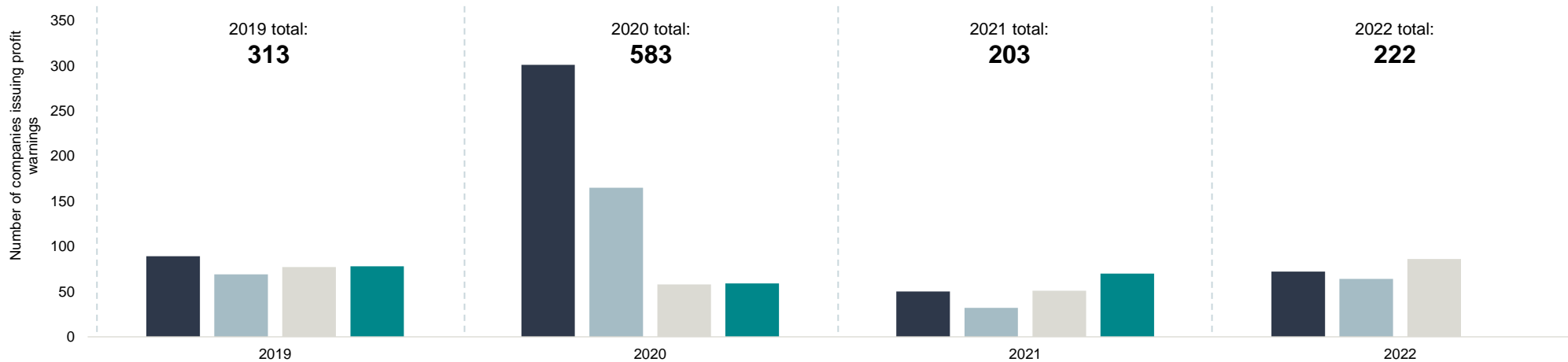


- Future FTSE 250 outperformance anticipated to be led by sectors most exposed positively to falling rate expectations, namely: Housebuilders & Building Products, Real Estate, FMCG, Information Technology

- Earnings risks remain, especially as the UK economy seems to be slowly sharply, however as seen over the course of the Financial Crisis and the impact of COVID-19, the market appears to look through future falls in earnings, and the low point in the market precedes the trough in earnings

Q3 2022 saw a rise in profit warnings across UK PLCs

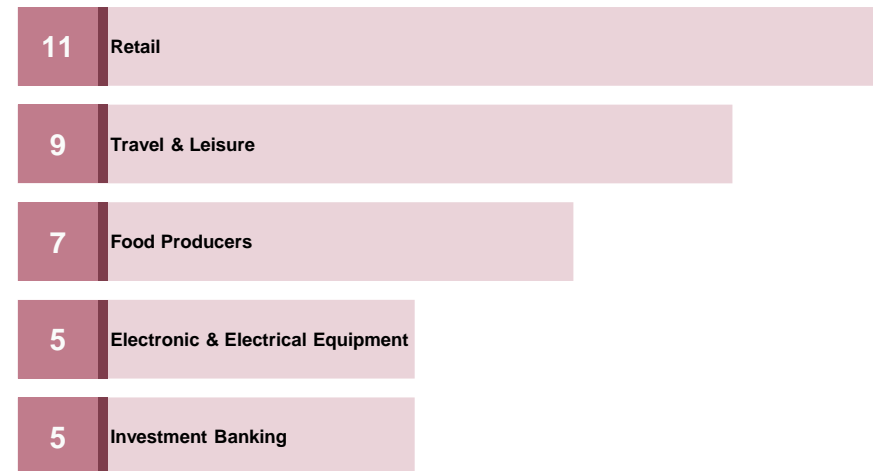
The third quarter of 2022 saw the highest Q3 total since 2008 and a third higher than the post-financial crisis average



Factors catalysing profit warnings in Q3



Top 5 sectors warning on profit in Q3



86

Q3 2022 profit warnings

57%

Q3 profit warnings cite increasing costs

23%

Q3 profit warnings cite labour market issues

44

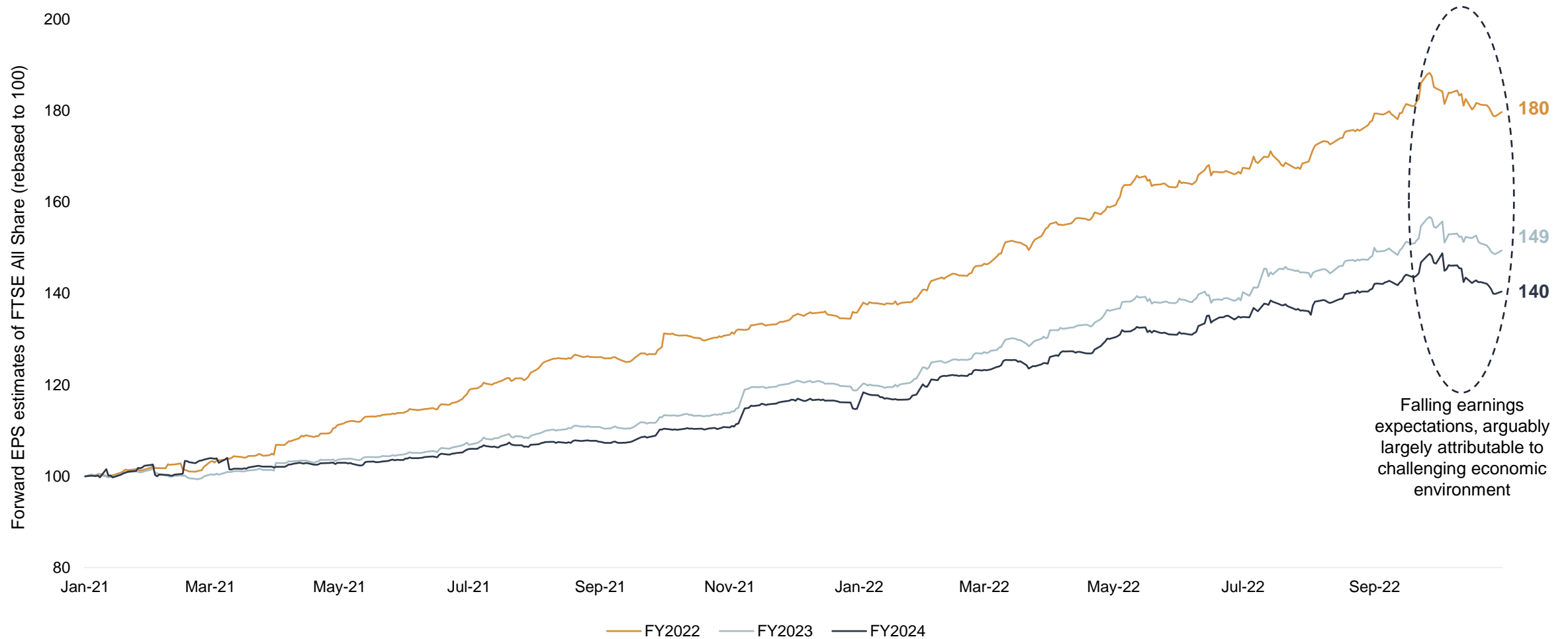
Profit warnings from companies in consumer sector

28

UK-listed companies in the three warning 'danger zone'

Overview of UK earnings forecast

Following numerous sessions of rising earning expectations across the FTSE All Share, we saw consensus EPS forecasts dipping over the course of October



UK ECM activity continues to stutter over October

Deal numbers increase slightly on September, but aggregate equity-issuance levels slump to the second lowest monthly amount seen this year

Total funds raised

£324m	Prior month: £1,047m <i>69% decrease</i>
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Total no. transactions

13 deals	Prior month: 9 deal <i>44% increase</i>
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Prior year period

£2,771m	Notable deals <ul style="list-style-type: none"> TUI AG – £651m Rights Issue Softline Holding plc – £291m IPO ITM Power plc – £230m Placing <i>Investec</i> Eurowag – £186m IPO Supermkt. Income REIT – £175m Placing
21 deals	

Selected deal commentary



ACQ Acquisition Company Limited completes its £111m IPO, the fourth largest listing of 2022 so far


- Company is a special purpose acquisition company aiming to benefit from favourable price conditions for new economy metal and other mining materials
- Co-sponsors are ACG Mining Limited, De Heerd Investments Limited, and a trading entity managed by Argentem Creek Partners LP
- Company aims to optimise its expertise in global mining by combining with a mining company that produces materials characterised by supply constraints and rising long-term demand
- Combined entity will capitalise on the need for resource security and geographic supply diversification, as well as the global energy transition

Public equity fund-raises by sector and highlighted deals



Sell-down activity over October

October saw Investec support shareholders of Craneware monetise a stake in the company

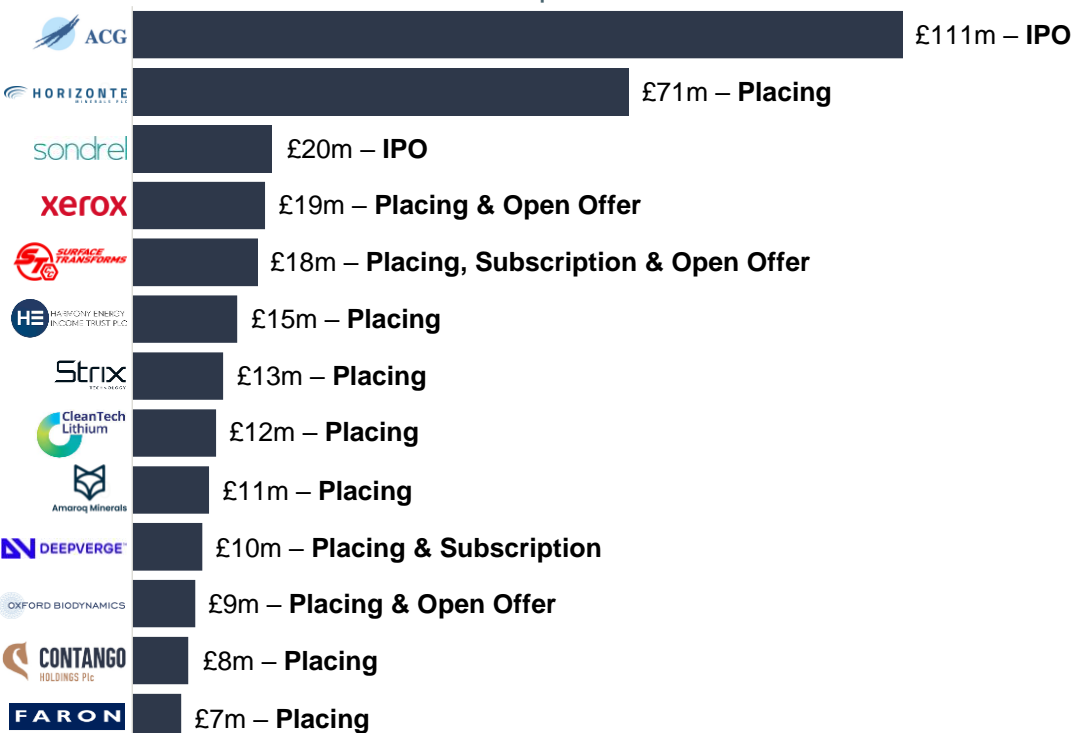


Alphawave IP
£32m



Craneware®
£20m
Investec deal

ECM issuance across the deal size spectrum in October




The UK IPO pipeline



A snapshot of the current UK public M&A market

The momentum we have seen in UK PLC takeovers appears to have slowed over October, with one of the two potential transactions announced in the month being terminated shortly thereafter. It remains to be seen how the evolving landscape for debt financing will impact UK public M&A over the remainder of 2022




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Announcement date:	31 October 2022
Offeror:	Science Group plc
Offeror type:	Acquisition / Merger
Offer price:	2.25p
Share price prem. / (disc.):	190%

Transaction highlights

- On 31 October Science Group announced it has reached agreement on terms of a recommended cash offer for TP Group
- Transaction to be structured by way of a scheme of arrangement
- Science Group has received a letter of intent from Hargreave Hale, for and on behalf of IFSL Marlborough UK Micro-Cap Growth Fund and IFSL Marlborough Nano-Cap Growth Fund to vote in favour of the scheme




A provider of financial services, including Corporate Finance, M&A, Private Fundraising, Sales Trading

Announcement date:	18 October 2022
Offeror:	Panmure Gordon & Co. Ltd
Offeror type:	Acquisition / Merger
Offer price:	n/a
Share price prem. / (disc.):	n/a

Transaction highlights

- 18 October saw finnCap confirmed that it had received an indicative non-binding proposal from Panmure Gordon regarding a potential combination of the two companies
- Transaction would be structured as the acquisition for cash of finnCap by Panmure Gordon, with the alternative for electing shareholders to receive partial consideration in Panmure Gordon shares
- finnCap' share price, which was down by c.60% YTD the day before the announcement, rose by c.30% on the day of the announcement

Withdrawn



Development of treatment programs for obesity, cognitive disorders, baldness, depression, allergy and autoimmune

Announcement date:	07 October 2022
Offeror:	Nektar Therapeutics
Offeror type:	Acquisition / Merger
Offer price:	n/a
Share price prem. / (disc.):	n/a

Transaction highlights

- On 6 October PureTech Health confirmed that it has exchanged indicative, non-binding proposals with Nektar Therapeutics regarding a possible combination
- On 11 October, PureTech Health and Nektar mutually agreed to terminate discussions, stating that due to "the potential for an extended period of uncertainty, these discussions were terminated"
- PureTech's share price fell by 11% after the potential offer was announced and by 2.1% following the announcement regarding the termination of the discussions

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