



## Comment

June 2023

### Sterling pressure affects UK dividends

Deeply embedded inflation in the UK, driven by a tight labour market, prompted another rise in the UK bank rate in June. That, and expectations of further rises to come, pushed sterling up nearly 2% over the month and was the main reason for a decline in all the main UK equity indices. The end of June marks the halfway point for the year and these interest and exchange rate trends have clearly been the dominating factor over the first six months.

Since the bulk of UK dividends are ultimately sourced from businesses with overseas earnings, usually expressed in dollars, their value, and the value of the companies that generate them, felt the pressure and declined modestly over the month. These factors were major influences on the fund which is biased towards these companies. However, the impact was ameliorated by the investments in banks with significant exposure to the Far East that will benefit from rising interest rates, provided bad debts from a weaker economy do not become a major problem. Although oil and other commodity prices have drifted lower over the month and indeed the first half of the year, they remain at elevated levels, allowing producers to continue to make reasonable profits which has helped maintain valuations.

Valu-Trac Investment Management Limited

#### **VT Munro Smart-Beta UK Fund**

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