MARKET UPDATE

February 2022

The beginning of 2022 has seen raised levels of market volatility, the likes of which have not been seen since the start of 2020, at a time when investors were as concerned about their physical health as they were about their portfolios. Over the period of very low interest rates, volatility was limited but we are now seeing persistent Inflation, disrupted supply chains and fragile diplomatic relations, which all contribute to a changing economic environment.

MARKET VOLATILITY

Amongst the volatility there has been a significant divergence in the performance of the different asset classes. Equities have come off worst, in particular our exposure to growth equities has suffered due to the prospect of rising interest rates, which will lead to an increase in the cost of borrowing. An exception must be noted where the UK market has significantly outperformed compared to foreign indices. This is due to the UK market's large weighting to the financial and energy sectors, which have produced positive returns. On the other hand, the US market and sustainable equities in particular are skewed towards being more growth in style, which is naturally less likely to perform well in a rising rate environment. Whilst we have done our best to navigate the changing economic environment, due to the nature of running global portfolios, when there is a divergence in returns by region, we are likely to get hurt somewhere. In addition to this, in the short term, markets are inefficient and investors will often place too much emphasis on recent news, resulting in overreactions. Consequently, this means that logical investment decisions are not always rewarded in the short term. We remain confident that active managers will continue to be able to pick through the metaphorical rubble in order to produce strong long-term performance. We would like to reiterate that market volatility is part and parcel of long-term investing and that pullbacks such as we have seen in January should not be cause for concern.

GEOPOLITICAL TENSIONS

Despite being one of the biggest stories of the month, the heightened tensions between Russia and Ukraine at the time of writing are yet to produce significant implications outside of the energy price rises. Whilst this might sound like a non-starter of a story, it's important to consider all outcomes and the potential implications should an invasion of Ukraine come to fruition. Should invasion occur it is very possible that governments will impose trade restrictions, which would likely result in greater inflationary pressures and higher prices at a time where inflation is already running at elevated levels. Should tensions escalate and trade disputes ensue, having a portfolio that is well-diversified geographically will help to weather the storm.

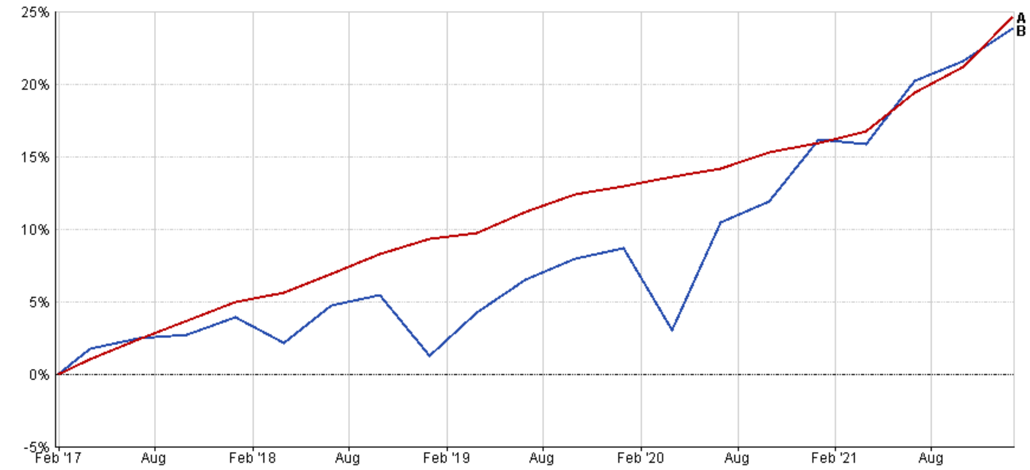
VIRUS RECOVERY: DELAY BUT NOT DERAILMENT

Back in November we spoke in the Market Update with curiosity and scepticism about the then new Omicron Covid variant. However, in truth there have been very few negative consequences. The impact appears to be significantly less severe on populations with high vaccination rates, which is likely to result in a variety of responses from governments around the world. In particular, China and a selection of other South-East Asian countries have thus far had a zero-tolerance policy to Covid, deciding to impose strict but localised lockdowns should cases flare up. For as long as this approach to Covid continues, it's not unreasonable to state the potential for ongoing supply chain issues to remain elevated. To counteract this, many companies appear to be transitioning to a 'just in case' method of managing stock, whereby companies hold greater inventory levels so that they are better able to minimise the impacts of a disrupted supply chain. This does therefore present an opportunity for storage related property in strategic locations, close to the end consumer – a prime example of how an investor can benefit from diversification within a multi-asset portfolio.

SOCIAL IMPACT MODEL

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



A - UK Consumer Price Index + 2% TR in GB [24.72%]
B - Defensive Mixed Assets 16/07/2021 TR in GB [23.87%]

*5 Years to 31/12/2021 (last CPI point)

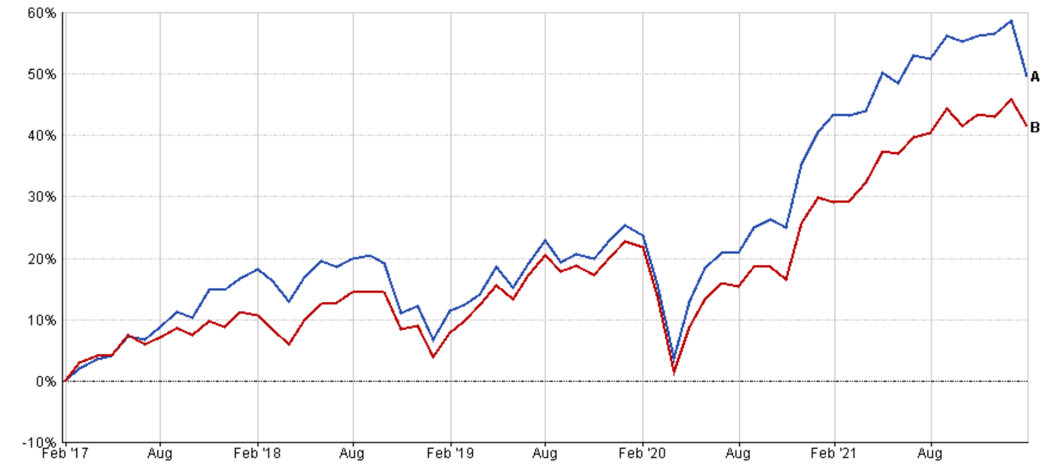
DEFENSIVE BALANCED MIXED ASSETS MODEL

A - ARC Sterling Balanced Asset PCI TR in GB [23.82%]
B - Defensive Balanced Mixed Assets 23/08/2021 TR in GB [22.85%]

BALANCED MIXED ASSETS MODEL

A - ARC Sterling Steady Growth PCI TR in GB [32.97%]
B - Balanced Mixed Assets 16/07/2021 TR in GB [30.78%]

FOCUSED GROWTH MIXED ASSETS MODEL



A - Focused Growth Mixed Assets 16/07/2021 TR in GB [49.73%]
B - ARC Sterling Equity Risk PCI TR in GB [41.64%]

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

Investments are intended for the long term. Their value is not guaranteed and may go down as well as up. The value of international holdings may also be affected by the fluctuation in the value of Sterling against other currencies. Past performance is no guide to future returns. 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.