MARKET UPDATE

December 2022

In November, all of the BAM portfolios produced positive returns, with the greatest contribution to performance coming from the equity components of the portfolios. The performance of equity allocations to Asia and wider emerging markets has been pleasing, with some holdings posting gains in excess of 10% for the month.

UK AUTUMN STATEMENT

Jean-Baptiste Colbert, a 17th-century French finance minister, once proclaimed, "The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing". Jeremy Hunt is the feather plucker, and there's a lot of plucking to be done. To minimise the hissing, the chancellor has deployed 'stealth taxes', where tax rates do not change but tax thresholds are frozen, increasing tax revenues incrementally as wages rise. Importantly, this means that there are few significant immediate effects whilst also implementing prudent economic policy, something the UK seems to have been lacking. In practice, this has instilled greater financial confidence in the UK government, reducing the cost of borrowing. There has been a plethora of moving parts causing market volatility in 2022, but a stable and financially prudent government will help to steady the ship.

FED CHANGE OF TONE

Federal Reserve officials have long made it clear that they are more concerned about bringing inflation back to its long-term target than inadvertently damaging the US economy. We have however, started to see signs that the medicine is working. November's consumer price inflation reading was lower than the prior month and better than market expectations. This positive reading, alongside encouraging labour statistics and improving supply chains, undoubtedly boosts optimism. Despite this, BAM want to see further positive data points before taking the opinion that inflation has peaked; this is however, a step in the right direction. What this means for investment markets is that fixed income as an asset class is due to become much more significant compared to the last decade of near dormancy. With this in mind, in November all BAM portfolios with an allocation to fixed income had their allocations increased, funded by a reduction in the allocation to alternative assets, which have become relatively less appealing.

COVID IN CHINA

The Chinese zero Covid policy has kept the infection rate very low, but rising unrest amongst the population has sparked a steep rise in cases. On 1st November, China reported 2,770 new cases, but as soon as 23rd November, 55,616 new cases were reported in a single day. Bloomberg estimates a total relaxation of Covid rules would leave 5.8m people in China needing intensive care. Given that the country has little over 55,000 intensive care beds, you don't have to be a doctor (or mathematician) to understand why the Chinese government has been so strict with its approach to Covid. This being said, there are signs of pragmatism returning to the Chinese Covid policy; recent developments include a lower level of tracking of suspected cases, leading to reduced quarantine requirements. Not only this, but Chinese relations with the US and the rest of the world are improving. Xi Jinping, the Chinese premier, stated in a recent dialogue that he would 'unswervingly pursue reform and opening up and promote the building of an open global economy.'

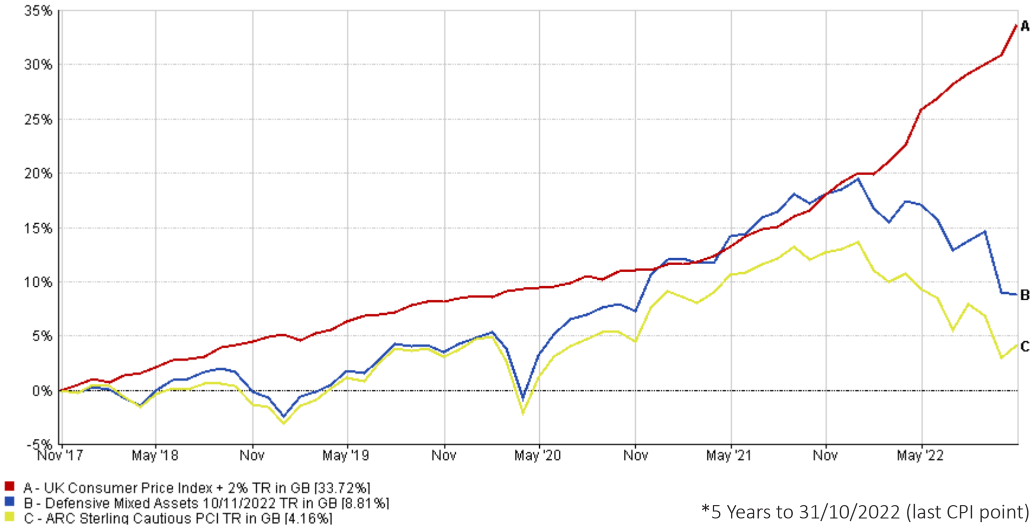
The eagle-eyed reader will have noticed that we have included an additional line on the Defensive Mixed Assets performance chart to offer the opportunity to compare the performance of DMA against peers with similar risk objectives. CPI +2% remains the portfolio's benchmark, but in this period of significantly elevated inflation, BAM will not take excessive risk to compete with the benchmark.

We at Beckett Asset Management would like to wish you all a very merry Christmas and a happy, prosperous New Year.

SOCIAL IMPACT MODEL

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

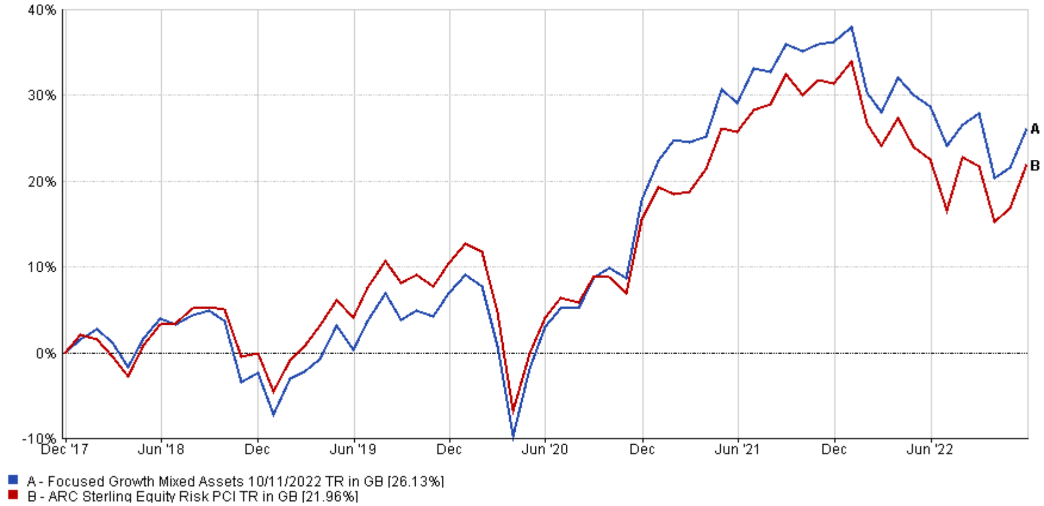


*5 Years to 31/10/2022 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL



Total Return figures take into account normal dealing costs but not Adviser fees. Source: FE Analytics – Total Return.

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