MARKET UPDATE

January 2023

2023 got off on the right foot as all asset classes produced positive returns in January. All portfolios had returns greater than 2% for the month, with the largest move being the Global Horizons Portfolio posting a 4.65% gain. Particularly pleasing to see was the strong performance of Asian equity markets, as the BAM team has had a strong positive conviction in the region for some time, helping to boost the performance of the portfolios.

US INFLATION

As widely expected, the US Federal Reserve raised the Fed funds rate by 25 basis points but they were very keen to stress that they're not finished with rate rises just yet. CPI, a key measure of inflation, has been falling in the US since mid-2022 but the Fed has now turned its attention to the labour market. It's widely thought that for inflation to return to the 2% target set by the Fed, the labour market needs to weaken, something we are yet to see. Despite this, the continued slowing CPI data looks to have increased investors' appetite for risk, providing a tailwind for equities in January. BAM however, continue to remain cautious as the long term expectations of the market seem to deviate further and further from central bank rhetoric. The portfolios have therefore been positioned to ensure that they will participate in a US market rally whilst also remaining cognisant that a market pullback is very possible, should the Fed insist on raising rates until unemployment starts to rise. For this reason the Overseas equity component of portfolios continues to maintain an underweight to the US market.

CHINA REOPENING

When the Chinese government announced in December that their zero covid policy was to be swiftly eradicated, many people (BAM included) were concerned about the potentially crippling stress this could have imposed on the healthcare system. BAM decided to maintain an overweight to China on the basis that the Chinese consumer had nearly 3 years of excess savings, meaning pent up demand could lead to a substantial post-covid reopening. Following the reopening, the Chinese government took the decision to stop publishing covid data. BAM have therefore been in contact with various analysts based in south east Asia and the common message is that there was a period of widespread sickness, albeit with varying severities. Towards the end of January, the team heard Chinese based contacts talking positively about tourism and a return to normal Luna New Year celebrations. Therefore, initial concerns around the removal of covid restrictions appear to have been overstated and consequently, Chinese equities have become more attractive. This resulted in the Shanghai Composite (a key Chinese equity index) rallying over 5% in January.

PROPERTY PRICES

Higher interest rates mean mortgages become more costly and overall property becomes less affordable. It's therefore no surprise that we're seeing a reduction in the value of homes but BAM believe that there are long term structural trends in some sectors of the property market. “Breads, Meds, Beds and Sheds” is a phrase often used by the team to describe property exposures within the BAM portfolios to illustrate that the investible universe is far greater than just housing. Demand for supermarket and medical buildings remains very resilient in a market downturn. The UK attracts students globally leading to strong demand for affordable student accommodation and the long-term trend of the digitalisation of shopping provides support for warehouses in strategic locations with good transport links. The BAM portfolios have exposure to all of these themes, which should help to offset some of the weakness we're seeing in other parts of the property sector.

SOCIAL IMPACT MODEL

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

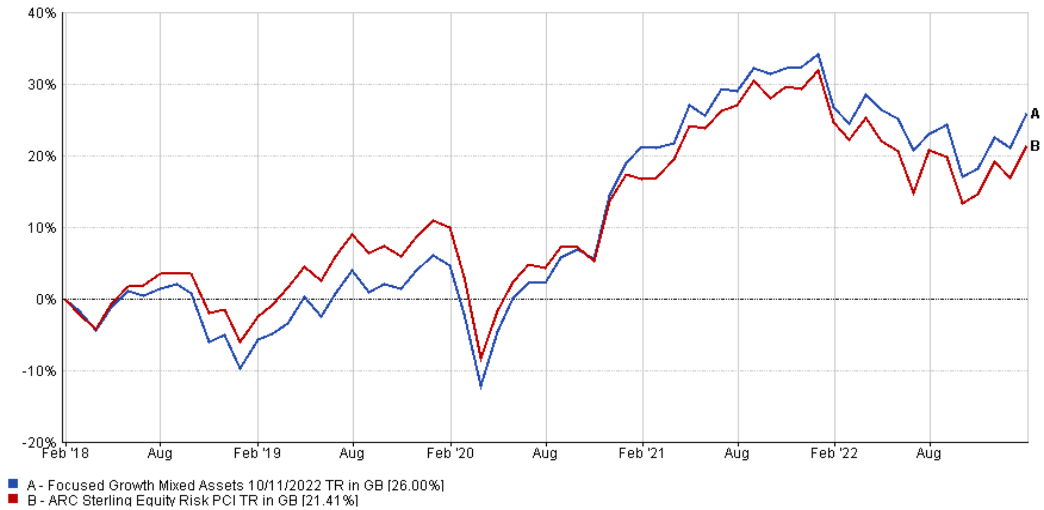
DEFENSIVE MIXED ASSETS MODEL

*5 Years to 30/12/2022 (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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