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

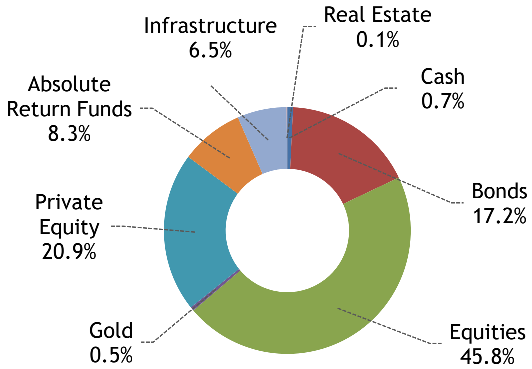
2022 Q4

Annualised Growth (%)	OAM	Bench
Inception 2003	7.15	0.19
10 years	7.82	1.50
7 years	7.99	1.33
5 years	5.47	-2.29
3 years	5.36	-3.13
2022	-8.09	-10.55

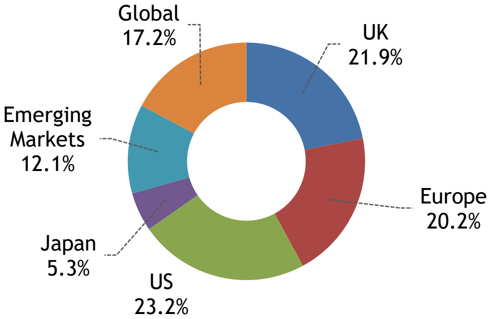
Annualised Income Yield	1.84%		
	$	€	R
2022 return in (%)	-17.81	-12.82	-12.20
	£/$	£/€	£/R
Forex Rate	1.21	1.13	20.59

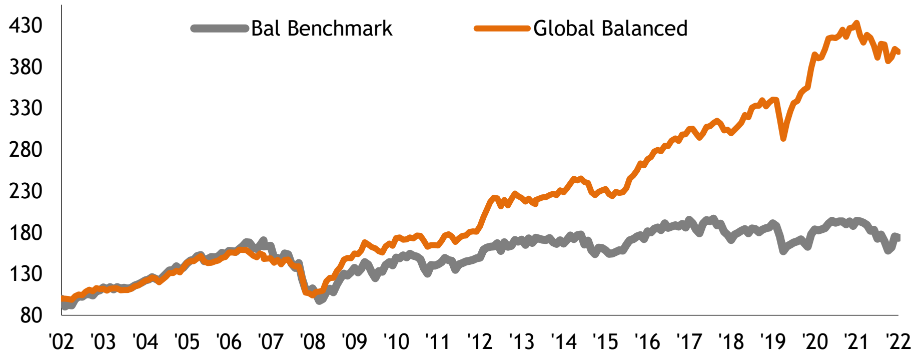
Top 5 Holdings	
BH Macro	
3I Infrastructure	
Ruffer Investment	
Greencoat UK Wind PLC	
RIT Capital Partners	
Total number of holdings	24

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





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

All financial asset prices suffered in 2022, rattled by the highest inflation and the sharpest increase in interest rates in over 40 years, strict Covid restrictions in the world's second largest economy, the biggest war in Europe since WW2 and an energy supply shock that rivals 1973. Bond yields and the US dollar surged, and equity prices plummeted. However, equity markets staged a recovery in the fourth quarter (Q4) amid signs that the world may have passed the point of peak inflation, peak central bank hawkishness and peak bond yields. The all-important 10-year US Treasury bond yield, against which all financial assets are priced, reached a peak of 4.23% in October compared with 1.49% at the start of the year but by the end of December had stabilised at 3.88%, helped by lower inflation readings and hints that the Federal Reserve is nearing the end of its rate hiking cycle. The Fed's less hawkish policy outlook took some shine off the US dollar. The US dollar index fell 7.7% in Q4, reducing its year's gain to 8.2%. A weaker dollar helped to shore-up global liquidity, to the benefit of global financial markets.

European markets were at the vanguard of the Q4 recovery, helped by a sharp drop in European natural gas prices. The benchmark price fell by 61.2% in Q4 ending the year 7.5% lower than its end 2021 level at €60/MWh compared with a peak of €341/MWh reached on 26th August. The Brent oil price also benefitted economic sentiment by falling 2.3% in Q4 trimming its gain for the year to 9.3%, priced at end December at $85.9 per barrel compared with a peak of $128 per barrel in March. The German Dax gained 14.9% in Q4, trimming its 2022 loss to 12.3%. The UK's FTSE 100 index was an outlier, actually gaining 0.9% on the year after rising 8.1% in Q4, helped by a weak pound, and heavy index weighting in oil and commodity stocks as well as financials, which benefit from rising interest rates. The Nikkei also fared relatively well, losing just 4.9% on the year, helped by the Bank of Japan's commitment to monetary easing and a weakening yen. In the US, the benchmark S&P 500 index gained 7.1% in Q4 but suffered a 19.4% loss on the year, while in China the Shanghai & Shenzhen CSI 300 index gained 1.7% and lost 21.6%, respectively. The MSCI World index lost 19.8% on the year despite gaining a hefty 9.4% in the last quarter. The MSCI Emerging Market index was hit hardest due to China's effect, with a loss for the year of 22.4%, despite recovering 9.2% in Q4.

Will equity and bond markets maintain their positive momentum in 2023? This largely depends on inflation, interest rates and whether economies dip into recession. Inflation appears to be rolling over. In November, US consumer price inflation (CPI) rose by just 0.1% after rising 0.4% in October. Year-on-year CPI increased 7.1%, the smallest increase since December 2021, marking a steady downtrend since peaking at 9.1% in June. Falling rents, which comprise 40% of US core CPI, and falling medical care prices, are expected to combine with near zero goods inflation to reduce core CPI as the year progresses. Wage growth should come under downward pressure from falling job vacancies. According to independent research firm Capital Economics, "The current post-pandemic surge in price and wage inflation is naturally framed in terms of what occurred in the 1970s, but the surges in wage and price inflation following both world wars were even bigger. Both of those surges faded within a couple of years, without the need for a severe recession or a large and sustained rise in unemployment."

The Federal Reserve slowed the pace of its rate hikes from 75 basis point increments to 50 bps at its latest policy meeting in December. After its rapid increase the fed funds rate, currently at 4.25-4.5%, is now close to the Fed's own projected terminal rate of 5.0%, suggesting only one or two rate hikes of 25-50 bps remain. Other central banks, including the Bank of Canada and Reserve Bank of Australia have already reduced the size of their rate hikes. The ECB and Bank of England are expected to adopt the Fed's more cautious approach, which according to its press statement "will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." The last rate hikes are always the most painful. There is a growing chorus from economists and even members of the Fed that monetary policy is in danger of over-tightening and creating a financial accident. The riot in the UK gilt market in October, when the 10-year gilt yield gained by 150 basis points in a matter of days, was an early warning signal, which appears to have shaken central banks. The Bank of England stepped in with unlimited purchases of UK gilts. While the Fed has continued lifting interest rates, it has dramatically slowed the shrinking of its balance sheet. Meanwhile, liquidity expansion has resumed in Europe and in China.

Declining inflation, an end in sight for monetary tightening and hints of an end to central bank asset sales, should stabilise bond yields. According to Bank of America strategist Michael Hartnett, the last time that the Treasury bond fared so badly was in 1788, over 200 years ago. The last time bond prices dropped two years in a row was in 1959. Apparently three years in a row has never happened, which suggests bond yields (yields rise when bond prices drop) are highly likely to come down in 2023, benefitting all financial asset classes, including equities.

Economic activity is expected to slow in 2023 but it should come as no surprise to financial markets. The slowdown has been well telegraphed. Recessions are anticipated across developed economies in the US and Europe, but they are likely to be shallow and short-lived, with forecasts for a mild fall in US GDP of just 0.5% and 1% in Europe. In the US and Europe, banks, companies and households spent the decade after the 2008/09 Global Financial Crisis mending their over-leveraged balance sheets. The deleveraging process combined with massive excess savings accumulated during the Covid pandemic has removed any structural imbalances. Economies are well equipped to deal with a cyclical downturn, which means they are expected to begin recovering quickly, from as early as the second half of the year. The downturn may be greater at around 2% and slightly more prolonged in the UK and other economies suffering from property bubbles and high household debt levels including Canada, Australia, New Zealand and Sweden. Meanwhile, China's growth rate, having dropped in the first nine months of 2022 to a year-on-year rate of just 3.0%, should pick up momentum this year with the lifting of Covid restrictions and increased fiscal and monetary stimulus. As the world's second largest economy, China's improved outlook should provide a boost to global growth.

At the start of last year global equities were valued at two standard deviations above their long-term average price-earnings multiple and price-to-book. Necessary corrections in bond and equity markets have restored both the long-term risk-free rate (10-year US Treasury bond yield) and the global equity risk premium back to normal levels. Global equities have moved back from an estimated forward price-earnings multiple of 20x to 14.3x, below the long-term average of 15.8x. While US markets have realigned with their long-term average other markets are well below theirs, in some cases including Europe, the UK and China, by a considerable margin, indicating a good starting point for investors.

The outlook for global markets is greatly improved compared to this time last year. A year ago, inflation and interest rates were surging, and economic momentum was falling, while valuations were extremely demanding. A year later, inflation is declining, central banks are close to ending their tightening cycles and while recession is around the corner it is likely to be mild and short-lived, with China's improved outlook boosting prospects for an early global recovery. Earnings will inevitably succumb to the expected recession, although markets may look through the slump given undemanding valuations and expectations that economic recovery will commence as early as the second half of the year. Equity markets typically strengthen before recessions end, usually by around four months. The US mid-term elections also bode well for markets. Since 1930, US markets have typically performed strongly in the year following the midterm election. There have only been two years of negative returns and even then, not by much: In 1947 and 1978, US markets dropped by 0.5% and 2.4% under presidents F. Roosevelt and J. Carter, respectively. Good news out of the Ukraine in terms of a negotiated settlement could add further to the positive sentiment.