OAM Global Balanced Portfolio

Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE 100 (2003 - 2018); 60% FTSE 100, 40% FTSE World Broad Investment Grade Bond (2019 -)
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash
- Individual portfolio representing Global Income investment style
- All performance figures include income and are net of fees and expenses

2019 Q3

Annualised Growth (%)	OAM	Bench
Inception 2003	**7.57**	**3.68**
10 years	8.70	3.46
7 years	9.43	3.31
5 years	8.41	1.72
3 years	10.05	1.50
2019 YTD not annualised	13.24	7.22

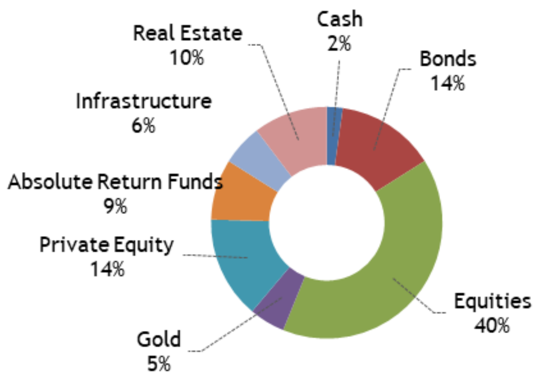
Annualised Income Yield	1.40

Investment Objective

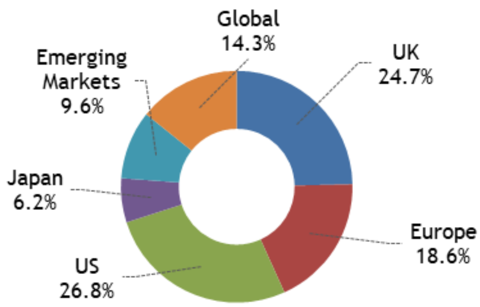
- Conservative growth using medium risk strategy
- Consistent annual returns
- Low volatility

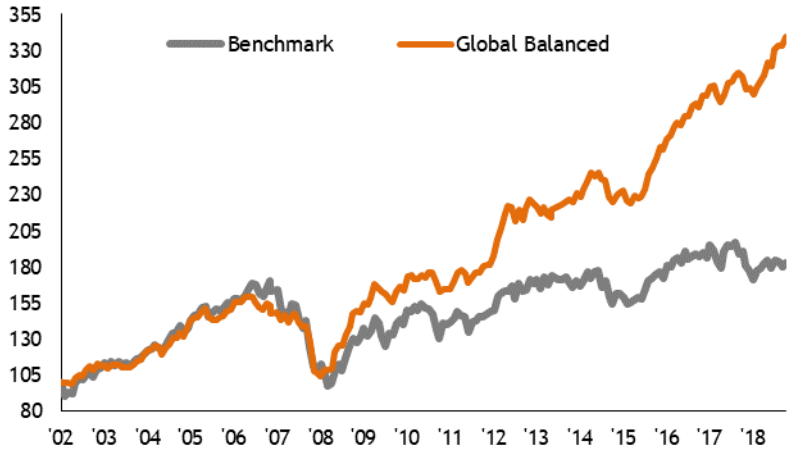
Top 5 Holdings	
BH Macro	
Ruffer Investment Company Ord	
RIT Capital Partners	
3I Infrastructure	
Schroder European Real Estate Investment Trust	
Total number of holdings	24

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





Global Market Review and Strategy Outlook

Global equity markets, as often happens, were lackluster during the northern hemisphere summer months, giving back some of the strong gains made during the first half of the year. Nonetheless, equities are still showing solid year-to-date (YTD) gains. The MS World Index lost 3.50% in the third quarter (Q3) but has returned 12.75% YTD. The MS Emerging Market Index, which tends to underperform in a "risk-off" environment, fared less well, losing 5.24% over the quarter and returning just 2.93% YTD. Despite the US/China trade war, the Shanghai Composite Index held onto a robust 17.84% YTD gain following a Q3 loss of 4.56%. Among the major developed markets, the US S&P 500, German Dax and UK's FTSE 100 indices, lost 3.34%, 2.23% and 5.15% over the quarter, respectively and held onto gains of 15.14%, 14.57% and 6.17%, for the YTD. Japan's Nikkei was the only developed market to eke out a small gain for the quarter, of 0.25%, and YTD returned 7.86%.

The chief culprit was the US/China trade war and its effect on global trade, business confidence, investment spending and the manufacturing sector. Trade talks had resumed for less than a week before president Trump, against the counsel of his closest advisers, threatened to impose a 10% tariff on the remaining $300 billion of Chinese imports not yet taxed. As a result, the yuan broke the key 7.00 level (against the dollar) for the first time since 2008. The breach of this level, which had previously been heavily defended by the People's Bank of China, signals a hardening approach from China's authorities. The trade war escalated further after China announced additional tariffs of between 5% and 10% on $75 billion worth of US imports. President Trump immediately retaliated, announcing a 5% increase across all existing and planned tariffs, from 25% to 30% and from 10% to 15%, respectively. For any real progress to occur, China will have to commit to structural economic changes while the US will need to repeal existing tariffs. With both sides growing further apart since talks began 18 months ago, there is little expectation of a meaningful breakthrough. However, the fact that talks are once again back on track lowers the risk of a further escalation, providing comfort to global financial markets.

The impact of the trade war shows up clearly in global exports, which fell in July by 0.4% year-on-year, the eighth straight monthly decline. In its quarterly World Economic Outlook, the IMF downgraded its global GDP forecast for 2019 from a previous 3.3% to 3.2%, which would mark the slowest growth since the 2008/09 global financial crisis. The IMF cited the trade war, sanctions on technology companies and the possibility of a no-deal Brexit, which collectively may "sap confidence, weaken investment, dislocate supply chains and severely slow global growth below the baseline." The JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) remained below the contractionary 50-threshold in September for a fifth straight month, its longest losing streak since 2012. PMI losses were broad-based globally, even in countries not directly affected by the US/China trade war. The world's largest economies, the US and Eurozone suffered manufacturing PMI declines to ten- and seven-year lows, respectively. Although manufacturing is a relatively small contributor to global GDP, there is a risk that weakening manufacturing sentiment may eventually infect the much larger services and consumer-driven sectors of the world economy.

Turning to the US economy, the Institute for Supply Management (ISM) manufacturing survey index fell in September to its weakest reading since June 2009, with falls in the forward-looking new orders and new export orders indices signaling a continuing manufacturing recession in the months ahead. The manufacturing sector contributes around 11% of US GDP. The ISM non-manufacturing survey index, which measures the remaining sectors of the economy, fortunately remains at strong levels despite falling in September to its weakest reading since August 2016. Consumer spending has remained the bulwark of the US economy in recent quarters, protecting it against the trade war induced manufacturing slowdown. Consumer confidence is elevated amid a buoyant labour market and strong wage growth.

The unemployment rate fell in September to 3.5% its lowest since December 1969, and average earnings grew by a solid 2.9% year-on-year. Nonetheless, the Federal Reserve cut the fed funds interest rate for a second time this year to a range of 1.75-2.0%, and signaled further rate cuts this year with the prospect of additional quantitative easing. The Beige Book, an economic survey compiled by all the Federal Reserve Districts, suggests US businesses remain optimistic about prospects despite trade policy uncertainty. US Q2 GDP growth was revised lower from an initial estimate of 2.1% quarter-on-quarter annualised to 2.0%. However, household expenditure, which contributes over two-thirds of US GDP, was revised higher from annualised growth of 4.3% to 4.7%, its fastest since 2014. There are few indications of structural imbalances which might spark a recession. The Federal Reserve forecasts US GDP growth of 2.1% in 2019, easing slightly to 2% in 2020 and 1.8% in 2021. Financial markets barely reacted after the Democrat-led House of Representatives initiated impeachment proceedings against President Trump. The two precedents in US history show a similar pattern of minimal market impact. Moreover, the Senate remains Republican controlled, which dramatically limits the chances of a successful impeachment.

China's GDP growth slowed from 6.4% year-on-year in Q1 to 6.2% in Q2, its slowest since 1992 although comfortably within Beijing's targeted range of 6.0-6.5%. However, economic data continued to lose momentum in Q3, with declines to multi-year lows in the pace of growth in industrial production, retail sales, fixed-asset investment and private sector fixed asset investment. More positively, economic momentum is expected to rebound from Q4 onwards in delayed response to monetary easing and fiscal stimulus, which is likely to be accelerated over coming months. The People's Bank of China (PBOC) is likely to announce actual interest rate cuts to accompany its numerous Reserve Requirement Ratio reductions. Authorities have loosened restrictions on non-bank shadow lending, which comprised 39% of total lending in Q3 and a record 45% in Q2, up dramatically from 21% in mid-2018. Overall lending appears to be recovering strongly. Fiscal stimulus aimed at lifting infrastructure spending is also gaining momentum. Local government financing vehicles have issued bonds totaling $332 billion in the first nine months of the year, an increase of around 40% compared with the same period last year and close to the record full-year amount borrowed in 2016. Proceeds from these local government bonds are used primarily for infrastructure projects. Encouragingly, the Caixin/Markit manufacturing purchasing managers' index (PMI) gained in September from 50.4 to 51.4, remaining above the expansionary 50-level for the second straight month and marking its highest reading since February 2018, attributed to a strengthening in domestic demand. The official non-manufacturing PMI dipped slightly from 53.8 to 53.7 but remained firmly in expansionary territory. The PMI data indicates a bottoming-out in domestic economic conditions, and a recovery in Q4 and 2020.

In a positive development for Japan, it signed a partial trade agreement with the US, providing immunity from motor vehicle tariffs in exchange for allowing Americans access to some agricultural sectors in Japan. Japan's GDP grew in Q2 by a better than expected 0.4% quarter-on-quarter, boosted by private consumption and capital spending. It was the third straight quarter of GDP growth, providing prime minister Shinzo Abe with the right conditions to implement the planned consumption tax increase in October. The tax increase from 8% to 10% is likely to have less impact on economic activity than the last time the consumption tax was hiked in 2014 from 5% to 8%. Private consumption, which contributes roughly two thirds to Japan's economy, increased in September for the first time in three months, rising month-on-month by 3.1%, which the Bank of Japan (BOJ) attributed to strong employment and income growth. Despite a relatively resilient economy, the BOJ maintained its accommodative monetary policy, leaving the benchmark interest rate at minus 0.1%, its asset purchase programme at an annual ¥80 trillion and a cap on the 10-year government bond yield of close to zero. Moreover, BOJ Governor Haruhiko Kuroda indicated a willingness to resort to further monetary easing to counteract any threat to the country's price stability. The BOJ is keen to prevent the yen from strengthening excessively amid falling US interest rates due to the potential fallout on Japan's trade competitiveness. For the financial year ending March 2020 the BOJ lowered its GDP and consumer inflation projections from 0.8% to 0.7% and from 0.9% to 0.8%, respectively. Its inflation target is 2%, well above prevailing or projected rates.

Despite the Eurozone's unemployment rate falling to 7.5%, its lowest level since July 2008, accompanied by buoyant consumer confidence and household expenditure, and strong house price growth, the region's GDP growth slowed sharply in Q2 to 0.2% quarter-on-quarter, down from 0.4% in Q1. The slowdown is attributed to the manufacturing sector, and the effect of trade uncertainty on business confidence and domestic investment spending. Germany's economy, the largest in the Eurozone with a heavy dependence on manufacturing and exports, contracted in Q2 by 0.1% on the quarter. German business confidence has fallen to a seven-year low pointing to a possible recession in the country. Pressure is building on the German government to resort to fiscal stimulus to reinvigorate its economy, which has largely stagnated since mid-2018. Germany has so far refused to loosen its fiscus with its balanced budget or "black zero" enshrined in its constitution, but German Chancellor, Angela Merkel, has hinted at a rethink of that policy. As expected, the European Central Bank (ECB) cut its deposit rate in September from -0.4% to -0.5%, a new low and announced a fresh round of quantitative easing (QE) of €20bn a month, to start in November. The QE program will run until inflation reaches the ECB target of under but close to 2%. The ECB revised its growth outlook in the Eurozone to 1.1% for 2019 and 1.2 for 2020, down from previous forecasts of 1.2% and 1.4%. The inflation forecast was also trimmed to 1.2% in 2019 and 1% in 2020, down from previous forecasts of 1.3% and 1.4%. The incoming ECB president, Christine Lagarde, supports the outgoing president Mario Draghi's accommodative monetary policy, but has gone further in urging the region to reassess its fiscal regime in order to support growth during downturns or regional shocks.

British prime minister, Boris Johnson, suspended parliament for five weeks from the 9th September to 14th October in a move that was widely criticized and subsequently ruled illegal by the high court. However, the stunt caused the pound to depreciate sharply to its lowest level since October 2016. Johnson was hoping that the threat of a disorderly no-deal Brexit would strengthen his hand in negotiations. However, this strategy was undermined when parliament voted to block a no-deal Brexit, raising the likelihood of an extension to the Article 50 withdrawal deadline of 31st October. While extending the uncertainty, at least the worst-case scenario of a no-deal Brexit seems to have been avoided. The UK economy contracted in Q2 by 0.2% quarter-on-quarter, its first negative growth in 7 years largely due to a weaker global economy and the unwinding of inventories stockpiled ahead of the original Brexit deadline. The contraction represented a sharp reversal from growth of 0.5% in Q1. Encouragingly, consumer spending was 0.5% higher than the previous quarter, driven by low unemployment and real wage growth. However, business investment and construction fell by 0.5% and 1.3% respectively, due to trade and Brexit uncertainty. A recent Bank of England (BOE) survey found that capital spending was on average 11% lower due to Brexit uncertainty and that as a result UK productivity was down between 2% and 5%. With Brexit uncertainty set to continue, the UK economy will remain weak in Q3 as companies further delay capital expenditures. However, the BOE has so far resisted calls for a rate cut, stating "that underlying growth has slowed but remains slightly positive" and that although "Brexit uncertainties have continued to weigh on business investment", "consumption growth has remained resilient, supported by continued growth in real household income."

Emerging markets suffered a loss in economic growth momentum during the quarter, in line with falling global demand and trade volumes, in turn prompting broad-based monetary easing. India's economy grew in Q2 by 5% year-on-year, marking the fifth consecutive slowdown in quarterly growth, down significantly from 5.8% in Q1 and 8% a year earlier. Government has taken steps to invigorate the economy by merging 10 public sector banks into bigger entities to bolster their lending capability. Meanwhile, the Reserve Bank of India (RBI) has cut its benchmark rate for a fifth consecutive time this year, by an aggregate 135 basis points to 5.1%, its lowest rate since 2010. Brazil's central bank cut its benchmark Selic interest rate by an unusually large 50 basis-points from 6.5% to 6% citing low inflation, weak economic growth and above-all, solid progress in structural reform. The long overdue pensions bill, providing sweeping reforms to public sector pensions in order to lower the state's budget deficit, received broad-based support in Congress. Brazil's consumer inflation rate fell from 3.84% in June to 3.27% in July paving the way for further monetary easing in coming months. Turkey's new central bank governor, Murat Uysal, who took office after president Erdogan fired his predecessor for not being bold enough, cut the benchmark repo interest rate from 24.0% to 19.75% in his first policy meeting and by a further 375 basis points to 16.5% in the subsequent meeting. Inflation fell to 15% in August, down from 25% at the end of 2018, but economists have warned that the pace of rate cuts should be balanced with the need to attract foreign financing.

Despite heightened levels of investor uncertainty, stemming from an ageing bull market, the US/China trade war and the global manufacturing recession, global equities, by some measures, have never been so cheap. For the first time ever, the dividend yield on the S&P 500 index, at 1.98%, exceeded the yield on the 30-year US Treasury Bond. Pension funds, which have traditionally weighted investments heavily in favour of bonds, may turn increasingly towards equities, despite their greater volatility, as a source of income. The pricing anomaly stems from the massive decline in global bond yields. Around $16 trillion worth of sovereign and corporate bonds are now in negative yield territory, predominantly in Japan and European countries. Some economists argue that the phenomenon of negative bond yields signals the risk of spreading "Japanification", meaning a vicious cycle of deflation and the debilitating effect of negative interest rates on bank sector profitability. However, there is little indication of deflation yet in the Eurozone. While deflation has been a fact of life in Japan for decades, German consumer price inflation is stable at 1.7%, not far below the ECB's target of close to but under 2%. Meanwhile, earnings forecasts for 2019, although reduced since the start of the year, remain positive at 5-7% for developed economies and 9% for emerging economies. Negative yields across the Eurozone have more to do with the effects of quantitative easing than the threat of deflation. The sheer quantity of central bank bond purchases via quantitative easing programmes has led to a supply/demand imbalance in bonds.

Low bond yields may be providing a once-in-a-lifetime time opportunity for governments to borrow more and increase spending on fiscal stimulus. For the first time, the US Treasury is considering issuing ultra-long-dated bonds with maturities of 50- and 100-years. Germany, which has persistently enjoyed trade and budget surpluses, is an obvious candidate to increase borrowing, boost fiscal stimulus and undertake a bold infrastructure spending programme. Germany's government is signaling it may finally abandon its long-held balanced budget in favour of extra borrowing. Low bond yields should encourage government borrowing while at the same time easing the shortage of bonds, thereby contributing to a healthy normalisation in bond yields back to positive territory. Although the total sovereign debt of developed economies has risen over the past twenty years from an aggregate of 45% of GDP to the current level of around 75%, low interest rates have brought down debt servicing costs to just 1.77% of combined GDP, the lowest since 1975. This, according to the OECD, is well below the recent peak of 3.9% in the mid-1990s. Oliver Blanchard, former chief economist at the IMF and a strong advocate of greater fiscal stimulus, said at the recent Jackson Hole central bankers' symposium that "it's pretty straightforward: If borrowing is cheaper you should probably do more of it."

The greater risk is not Japanification of the Eurozone and after that the US, it is a "snap-back" in bond yields from heavily overbought levels. The catalyst for the snapback will be a recovery in economic activity resulting from increased central bank monetary stimulus, which has been gaining momentum since May. Global liquidity has increased sharply from its low point in December last year, which indicates a rebound in economic activity from the fourth quarter of the year. A snapback in bond yields, resulting from rising monetary stimulus, increased fiscal spending and a recovery in economic growth will be bad for bond investors but not for equity markets, which will benefit from the resulting boost to earnings growth.