overberg asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Balanced Portfolio

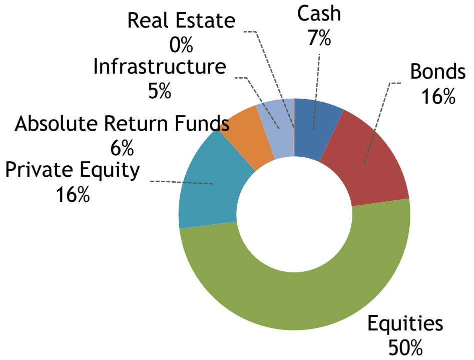
Technical Details

- 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

ASSET ALLOCATION
(see through basis)



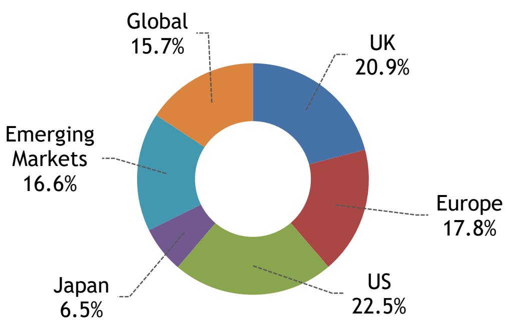
2021 Q1

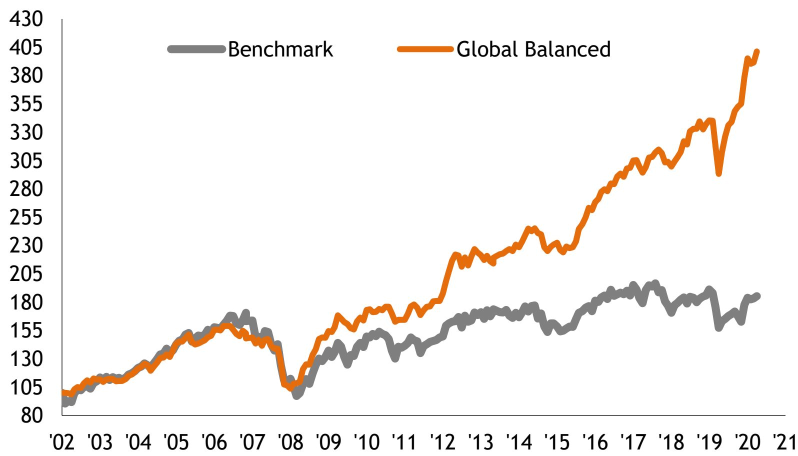
Annualised Growth (%)	OAM	Bench
Inception 2003	**7.91**	**2.94**
10 years	8.87	2.14
7 years	9.24	1.45
5 years	11.87	3.40
3 years	10.88	1.13
2021 YTD	1.55	0.78

Annualised Income Yield	1.34%		
	$	€	R
2021 return in (%)	2.42	6.71	2.95
	£/$	£/€	£/R
Forex Rate	1.38	1.18	20.37

Top 5 Holdings	
RIT Capital Partners	
Ruffer Investment	
Baillie Gifford Japan	
BH Macro	
3I Infrastructure	
Total number of holdings	24

GLOBAL ALLOCATION
(see through basis)





Reg No: 2001/019896/07 | Authorised Financial Services Provider. License No: 783

Global Market Review and Strategy Outlook

The global economic outlook has improved dramatically since the start of the year, boosted by mass vaccination programs and the gradual lifting of Covid related restrictions. Trade volumes are recovering sharply amid a powerful global cyclical economic recovery, assisted further by huge fiscal stimulus and a continuation of ultra-accommodative monetary easing. Equity markets were hard pushed to repeat their record winning performance of the fourth quarter last year. Nonetheless, equity markets discounted improving earnings prospects with solid gains. The rotation from structural growth to cyclical-value shares benefitted the equity markets most heavily weighted to cyclical industrial sectors. The German Dax gained by 9.4% in the first quarter, followed by Japan's Nikkei 225 index with a gain of 6.3%. The US S&P 500 index, with a higher weighting to the growth-oriented technology sector, rallied less by 5.8%. The UK FTSE 100 index, crammed with traditional cyclical sectors such as mining resources, energy, banks and financials, only gained by 3.9% as it was hindered by a post Brexit relief rally in the pound. China's Shanghai and Shenzhen CSI 300 index, which outshone all markets in 2020 was the laggard with a Q1 loss of 3.1%. China's performance undermined the MSCI Emerging Market index, which increased by 3.6% compared with the 6.3% increase in the MSCI World index.

As is often the case, strong economies do not necessarily make for strong equity markets. Since the start of the year, the economic outlook has improved by leaps and bounds and yet the response from equity markets has been relatively modest. Contrast this with last year when equity markets surged despite deepening uncertainty over the Covid pandemic. The paradox is partly explained by the fact that when economic activity recovers, there is increased demand for liquidity from the real economy, which inevitably is drawn from financial markets.

The world economy is recovering quickly and is expected to roar ahead by the second half of the year. Vaccination news has been encouraging. The US and UK have led the way with their rapid vaccination rollouts, but other regions will soon follow, which should result in a full removal of restrictions across the developed world by mid-year. At the same time, the world's central banks have pledged to maintain existing monetary policy stimulus to ensure with concrete certainty that economic recovery is sustainable. Fiscal stimulus is leaving nothing to chance. President Joe Biden managed to enact the $1.9 trillion American Rescue Plan in quick time, made possible by the narrow Congressional Democrat majority. US fiscal aid in 2021 will exceed 12.5% of GDP, even more than last year's stimulus which amounted to 11% of GDP. Fiscal activism has become a global phenomenon, with expansionary government spending expected to continue over a 3-year horizon to avoid the mistake made after the 2008/09 Global Financial Crisis when austerity was introduced too early.

The Organisation for Economic Cooperation and Development (OECD) has increased its global economic growth forecast. Global GDP is now expected to grow by 5.6% in 2021, up sharply from December's forecast of 4.2%, boosted by a substantial upgrade to its US growth forecast from 3.2% to 6.5%. The OECD said inflation bottlenecks may occur in certain areas but will likely be temporary. Sustained inflation would require a pick-up in wages, which is hard to envisage given the Covid induced slack in labour markets.

Inflation expectations have risen since the start of the year, borne out by rising breakeven rates between conventional US Treasury bonds and Treasury Inflation Protected Securities. The 10-year breakeven rate, which measures the financial market's projected annual rate of consumer price inflation over the next ten years, has increased to 2.31% up from 1.96% at the end of December. In anticipation of a strengthening economy and rising inflation expectations, the yield on the 10-year Treasury bond has shot higher over the same period from 0.91% to 1.63%.

The jump in bond yields has affected the discount rate used to value equities, which has had a pronounced impact on last year's Covid winners, in particular the shares of technology and digitally enabled companies. These shares had become overvalued and while discounting so many years' growth into the future were particularly susceptible to an increase in the discount rate (10-year Treasury bond yield). Shares like Tesla have tumbled from their recent highs. However, despite the technology sector comprising close to 22% of global market capitalisation, the sector's derating has had minimal impact on broader equity indices.

While technology stocks have de-rated, this has been offset by a pronounced rally in cyclical and value stocks, especially in the energy, commodities, banks, financials and consumer service sectors, which were left behind in last year's rally and as a result still trade at cheap levels. Moreover, as well as being extremely cheap, these sectors enjoy better earnings leverage to the cyclical global economic recovery. The so-called "reopening basket" continues to trade at a significant discount to its pre-Covid levels and to its long-term average, while earnings growth is likely to accelerate, as the world's economy reopens and the taps open from the massive pool of excess household savings.

At some point rising bond yields will affect all sectors of the equity market. However, this is a long way off. The 10-year US Treasury yield, which sets the bar for the global cost of capital, will only choke off economic growth and the equity market once it exceeds nominal GDP growth and this is far from being the case in the context of current stellar GDP forecasts. Global real GDP growth is expected to hit 5.6% in 2021, which after adding the inflation rate of 1.5%, translates into nominal GDP growth of 7.1%, considerably above the 10-year yield even if it does rise further from 1.63% to 2.5%, as many expect. In fact, by the time world economic growth hits the projected nominal growth pace of 7.1%, there will effectively be even more stimulus than there is today, as the gap between real interest rates and nominal GDP growth will be even wider. The Federal Reserve and other major central banks are committed to anchoring short-term interest rates at zero and maintaining their current pace of asset purchases. According to current projections from the Fed, this ultra-accommodative policy mix will last at least until 2023 as its inflation and employment goals are not expected to be met before then.

Fed chairman Jerome Powell has repeatedly stated that the Fed is "still a long way from our goals of maximum employment and inflation averaging 2% over time." He admits that inflation will jump temporarily due to the base effect of extraordinarily low comparative numbers in the first half of last year at the start of the Covid pandemic. However, the Fed expects the inflation spike to be transitory, with the inflationary impulse from unprecedented fiscal and monetary stimulus offset by considerable slack in the labour market and the adoption of cost saving technologies and digitisation, which was accelerated by Covid.

While the large reserve of global liquidity will to a large extent by diverted from financial assets to the real economy, equity markets are expected to continue rising albeit not at the break-neck speed of late 2020. The equity market will remain resilient despite the rapid increase in bond yields as the cost of capital remains historically low and global corporate earnings are expected to surge as the year progresses. Equities tend to enter a bear market if rising bond yields coincide with a slowing economy, which is certainly not the case in the current environment of rapidly accelerating GDP growth. Bond yields are expected to rise in a step-like formation, with the ascent plateauing every time the equity rally pauses. This is quite different from typical bear markets, when bond yields continue rising even as equity markets decline. We feel the bigger risk to equity markets is medical rather than financial although we remain confident that the vaccination rollout will be effective in defeating the Covid pandemic. Although sector performance will vary considerably as economies and markets normalise, overall equity indices are expected to register further gains as the year progresses.