INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 1 2022

Quarter one saw significant volatility, factor and sector rotations within the equity markets. The Russian invasion of Ukraine on 24 February, a very sad human tragedy, has exacerbated the rise in commodity prices, as sizeable economic sanctions were swiftly introduced against Russia and created significant uncertainty. However, Russia and Ukraine account for only around 2% of global GDP; the commodity market linkages are more important. Russia is a major global supplier of palladium and a significant source of platinum. Both are essential for the manufacture of catalytic converters for cars. Ukraine, meanwhile, provides around 50% of the world's neon gas and 40% of the world's supply of krypton gas. Both are used in the production of semiconductors and could trigger a renewed blockage of output, which has only recently begun to recover from the pandemic.

However, not everywhere is "living with the pandemic" like the UK. In China, Covid lockdowns continue to be strictly imposed. According to Allianz, 23 Chinese cities are in full or partial lockdown, accounting for around 14% of the total population, leading to "colder" economic data but "warmer" monetary policy. More pro-growth measures such as interest rate cuts and further fiscal support during Q2 are expected for China.

Even before Russia invaded Ukraine, we saw persistent and high inflation (the UK and US CPI showed inflation at around 8% in January), putting pressure on central banks to hike rates and reduce stimulus. So, both the Fed Reserve (Fed) and the Bank of England (BoE) increased rates by 0.25%. Looking at the Fed's "dot plots" and comments from the BoE, more will likely follow in the coming months. The ECB isn't quite there yet, but the market is receiving more hawkish comments from its president, Christine Lagarde, and the Dutch and German central bank presidents.

Higher inflation is pulling yields up but slowing growth is dragging them down again giving fixed-income investors a real headache. The typical risk-off appeal of government bonds has been clouded by the ever-rising inflation outlook, making them less reliable than usual as a safe haven asset. The five or six interest rate hikes that markets expected in February will depend on the war's various possible outcomes and related trade issues. One of the best ways to help insulate portfolios against rising rates is to reduce rate exposure and invest in floating-rate securities. Their coupons only change once the Fed or BoE decides to hike rates; until that time, nothing changes. As a result, the upside for floating rate bonds should be yet to come.

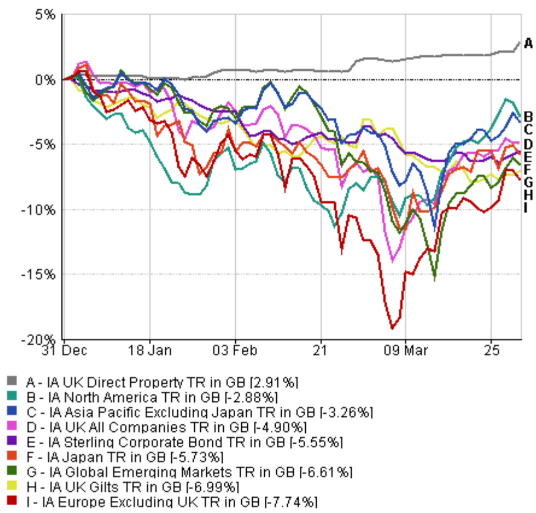
We can also find refuge from inflation in UK equity income strategies as the highest dividend-paying market in the developed world. Additionally, the UK market has not re-rated the way many other developed markets have, notably tech-heavy ones, putting it in a relatively better position in a rising rate environment which puts pressure on valuations. Our long-held view that ESG leaders are better able to navigate energy input costs, supply chain and labour market challenges continued to be reinforced as several stocks fell during earnings season after citing headwinds.

In light of recent events, it is necessary to be humble in the face of uncertainty. The macroeconomic and geopolitical backdrop has changed significantly from what investors have been accustomed to. Equity market volatility is likely to continue to be elevated, driven by increased political intervention, rising earnings variability in the face of higher input costs, plus the limited ability of central banks to increase liquidity or cut interest rates in times of stress due to higher inflation. The risk of a growth slowdown caused by commodity prices or central bank tightening also raises the risk of 'stagflation' (stagnation of growth with inflation). We will see retrenchment from "just in time" to "just in case" and more onshoring. Traditional balanced portfolios rely on equities and bonds fulfilling their roles – equities for good times, bonds to cushion the bad. But, after a torrid three months for markets, investors are being forced to tear up the rulebook. Some time ago, we recognised that we had to evolve our portfolios, and our alternatives exposure has offered a compelling way to navigate the challenging environment.

RUSSIAN INVASION OF UKRAINE CREATES UNCERTAINTY

HIGHER INFLATION RESULTS IN INTEREST RATE RISES

RISK OF STAGFLATION



Figures shown are for a sterling denominated investor, for the 3 month period to 31/03/022. Source: Financial Express Analytics

BAM Portfolio Models' Investment Performance

	31/03/2017 -31/03/2018	31/03/2018 -31/03/2019	31/03/2019 -31/03/2020	31/03/2020 -31/03/2021	31/03/2021 -31/03/22
Defensive Mixed Assets*	+1.52%	+1.60%	+5.69%	+7.68%	+8.28%
UK CONSUMER PRICE INDEX + 2%*	+4.80%	+3.85%	+4.38%	+2.46%	+3.36%
Defensive Balanced Mixed Assets	+0.53%	+2.83%	-5.16%	+18.32%	+5.06%
Social Impact Portfolio	+5.01%	+4.02%	+0.01%	+17.98%	+4.42%
ARC Sterling Balanced Assets	+0.80%	+2.41%	-4.96%	+18.50%	+3.63%
Balanced Mixed Assets	+1.52%	+1.67%	-8.42%	+29.05%	+5.42%
ARC Sterling Steady Growth PCI	+1.31%	+4.68%	-7.55%	+24.79%	+5.13%
Focused Growth Mixed Assets	+9.11%	+1.08%	-8.99%	+39.10%	+5.49%
ARC Sterling Equity Risk PCI	+1.77%	+5.92%	-10.04%	+31.72%	+5.63%

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.

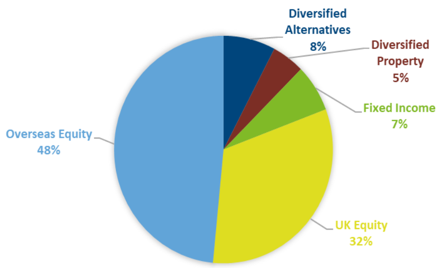
Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods. *DMA and CPI+2 data 12 months to the last available inflation print.

OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR

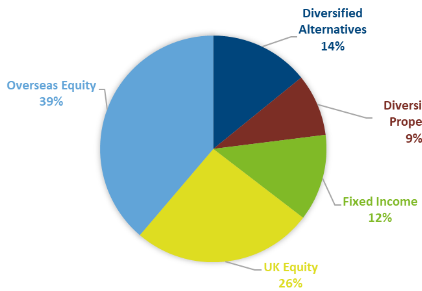
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

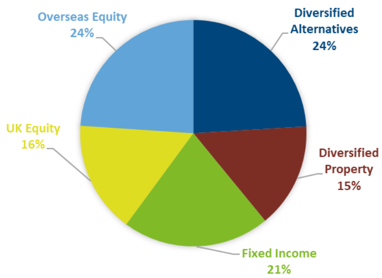
Focused Growth Mixed Assets



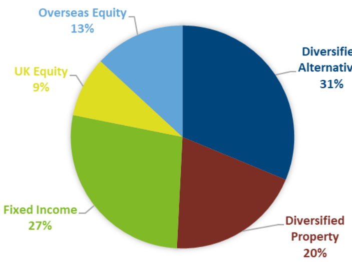
Balanced Mixed Assets



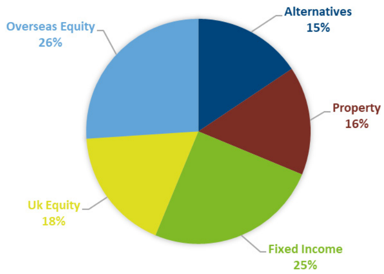
Defensive Balanced Mixed Assets



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.

BECKETT ASSET MANAGEMENT LIMITED
DETTINGEN HOUSE, DETTINGEN WAY, BURY ST EDMUNDS, SUFFOLK, IP33 3TU
T: 01284 754500 E: INFO@BECKETTINVEST.COM WWW.BECKETTINVEST.COM