

# MARKET UPDATE

May 2022

Despite the very challenging economic backdrop, year to date we are pleased with the relative performance of the BAM portfolios with four of the six models outperforming their benchmarks. Our more defensive positioning has helped. The Defensive Mixed Assets Portfolio's benchmark contains linkage to inflation and so will be difficult to beat for as long as inflation remains at significantly elevated levels and we won't be increasing risk to do so. The performance of the Global Horizons Portfolio, which is highly thematic and long term by nature, can only be fairly assessed over longer periods of time. Although recent months have seen negative returns, it is important not to lose sight of the fact that markets never follow the same trend forever.

## 70 YEARS OF REFLECTION

Whilst we, of course, view the world through a very different lens to the royal family, observing economic events from the past 70 years can help to guide future decision making. As is often said, history doesn't repeat itself, but it often rhymes. When looking at key economic areas, such as the US, UK, Eurozone and Japan since the 1950s there have been 42 interest rate hike cycles of which those resulting in recessions outnumber those with no recession by 2:1. There is also a clear progression of recession risk as the peak inflation rate rises. With inflation running at significantly elevated levels in most developed nations, this might sound like an economic doomsday but it's important to remember that markets are forward looking, meaning that, in theory, the forecasted impacts of future economic conditions are reflected in the current price. The BAM portfolios remain at their most defensive for many years but, despite this, we are beginning to see some opportunities, namely in fixed income assets, where we believe that risk is sufficiently 'priced in'. Whilst we are very cautiously optimistic about certain areas of the market, we are cognisant of the fact that there are a multitude of ongoing issues that remain shrouded in uncertainty and so we still expect the BAM portfolios to remain largely defensive for the coming months.

## NOT ALL COMMODITIES APPEAL

At a time when energy costs are plaguing the everyday consumer and input costs are putting pressure on profit margins, it's easy to get caught up in the fracas of the commodity market. In simple terms investment theory states that in times of high inflation, buy real assets, which includes commodities. Despite this, it's important to be aware that over longer periods of time, there are a multitude of factors influencing price movements and so we should be selective as to which commodities are of interest. Currently, arguably the most significant long-term trend is that of the energy transition. With this in mind it is easier to appreciate, for example, the potential for the price of lithium to be supported long-term, due to what is likely to become

a significant increase in demand for batteries. The opposite would be true for something like coal. All things considered, we believe an exposure to a select few commodities can benefit a portfolio by improving diversification, in addition to the potential for capital growth - this is a view that is reflected within the Blenheim Diversified Alternatives Fund.

## DIGITAL FASHION

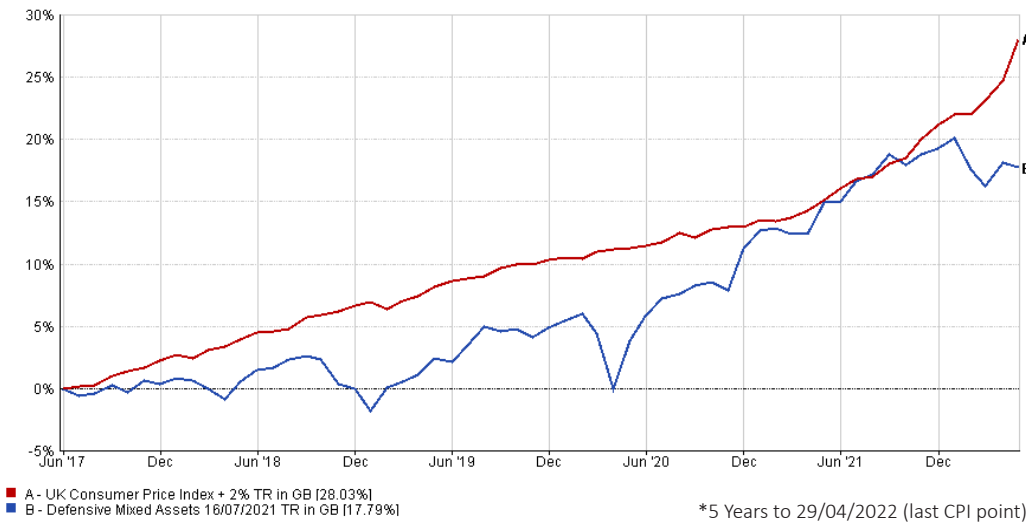
The world of digital assets is evolving at a rapid pace and serious competition is ensuing in digital fashion. Sportswear brands Nike and Adidas have been investing in the design and production of digital clothing with Nike going as far as to acquire a virtual shoe design company called RTFKT Studios and Adidas purchasing land in a virtual world known as 'The Sandbox'. This may sound like fantasy, but it was revealed at the start of May that Nike had sold more than \$14m worth of 'digital kicks' with the most expensive being sold for \$186,000. Whilst there is currently no place for futuristic digital assets of this kind in the BAM portfolios due to the immaturity and volatility of the asset class, we do keep pace with the latest developments with the view that one day there is a very real possibility of digital assets being considered a much more mainstream asset class.

## SOCIAL IMPACT MODEL

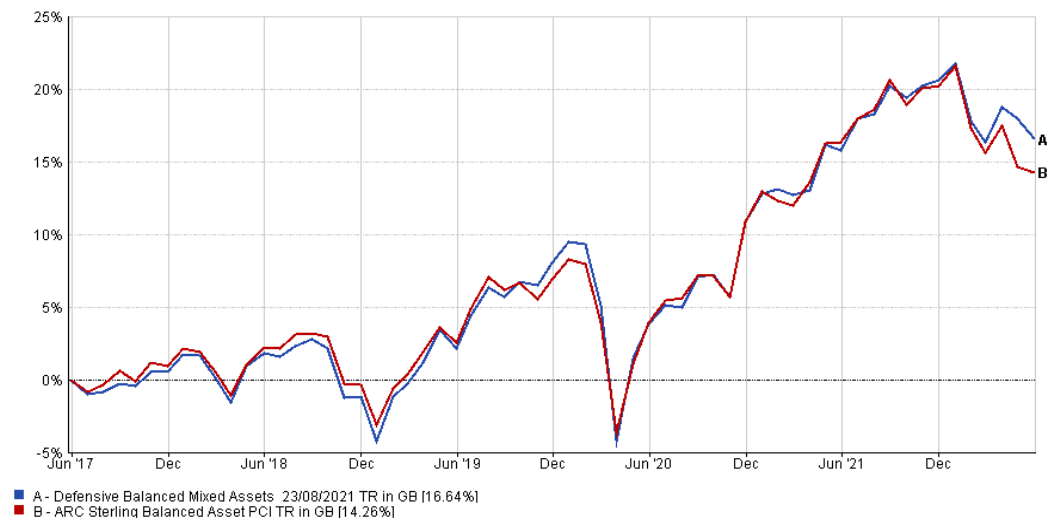


# 5 YEAR MODEL PERFORMANCE VS BENCHMARK\*

## DEFENSIVE MIXED ASSETS MODEL



## 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.

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.