OAM Global Growth Portfolio

GLOBAL PERFORMANCE FACTSHEET

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

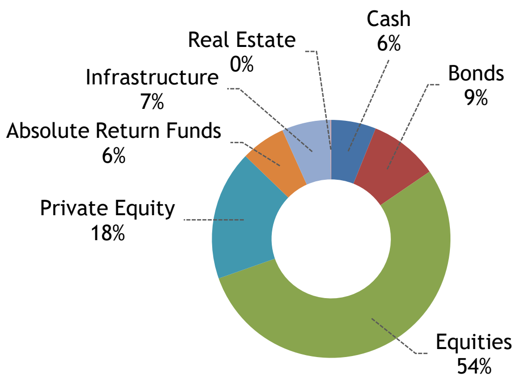
2022 Q1

Annualised Growth (%)	OAM	FTSE 100
Inception 2003	7.38	0.52
10 years	8.14	2.68
7 years	7.38	1.50
5 years	7.77	0.52
3 years	8.85	1.07
2022 YTD	-4.71	1.78

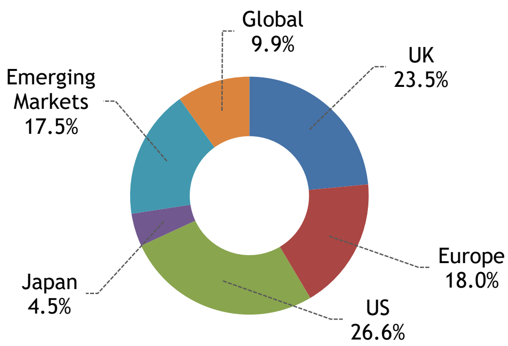
Annualised Income Yield	0.97%		
	$	€	R
2022 return in (%)	-0.23	10.19	-0.81
	£/$	£/€	£/R
Forex Rate	1.31	1.19	19.20

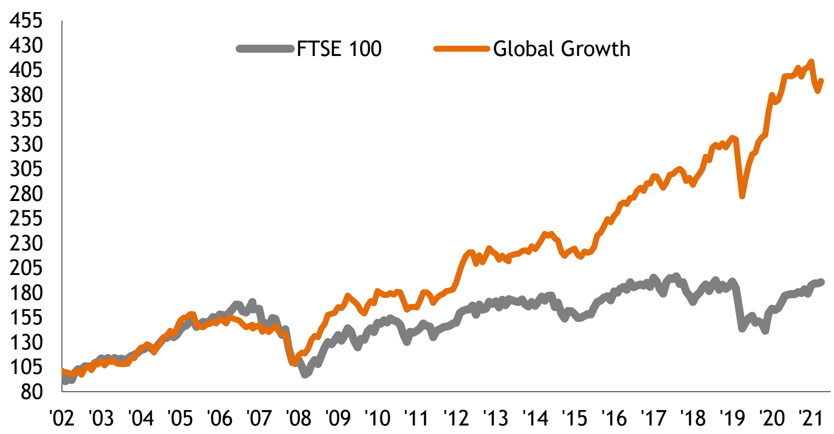
Top 5 Holdings	
3I Infrastructure	
HG Capital	
BH Macro	
Finsbury Growth & Income Trust	
RIT Capital Partners	
Total number of holdings	22

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





Global Market Review and Strategy Outlook for the quarter ended March 2022

Just as the Covid cloud started lifting, a new threat erupted. Against all rational expectations, Russia invaded Ukraine on 24th February, wreaking misery on the country's citizens and havoc on commodity markets. The oil price surged, fanning the inflation fire and dampening business and consumer confidence. Economists warn of a potential return to the 1970s, characterised by high inflation and weakening economic growth, the hallmarks of "stagflation". Undeterred by the prospect of slower growth, central banks are now more committed than ever to lifting interest rates. Their chief concern at this stage is beating inflation rather than rescuing growth. The Federal Reserve, Bank of England and European Central Bank were all more hawkish than expected in their most recent policy meetings.

The combination of war, high oil prices, rising inflation and weakening growth resulted in a poor first quarter for equity markets. The S&P 500 index dropped 4.95% in the first quarter, recouping some of its earlier losses as investors sought the relative safety of the US due to its energy self-sufficiency and distance from the Ukraine war. The German Dax suffered a steeper drop of 9.25%, while the UK's FTSE 100 index, packed with energy and commodity companies, managed to eke out a 1.78% gain. Japan's Nikkei 225 index, being "energy neutral" tempered its loss to 3.37% but the Shanghai and Shenzhen CSI 300 index lost a sizeable 14.53% due to continued Covid lockdowns and regulatory crackdowns. China's weak performance undermined the MSCI Emerging Market index, which lost 7.31% while the MSCI World index fared better with a decline of 5.53%. The two key culprits in the quarter's market sell-off were the oil price and US Treasury bond yields. The Brent oil price surged by 36.63% from $78.98 to $107.91 per barrel. The US 10-year Treasury bond yield surged from 1.51% to 2.33%.

The longer the war continues, the more dangerous it will become. Putin, showing all the signs of irrational behaviour and who believes his life will be in danger of he loses power, is likely to escalate the crisis in the event of a stalemate at enormous humanitarian cost. The direct economic cost will be limited to Russia and Ukraine. The two economies are relatively small. Russia lies 13th in the world in terms of its GDP while Ukraine is in 57th position. Russia only accounts for 4% of the euro area's exports and less than 1% and 0.5% of exports from the UK and US. However, there is an indirect impact across the world economy. The crisis has created a significant supply shock in commodity markets. Russia is the world's second largest exporter of oil and wheat. Ukraine is the fifth largest exporter of wheat. The invasion sent the oil price to $139 per barrel at one point, a 64% increase since the start of the year. On 7th March, the wheat price recorded a peak of $12.94 per bushel, marking a 70% year-to-date increase. Gains in European natural gas prices are even more extraordinary.

Yet, prior to the crisis the world's economy was enjoying unusually strong momentum, with above trend growth across most economies. Underlying support is still strong, helped by negative real interest rates, massive household savings, a retreating Covid threat and commensurate reopening of service sectors and supply chains. Depleted inventories still need to be replenished and business spending is robust. Even China, which suffered a regulatory and property induced slowdown last year, is turning the corner. Beijing's authorities are targeting a higher than expected 5.5% GDP growth this year.

The outlook for world growth remains positive but inflation is a nagging concern, which is now exacerbated by the surge in commodity prices. US consumer price inflation accelerated again in February, from 7.5% to 7.9% year-on-year, its highest since January 1982 when it registered 8.4%. The data was collected before the Ukraine invasion and so inflation is likely to ratchet even higher over coming months. Under normal circumstances, rising fuel and food prices should slow consumer demand and do the job of central banks keen to tame inflation. However, policy makers have been uncharacteristically hawkish, a significant turnaround from just 6 months ago. As expected, the Federal Reserve initiated its first 25 basis point interest rate hike in March but according to its own projections is now planning to hike 6 more times this year. The Fed is also set to begin “quantitative tightening” in May. This will entail draining liquidity from financial markets by shrinking its balance sheet to the tune of $100 billion per month.

The evolving inflation and monetary policy backdrops are creating stresses in the bond market. The US 10-year Treasury bond yield has risen sharply, at one stage hitting 2.5% compared with 1.5% at the start of the year. The yield difference against the same maturity Treasury Inflation Protected Security (TIP), which measures the market’s expected annual inflation rate over the next 10 years, increased to 2.94%, its highest ever. This is far above the Fed’s 2% average inflation target. Another worry is that shorter dated yields have climbed above longer dated yields. An inverted yield curve reliably signals economic slowdown.

Stagflation is the new buzzword. Some economists are comparing the current scenario with the 1970s, as there are many similarities. Following a decade of policy stimulus, inflation started rising sharply in the early 70s. Policy makers said it was transitory but then inflation was exacerbated further by the 1973 Arab oil embargo on the US. However, most economists believe a repeat of the “Stagflation” of the 1970s is unlikely. The inflationary pass-through from higher food and energy prices is less today than it was in the past due to rising living standards and better energy efficiency. Cars were getting about 13.5 miles/gallon at the time of the first OPEC oil embargo in 1973 compared to today’s 25.4 miles/gallon. The percentage of household budgets spent on food and energy has halved since the 1970s. This implies less of an inflationary threat from the current commodity price shock. The threat of spiralling wages is also significantly less. In the 1970s production was domestically focussed and the workforce was dominated by unions. Today, production cuts across borders and union power is significantly diminished.

There are concerns that due to rising debt levels, the world economy will not cope with a return to pre-Covid interest rates. However, the debt expansion of the past two years has been at government level not in the private sector. The private sector has in fact deleveraged its balance sheet over the past two years, continuing the process which began after the 2008/09 global financial crisis. US households have amassed over $2 trillion in excess savings since the pandemic began. As governments can control their debt servicing costs, financial distress is unlikely to emerge from rising interest rates. The improved health of private sector balance sheets means they should be able to easily withstand an increase in interest rates to pre-Covid levels.

Investors should not forget that before the war erupted, global economic momentum was extremely positive, helped by a retreat of the Covid pandemic, above average GDP and earnings growth, and healthy household and company balance sheets. The positive underlying fundamentals remain intact. Moreover, financial markets have not been complacent in pricing in the risks emanating from the Ukraine crisis, evidenced by year-to-date equity price declines. The global market’s price-earnings multiple has declined to 16.5x compared with its peak last year of 20x. A less demanding valuation greatly improves long-term return prospects. While markets remain expensive in the US relative to their historic average, they currently offer compelling value in other markets. Meanwhile, corporate credit spreads, the proverbial “canary in the coal mine”, continue to be well behaved, reflecting an absence of global financial risk contagion. Investors can look forward to a recovery in global equity markets in the second half of 2022, resulting in positive returns for the year.