GLOBAL PERFORMANCE FACTSHEET

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

Investment Objective

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

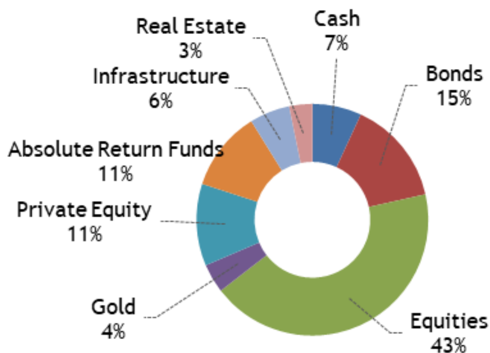
2020 Q3

Annualised Growth (%)	OAM	Bench
Inception 2003	**7.36**	**2.95**
10 years	8.02	1.75
7 years	6.95	0.31
5 years	9.38	1.72
3 years	6.65	-3.61
2020 YTD not annualised	3.58	-12.34

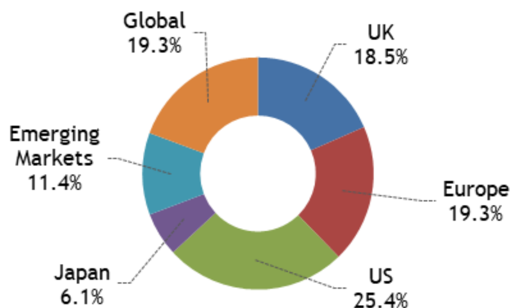
Annualised Income Yield	1.31		
	$	€	R
2020 YTD return in (%)	0.97	-3.46	20.87
	£/$	£/€	£/R
Forex Rate	1.29	1.10	21.66

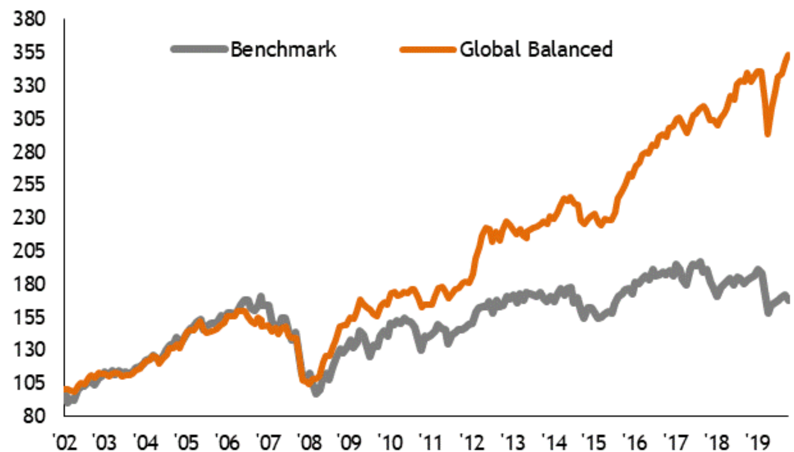
Top 5 Holdings	
Scottish Mortgage Trust	
BH Macro	
3I Infrastructure	
RIT Capital Partners	
Ruffer Investment Company Pref	
Total number of holdings	25

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





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overberg asset management

GLOBAL PERFORMANCE FACTSHEET

Global Market Review and Strategy Outlook for the quarter ended Sept 2020

The V-shaped recovery in global equity markets enjoyed in the second quarter (Q2) paused for breath in Q3. Nonetheless most markets ratcheted up modest returns over the quarter. China is the only country expected to show GDP growth in 2020, and the Shanghai and Shenzhen CSI 300 index was the standout performer in Q2 with a return of 10.17%, lifting its year-to-date (YTD) gain to 11.98%. The US S&P 500 index, helped by its heavy weighting in technology and digitally enabled companies, which have thrived as a result of the Covid pandemic, was not far behind with returns of 7.44% over the quarter and 4.09% YTD. Japan's Nikkei 225 and German Dax rallied by 4.69% and 1.21% in Q2 but still suffered moderate YTD losses of 1.99% and 3.69%. The Hang Seng and FTSE 100 indices were rocked by democracy protests and Brexit concerns, and lost ground over the quarter by 6.63% and 6.0%, respectively amplifying their YTD losses to 16.78% and 22.23%. With the S&P 500 comprising over 50% of the global market, the MS World Index showed positive returns over Q3 and YTD of 6.27% and 0.37%, respectively. The MS Emerging Market Index, helped by a weakening dollar and a rebound in global trade, gained 5.72% over Q2 but remained negative by 2.93% YTD.

Global financial markets are in a powerful bull market. According to Investopedia "A bull market is the condition of a financial market in which prices are rising or are expected to rise… The term "bull market" is typically reserved for extended periods in which a large portion of security prices are rising. Bull markets tend to last for months or even years." The MSCI World Index gained 44.24% between its March low this year to the end of September. The US S&P 500 Index gained 51% over the same period, both meeting the bull market qualification of a 20% upward move. What is driving the global bull market, and does it have legs to continue for the remainder of the year and into 2021? The answer is yes. Despite numerous market risks, and the probability of short-term setbacks, equity markets are likely to enjoy further significant gains over the next year.

The primary driver is the monetary policy response from the world's major central banks, which is unprecedented. Global liquidity, which drives financial markets higher, has ballooned and is set to increase by an additional 30% from today's levels, based on current policy pledges. Liquidity is injected via bond purchase programmes, which have kept long-dated 10-year government bond yields at extraordinarily low levels, well below prevailing inflation rates, in the process bringing about negative real yields. The Federal Reserve has altered its policy framework. Rather than keeping a 2% lid on inflation, the guardians of the world's reserve currency are now actively pursuing higher inflation. Through its Average Inflation Targeting (AIT) policy, the Fed is now targeting inflation in excess of 2% to compensate for the extended periods of sub-2% inflation experienced over the past ten years, so that the long-term inflation rate averages out at 2%. As such, the Fed has committed to maintaining the fed funds interest rate at the zero bound until end 2023. Low interest rates, both short-term and long-term, and negative real yields, make equities extremely attractive. With interest rates anchored so low for so long into the future (markets love certainty), financial markets have latched onto the TINA trade, which stands for There Is No Alternative (to equities and higher yielding credit instruments).

Unlike the 2008/09 Global Financial Crisis (GFC), which was met by fiscal austerity, governments around the world have embarked on the greatest fiscal easing since World War II. There has been a massive fiscal transfer of wealth to households, especially in developed economies. The US has been slow to follow-up its initial $3 trillion Covid relief CARES Act package with additional spending due to the bipartisan impasse between the Republicans and Democrats. However, political posturing will only delay the inevitable. The Bank Credit Analyst research institution forecasts an additional $2 trillion package, which will set the scene for other wealthy nations.

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In aggregate, household balance sheets have greatly improved over the past ten years, through a gradual but steady process of deleveraging since the GFC. In the US for instance, household debt to disposable income, at 99.4%, is at its lowest since 2001, and with interest rates at record lows, debt servicing as a percentage of disposable income is just 9.7%, its lowest since 1980. Due to limited spending opportunities and uncertainty over Covid, households have largely saved the fiscal windfall, lifting the US savings rate to a record high of 33.7%, compared with the long-term average of 5-7%. It has since reduced to around 17% but still provides an untapped resource to drive future consumer spending, the main engine of GDP growth in developed economies.

Unlike 2008/09, when the banks were the chief culprits in the financial crisis, this time round they are part of the solution. While central banks have engineered a massive increase in global liquidity, actual credit growth is also rising sharply, leading to not just narrow liquidity supply but broad money creation. Central bank liquidity is finding its way into the real economy via a healthy banking system. The “reflationary bridge” engineered by central bank policy and government fiscal intervention, to take economies safely across the Covid chasm appears to be holding up. Although the service sectors of economies are still badly affected, industrial production is recovering strongly. Forward-looking survey data such as Purchasing Managers’ Indices (PMIs), point to a solid recovery in new orders and activity levels. Global trade is recovering faster than expected, and so too are business investment spending and residential property markets. US new home and existing home sales are at their highest rates since 2006, leading to a surge in home builder confidence and building activity.

There are as always risks to the positive market outlook including delays over further fiscal easing, a contested US presidential election, a messy Brexit, a second wave of Covid infections, and any number of unexpected “Black Swan” events. However, the supporting factors far outweigh the market risks. Covid is perhaps the greatest unknown, but despite the second wave of infections, the mortality rate has dropped due to better treatment of the disease. Widespread lockdowns are therefore not expected and eventually a reliable vaccine will be available.

As the year has progressed, the IMF, OECD, central banks and economists have consistently scaled back their 2020 economic contraction projections. Economic activity and earnings growth will likely continue to surprise to the upside. The disruptive effects of Covid such as working from home, less commuting and lower office rents have shown up as subtractions from GDP, but the efficiencies which have emerged from accelerated adoption of digital solutions should also reflect in greater productivity. As a result, the economic rebound and earnings growth may well emerge stronger than expected.

Portfolios remain tilted in favour of equities, given the continued support from global fiscal and monetary policy and the potential for upside earnings surprises. Government bonds, currently generating negative real yields and extremely low nominal yields, are almost guaranteed to deliver disappointing returns over the foreseeable future and therefore our portfolios have sourced alternative asset classes to perform the traditional risk diversification role normally provided by bonds. Bonds are still represented in the portfolios but with a lower weighting, with the residual held in gold bullion, inflation protected securities, absolute return strategies (which protect against spikes in volatility), corporate credit, infrastructure projects and even music royalties. As well as acting as risk diversifiers, many of these alternative asset classes have the added advantage of providing attractive income yields. As pension funds and institutional investors cast their nets beyond government bonds in their search for positive real income yields, the demand for these alternative asset classes will build momentum, generating the additional appeal of potential capital growth.

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