MARKET UPDATE

May 2020

We have seen the quickest and sharpest crash in stock market history followed by the biggest monthly gain in 30 years in April which continued into May, helping the BAM model portfolios' strategies continue to recoup losses experienced in March.

Equity markets rose on the whole as lock-down measures began to be lifted and further support measures were announced such as the proposed €750 billion recovery package from the European Commission which is on top of the €540 billion rescue package agreed in April. Importantly, this recovery plan has green strings attached. 25% of the recovery spending is set aside for green investments, consistent with the EU's ambition to use the European Green Deal as its future growth strategy. While the human toll of the pandemic is truly terrible, the cleaner air we have experienced is a positive by-product and financial markets are increasingly likely to analyse the political response to climate change and identify whether or not it is sufficient, with asset prices moving accordingly.

Corporate bonds outperformed government bonds as the more optimistic backdrop saw investors favour higher risk assets. Policy stimulus efforts provided hope about the future and, hence, why financial markets have looked through the gloom.

Some might question how the US market is almost back to its peaks despite the torrid GDP numbers we are seeing; for example -5% for the US in Q1 which is the biggest quarterly drop since an 8.4% fall in Q4 2008. The catalyst seems to be the amount of stimulus that has found its way into markets. The last time the world was flooded with this much liquidity was in 2009, which was also the last time we saw a rally in the stock market on anything like this scale.

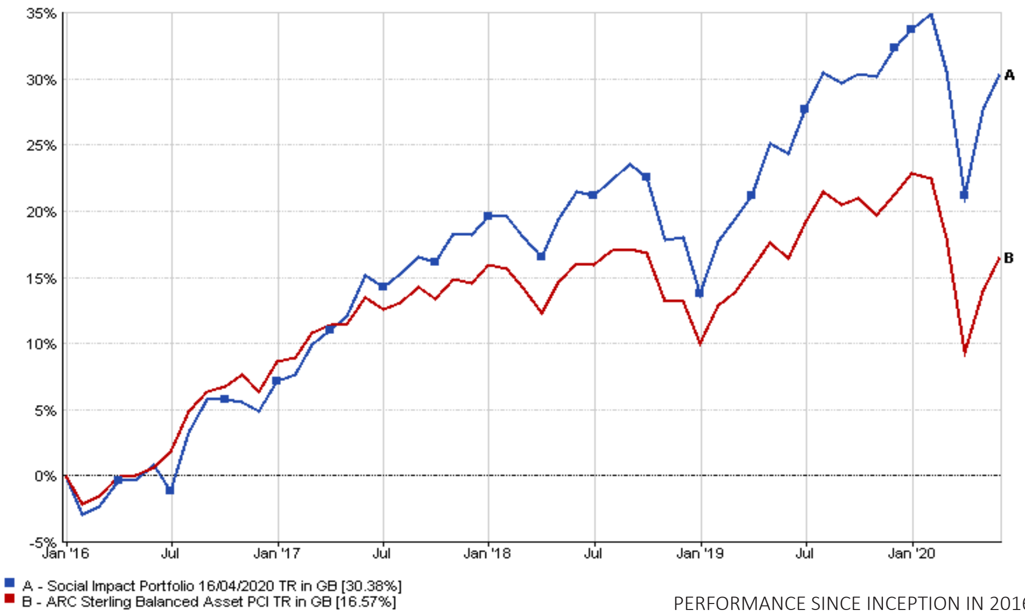
Most of the bad news was captured in the market before we entered April as investors anticipated the economic slump before it has even been realised. For the same reason they have also captured the recovery, which is why we have seen share prices rebound. While China provides some hope for Western economies, which in April and May are likely to have been at the nadir of both their economic contraction and corporate earnings cycle, escalating tensions between the US and China and threat of a "new cold war" capped Emerging Markets gains.

Brexit is back on the table and, while UK equities rose in May with a number of economically sensitive areas performing well amid the improvement in investor sentiment, renewed concerns that we could be heading for a "no deal" Brexit weighed on sterling - as did the prospect of negative interest rates. The Bank of England governor has said that negative rates were under "active review" while the Debt Management Office confirmed it had sold negative yielding gilts for the first time. The swift and significant response of the Bank of England to the coronavirus crisis has prevented a financial crisis, but the Bank might need to do much more to get the economy back on track and it could be a long time until we see interest rates back above 0.10%.

In summary, sentiment has improved from a couple of months ago but, outside some favoured areas like Technology which has benefited from accelerated trends like working from home and online shopping and entertainment, most investors are still climbing a wall of worry.

No doubt markets will remain both compelling and frustrating over the summer dominated by the dueling narratives of the new cold war and the path of the virus and its impact but, overall, sensible multi-asset diversification, could still be rewarding.

SOCIAL IMPACT MODEL



PERFORMANCE SINCE INCEPTION IN 2016

DEFENSIVE MIXED ASSETS MODEL

■ A - UK Consumer Price Index + 2% TR in GB [19.92%]
■ B - Defensive Mixed Assets 16/04/2020 TR in GB [9.04%]

*5 Years to 15/4/2020 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

■ A - ARC Sterling Balanced Asset PCI TR in GB [13.11%]
■ B - Defensive Balanced Mixed Assets 16/04/2020 TR in GB [11.19%]

BALANCED MIXED ASSETS MODEL

■ A - ARC Sterling Steady Growth PCI TR in GB [18.53%]
■ B - Balanced Mixed Assets 16/04/2020 TR in GB [17.23%]

FOCUSED GROWTH MIXED ASSETS MODEL

■ A - Focused Growth Mixed Assets 16/04/2020 TR in GB [30.75%]
■ B - ARC Sterling Equity Risk PCI TR in GB [21.56%]

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