



# OAM Global Growth Portfolio

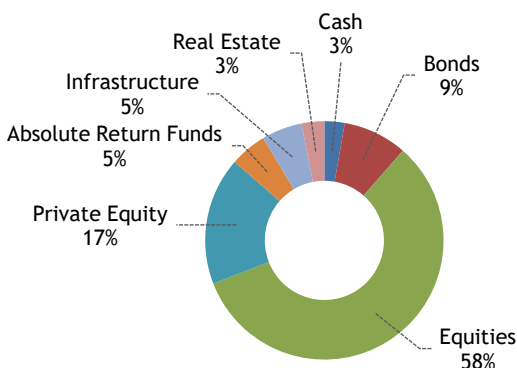
## Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE 100
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash
- Individual portfolio representing Global Growth investment style
- All performance figures include income and are net of fees and expenses

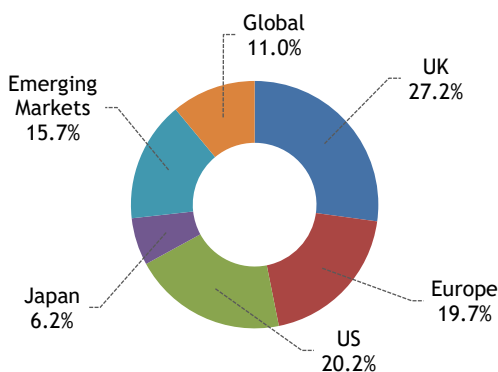
## Investment Objective

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

### ASSET ALLOCATION (see through basis)



### GLOBAL ALLOCATION (see through basis)

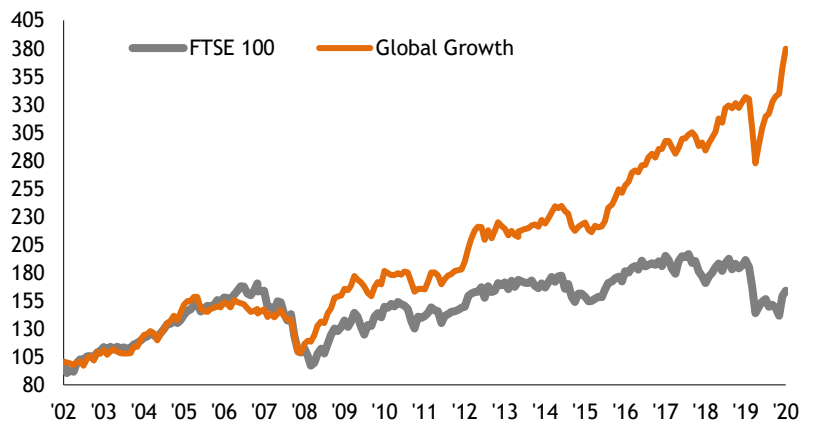


## 2020 Q4

Annualised Growth (%)	OAM	FTSE 100
Inception 2003	7.70	2.78
10 years	7.65	0.91
7 years	8.17	-0.62
5 years	11.06	0.69
3 years	8.47	-5.63
2020	12.84	-14.34

Annualised Income Yield	0.90		
	\$	€	R
2020 return in (%)	16.31	6.69	22.11
	£/\$	£/€	£/R
Forex Rate	1.37	1.12	20.09

Top 5 Holdings	
Scottish Mortgage Trust	
RIT Capital Partners	
Baillie Gifford Japan	
3I Infrastructure	
Finsbury Growth & Income Trust	
Total number of holdings	22





## Global Market Review and Strategy Outlook for the quarter ended Dec' 2020

Equity markets took off in the final quarter of 2020. The MSCI World Index surged by 13.65% in the fourth quarter (Q4), placing the index in positive territory by 14.06% over the full year. Emerging markets outshone developed markets, powered by growing indications of a strong global cyclical recovery. The MSCI Emerging Market Index gained by 19.34% in Q4 and 15.84% over the year. The strongest equity market in 2021 was the Shanghai and Shenzhen CSI 300 index with a return of 25.73% but its momentum appeared to wane in Q4 with a return of 13.60%, as the baton moved from China to the emerging market laggards. For instance, Vietnam's VN index lost 1% in 2021 but in Q4 surged by 24.59%. Among the developed markets, the US S&P 500 index gained by 16.26% in 2021, fueled in large part by the 11.69% rally in Q4. A similar pattern played out in Japan, the Nikkei 225's 16.01% gain in the year attributed entirely to the massive 18.37% return in Q4. The German Dax gained more modestly by 7.51% and 3.55% over the quarter and year, respectively. The UK FTSE 100 enjoyed an impressive 10.13% increase over the quarter but posted a loss of 14.34% for the full year due to continued Brexit uncertainty.

November was one of the best months ever for global equity markets. Markets powered ahead on news of far better than expected vaccine trials and a smooth US presidential election. Vaccines are already being administered and should bring the global pandemic to an end by the middle of 2021. The US election delivered Congress to the Democrats but only just. A wafer-thin majority in the Senate is dependent on a casting vote from president-elect Kamala Harris. This is close to an ideal outcome for market confidence as more extreme policy initiatives such as tax increases and regulations, espoused by the Democrats, will likely be blocked. With a Biden presidency, global trade frictions are likely to abate or at the very least trade negotiations will become more predictable.

Effective vaccines were announced in quick succession by three different pharmaceutical firms, Pfizer, Moderna and AstraZeneca. There are risks that the Covid virus may mutate into a different strain or that an insufficient number of people will willingly be vaccinated to bring about herd immunity, but these risks are trivial compared to the potential benefits. Social mobility will return to normal and with it, consumer spending and business investment.

A powerful cyclical economic recovery is on the horizon. Due to the pandemic, inventory levels across the world are depleted which is typically a precursor to a surge in supply-side activity as stocks are replenished. Moreover, there is enormous pent-up demand to make-up for the lack of spending over the past year, especially in the worst affected service sectors. Household savings are at elevated levels, due to the combination of Covid rescue packages and a lack of consumer expenditure, providing an enormous reserve of spending capacity. Excess savings are estimated at 3-7% of global GDP. Historically, consumers and businesses go on a spending spree in the period following a pandemic. The Spanish flu in 1919 was followed by the "roaring 20s". The European Bubonic plague in the 14<sup>th</sup> century preceded one of the biggest booms Europe ever experienced.

Monetary policy will remain ultra-accommodative. Central banks now view deflation rather than inflation as the biggest threat to the global economy. The Federal Reserve is committed to maintaining the fed funds interest rate at zero until 2023 and has adopted a new "Average Inflation Targeting" (AIT) policy framework. Under this framework, the Fed will actively encourage inflation to over-shoot its 2% target for periods of time to make up for the prolonged episodes of sub-2% inflation. Inflation has languished below 2% for the bulk of the past decade. The world's major central banks are expected to follow suit and adopt AIT frameworks, cementing the prospect of continued zero interest rate policy across the board. Moreover, central banks will continue injecting massive quantities of liquidity into the world's financial system. In 2020, liquidity injections totaled a bewildering \$20 trillion, 25% of global GDP and central banks will keep the taps open in 2021, having pledged liquidity expansion of an additional 10% of global GDP.



Fiscal support is also being pledged. Following the mistakes made after the 2008/09 Global Financial Crisis, when the nascent economic recovery was cut short by ill-timed austerity, governments will be wary of removing fiscal support too soon. Encouraged by the IMF and the World Bank and based on policy decisions taken so far it appears governments will want to keep the “reflation bridge” open for as long as it takes to ensure the cyclical economic recovery becomes self-sustaining beyond the initial burst of pent-up spending and inventory restocking.

The combination of a powerful cyclical economic recovery backed by reduced political and trade uncertainty and accompanied by reflation commitments from central banks and government spending has been described by investment analysts as a “market nirvana”. It is troubling in a way that markets have become so bullish and that the positive view has become so pervasive, as one wonders how the outlook can get any better. As the adage goes, the best time to invest is when bad news becomes less bad rather than when good news becomes less good.

As always there are known risks to the buoyant outlook. There could be complications with the vaccine rollout. Governments may get cold feet and withdraw fiscal support, especially amid surging budget deficits and government debt. Although unlikely, given the enormous spare capacity in global production facilities and massive unemployment levels, inflation could rise sharply if driven by service sectors where capacity has been ravaged by the pandemic. The base effect of extremely low inflation readings at the height of the pandemic may amplify the inflation data for a period and rattle markets.

A potential spike in longer-dated bond yields is the greatest risk to market confidence. The closely watched US 10-year Treasury bond yield has risen steadily from a low point of 0.5% in early August to 0.9% at the end of December, rising in line with the strong rebound in US GDP growth in the third quarter, improving global economic prospects and uptick in inflation. Central banks determine the level of short-term interest rates, which they have pledged to maintain at the zero bound, but they have less control over longer-dated yields, even with quantitative easing programmes and the ability to direct asset purchases at the longer end of the yield curve. Having been suppressed by so much quantitative easing, the 10-year yield may jump to above 2%, especially as new bond issuance is expected to exceed asset purchases in 2021.

A spike in bond yields may be detrimental to the “Covid winners”, the technology enabled shares which performed so well in 2020. These shares now trade at extremely elevated prices. With stratospheric price-earnings multiples and discounting so many years’ growth into the future, even a moderate increase in the risk-free discount rate (10-year Treasury bond yield) would have an outsized impact on their valuations.

However, certain markets and sectors typically flourish when bond yields rise especially if there is a steepening in the yield curve, which is likely to occur with central banks anchoring short-term interest rates at zero. Banks and financials, which underperformed dismally in 2020 and over the past decade, should be a key beneficiary. Other “value” and “cyclical” sectors should also perform well, including materials and commodities, construction, heavy industry and transportation as well as consumer discretionary. The travel and hospitality sectors, worst affected by social distancing, should also benefit from the great rotation out of “growth” into “value” shares. Rotation is the lifeblood of bull markets. The baton will likely pass from last year’s leaders to the Covid laggards, but in aggregate equity markets are poised to scale new highs in 2021.