CS INVESTMENT MANAGERS

VIEW FROM THE SQUARE

October 2023

AIM in Focus

The past month has challenged not just the AIM market, but global markets as equity investors have been sobered by the expectation that interest rates will likely need to remain higher for longer. This has been reflected in bond markets, with 10 year yields on UK and US government securities approaching or above post 2008 global financial crisis highs. This ‘higher for longer’ sentiment became more apparent following the most recent meetings of the Bank of England’s Monetary Policy Committee (MPC) and the Federal Reserve in mid-September. Both committees held rates at current levels but indicated the potential for a further hike before the end of the year in hawkish statements, which contributed to a miserable finish to the quarter for global markets. This market weakness impacts smaller companies in particular, who suffer from a flight to safety during periods of market turbulence, as they are deemed somewhat riskier than their larger, often more established, counterparts.

Another aspect that has been unhelpful for sentiment towards AIM companies in particular is political uncertainty, and potential tax cuts that have grabbed headlines in recent weeks. Inheritance tax (IHT) has been one tax allegedly under the spotlight. We are not dismissing this entirely, but feel it is an unlikely policy decision given the c. £7bn in tax revenues that IHT generates per annum. This makes up a relatively small proportion of government tax revenues. However in the context of stretched public finances, with the budget deficit for the year to 31 March 2023 £130bn, the IHT revenues feel fairly material. Recent comments from Chancellor Jeremy Hunt suggest that this type of policy consideration is low on the priority list, stating that bringing down inflation remains top priority, rather than tax cuts.

In addition, we feel that such a move would be unlikely given the PM’s capital markets background and the many success stories in UK business, and accompanying employment opportunities for the UK economy, generated by AIM listings. This would also be at odds with the proposed Mansion House reforms, which are designed to encourage investment into unquoted UK business (including AIM). Clearly these are policies of one party, but we feel that both ends of the political spectrum appreciate the importance of UK equity markets for the wider UK economy and prosperity.

While we are in the midst of a challenging market period for AIM-listed equities, we remain sanguine around the prospects of recovery as interest rates steady, and the recessionary and fiscal policy outlook become clearer. Despite the tough environment, we continue to see opportunities to invest in resilient businesses at compelling valuations that have been caught up in the indiscriminate sell off.

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