

Fleece Navidad Falling out of fast fashion

Global Matters Weekly

4 December 2023

– Gabby Byron — *Investment Services Executive*

As we approach Christmas Jumper Day this week in the UK, I find myself sifting through the depths of my wardrobe, searching for festive knitwear to raise money for Save the Children. The promise of chilly winter evenings and cosy Christmas gatherings tempts me to add yet another festive jumper to my collection, despite the fact that I already own enough to dress a small woolly army.

Sound familiar? It's a scenario many of us face as Christmas approaches. The appeal of new clothes, especially warm and comfy ones for the winter season, is undeniable. Fast fashion retailers exploit this, tempting us with endless options that won't break the bank due to their ability to quickly produce inexpensive, on-trend clothing that appeals to the masses. These companies churn out new collections at a rapid pace, allowing consumers to stay up to date with the latest styles without burning a hole in one's pocket. However, this convenience comes at a cost to our environment and society.

From an environmental perspective, fast fashion falls short in several ways. The rise of ultrafast online retailers has flooded the market with cheap, poor-quality clothes made from environmentally harmful materials. The production processes, involving copious amounts of water, chemicals, and energy, contribute to pollution and the overuse of natural resources. Additionally, the global supply chain dynamics of fast fashion play a significant role in exacerbating its environmental impact as many of these clothes are produced in countries with low labour costs. This geographical dispersion requires long-distance transportation, resulting in a substantial carbon footprint associated with shipping these goods around the world. The environmental toll extends beyond just the production phase. With many of the items from some fast fashion brands being priced ridiculously cheaply, it becomes more convenient for consumers to buy new than to repair existing clothing or buy second-hand. These items have little to no resale value and end up being incinerated or left to decompose for hundreds of years in landfills, usually in developing countries.

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The social aspect is equally as distressing. Many fast fashion brands outsource their production to low-wage countries, where labour regulations are less stringent. This can lead to poor working conditions, low wages, and a lack of workers' rights. This raises ethical concerns about the treatment of workers and the lack of accountability in these global supply chains. Exploitative labour practices have been widely reported in the industry in order to maintain the low prices customers expect.

Fast fashion also raises red flags from a governance perspective. Fast fashion companies aren't always known for their transparency and often management and boards do not scrutinise their supply chain in search of best practices. To make informed investment decisions, one should consider whether a company commits to good governance principles, such as transparent financial reporting and ethical leadership.

Fast fashion may offer cheap and trendy clothing, but at a significant cost to society, the environment and ethical governance. As investors, we can choose to support companies that actively work to reduce their carbon footprint, minimise waste and prioritise fair labour practices. These companies are more likely to make responsible decisions and contribute positively to society and the environment. Many sustainable fashion brands are emerging, with a focus on eco-friendly materials, fair labour practices and transparent governance. Investing in these companies can be financially rewarding while also contributing to a more sustainable and equitable future. Moreover, growth in the market for second-hand clothing might outpace fast fashion as consumers become more aware of the environmental, social and economic benefits of preloved shopping.

As the fashion industry continues to adapt to the climate emergency and resulting consumer demands, it is clear that investors and consumers have a significant role to play in bringing sustainable fashion brands to the fore. At Momentum, we manage three Sustainable Model Portfolios, which align closely with the responsible investing principles of our investment philosophy, offering diversified

multi-asset exposure that cater for various risk and return objectives while enhancing the sustainable investment footprint. Our sustainable approach extends beyond fashion retailers, encompassing a comprehensive strategy that considers environmental impact, social responsibility, and ethical governance.

The Marketplace

- Global equities rose 0.9% last week
- Slowing inflation helped markets in the US and Europe. November was the best month for global bonds since December 2008
- Brent crude fell 2.1% last week to \$78.9 a barrel
- Gold rose 3.6% last week to \$2072.2 per ounce

Market Focus

US

- US equities rose 0.8% last week rounding out the best month for the S&P 500 this year
- Equities and bonds rallied last week as core inflation cooled to 0.2% in October. The year-on-year increase stood at 3.5%, the lowest increase since April 2021, but still above the target level of 2%
- Federal Reserve Chairperson Jerome Powell said interest rates were now 'well into restrictive territory' which helped equities and bonds. However, he also said that they would raise rates again if supported by data
- Continuing weekly jobless claims surprised to the upside at 1.93 million, the highest level in two years

Europe

- European equities rose 1.3% last week
- Eurozone annual inflation in November slowed more than expected to 2.4%, down from 2.9% in October and below expectations of 2.7%
- Germany's Federal Labour Office reported that the jobless rate rose to 5.9% in November, the highest level since 2021, up from 5.8% in October
- European Central Bank President Christine Lagarde told a committee of the European Parliament that strong wage growth and an uncertain outlook meant that this was not the time to start declaring victory in the fight to curb inflation

UK

- UK equities rose 0.5% last week
- Bank of England Governor Andrew Bailey continued to push back against market expectations for interest rate cuts. He said he 'will do what it takes' to reduce inflation to its 2% target, but added that 'we are not in a place now where we can discuss cutting interest rates - that is not happening'

Asia/Rest of The World

- Global emerging market equities rose 0.2% last week
- Japanese equities fell 0.3% last week
- Chinese equities fell 2.6% last week
- The Chinese Caixin PMI measure of the manufacturing sector unexpectedly expanded in November, hitting 50.7 (vs 49.6 expected). This was the fastest expansion in three months and up from 49.5 in October
- Japan's unemployment rate edged down to 2.5% in October (vs 2.6% expected) while the job-to-application ratio slightly went up to 1.30 after having stayed at 1.29 in the preceding three months

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Asset Class/Region	Currency	Currency returns			
		Week ending 1 Dec. 2023	Month to date	YTD 2023	12 months
Developed Market Equities					
United States	USD	0.8%	0.6%	21.0%	14.0%
United Kingdom	GBP	0.5%	1.0%	4.8%	3.5%
Continental Europe	EUR	1.3%	0.8%	14.1%	9.4%
Japan	JPY	-0.3%	0.3%	29.0%	23.0%
Asia Pacific (ex Japan)	USD	-0.1%	-0.6%	1.9%	0.0%
Australia	AUD	0.5%	-0.2%	4.6%	0.3%
Global	USD	0.9%	0.6%	18.7%	12.8%
Emerging markets equities					
Emerging Europe	USD	2.0%	1.1%	28.6%	33.2%
Emerging Asia	USD	-0.1%	-0.8%	3.5%	1.6%
Emerging Latin America	USD	1.6%	0.9%	23.7%	18.5%
BRICs	USD	-0.4%	-0.4%	-0.4%	0.1%
China	USD	-2.6%	-1.3%	-10.2%	-6.2%
MENA countries	USD	0.3%	0.0%	1.0%	-3.3%
South Africa	USD	0.9%	1.1%	-3.6%	-1.4%
India	USD	2.4%	0.8%	12.4%	6.1%
Global emerging markets	USD	0.2%	-0.5%	5.2%	3.0%
Bonds					
US Treasuries	USD	1.7%	0.8%	1.7%	0.1%
US Treasuries (inflation protected)	USD	1.5%	0.7%	1.7%	-0.5%
US Corporate (investment grade)	USD	2.2%	0.8%	5.0%	3.5%
US High Yield	USD	1.4%	0.3%	9.8%	8.1%
UK Gilts	GBP	1.0%	0.0%	-1.7%	-6.1%
UK Corporate (investment grade)	GBP	1.2%	0.2%	4.8%	2.4%
Euro Government Bonds	EUR	1.9%	0.7%	4.2%	-1.7%
Euro Corporate (investment grade)	EUR	1.6%	0.5%	5.6%	3.1%
Euro High Yield	EUR	1.0%	0.2%	9.1%	7.9%
Japanese Government	JPY	0.4%	-0.1%	-0.1%	-1.5%
Australian Government	AUD	0.5%	-0.4%	1.2%	-1.6%
Global Government Bonds	USD	1.5%	0.4%	0.2%	-1.6%
Global Bonds	USD	1.5%	0.4%	2.6%	0.8%
Global Convertible Bonds	USD	0.9%	0.4%	4.1%	2.1%
Emerging Market Bonds	USD	1.5%	0.5%	5.4%	4.1%

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Asset Class/Region	Currency	Currency returns			
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Property					
US Property Securities	USD	4.6%	2.6%	5.1%	-0.1%
Australian Property Securities	AUD	1.2%	0.0%	2.4%	-4.4%
Asia Property Securities	USD	-1.8%	-0.1%	-9.9%	-8.5%
Global Property Securities	USD	2.7%	1.6%	2.9%	-0.1%
Currencies					
Euro	USD	-0.5%	-0.1%	1.6%	3.6%
UK Pound Sterling	USD	0.7%	0.6%	4.9%	3.5%
Japanese Yen	USD	1.8%	0.9%	-10.8%	-7.8%
Australian Dollar	USD	1.2%	1.0%	-2.2%	-2.0%
South African Rand	USD	1.2%	1.3%	-8.5%	-5.7%
Swiss Franc	USD	1.3%	0.5%	5.9%	7.8%
Chinese Yuan	USD	0.3%	0.1%	-3.3%	-1.1%
Commodities & Alternatives					
Commodities	USD	-0.6%	-0.7%	-3.5%	-4.3%
Agricultural Commodities	USD	-0.1%	-0.7%	1.0%	2.4%
Oil	USD	-2.1%	-4.8%	-8.2%	-9.2%
Gold	USD	3.6%	1.7%	13.6%	15.0%

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