



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

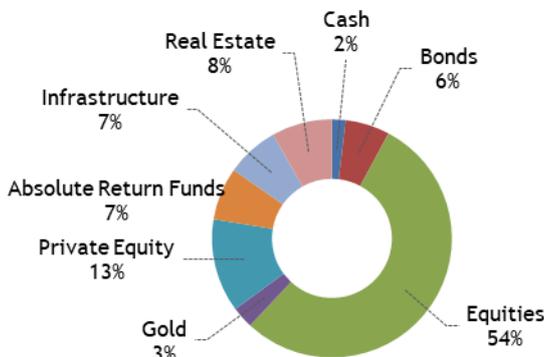
- Conservative growth using medium risk strategy
- Consistent annual returns
- Low volatility

2019 Q1

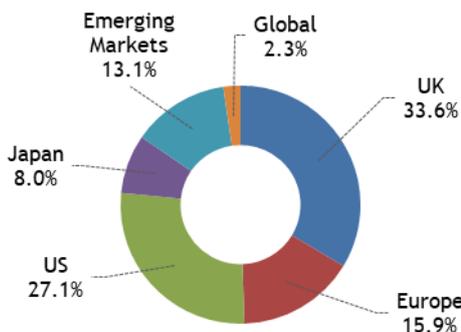
Annualised Growth (%)	OAM	FTSE 100
Inception 2003	7.12	3.85
10 years	9.42	6.37
7 years	7.84	3.38
5 years	7.44	1.98
3 years	11.27	5.64
YTD not annualised	5.75	8.19

Annualised Income Yield	0.96		
	\$	€	R
2019 YTD return in (%)	8.02	10.20	8.34

ASSET ALLOCATION (see through basis)



GLOBAL ALLOCATION (see through basis)



Top 5 Holdings	
RIT Capital Partners	
3I Infrastructure	
Baillie Gifford Japan	
Polar Capital Global Financial Trust	
Finsbury Growth & Income Ord	
Total number of holdings	21





Global Market Review and Strategy Outlook

Although the trader's adage "as goes January, so goes the year" was not accurate last year when the Dow Jones Industrial and S&P 500 indices ended in negative territory despite a positive January, the barometer has been accurate 87% of the time since 1950. The start to this year portends well for equity market returns in 2019. The S&P 500 Index gained 7.9% in January its best January performance since 1987. The celebration of a more "dovish" Federal Reserve (Fed) and increased optimism over the US-China trade talks also propelled global equity markets, pushing the FTSE All World Index higher by 7.2% in January. Improving investor sentiment continued into the remainder of the first quarter (Q1), propelling global markets higher across the board. Over Q1 the S&P 500, Dax, Nikkei 225, and FTSE 100 were up by 11.23%, 9.01%, 7.56% and 6.90%, respectively. The MS World and MS Emerging Market indices were up by 9.48% and 9.49%. As concerns over a potential recession abated the Brent Crude oil price gained 15.47% over the quarter while a rising appetite for global financial risk curbed the gold price, which gained by just 2.10%.

President Trump postponed the planned tariff increase on \$200 billion of Chinese imports due to be implemented on 1st March. The move sent a strong signal that Trump wants to wrap-up a trade deal with China even if he is left without key structural concessions. Trump, with his sights on the 2020 presidential race appears to have lost his appetite for the hardline trade approach he adopted in 2018. It is likely that last year's negative equity market reaction to that hardline approach has also fed his current urgency for a deal. Officials remain optimistic of a trade deal being ratified sometime in May, comprising a sizeable increase in China's purchase of US goods, opening China's markets to foreign businesses and curbing the forced transfer of technology and intellectual property.

The Fed confirmed that it is very close to if not already at the end of its monetary policy tightening cycle. Leaving the fed funds rate unchanged at a range of 2.25-2.50% Fed Chairman Jerome Powell said: "Our policy stance is appropriate right now. We also know that our policy rate is in the range of the committee's estimates of neutral." The neutral rate is one which is neither restrictive nor accommodative. The Fed also appeared to abandon its "quantitative tightening" programme, which in recent months had been shrinking the Fed's \$4 trillion-plus balance sheet at a rate of around \$40 billion per month, confirming it would permanently retain a large balance sheet for monetary policy purposes. The Fed's about-turn comes as a relief to the world's financial markets which had been suffering from a contraction in global liquidity stemming not only from rising interest rates but also from Fed balance sheet reduction and record US Treasury issuance. An easing by the Fed increases the prospect of a concerted easing in global monetary policy by the world's major central banks.

Moody's credit rating agency, in its Liquidity Stress Indicator (LSI) publication, helped to allay growing concerns over rising global corporate debt. While its LSI increased sharply from 2.5% to 4%, the current level remains well below the long-term average of 6.4%. Although numerous institutions have flagged their concern over the rapid growth in leveraged loans and non-bank loans, which have both doubled over the past ten years to an estimated \$1.2 trillion and \$700 billion respectively, Moody's suggests the outlook remains fine for now. The outlook is helped by sound economic growth, strong earnings growth and low interest rates. Moody's forecasts the default rate on speculative-grade loans will fall from the current level of 2.6% to 2.4% a year from now.

US economic growth slowed in Q4 of 2018 to 2.6% quarter-on-quarter annualised, which although slower than 3.4% in Q3 and 4.2% in Q2, is better than had been feared. Among the GDP components, growth in non-residential fixed investment recovered between Q3 and Q4 from 2.5% to 6.2%, with investment in intellectual property products increasing by a solid 13.1% in Q4, which may bode well for enhanced productivity. Consumer spending growth slowed



from 3.5% to 2.8% but should remain underpinned by buoyant jobs growth and a healthy increase in household income. While GDP growth may slow to as low as 1.1% in Q1, due to unseasonably cold weather and the impact of the 35-day partial federal government shutdown, growth momentum should recover to trend rate over the remainder of the year. The Fed, although predicting a slowing trajectory, forecasts GDP growth of 2.3% in 2019, reducing to 2.0% in 2020 and 1.8% in 2021. The White House Council of Economic Advisers is more optimistic, predicting GDP growth in excess of 3% in 2019. Non-farm payrolls increased in March by 196,000 well above February's 33,000 figure. Average hourly earnings increased by 3.2% year-on-year down slightly from the ten-year high of 3.4% recorded in February. The data has reassured financial markets that a recession is not imminent, and that February's figure was a likely aberration exacerbated by the partial government shutdown. In its semi-annual report to Congress the Fed said the economy appears to be on a solid footing and that the US financial system remains "substantially more resilient" than prior to the 2008/09 global financial crisis, attributed to stronger capital buffers and reserve requirements, placing banks in a far stronger position. Fed Chairman Jerome Powell observed recent signs of rising productivity, which he said, "allows wages to increase without adding to inflation pressures." In the nine months to end December, productivity increased at an average annual pace of 2.2% the strongest productivity improvement since 2010 when it surged by 3.4%. Powell said the Fed's inflation target needed more credibility. According to the Fed's plan, modestly higher inflation would likely be encouraged during economic upturns to make up for weaker inflation during downturns. According to Powell's testimony, while categorically ruling out any change to the 2% target, the Fed would likely target a through-the-cycle inflation average. Such a shift would be unequivocally "dovish" for monetary policy.

The CSI 300 Shanghai and Shenzhen stock market index gained a massive 30.40% in Q1 more than reversing the 25% loss suffered in 2018, making it the best performing index worldwide. The Year of the Pig is considered especially lucky representing wealth and good fortune. So far, it has not disappointed. Investors have been encouraged by a more "dovish" Fed, which bodes well for global liquidity and emerging market currencies, increased optimism over US/China trade talks and cheap valuations. Between January 2018 and January 2019, the price-earnings multiple of the CSI 300 index dropped from 14.7x to a historic low of 11.1x, a level from which China's equity market traditionally enjoys a solid bounce. China's GDP growth slowed in 2018 to 6.6% its slowest growth since 1990 down from 6.8% in 2017 due mainly to government efforts at curtailing the country's rapid credit growth and due to more stringent enforcement of environmental legislation. Authorities have started to remove these handbrakes to growth and begun to speed up the pace of monetary and fiscal stimulus to maintain growth in what President Xi Jinping describes as a "reasonable range" thought to be 6-6.5%. The economy appears to be responding favourably to the state-sponsored increase in infrastructure spending and increased monetary and fiscal stimulus. Further stimulus is expected from the People's Bank of China in the form of interest rate cuts, cuts to the bank reserve requirement ratio and through targeted stimulus for smaller private sector companies. Expected fiscal stimulus measures include a value-added tax relief programme representing 2 trillion yuan in tax cuts, equivalent to around \$300 billion. The Caixin/Markit purchasing managers' index (PMI), measuring activity in the service sector of China's economy, surged higher in March from 51.1 to 54.4, its highest level since January 2018. Meanwhile, the MSCI Index Policy Committee raised the weighting of China's A-shares in the MSCI Emerging Market (EM) Index from 0.71% to 2.82%. The move, which had been planned for May 2020 was fast-tracked in recognition of China making its equity market more accessible and more transparent. The increased index weighting is likely to prompt a massive inflow of additional foreign investment into mainland Chinese equities.



Following a contraction in Q3 of 2018, Japan's economy returned to growth in Q4 at an annualised rate of 1.4%, largely driven by domestic demand. Private consumption, which contributes almost two thirds to GDP, grew by 0.6% quarter-on-quarter while capital expenditure increased by a robust 2.4% on the quarter. However, Prime Minister Shinzo Abe announced in October last year that consumption tax will be raised from 8% to 10% in Q4 of 2019 to help fund a rapidly expanding social bill as the Japanese population ages. Given already negative consumer sentiment which hit its lowest in three years, the planned hike in consumption tax remains a real threat to a recovery in the economy and could even lead to a recession. Senior Japan economist with Capital Economics, Marcel Thielant said, "all told, it seems that the economy slowed sharply at the start of 2019, which should rattle policymakers at the Bank of Japan and should trigger a renewed debate about possible easing measures." The Bank of Japan (BOJ) kept its policy rate unchanged at -0.1% in mid-March and maintained its purchasing programme of 10-year Japanese government bonds. The BOJ cautioned that consumer price inflation will only move gradually to its 2% target. There is no longer a question of how long the BOJ will keep monetary policy loose, but rather what else can be done to be more accommodative.

The Eurozone's economy has faced significant headwinds from a potential no-deal Brexit, political issues in France, expanding debt in Italy and declining exports from Germany. In Q4 of 2018, the region's economic growth was 0.2% only slightly higher than the previous quarter's 0.1% which was the lowest since Q2 2014. Notably, the Eurozone's powerhouse Germany stagnated in Q4 of 2018 after shrinking 0.2% in Q3, its first economic contraction since 2015. Italy's economy contracted for the second straight quarter, pushing the country into recession for the third time in a decade. The European Commission has revised its November Eurozone GDP growth forecasts of 1.9% in 2019 and 1.7% in 2020 down to a pedestrian 1.3% and 1.6%, respectively. Most European nations are planning fiscal stimulus this year, although at a much smaller scale than the US. In Germany tax incentives for investment were introduced, however finance minister Olaf Scholz ensured that the country would always keep to its "black zero" policy of running a surplus. Given the slowing economic outlook and declining inflation rates, the ECB left interest rates unchanged and pledged to keep the benchmark lending rate at current levels for the remainder of the year. The ECB also offered banks increased longer-term loan facilities at discounted interest rates, which together with negative interest rates on deposits with the ECB, should encourage banks to lend more. Consumer inflation for the Eurozone moderated from 1.5% in February to 1.4% in March while the core measure, which excludes the more volatile change in prices for energy and food, fell from 1% to 0.8% its lowest in two years. Encouragingly however, employment data shows continued improvement. Germany reported the lowest unemployment rate in 30 years, giving economists hope that private consumption could be a key driver of economic growth for the year. Moreover, the Institute of International Finance reported that Eurozone household debt has dropped to 57.6% of GDP its lowest level since 2006 and well below the equivalent levels for the US and the UK of 75% and 86%, which bodes well for consumers' ability to withstand any shock to the financial system.

As Brexit uncertainty drags on, the impact on the British economy has become more evident. The economy grew by only 0.2% quarter-on-quarter annualised in Q4 of 2018 compared to 0.6% in Q3 and 1.4% for the year. Economists have estimated that so far Brexit has cost the economy as much as 2.5% of GDP. The European Commission's monthly indicator of confidence and economic sentiment for the UK has dropped to its lowest since 2013. According to Oliver Allen at Capital Economics, it "leaves the indicator pointing to growth more or less grinding to a halt." Inflation in the UK fell below the 2% target for the first time in two years, which combined with the dimming economic outlook, led the Bank of England to maintain its benchmark interest rate at 0.75%. Encouragingly, the UK economy added 167,000 jobs in Q3 of 2018. The employment rate of 75.8% is the highest ever. Average weekly wages grew by 3.4%



in 2018 which was the quickest in a decade. Having suffered a massive 230-vote defeat in parliament's vote on her EU Withdrawal Agreement, Theresa May went on to win the no-confidence motion tabled by Labour leader Jeremy Corbyn. Despite continued uncertainty over Brexit the greatly reduced risk of a Corbyn-led government boosted sterling to its highest level in several weeks making it the best performing major currency over Q1. Sterling's recent appreciation is also being boosted as the probability of a "no deal" Brexit diminishes in the face of parliament's desire to avoid a messy withdrawal from the EU. Moreover, the UK has become far more prepared for the worst-case scenario. Capital Economics forecasts a no deal Brexit would at worst shave 1-2 percent off UK GDP over a two-year period. The EU agreed in March to extend the Brexit deadline from the 29th March to the 12th April and further still to October. Although further delaying any resolution, the deadline extension lowers the risk of a no-deal Brexit and gives parties more time to conclude an exit plan that will be beneficial for the whole region.

A pause in Fed monetary tightening is traditionally positive for emerging market currencies. The combined prospect of a weakening dollar and increased global liquidity boosts capital inflows into emerging markets, strengthening their currencies and facilitating cuts in emerging market interest rates. The Reserve Bank of India (RBI) cut interest rates twice in Q1 reducing the benchmark rate from 6.50% to 6.0%. India's consumer price inflation, which reduced to 2.57% in February, at the lower end of the target range of 2 to 6% provided the motivation for the rate cut while the RBI also lowered its outlook for economic growth for the fiscal year ending March 2020 to 7.2% from a previous 7.4%, indicating that further rate cuts could be on the cards. Across other emerging market economies, Russia's sovereign debt was upgraded by Moody's Investors to investment grade from a previous "junk" status, bringing it in-line with the other two major rating agencies, Standard and Poor's and Fitch. Moody's cited economic policies implemented in recent years, which have enabled the country to withstand significant global shocks, including sanctions from the US. Furthermore, declining inflation has improved prospects of Russia's central bank cutting interest rates. The International Monetary Fund forecasts that Emerging Market economic growth for 2019 will be 4.5%, well below the 7%-plus growth rates experienced at times over the last two decades. However, growth in Developed Markets is cooling at a faster pace and leading indicators for the two markets have diverged to their widest points since 2013. Historically, Emerging Markets have performed well when growth has cooled across both Emerging and Developed Markets. Data compiled by Pictet AM suggest that since 1994 the only periods when Emerging Market currencies have risen in aggregate against the dollar were when both markets experienced slower growth. These conditions offer solid opportunities for emerging market investments to outperform.

Our clients' portfolios have benefited from the increased weighting to equities implemented at the start of the quarter, premised on the tailwind to equity markets provided by a more "dovish" Fed, and declining risk of an all-out US/China trade war and a messy no-deal Brexit. The outlook for global equity markets remains positive. Valuations are not stretched by historic measures and there is little probability of a US or global recession occurring over the next 12 months. In fact, global economic growth is likely to pick-up in the second half of the year, due mainly to the recovery in China's growth momentum and growth in emerging markets generally. Importantly, the world economy has fewer imbalances than were evident before the 2008/09 global financial crisis and the dot.com bust of the early 2000s. Households and banks have restored their balance sheets in recent years. Capital adequacy, loan quality and profitability of banks has been steadily strengthening, greatly reducing the risk of a systemic financial crisis. As remote as a recession is, when it finally does occur, it is likely to be a shallow "garden variety" recession, followed by a far stronger recovery than followed the "Great Recession" of 2009.