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Global Balanced Portfolio

Q2 2023

Investment Objective

The OAM Global Balanced Portfolio aims to improve the long-term wealth of investors by holding investments which deliver both capital growth and income, while maintaining a medium-risk investment level. Investments are extensively researched to assess their intrinsic value over the longer-term.

Portfolio Description

This actively managed share portfolio aims to provide a balanced investment solution across asset classes. The underlying investments include a well-diversified mix of equities, bonds, real estate, private equity, absolute return funds, infrastructure, commodities and cash. Total equity exposure is unlikely to exceed 70% of the portfolio, primarily comprising offshore investment companies listed on the London Stock Exchange.

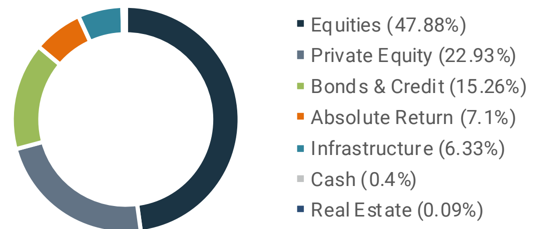
The portfolio is flexible and fully global in nature, providing exposure to a broad range of geographies, industries, economic sectors, and currencies. The base currency is British Pound Sterling.

Investor Criteria

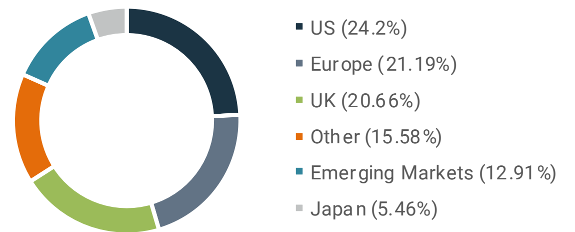
- Seek meaningful long-term capital growth and income.
- Recognise the benefits of direct offshore exposure, in foreign currency.
- Are comfortable with a medium level of risk and short-term market fluctuations.
- Typically aim to invest for a period of 5 years or longer.

Risk Rating

Asset Allocation (see through basis)



Global Allocation (see through basis)



Performance

Growth	OAM*	Benchmark**	FX Rate	OAM
Annualised (%)	GBP	GBP	GBP/ZAR	ZAR
Inception 2003	6.92	6.44	2.09	9.81
10 years	6.43	6.53	4.77	11.50
5 years	5.04	4.88	5.72	11.05
3 years	5.43	3.85	3.60	9.23
YTD	-1.02	4.29		
Yield***	1.77			

* Performance figures are based on a typical portfolio.
* **Performance figures are net of all fees**. (Including asset management, platform, trading, and advisor fees).
** The Benchmark is comprised of 60% MSCI ACWI, 40% WorldBIG index
***Income yield since inception

Top 5 Holdings

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Global Market Review and Strategy Outlook for the quarter ended June 2023

As expected, the shock of the mini-banking crisis faded over the second quarter (Q2) and the global economy picked up slight momentum. However, the economic cycle is highly unusual. The impact of the pandemic, the extraordinary fiscal and monetary stimulus that followed and then the Ukraine war, have created a very different economic cycle. Manufacturing is in recession around the world, but service sectors are flourishing. Investor anxiety alternates between looming recession on the one hand and sticky inflation on the other. Yet, economies have avoided the recession that many predicted at the start of the year and inflation is gradually easing, although at a slower than expected pace. Company earnings have continued to increase, providing an underpin to equity markets.

Nearly all equity markets posted positive returns in Q2. Japan's Nikkei 225 index was the regional outlier with an 18.36% return in Q2 and 27.19% for the year-to-date (YTD), as its economy benefitted from its recent Covid reopening and close trade ties with China's rebounding economy. The Bank of Japan is also alone in the world in providing generous monetary policy accommodation despite the country emerging from decades long deflation. The US S&P 500 index gained 8.30% in Q2 lifting its YTD return to 15.91%. The US benchmark is now up over 20% since its low point in October last year, qualifying as a "bull" market, confounding the sceptics at the start of the year with their prophecies of recession and doom. However, the uptrend has been driven by a remarkably limited number of shares, the seven technology giants that are being bid higher by the hype around artificial intelligence (AI). The S&P 500 would be down YTD if one excluded the seven technology names, Apple, Microsoft, Amazon, Alphabet, Tesla, Meta Platforms and Nvidia, which combined have a 28% weighting in the S&P 500.

Other markets fared less well. China's Shanghai & Shenzhen CSI 300 index lost 5.15% in Q2, erasing its Q1 gains with a YTD loss of 0.75%, due to disappointment over the rebound from Covid lockdowns. Yet, China's economy is still expected to achieve 5% growth in 2023, and while it will slow over the coming decade, will be growing at double the pace of developed economies. Its share of global GDP is projected to increase from 18% last year to 23% in ten years' time. Despite China's ageing population, the country is not yet fully urbanised. The United Nations forecasts that people living in cities with populations exceeding five million will increase from 208 million in 2020 to 280 million in 2030, bringing numerous economic spinoffs and considerable relief to the over-extended property sector. The UK's FTSE 100 index also underperformed, dragged lower by 1.31% in Q2 trimming its gain for the year to just 1.07%. The UK's over extended residential property market is in danger of protracted declines due to the sharp rise in mortgage interest rates. This danger ratcheted higher after the release of shock UK inflation data for the month of May. Core consumer price inflation (CPI) gained by 1.1% on the month, lifting the year-on-rate to 6.8% from 6.2% the previous month. This prompted the Bank of England to lift its benchmark interest rate by a hefty 50 basis points after two 25 basis point hikes in the previous two policy meetings, which as well as endangering the fragile property market may lead to further underperformance of UK based investments.

European markets, which were the top performers in Q1, were held back in Q2 by their lack of AI champions. Nonetheless, economic activity and earnings growth maintained positive momentum and the German Dax index managed a solid 3.32% gain in Q2, lifting its YTD return to 15.97%. The MSCI All Country World index was up 12.79% YTD after gaining a further 5.58% in Q2 despite half the companies in the index showing YTD losses, illustrating the outsized impact of mega-cap technology stocks. The MSCI Emerging Market index was up a relatively subdued 3.46% YTD and only 0.16% in Q2, due mainly to China's losses.

The World Bank Global Economic Prospects report published in June portrays a mixed picture of the global economy. The report warns that despite implementing the steepest increase in global interest rates in four decades, inflation remains stubbornly high. At the same time, global growth is expected to slow down. The World Bank predicts a slowing in global GDP growth from 3.1% in 2022 to 2.1% in 2023, inching up slightly to 2.4% in 2024. Notably however, the 2023 figure is an improvement of 0.4% on the World Bank's January report. Emerging market economies are expected to do better than advanced economies. China is expected to grow 5.6% in 2023 and 4.6% in 2024 and India by 6.3% and 6.4% respectively. Advanced economies are expected to grow by only 0.7% in 2023 and 1.2% the year after compared to 4% and 3.9% for emerging markets.

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Emerging markets have dealt with the inflation threat more decisively. Rather than waiting to find out if the initial pick-up in inflation would be "transitory', they did not hesitate to hike interest rates and as a result monetary policy became restrictive far sooner. In emerging economies core inflation is already moving decisively lower while in developed economies the outlook for inflation remains far less certain. After a decade of below-target inflation readings in the pre-Covid era, significantly above target inflation has become a phenomenon in both Europe and the US. At its latest policy meeting on 14th June, the Federal Reserve paused its interest rate hiking cycle but cautioned that it would likely raise the fed funds rate again by a further 50 basis points by year-end, upending the consensus view that peak interest rates had already been reached. The strength of services inflation means CPI may take longer than previously expected to get back to central bank target levels, especially given the resilience of company and household balance sheets, full employment, and strong hiring intentions. The latest Manpower Employment Survey of large global companies showed an unexpectedly strong reading for Q3 hiring plans. Instead of moving lower, hiring intentions showed a meaningful improvement, undermining predictions of recession but at the same time signalling stickier than expected inflation.

Fortunately, inflation is still declining albeit at a gradual pace. In the US, CPI eased in May to 4.0% year-on-year from 4.9% the prior month. Core CPI, which excludes food and energy prices, slowed more slowly from 5.5% to 5.3%. The Fed is especially watchful of the Personal Consumption Expenditures Price Index, which in May eased very slightly to 4.6% on the year from 4.7% in April, but more encouragingly the three-month annualised rate dropped to 4.1%. The inflation hawks doubt inflation will return easily to the 2% target of developed economy central banks. However, even the hawks agree that inflation will come down from current levels.

Sticky inflation may be a key contributor to the global equity rally. Inflation lends pricing power to companies. During the first quarter in the US, 78% of companies representing the S&P 500 index beat consensus earnings forecasts and earnings projections are being revised higher. Global earnings expectations have been remarkably resilient this year despite recession fears. In fact, the global earnings revision ratio, measuring earnings upgrades versus downgrades as a share of total revisions, has edged into positive territory. Since corporate revenue and profits are nominal variables, rising prices should help rather than hurt corporate profitability. Indeed, nominal GDP is a close proxy for corporate revenues. In a relatively high inflation environment, nominal GDP growth can remain positive even when an economy enters recession, especially if a recession is shallow and short-lived as most analysts are predicting. In the US, the recessions in the 1970s and 1980s were severe, but earnings per share drawdowns were much milder than those in recent decades when low inflation prevailed. Global investment research firm Alpine Macro makes a strong case: "Assuming a mild (US) recession reduces annualised real GDP to 0% and inflation falls by an additional 150 basis points by year-end, nominal GDP would still be growing at around 4%, which is the same as the average nominal growth rate during periods of normal economic expansion since the Global Financial Crisis. Moreover, operating earnings per share growth was 12.3% during this period."

The greater risk is a more significant economic slowdown in the US and Europe as suggested by the most inverted yield curves in the US and Germany since the early 1990s. However, the yield curve may well be sending a false alarm. Consumers are continuing to benefit from wage growth and accumulated savings to bolster spending, and companies have low levels of debt and strong pricing power. Companies have managed to maintain their margins despite rising input costs. They have been able to pass rising costs to consumers rather than absorb them in their margins. Private sector balance sheets for households and businesses are the healthiest they have been since the 1980s, making them more impervious to rising interest rates.

That said, central banks are unlikely to lift interest rates much further. Real interest rates are likely to move higher on their own as central bank rates are kept at current levels and inflation gradually declines. Monetary conditions will naturally tighten in the absence of further central bank rate hikes. Recessions in the US and Europe, if they occur at all, are likely to be shallow and short-lived, with stronger growth in emerging economies, especially China and India providing valuable support, and the rapid adoption of AI supporting a potential investment and productivity boom. This backdrop augurs well for global financial markets.

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