OAM Global Balanced Portfolio

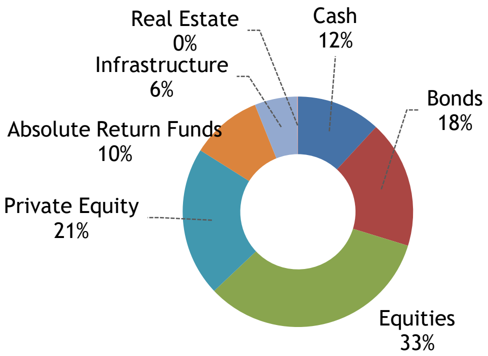
Technical Details

- 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 all fees and expenses (including asset management and financial advisor fees)

Investment Objective

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

ASSET ALLOCATION
(see through basis)



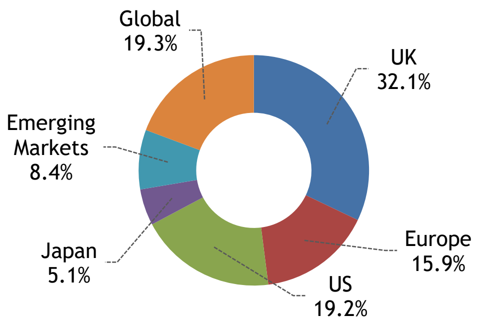
2022 Q3

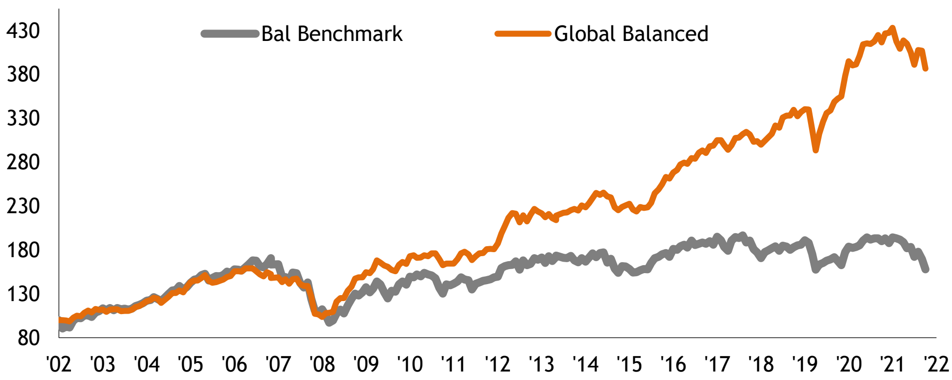
Annualised Growth (%)	OAM	Bench
Inception 2003	7.09	0.20
10 years	7.91	0.81
7 years	8.03	0.38
5 years	5.88	-3.33
3 years	4.44	-4.80
2022 YTD	-10.70	-18.69

Annualised Income Yield	1.41%		
	$	€	R
2022 return in (%)	-26.26	-14.50	-16.28
	£/$	£/€	£/R
Forex Rate	1.12	1.14	20.21

Top 5 Holdings	
BH Macro	
Ruffer Investment	
3I Infrastructure	
Greencoat UK Wind PLC	
RIT Capital Partners	
Total number of holdings	21

GLOBAL ALLOCATION
(see through basis)





Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise as well as fall, and there is a risk that the client may suffer financial losses. Returns are dependent on the performance of underlying assets and other variable market factors. Past performances are not necessarily indicative of future performances.

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

According to Charlie Munger, Warren Buffett's right-hand man at Berkshire Hathaway, "Inflation is the way democracies die. It's the biggest long-run danger we have …. Apart from nuclear war." The traditional way to beat inflation is by increasing interest rates, but Warren Buffett famously said that "Interest rates are to asset values what gravity is to apples." Inflation maintained its surge to fresh 40-year peaks across the US, Europe and the UK, prompting central banks, led by the Federal Reserve, to continue ratcheting up interest rate expectations despite the growing threat of recession.

The falling real value of household disposable income coupled with rising interest rates, and the continued war in Ukraine, caused equity markets to reverse their temporary July rally. All major markets fell in the third quarter (Q3) widening their year-to-date (YTD) losses. The MSCI World index lost 6.6% in Q3 and 26.4% YTD. The MSCI Emerging Market index suffered respective losses of 12.5% and 28.9%, with its heavily weighted Shanghai and Shenzhen CSI 300 index dropping 15.2% in Q3 and 23.0% YTD due to property woes and continued Covid restrictions. Over Q3, the major developed markets: the S&P 500, German Dax, FTSE 100 and Nikkei 225 lost 5.3%, 5.2%, 3.8% and 1.7%, taking their YTD declines to 24.8%, 23.7%, 6.6% and 9.9%. The UK market was aided by its significant weighting to oil, commodity and financial shares, which tend to outperform in an inflationary environment, while Japan was helped by its continued bias towards monetary easing. The US 10-year Treasury bond yield surged again, rising over the quarter from 2.97% to 3.80%, compared with 1.51% at the end of 2021. Divergence in economic growth, interest rate differentials, capital flows and shrinking dollar liquidity, powered the US dollar index to 112.2 up 7.1% on the quarter and a massive 17.2% YTD. The Brent oil price slipped back to $87.9 per barrel, a 23.4% decline on the quarter but still up by 13.1% YTD.

Inflation is the biggest threat in today's world economy and to global financial markets. US consumer inflation was 8.3% year-on-year in August, down slightly from its recent peak of 9.1% in June, but core CPI, excluding food and energy prices, increased by 0.6% month-on-month, larger than the prior month's 0.3% increase. UK consumer inflation retreated from its July peak of 10.1% in August but only slightly to 9.9%, while Eurozone inflation marched to a new record of 10% in September. Central banks have altogether abandoned their belief that the inflation spike is transitory and are fighting to get back ahead of the curve. The Bank of England has hiked 7 times since December 2021, lifting its base rate from 0.1% to 2.25%. The last rate hike was 50 rather than the standard 25 basis points. The ECB has only hiked twice, but in leaps, from -0.5% to 0.75%. The Fed has been the most aggressive, lifting its fed funds rate from 0.0 - 0.25% last December to 3.0 - 3.25% in September, including 3 consecutive rate hikes of 75 basis points.

The annual Jackson Hole central bankers' symposium in August set the scene for more interest rate hikes. The severity of Fed chair Jay Powell's message unnerved financial markets. He said the "overarching focus right now is to bring inflation back down to our 2% goal", that the Fed "will keep at it until we are confident the job is done." He cautioned that interest rate increases will "bring some pain to households and businesses" and a "sustained period of below-trend growth" but "these are the unfortunate costs of reducing inflation… a failure to restore price stability would mean far greater pain." As well as signalling more rate hikes, the Fed is scaling up the sale of bonds from its balance sheet. Its "quantitative tightening" programme is expected to reduce its balance sheet from $9 trillion to $6.5 trillion, which will accelerate the withdrawal of dollar liquidity from global financial markets. US money supply fell at an annualised 1.6% over the 3 months to end September, which along with two data points in July, was the sharpest decline since 1938. Surges in the dollar and in energy prices are also contributing to shrinking liquidity.

Despite the common themes of rising inflation and tightening global liquidity, regional outlooks differ markedly. The US economy is already in technical recession following two straight quarters of contraction in the first half of the year. However, as in Europe, households, businesses and banks enjoy robust balance sheets due to the decade of

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deleveraging that followed the 2008/09 Global Financial Crisis. The lack of structural imbalances means any recession is likely to be shallow and short-lived. However, inflation is likely to be stickier in the US, due to a larger accumulation of pandemic-era savings that have largely been depleted in Europe. In the US, which is energy self-sufficient, energy costs comprise around 6% of GDP but in Europe including the UK, energy costs are as high as 20% of GDP. The energy crisis, if sustained, will rapidly absorb savings and destroy household discretionary spending, creating the conditions for deflation. Europe, including the UK, is more in need of quantitative easing than quantitative tightening. It has already begun. The BOE has pledged unlimited purchases of the 30-year gilt to shore up its sovereign bond market. The ECB has launched the Transmission Protection Instrument (TPI) to buy unlimited quantities of sovereign and private sector debt from eurozone countries that are suffering from abnormally high government bond yields. Japan is well positioned, households enjoy excess savings, companies have sound balance sheets, and the central bank is maintaining its zero-interest rate policy and asset purchase programme. China is hamstrung by the implosion of its property bubble but will benefit from the eventual relaxation of its zero-Covid policy and a ramping up in fiscal and monetary policy.

The US economy is the most robust but the outlook for continued strengthening of the US dollar may not be good news for its equity markets. The US will lose export competitiveness and overseas earnings will be worth less in dollar terms, whereas equity markets in the UK and Europe and Japan, already at their biggest discounts to US markets in decades, will receive a substantial boost from their more competitive currency valuations. A strong dollar will be a handbrake on US equity markets, but it will assist in lowering imported inflation, which for the time being is the Fed’s overarching priority.

Financial markets are likely already three-quarters of the way through the current bear market. Valuations are at bargain levels across Europe, the UK, Japan, China and other emerging markets, with both trailing and forward estimated price-earnings multiples, price-to-book and enterprise value-EBITDA ratios all at substantial discounts to their long-term averages. The US is an outlier, with valuations still close to the long-term average and therefore not yet in bargain territory like other markets, which combined with the Fed’s policy outlook and strong dollar may constrain the market’s relative performance over coming months.

The bottom in global markets may not be far away, either in months or in point terms. The bears, such as past US Treasury secretary Larry Summers, who warned the Fed of its policy error in early 2021, believe the US will need to undergo a significant increase in unemployment to bring inflation back to its 2% target. Others believe the market is too fixated on demand-side factors such as monetary and fiscal policy, business and consumer spending. The shocks of the pandemic and the Ukraine war suggest supply-side economics hold the key. Capital Economics chief economist Paul Ashworth feels the answer might lie in the impact the supply shock has had on the supply curve. According to his framework, when there is a supply shock and output moves uncomfortably close to potential, shifts in demand may create small changes in output but potentially large changes in price. The good news is that it could similarly take only a modest fall in demand to produce a large drop in inflation. The easing of supply chains, as evidenced by the sharp decline in shipping container rates adds credibility to this more favourable outlook.

In its latest asset allocation report, independent research firm Capital Economics forecasts further declines across world equity markets before year-end, but these are minor compared with the substantial positive annual returns predicted in 2023 and 2024. It is likely that the Fed is close to “peak hawkishness”. The Fed has progressively lifted interest rate expectations with each subsequent policy meeting, so that committee members now project a peak fed funds rate of 4.6%. This is the level inflation could conceivably drop to within coming months and likely therefore to be the terminal rate. A 4.6% terminal rate suggests that only two additional hikes remain, of 75 and 50 basis points, in November and December. Beyond that point, the Fed’s withdrawal of dollar liquidity from global markets will probably pivot to renewed quantitative easing, creating the conditions for a sustained recovery in global equities.

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