MARKET UPDATE

January 2020

January started off as 2019 finished, with risk assets in a buoyant mood as global manufacturing indices (PMI's) provided confirmation that fortunes had turned and were signalling expansion. The indices registered their highest levels since last April in developed markets, but slightly more subdued for Emerging Markets. In fact, the MSCI All Country World climbed to new highs.

CORONAVIRUS

However, due to Coronavirus-related disruption, this general trend of improvement in the data is likely to come to an abrupt halt in February, at least in China and emerging Asia. Quarter one GDP expectations were around the 5.5% level for China and, currently, 3% seems to be the new forecast by the economists. If past epidemics are anything to go by, the loss will be recovered during the rest of the year. In the meantime, while equites - particularly energy and travel related stocks - have been hit, we have also seen a negative reaction in commodity prices like Copper and Oil, while government bond prices have been rallying as investors seek out safe havens. This demonstrates the benefits of having a multi asset portfolio which helps to dampen the impact of market shocks and our portfolio strategies have been pretty resilient.

UK exports to China account for about 5.5% of our total exports, or 0.9% of GDP. But many exports may be delayed rather than cancelled. Meanwhile the number of visitors from China was around 1.2% of total visits in 2018 and 3.2% of all expenditure is by foreign tourists, or just 0.03% of GDP. Overall, the effects on the UK economy currently seem modest, but a lot depends on how the virus spreads.

THE UK FINALLY LEAVES THE EU

For a lot of people, Brexit has always been and will always be about more than just economics. But the UK's departure from the EU at 11 pm on 31 January 2020, some 47 years and 1 month after joining the European Economic Community in 1973, will go down in history as a major economic event.

Of course, in practice, things will be much the same until 31 December 2020 which marks the end of the transition period. During this time, the UK keeps most of the rights and obligations as a full EU member. Even though the UK and EU used 27 pages in the political declaration to lay out a framework for the new relationship after the transition period ends, it is likely that we will see some kind of fudge that prevents a step change in trading rules. This will mean we eventually mimic the EU-Canada arrangement for friction-free trade in goods, and then add on top easier access for services and financial services, otherwise known as "Canada plus plus". Whilst the influence on GDP is unlikely to be minimal, the notion that the UK will grow at a significantly lower rate seems to be unlikely. Indeed the biggest change may well be in migration, and there are signs that this has already taken place. The growth of the labour force in 2025 may only be around 0.1 percentage point lower than otherwise. In addition, by Treasury's own estimate, productivity may well only be hit by 0.2 percentage points. All in all, the UK's GDP is likely to be stable around current levels of 1.6 to 1.7% over the next decade.

US PRIMARIES KICK OFF IN FEBRUARY

As we look ahead to what the rest of 2020 might hold, one of the events that could wobble markets is the US Election in November as it is pretty certain that Trump won't be impeached. Indeed, the outcome of the US election could see US equities underperform those in many other markets if either Elizabeth Warren or Bernie Sanders were elected president- especially if the Democrats also gained full control of Congress. Both are running on ideas designed to curb the power of the big firms that have fuelled last year's increase in the S&P 500. This is something we are keeping an eye on.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

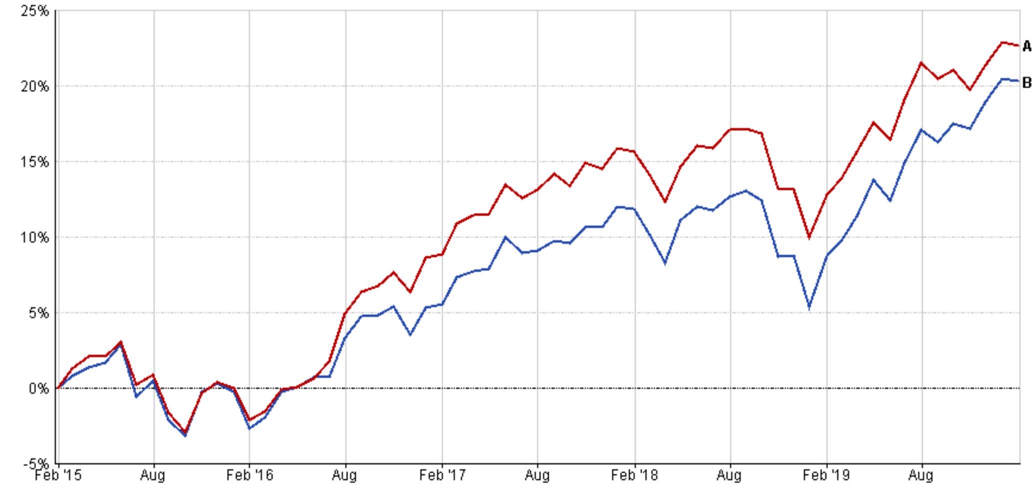
5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

■ A - UK Consumer Price Index + 2% TR in GB [19.86%]
■ B - Defensive Mixed Assets 15/01/2020 TR in GB [18.01%]

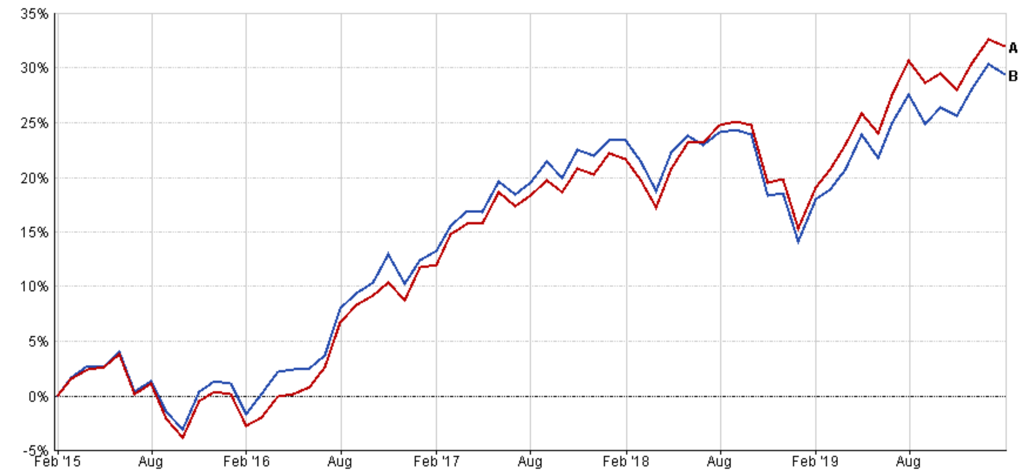
*5 Years to 13/12/2019 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL



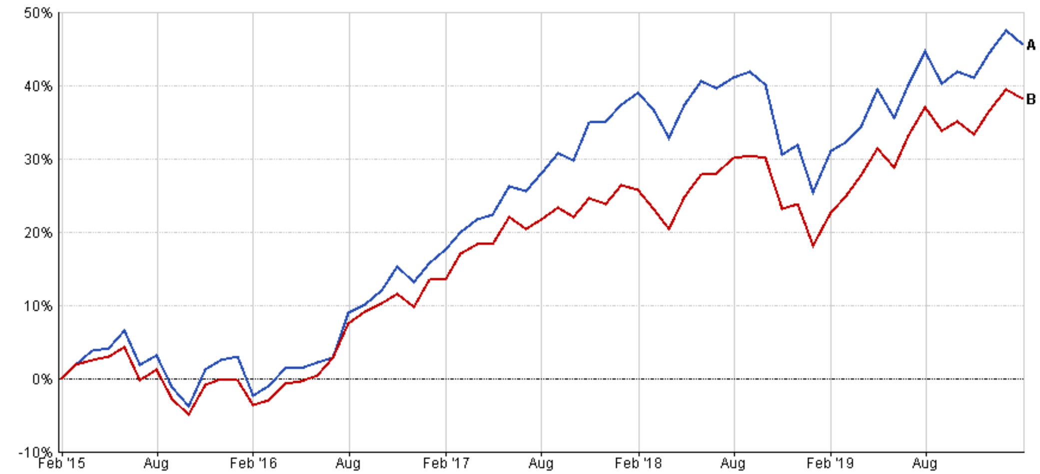
■ A - ARC Sterling Balanced Asset PCI TR in GB [22.67%]
■ B - Defensive Balanced Mixed Assets 15/01/2020 TR in GB [20.35%]

BALANCED MIXED ASSETS MODEL



■ A - ARC Sterling Steady Growth PCI TR in GB [31.97%]
■ B - Balanced Mixed Assets 15/01/2020 TR in GB [29.46%]

FOCUSED GROWTH MIXED ASSETS MODEL



■ A - Focused Growth Mixed Assets 15/01/2020 TR in GB [45.64%]
■ B - ARC Sterling Equity Risk PCI TR in GB [38.28%]

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

The investments mentioned in this report are intended as long-term investments. Some of them may go down as well as up and you therefore may not get back the full amount invested. Where investments are denominated in foreign currencies, changes in the rate of exchange may have an adverse effect on the value or price of the investment in Sterling terms. Past performance is not necessarily a guide to future performance. This document should not be construed as an offer document or solicitation and is circulated because the contents may be of incidental interest. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.