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 Balanced investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

- Moderate growth using medium risk strategy
- Consistent medium-term returns
- Moderate volatility

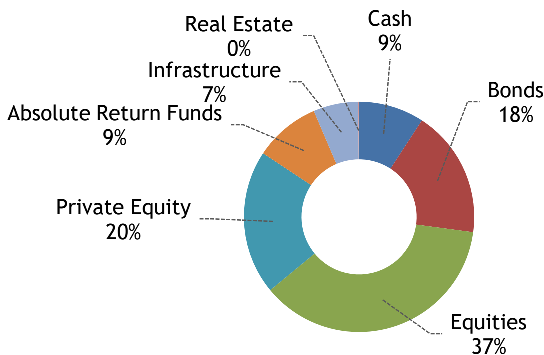
2022 Q2

Annualised Growth (%)	OAM	Bench
Inception 2003	7.24	0.32
10 years	8.51	2.00
7 years	7.16	0.58
5 years	6.60	-1.47
3 years	5.73	-2.32
2022 YTD	-9.73	-11.29

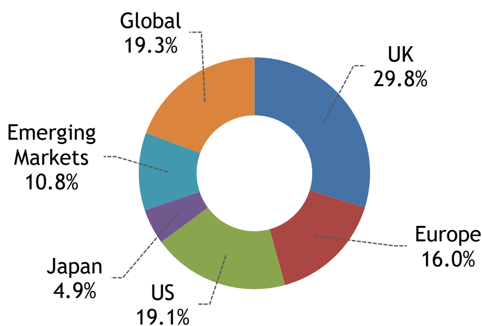
Annualised Income Yield	1.39%		
	$	€	R
2022 return in (%)	-18.74	-11.85	-16.99
	£/$	£/€	£/R
Forex Rate	1.22	1.16	19.82

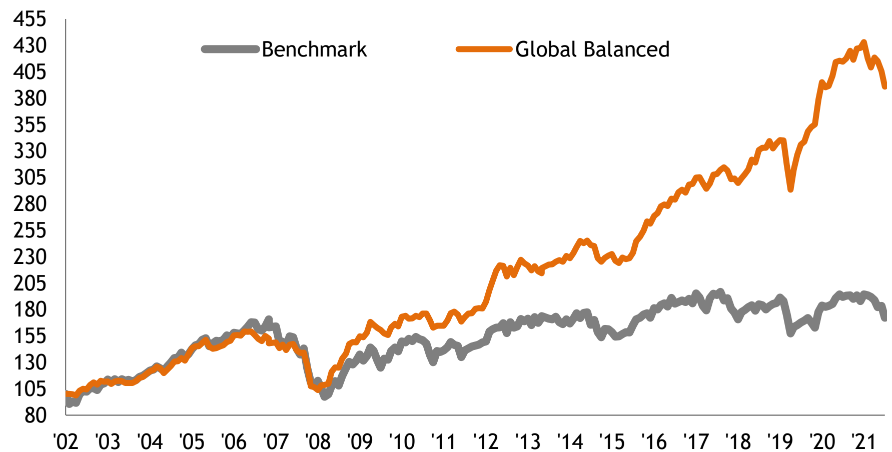
Top 5 Holdings	
BH Macro	
Ruffer Investment	
3I Infrastructure	
RIT Capital Partners	
Greencoat UK Wind PLC	
Total number of holdings	22

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





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

Inflation continues to menace global financial markets. Inflation thrives on a diet of war, disease and famine. With one or two exceptions, including the Bank of Japan (BOJ) and the People's Bank of China (PBOC), central banks around the world have become aggressively more hawkish in their monetary policy. Rising inflation and rising interest rates have caused government bond yields to surge, impacting the valuation of financial assets. At the same time, rising interest rates combined with higher inflation, which affects business and consumer confidence, have impacted economic growth forecasts and the outlook for company earnings.

Most equity markets are now suffering double digit year-to-date (YTD) losses. The S&P 500 index, representing the US, the world's biggest market, fell 16.45% in the second quarter (Q2) taking its YTD loss to 20.58%. The German Dax fell 11.31% in Q2 and 19.52% YTD. Far East markets were surprisingly more robust, helped by the cheaper valuations on offer. The Nikkei lost 5.13% in Q2 and 8.33% YTD, while the Shanghai and Shenzhen CSI 300 index went against the grain with a 6.21% increase in Q2, reducing its YTD loss to 9.22%. China's market benefitted from an easing in Covid restrictions and a boost in stimulus measures. As a result, the MSCI Emerging Market index outperformed the MSCI World index. The former lost 12.36% in Q2 and 18.78% YTD, while the latter lost 16.60% and 21.21% over the respective periods. The UK's FTSE 100 index was a positive outlier, helped by the heavy weighting of oil and commodity stocks, mitigating its Q2 and YTD losses to a less severe 4.61% and 2.91%. Against rising inflation and interest rate expectations, the US 10-year Treasury bond yield maintained its sharp climb, lifting in Q2 from 2.33% to 2.97%, compared with 1.51% at the start of the year. Rising US interest rates and retreating risk appetite caused the US dollar index to gain by a further 7.05% in Q2, lifting its YTD gain to 9.48%. A strengthening dollar saps liquidity from the global economy. A rising oil price has a similar negative impact. The Brent oil price increased a further 6.39% in Q2, capping a 47.61% YTD surge.

So far, no country has entered recession and while economic growth will inevitably slow, economies are by and large expected to maintain growth despite the threats of higher inflation and interest rates. However, in its twice-yearly Global Economic Prospects report, published in June, the World Bank lowered its global growth forecast to 2.9% for 2022 and 3.0% for 2023. This contrasts with growth of 5.7% in 2021. The World Bank warned that higher than expected rises in interest rates and energy prices and a continuation of Covid-19 would cut global growth even more to 2.1% this year and just 1.5% in 2023. The three main economic blocks, the US, Eurozone and China face different challenges and outlooks. The slowdown in the US is likely to be relatively mild compared with the Eurozone, which has to contend with its proximity to the war in Ukraine, a full embargo on Russian oil and gas imports, and banking exposure to Russia. China is affected by strict Covid restrictions, a property slump and fading demand for its goods exports. Authorities are trying to reignite growth, but stimulus is mild compared to previous cycles.

The OECD, in its latest economic report published in June, forecasts inflation to average 8.5% across OECD countries in 2022 and 6% in 2023 and noted that price pressures were broadening. In the US, after easing in April consumer price inflation (CPI) shocked markets with a jump from 8.3% year-on-year to 8.6%, despite easing supply chains and demand rotation from goods towards services. Month-on-month, inflation gained in May by a sizeable 1.0%. The inflation shock prompted the Federal Reserve to hike the fed funds rate by a whole 75 basis points, the largest increase since 1994. The Fed signalled that the rate could rise from its new range of 1.50-1.75% to well above 3% by year-end. In Europe, markets are now pricing in 150 basis points of rate hikes by year-end and the Swiss central bank surprised markets with its first interest rate hike since 2007. The Bank of England lifted its benchmark rate for a fifth successive time to 1.25%, while warning that UK inflation would climb above 11% by year-end. By contrast the PBOC and BOJ continue easing monetary conditions, but these policies are causing turmoil in foreign exchange markets, placing the yuan and yen under significant downward pressure.

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Considering rising cost pressures and slowing growth, earnings forecasts may still be too optimistic. Margin erosion will lead to further downgrades to earnings forecasts. Nonetheless, equity market valuations have already become attractive. The valuation excesses of the past two years have been erased and with the exception of the US and Switzerland, equity markets are now cheaper than they were prior to the Covid pandemic. Even in the US, the estimated forward price-earnings (PE) multiple is below its long-term average, although by other measures, such as the Shiller cyclically adjusted PE ratio, price-to-book and Enterprise value/EBITDA ratio, its equity market is still overvalued from a historical perspective. However, across Europe, Japan, China and emerging markets, valuations are well below long-term averages with respect to PE and price-to-book multiples.

Valuations may become even cheaper. The world is in a bear market and valuations tend to overshoot on the downside just as they tend to overshoot on the upside in bull markets. There is cause for further market declines. The oil price is expected to remain at elevated levels and possibly rise even further due to the embargo on Russian imports, the accumulated effect of years of underinvestment in new oil production and existing infrastructure, and the severe resource depletion of US shale reserves. In order to reach previous peaks, in real terms, the Brent oil price would need to rise by another 50% from current levels. In this context, the price target of $175, which some analysts have forecast, does not seem so farfetched. Meanwhile, central banks still have some way to go in hiking interest rates and the Federal Reserve, ECB and BOE will be accelerating the withdrawal of liquidity from financial markets through “quantitative tightening”. Through its monthly sales of Treasury bonds and Mortgage-backed securities, the Fed expects to reduce its balance sheet by a further $1-2 trillion over coming months. This will place further upward pressure on bond yields. US Treasury bond yields have traditionally been anchored by German bund yields and Japanese government bond yields, but these bond yields are also spiking higher. The 10-year German bund, which was yielding -0.50% as recently as August last year, turned positive in January and now yields 1.65%.

Markets are unlikely to hit bottom until bond yields have peaked or central banks signal that they are close to ending their monetary tightening. However, this may only be a matter of months away. Most analysts predict the Fed will be close to its neutral policy rate by the end of the year. Some independent research companies have already turned bullish on the markets, recommending an overweight exposure to global equities. In the US, “insider buying” by corporate executives registered its strongest levels at the end of May since the market bottom in March 2020 when the Covid pandemic struck. Strong insider buying tends to be a good indicator of market bottoms. Famed investor, Warren Buffet has significantly picked up his buying activity, taking heed of his own advice, to be “greedy when others are fearful.” At the other end of the spectrum, some analysts predict a further 10-15% decline in financial markets due mainly to the untested consequences of quantitative tightening, but even they concur that the market bottom will likely occur by early 2023, when monetary policy turns from being restrictive back to being accommodative.

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