MARKET UPDATE

May 2023

Higher risk portfolios fared better in May as fixed income assets sold off due to rising interest rate expectations in the UK. Both thematic portfolios (Global Horizons and Social Impact) were the only models to produce a positive return in May. The core portfolios saw fractional losses but outperformed benchmark estimates on a relative basis.

US DEBT CEILING & FED HIKE

A significant crisis was averted as at the eleventh-hour the US Senate devised a compromise to suspend the debt ceiling in exchange for spending cuts demanded by Republicans. In the first weeks of May, market participants had been avoiding US debt that was maturing in June, July and August over fears that the US may not be able to make payment. This, however, will now not be a concern until 2025 when the suspension will expire, post-Presidential election.

In May, the Federal Reserve has raised interest rates by an expected 25 basis points. However, language used would suggest that this could be its last rise for the foreseeable future. Many market participants are optimistic that interest rates are now heading downwards, however, this is not a view that BAM subscribes to. The team currently takes a view that interest rates are unlikely to be cut anytime soon as never before have the Fed reduced rates immediately after increasing them. Therefore, BAM currently prefers companies that are sensibly valued, have strong balance sheets and are cash generative as these companies are likely to outperform in an environment with elevated interest rates.

UK INFLATION

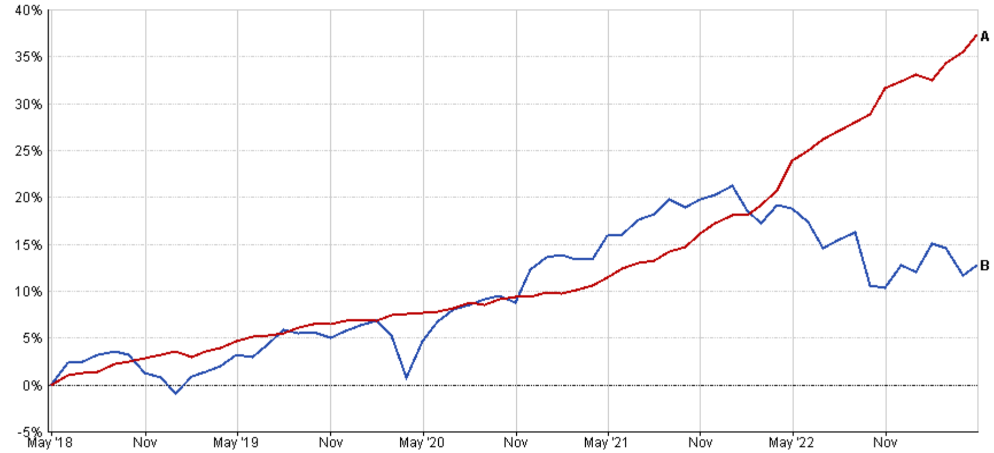
Last month, the news headlines and politicians would have you believe that inflation is coming under control in the UK as CPI fell from an eye watering 10.1%, to a marginally less eye watering 8.7%. In practice, much of the fall was due to decreases in energy prices. Core inflation (CPI minus volatile components such as food and energy), in fact rose in May to 6.8% compared to the previous reading of 6.2%. What this means is that the Bank of England is left with little choice but to continue increasing interest rates, as this is their primary weapon in combating inflation. Relating this to investments, it's likely to be deemed negative news for equities but where the situation does create some excitement is for fixed income assets as the higher interest rates go, the greater the potential for fixed income assets to perform. Whilst the team have a negative view on the UK economy, a reasonable sized UK equity allocation is maintained within the BAM portfolios, as many UK listed companies are global conglomerates with little sensitivity to the UK economy. This is proven by the fact that in 2022, only 22% of FTSE 100 company revenues were generated in the UK.

AI MANIA

Everyone seems to be talking about artificial intelligence at the moment (BAM included) and the trend has certainly been reflected in equity markets. The last week of May saw the largest weekly flow of money into technology funds ever as $8.5bn was invested. The trend has led to some 'punchy' valuations, of which BAM are sceptical. One such example is that of Nvidia, a company best known amongst gamers for manufacturing graphics cards. The company has been able to ride the AI wave, producing returns in excess of 170% year to date, briefly joining the exclusive group of companies valued over one trillion US dollars. Whilst the BAM portfolios maintain an exposure to technology companies, the team is vigilant to the possibility that AI could become the next 'market bubble'.

SOCIAL IMPACT MODEL

DEFENSIVE MIXED ASSETS MODEL



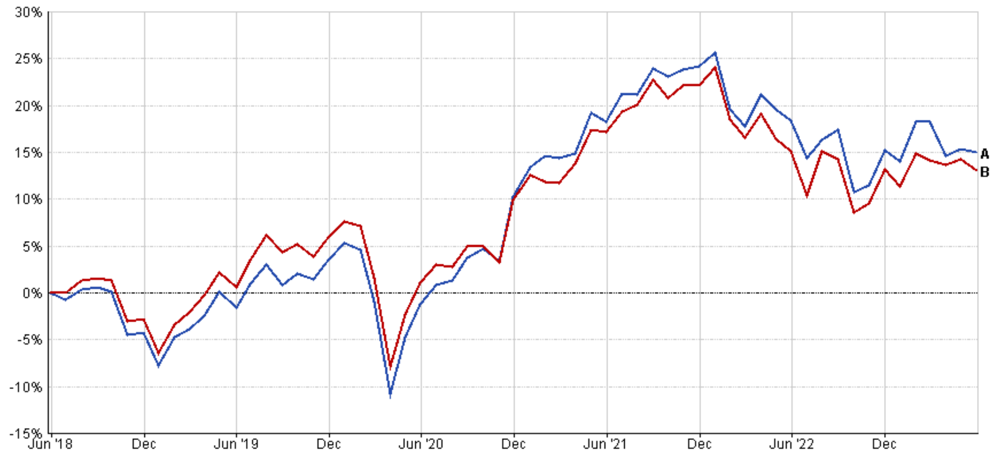
A - UK Consumer Price Index + 2% TR in GB [37.33%]
B - Defensive Mixed Assets 10/11/2022 GTR in GB [12.82%]

*5 Years to 28/04/2023 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL

A - Defensive Balanced Mixed Assets 10/11/2022 TR in GB [9.56%]
B - ARC Sterling Balanced Asset PCI TR in GB [9.17%]

BALANCED MIXED ASSETS MODEL



A - Balanced Mixed Assets 10/11/2022 TR in GB [14.95%]
B - ARC Sterling Steady Growth PCI TR in GB [13.10%]

FOCUSED GROWTH MIXED ASSETS MODEL

A - Focused Growth Mixed Assets 10/11/2022 TR in GB [21.14%]
B - ARC Sterling Equity Risk PCI TR in GB [16.95%]

BAM MPS PERFORMANCE FIGURES TAKE INTO ACCOUNT THE ONGOING CHARGES OF THE UNDERLYING HOLDINGS BUT EXCLUDE ADVISER CHARGES AND PLATFORM FEES. INCLUSION OF THESE WILL RESULT IN A LOWER RETURN TO THE END INVESTOR, DEPENDING ON THE CLIENT AGREEMENT AND THE PLATFORM USED.

ARC PCI: ASSET RISK CONSULTANTS (ARC) OPERATE THE PRIVATE CLIENT INDICES (PCI) ACROSS THE RISK SPECTRUM AS PERFORMANCE MEASUREMENT AND YARD-STICKS FOR DISCRETIONARY PORTFOLIO MANAGERS. THIS DATA INCLUDES PLATFORM FEES AND MAY BE ESTIMATED AND SUBJECT TO REVISION.

AS IS THE VERY NATURE OF INVESTING, THERE ARE INHERENT RISKS AND THE VALUE OF YOUR INVESTMENT WILL BOTH RISE AND FALL OVER TIME. PLEASE DO NOT ASSUME THAT PAST PERFORMANCE WILL REPEAT ITSELF AND YOU MUST BE COMFORTABLE IN THE KNOWLEDGE THAT YOU MAY RECEIVE LESS THAN YOU ORIGINALLY INVESTED. CHANGES IN RATES OF EXCHANGE MAY HAVE AN ADVERSE EFFECT ON THE VALUE, PRICE OR INCOME OF AN INVESTMENT. THE OPINIONS STATED ARE THOSE OF BECKETT ASSET MANAGEMENT LTD, WHICH IS AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY.