MARKET UPDATE

August 2023

The performance of the BAM portfolios in August was primarily driven by negative sentiment in equity markets, as all major equity indices closed lower at the end of the month. The Global Horizon portfolio suffered most due to it's 100% allocation to equities. Despite the short-term negative trend, the team are seeing opportunities to deploy cash at attractive valuations, selectively topping up target weights where the price is unjustified.

CASH IS ~~KING~~ WORTH TALKING ABOUT

When cash deposits have a risk-free return of 4.5% it's only natural to scrutinise the relative attractiveness of taking investment risk. Despite this, history suggests that over a reasonable investment time horizon, cash offers inferior returns. If we take the Balanced Mixed Assets portfolio (BMA) as an example of a fair representation of an average risk portfolio. Looking at all of the three-year periods since the portfolios inception, there are 147 periods to analyse. In all but one period, the BMA portfolio outperforms the return that would be available on a cash deposit. The one period where cash outperformed was the three years up to the end of March 2020 when we saw peak uncertainty in investment markets due to Covid. Across asset classes we see investable opportunities which we expect to outperform cash returns considerably. Starting with lower risk asset classes, our fixed income fund has a 1-year prospective yield of 6.75% with considerable capital upside return potential should we see interest rate cuts. Within our property fund, we have many holdings with dividend yields in excess of 5%, depressed share prices trading well below the current values of the properties held, and rental increases being passed on and accepted by tenants. Alternatives continue to offer diversification benefits and in equities we see very low valuations in many markets, especially in those we favour with structural tailwinds, which has historically been a great indicator of future returns. Dividend yields have significantly increased, and the valuations of many equity markets are not demanding.

US SHOWING SIGNS OF WEAKNESS

The most widely forecasted recession in history continues to be elusive however, there are signs that the US economy is slowly weakening. BAM have long said that one of the key indicators will be weakening in the labour market which we are now starting to see. In August US unemployment data was worse than the market expected which in isolation sounds like bad news but in the wider economic context, it's likely that it is necessary for unemployment to rise in order for inflation to remain under control and to return to something resembling a more normal economic environment. In the short term, we may see some pain as a direct consequence of the most extreme interest rate hiking cycle in history but what follows may well be a very appealing investing environment. It is for this reason that the BAM portfolios currently have reduced allocations to the US market but the team remain alert to potential economic developments.

EM RESILIENCE

Activity growth in emerging markets remained resilient in Q2 although the pace of growth slowed in most economies compared to Q1. Despite this, Oxford Economics have increased their EM GDP growth forecasts for 2023 to 2.9% as the impact of monetary policy has been much slower than expected. Inflation in the majority of emerging markets has fallen and major EM central banks are poised to cut interest rates, likely before the US Federal Reserve. Much of the emerging markets exposure within the BAM portfolios can also be attributed to the energy transition and so the combination of favourable economics and structural tailwinds is a small glimmer in amongst the gloom.

SOCIAL IMPACT MODEL

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

*5 Years to 31/07/2023 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL

BAM MPS PERFORMANCE FIGURES TAKE INTO ACCOUNT THE ONGOING CHARGES OF THE UNDERLYING HOLDINGS BUT EXCLUDE ADVISER CHARGES AND PLATFORM FEES. INCLUSION OF THESE WILL RESULT IN A LOWER RETURN TO THE END INVESTOR, DEPENDING ON THE CLIENT AGREEMENT AND THE PLATFORM USED.

ARC PCI: ASSET RISK CONSULTANTS (ARC) OPERATE THE PRIVATE CLIENT INDICES (PCI) ACROSS THE RISK SPECTRUM AS PERFORMANCE MEASUREMENT AND YARD-STICKS FOR DISCRETIONARY PORTFOLIO MANAGERS. THIS DATA INCLUDES PLATFORM FEES AND MAY BE ESTIMATED AND SUBJECT TO REVISION.

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.