INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 1 2021

Spring is in the air. The US, in particular, is seeing jobs, confidence and output soaring amid a strong vaccination drive and stimulus. The widely watched ISM Manufacturing PMI, a mixture of business optimism and order figures, hit 64.7 in March which is a very positive number. Services too are doing well, achieving the highest level since the measure was created in the late 1990s.
With c.$2trillion of infrastructure related stimulus being injected, focused on roads, grid networks, green energy, and supporting the electrification of vehicles over the next eight years, coupled with vaccinations continuing apace and warmer weather, the US is primed for a summer of spending. There is an old investment saying: “don’t fight the Fed”. We are thinking “don’t fight Biden” and we are increasing our US exposures.

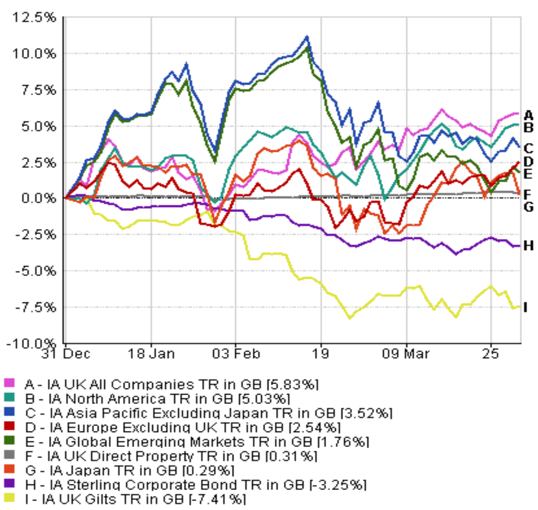
As the likelihood of economic activity and, therefore, inflation has increased due to the roll out of vaccines in late February, US Treasury yields jumped, prompting volatility as investors began to digest the implications of rising interest rates on different types of assets. It is important to note that central banks have not yet reacted and increased interest rates; this is merely the yields on government bonds. When yields on bonds rise, the prices of those bonds fall - so, for lower risk portfolios where a larger proportion of the investments are held in lower risk assets such as fixed income, this has been a headwind to performance over the quarter. The US Dollar has also been a bit stronger, hurting emerging market (EM) assets. In the long run we continue to believe that the US currency is in a secular down trend and will have a positive impact on this asset class. However, in the short term, we are allowing our exposure to drift lower.

POSTIVE OUTLOOK FOR U.S.

LOW INTEREST RATES CONTINUE

UK PROSPECTS GOOD

FRAGILE RECOVERIES LIKELY



Figures shown are for a sterling denominated investor, for the 3 month period to 31/03/2021.
Source: Financial Express Analytics

Low interest rates have fuelled growth stocks, while suppressing value stocks. Low rates are generally good for growth stocks because a stock’s value is determined by the present value of its future cash flows. Value stocks are more heavily represented in cyclically sensitive sectors such as industrials, materials and financials, that tend to benefit from rising economic growth. A further sign of animal spirits is a decline in the gold price, which has fallen by almost a fifth since hitting a high in August last year.

The outlook for the UK is something that we are now more constructive on. If we think about the things that had been holding the UK market back, specifically Brexit, and the composition of the UK market (large weightings to banks, oil & gas, mining stocks and industrials), these look like potential tailwinds now. Banks become more profitable as interest rates move higher, and the regulator is looking more and more likely to allow the repayment of dividends which they were told they had to stop paying during the height of the coronavirus crisis. Also, the UK has leading status in the roll out of the vaccine which is likely to benefit through an earlier re-opening of the domestic economy when compared to European or many Asian counterparts.

While global economic growth is expected to accelerate in the second half of the year, we don’t think interest rates will rise dramatically anytime soon. Since the recovery is very fragile, policymakers aren’t likely to let rates rise too far, too fast—even if inflation begins to materialise. Although we have reduced government bond duration (interest rate sensitivity) from fixed income holdings, we are not eliminating it, as it provides a cushion against credit-related losses, as well as equity downturns. Plus, if higher inflation does materialise, we have exposure to other assets that could serve as an inflationary hedge.

Every investment discussion today begins with an assessment of the pandemic exit path and its macroeconomic implications. This presents investment challenges, given the opaque outlook, but we are here to help steer you into summer and beyond.

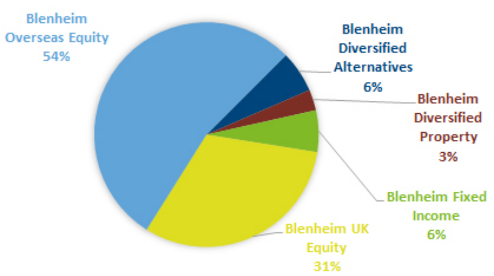
BAM Portfolio Models' Investment Performance

	31/03/2016-31/03/2017	31/03/2017-31/03/2018	31/03/2018-31/03/2019	31/03/2019-31/03/2020	31/03/2020-31/03/2021
Defensive Mixed Assets*	+9.27%	+1.52%	+1.60%	+5.69%	+7.68%
UK CONSUMER PRICE INDEX + 2%*	+4.35%	+4.80%	+3.85%	+4.38%	+2.46%
Defensive Balanced Mixed Assets	+7.99%	+0.53%	+2.83%	-5.16%	+18.32%
Social Impact Portfolio	+11.37%	+5.01%	+4.02%	+0.01%	+17.98%
ARC Sterling Balanced Asset PCI	+11.52%	+0.80%	+2.41%	-4.96%	+18.50%
Balanced Mixed Assets	+14.43%	+1.52%	+1.67%	-8.42%	+29.05%
ARC Sterling Steady Growth PCI	+15.77%	+1.31%	+4.68%	-7.55%	+24.79%
Focused Growth Mixed Assets	+20.02%	+9.11%	+1.08%	-8.99%	+39.10%
ARC Sterling Equity Risk PCI	+19.06%	+1.77%	+5.92%	-10.04%	+31.72%

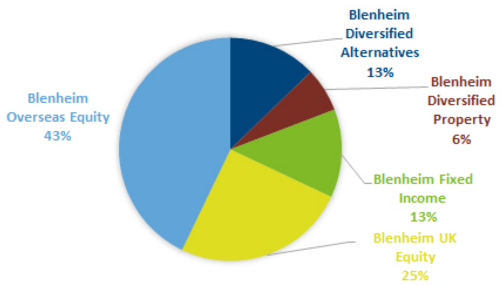
Notes: BAM figures take into account normal dealing costs but not Beckett fees. Source: BAM portfolio performance figures: Beckett Asset Management. Indices: FE Analytics - Total Return
ARC PCI: Asset Risk Consultants (ARC) operate the Private Client Indices (PCI) across the risk spectrum as performance measurement yard-sticks for discretionary portfolio managers.
Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods. *DMA and CPI+2 data 12 months to the last available inflation print.
OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

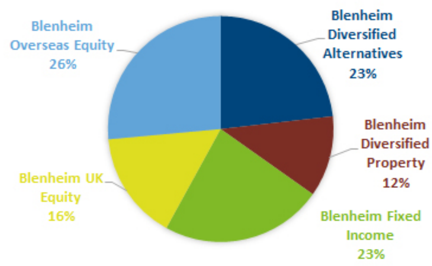
Focused Growth Mixed Assets



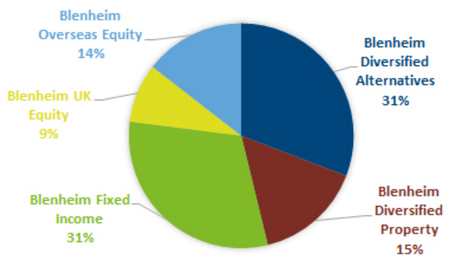
Balanced Mixed Assets



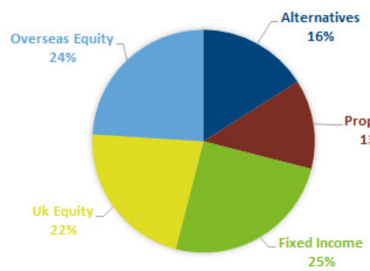
Defensive Balanced Mixed Assets



Defensive Mixed Assets



Social Impact



As is the very nature of investing, there are inherent risks and the value of your investment will both rise and fall over time. Please do not assume that past performance will repeat itself and you must be comfortable in the knowledge that you may receive less than you originally invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.

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