MARKET UPDATE

September 2022

August was a month of two halves with the first half being driven by positive equity market returns before dropping back later in the month. Despite this, all BAM portfolios outperformed their respective benchmarks and all but the Social Impact Portfolio produced positive returns for the month. The main drivers of returns came from emerging markets in both equity and fixed income assets.

JACKSON HOLE SYMPOSIUM

The annual Jackson Hole Symposium, a conference attracting senior economists and central bankers from around the world, took place in August. Whilst there were no significant surprises, Federal Reserve Chairman Jerome Powell was certainly keen to continue his negative rhetoric emphasising the Fed's strong commitment to bringing inflation under control by using its tools "forcefully". Despite the overall negative tone, Powell was quick to reiterate that there will come a time where it is appropriate to slow the pace of interest rate increases but also stated that experience cautions strongly against a premature loosening of monetary policy. Whilst the tone remains subdued at best, it's important to appreciate that investment markets can handle rising rates and historically there have been periods of rising interest rates that have seen good investment returns.

UK INFLATION RISING

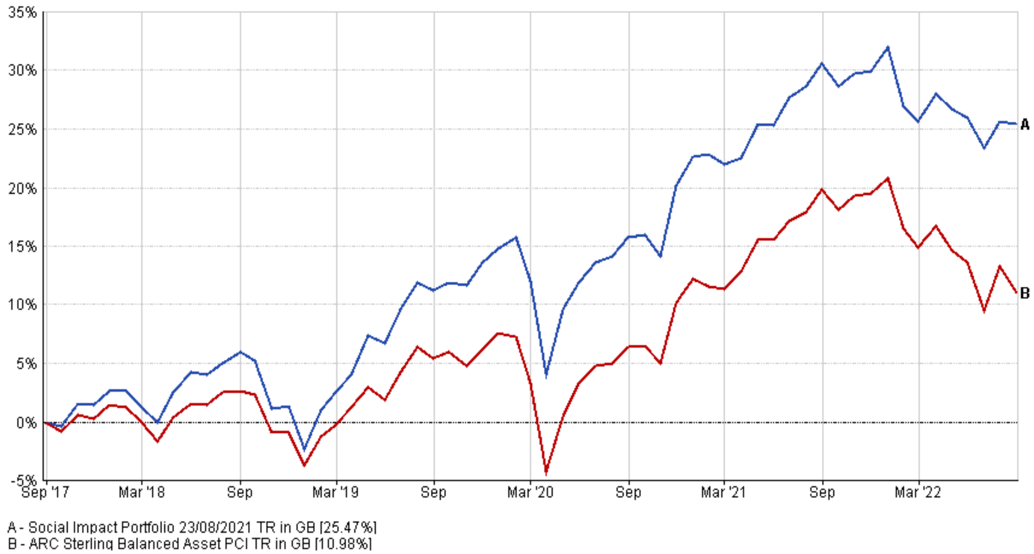
In the UK, inflation continues to hog the limelight, especially given that Goldman Sachs have warned that UK inflation could soar as high as 22% next year. Whilst it's not impossible that this forecast comes to fruition, it's important to consider the probability of such an event and the conditions attached. Goldman Sachs make this prediction on the basis that energy prices continue to rise in the same manner as they have so far this year. BAM would argue that should this continue, the UK government would almost be forced to intervene and so it could be argued a 22% inflation forecast is bordering on scaremongering. In its latest move to curb inflation, the Bank of England's Monetary Policy Committee voted to raise its interest rate to 1.75%, the biggest increase since the Bank of England gained its independence under Tony Blair and Gordon Brown in 1997. A direct consequence of higher interest rates is an increase in the yield obtainable on the lowest risk asset classes, such as government bonds; in theory deemed to be a risk free investment. This is one of the reasons that we continue to be optimistic about the outlook for fixed income assets.

ENERGY CRISIS

Commodities have been the chief culprit in the inflation spike but they are now on their way back down to multi-year averages. At the time of writing, the price of oil is roughly 20% down from its peak and so attention now turns to natural gas. Leading Russian energy supplier Gazprom announced that there have been maintenance issues with Nord Stream 1, the main gas pipeline to Europe, and that the suspension of gas supplies will now be extended indefinitely. Whilst limited supply is likely to lead to futher increases in the price of gas, one positive that can be taken is the European Union hit its gas storage filling goal two months ahead of schedule. This will likely help to buy time to set up the infrastructure to generate energy through other means, such as nuclear or renewables.

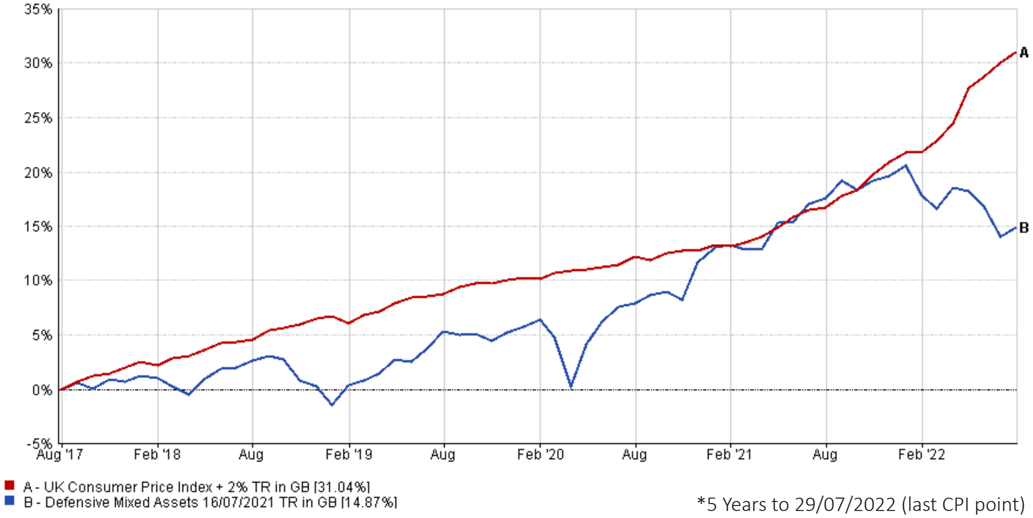
Due to the energy crisis being particularly concerning in Europe, the BAM portfolios maintain a reduced exposure to European assets and continue to benefit from exposure to renewable energy.

SOCIAL IMPACT MODEL



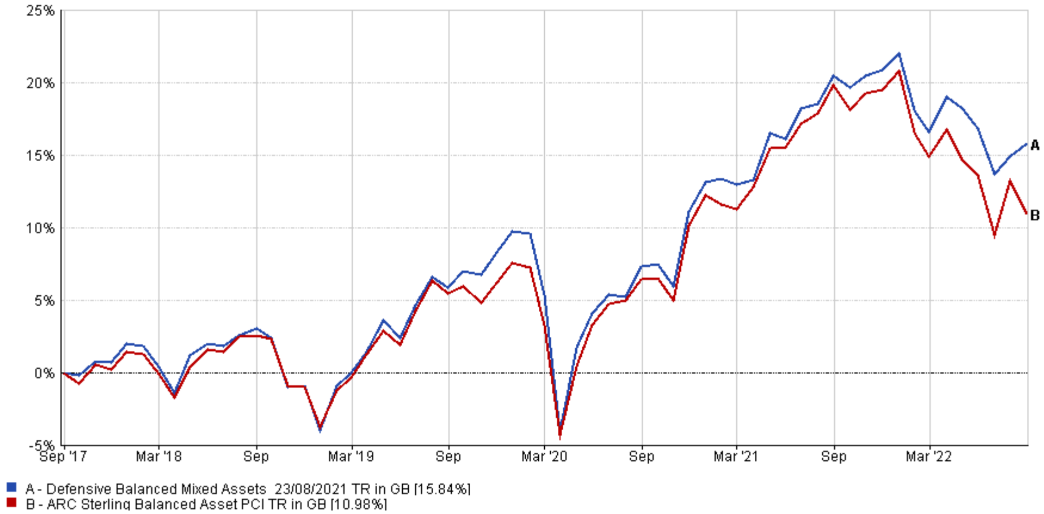
5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



*5 Years to 29/07/2022 (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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