MARKET UPDATE

February 2020

For over ten years now, volatility has been almost non-existent but for a few dips here and there, and many investors will have forgotten the pain of a sizeable correction. After a prolonged period of good returns, it's easy for a market downturn to feel scary. While the drop we've seen in the last week of February is not a comfortable experience, it is traditionally part of the journey for long-term investment.

The end of February saw global equity markets experience a brutal sell off amid growing fears of a Coivd-19 pandemic. However, the performance of the BAM model portfolio strategies has been very encouraging. Whilst we are unable to buck the markets, the losses in our model portfolios are far less than the losses in the major global indices, as a direct result of our multi-asset approach to investment management. Unlike the last quarter of 2018, this time the correction is only affecting "risk assets" which are predominantly equities; the "risk off" assets such as Fixed Interest and Alternatives like Property are behaving exactly as we expect and have helped to stabilise portfolio values.

Past epidemic crises have shown that the economic impact is usually sharp and temporary. However, the source of the virus is China, which generates around 16% of global economic growth, and is a leading player in supply chains and tourism. The impact on global growth is uncertain and we have to constantly observe the economic resumption process and see if the macroeconomic story has truly shifted.

Chinese authorities have already conducted an aggressive monetary policy stimulus and pledged additional fiscal stimulus - and are trying to get people back to work. Plus, global liquidity is ample and central banks, the Bank of Japan and the European Central Bank in particular, are unlikely to change their loose policy stance anytime soon. However, we are cognisant that coronavirus isn't susceptible to financial pressure and, unlike Fed chair Jay Powell, it cannot make a U-turn. (In an extraordinary meeting on the 3rd March the Fed did indeed cut interest rates by 0.50%.)

INDICES SUGGEST ECONOMIC SLOWDOWN

While the February "flash" purchasing managers' indices (PMIs), which are barometers for economic growth, were better than expected for the euro zone, the underlying numbers point to future weakness in growth. The US, Japan and Australian PMIs showed quite a negative impact on the services sector, mostly stemming from coronavirus. US companies also seem to suggest more cautious spending ahead due to fears of a wider economic slowdown and election uncertainty later in the year.

Equity markets and bond yields could rebound quickly once the virus impact on growth has reached its peak. Until then, we may continue to observe higher volatility and further episodes of "risk-off" moves in equities, with government bond yields staying at very low levels or grinding even lower. At the moment, we think the recovery in global growth and trade we started to see at the end of 2019, and early this year, will be delayed rather than derailed, but we are watching events closely.

BREXIT NEGOTIATIONS

The next stage of Brexit kicks off on the 3rd March and both sides are expecting the process to be difficult and tense. From the Downing street perspective, the ability to do things differently and react to future challenges swiftly is the whole point of Brexit, but for the EU, avoiding an economic rival on its doorstep is the primary aim. Our former partners in Europe are all airing their grievances. For Greece, it's the Elgin marbles. For Spain, it's Gibraltar and for France it's everything else – but especially fish! To be fair, now is the time for countries to put in their demands, as a deal will only ever be concluded at five minutes to midnight, but we probably shouldn't be too surprised if the conclusion is no deal, which could be inflationary.

SOCIAL IMPACT MODEL

A - Social Impact Portfolio 15/01/2020 TR in GB [30.54%]
B - ARC Sterling Balanced Asset PCI TR in GB [19.21%]

PERFORMANCE SINCE INCEPTION IN 2016

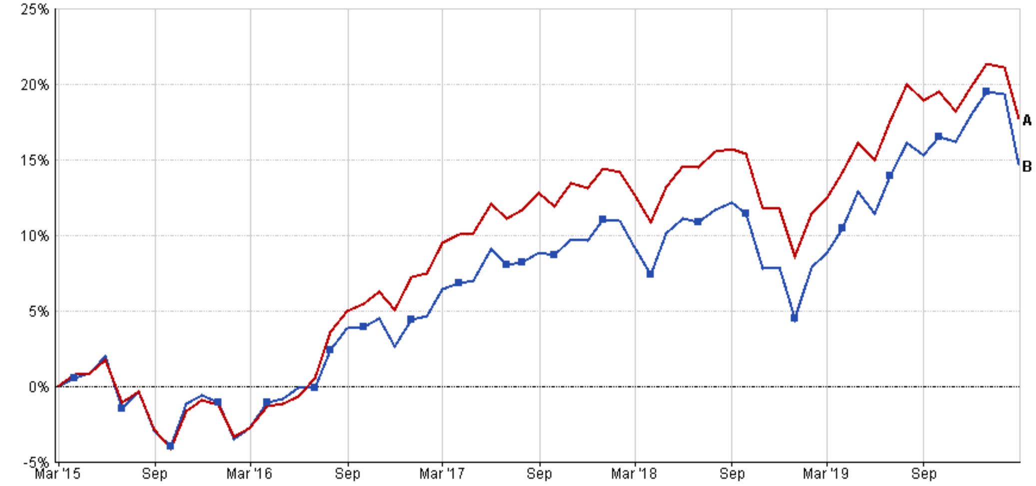
5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL

■ A - UK Consumer Price Index + 2% TR in GB [20.30%]
■ B - Defensive Mixed Assets 15/01/2020 TR in GB [19.16%]

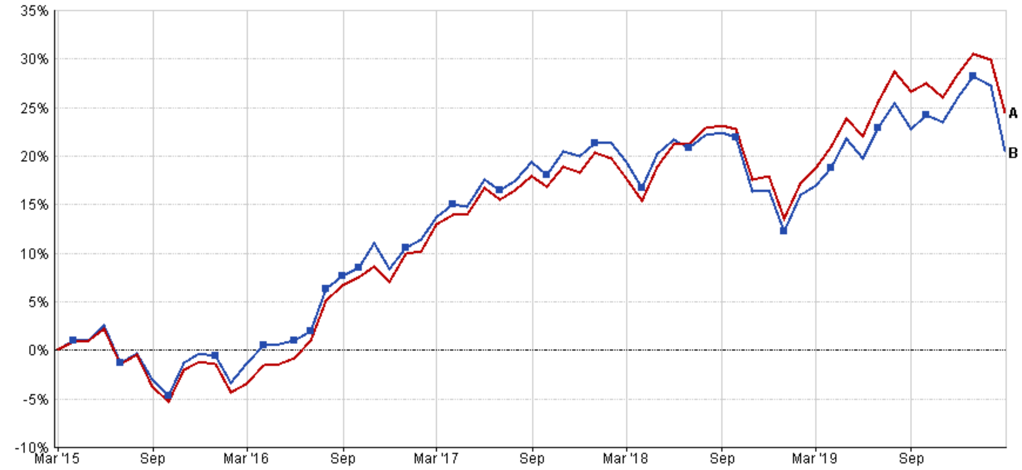
*5 Years to 15/1/2020 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL



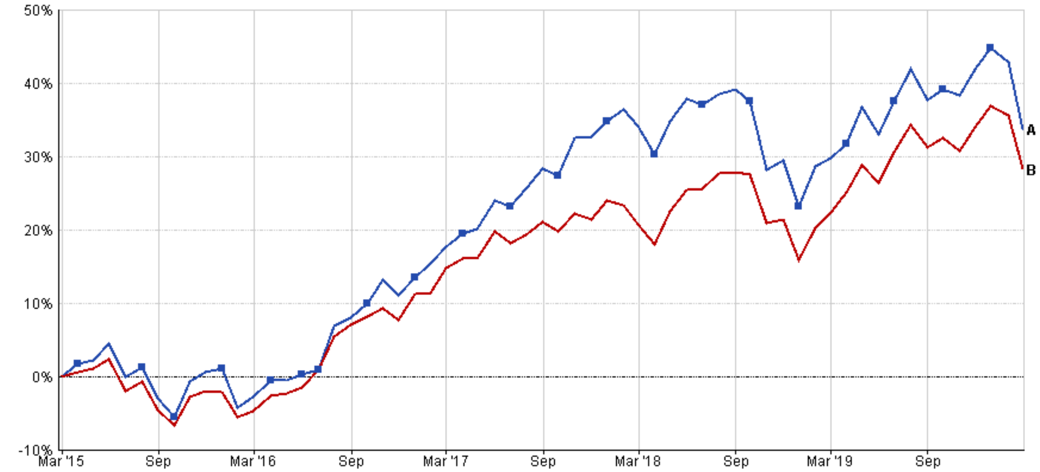
■ A - ARC Sterling Balanced Asset PCI TR in GB [17.75%]
■ B - Defensive Balanced Mixed Assets 15/01/2020 TR in GB [14.68%]

BALANCED MIXED ASSETS MODEL



■ A - ARC Sterling Steady Growth PCI TR in GB [24.45%]
■ B - Balanced Mixed Assets 15/01/2020 TR in GB [20.51%]

FOCUSED GROWTH MIXED ASSETS MODEL



■ A - Focused Growth Mixed Assets 15/01/2020 TR in GB [33.69%]
■ B - ARC Sterling Equity Risk PCI TR in GB [28.31%]

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