Global Balanced Portfolio

Q3 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.

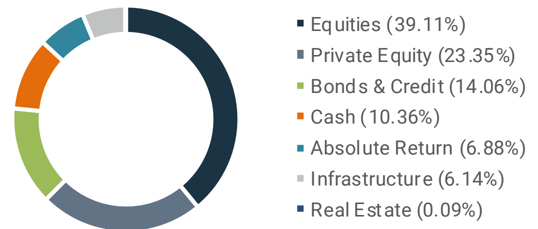
Performance

Growth	OAM*	Benchmark**	FX Rate	OAM
Annualised (%)	GBP	GBP	GBP/ZAR	ZAR
Inception 2003	6.85	6.37	2.49	9.51
10 years	6.02	6.65	3.59	9.83
5 years	4.88	4.18	4.60	9.70
3 years	3.88	3.41	2.15	6.12
YTD	-0.71	4.47		
Yield***	1.77			

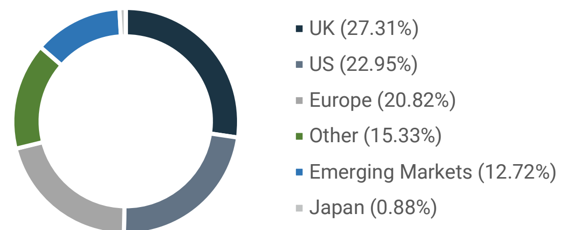
* Performance figures are based on a typical portfolio.
* **Performance figures are net of all fees**. (Including asset management, platform, trading, and advisor fees).
** The Benchmark is comprised of 60% MSCI ACWI, 40% WorldBIG index
***Income yield since inception

Risk Rating

Asset Allocation (see through basis)



Global Allocation (see through basis)



Top 5 Holdings

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

Economic growth across the world's economies was stronger than expected in the third quarter (Q3), despite continued monetary tightening by the world's major central banks. In July, the US Federal Reserve lifted its benchmark fed funds rate by a further 25 basis points to a range of 5.25-5.50%, a cumulative increase of 525 basis points since March 2022. The ECB, which had a benchmark interest rate of 0% in July 2022, implemented two additional rate hikes of 25 basis points each in August and September, lifting its policy rate to 4.0%. The Bank of England began hiking in December 2021, from a base rate of 0.1%, hiking from 4.5% to 5.0% in July and to 5.25% in August. Economic data came in stronger than expected, confounding the forecasts of recession published at the start of the year. In the US, the latest GDP data shows 2.1% quarter-on-quarter annualised growth in Q2. The Eurozone, UK and Japan posted growth of 1.2%, 0.8% and 4.8%.

Despite reasonable economic growth, global equity markets lost ground in Q3 due to the impact of rising bond yields. Rising bond yields tend to result in a derating of equity market price-to-earnings multiples. The US 10-year Treasury yield broke out to new cycle highs, rising over the quarter from 3.82% to 4.59%. Sovereign bond yields increased across the world's main economies. As yields rise bond prices drop. The S&P G7 Sovereign Bond index lost 3.89% in Q3, resulting in a year-to-date loss of 2.56%. The global equity risk premium, which is the forward earnings yield minus the G7 10-year government bond yield, has declined to its lowest since before the 2008/09 Global Financial Crisis (GFC). Rising bond yields have forced the US equity risk premium to its lowest since 2002, leaving little compensation for the extra risk of investing in equities versus bonds.

The UK FTSE 100 was the only index to record a gain in Q3, rising by 1.02% adding to its slender YTD return of 2.1%. Elsewhere losses over the quarter were consistent across equity markets. The US S&P 500 was down by 3.65%, China's Shanghai & Shenzhen 300 index by 3.98%, Japan's Nikkei 225 index by 4.01% and the German Dax by 4.71%. However, YTD returns showed greater divergence. The Nikkei led with a gain of 22.08%, followed by the S&P 500 with a gain of 11.68% and the Dax with a gain of 10.51%. The CSI 300 lagged with a loss of 4.7%. The MSCI All Country World index lost 3.81% in Q3, trimming its YTD gain to 8.5%, while the MSCI Emerging Market index lost 3.71% in Q3 and due to China's outsized impact suffered a YTD loss of 0.38%. The benchmark performances mask significant differences across markets. In US dollar terms, global markets excluding the US have traded sideways over the year showing very little YTD appreciation. Within the US most of the YTD gains are attributed to the communication services, consumer discretionary and technology sectors, represented by the seven mega-cap stocks that have fuelled markets. These mega cap shares have gained collectively by 53% YTD, while the rest of the US market is up only 1%.

Financial markets are anxious that policy interest rates are still not restrictive enough and that continued economic growth will prevent inflation from returning to central bank targets. However, monetary tightening operates with a lag, historically of around 12-18 months before economic activity slows down. In this cycle, the lag between interest rate hikes and economic slowdown has been lengthened by the unusual build-up of excess household savings from Covid relief transfers. Yet, excess savings are close to being depleted. An economic slowdown is inevitable, as households and businesses increasingly refinance at higher interest rates and declining inflation mechanically increases the real rate of interest over coming quarters. The impact of earlier monetary tightening can only increase with time, lifting the likelihood of recession, however mild or short-lived.

Economic activity is already showing signs of slowing. New US housing starts dropped in August to their lowest level since June 2020. The US Conference Board Leading Economic Indicator (LEI) fell in September for a 17th consecutive month. The economy has never avoided a recession from the LEI's current level and after such a long string of declines. The eurozone's Economic Sentiment Indicator fell in August for the fourth consecutive month, weakening across all sectors and signalling a growing risk of recession. The UK economy is riskier than most as households have not deleveraged or mended their balance sheets in the same way the US and eurozone have done since the GFC. Its residential property market has risen to bubble proportions and in danger of protracted decline due to the sharp rise in mortgage interest rates. In Q2, Buy-to-Let mortgages in early arrears increased by 41% quarter-on-quarter. The bulk of homeowners are still at fixed mortgages of below 3% but they will increasingly need to refinance at higher mortgage rates.

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The slowdown in economic activity is having the desired effect on inflation. The latest inflation data is encouraging, showing continued moderation in the US in response to improved supply chains, an easing in labour markets and the effect of lower shelter costs. Year-on-year core CPI excluding shelter has eased back from a peak of 7.6% to 2.6%. Shelter inflation is expected to turn negative in the second half of 2024, which means if core CPI excluding shelter remains constant at current levels, core CPI should return to sub 2% target levels by late 2024. These assumptions are reasonable given the incremental slowdown in demand. A similar downward path in inflation is expected in the eurozone and the UK, albeit with a slight delay compared with the US.

The inflation sceptics flag the recent spike in the oil price. The Brent crude price increased in Q3 from $73 to $95 per barrel, driven by drawdowns in US inventories and OPEC+ production cuts. However, oil is rapidly approaching peak demand as the world moves to alternative energy sources. Meanwhile increased energy efficiency means households are spending a steadily declining portion of their disposable income on fuel, thereby reducing the inflationary impulse of rising oil prices.

Some market forecasters are concerned by the potential for a hard landing in China and what it may entail for the global economy. China's post-Covid economic recovery has been disappointing. Its GDP slowed from 8.8% quarter-on-quarter annualised in Q1 to 3.2% in Q2. However, economic momentum seemed to turn a corner in August amid improving consumer confidence with retail sales growth accelerating from 2.5% to 4.6% year-on-year. There was a pick-up in the Citigroup Economic Surprise Index and in manufacturing and services purchasing managers' indices. China is experiencing strong growth in demand for goods that are higher up the value chain, including vehicles, vehicle parts and electronic goods. Contrary to the deepening negative press coverage China's GDP growth is tracking at its trend rate of 5% for 2023, in line with the government's target.

The global equity market weakness experienced in Q3 may run into Q4 amid mounting evidence of economic slowdown and the threat of recession. At the same time, bond yields may rise further despite stable inflation expectations and the strongest signals yet that central bank policy rates have peaked. Yields may continue to respond negatively to the US sovereign credit rating downgrade by Fitch, the widening US budget deficit, and the surge in Japan's government bond yields after the Bank of Japan raised its 10-year yield target from 0.5% to 1.0%.

However, the headwinds to financial markets felt in the second half of the year, notably recession risks and rising bond yields, should become tailwinds in 2024 and 2025. There are few structural economic imbalances, with the US and eurozone benefitting from strong private sector balance sheets across households and businesses. In the absence of structural imbalances, recessions will likely be, at worst, cyclical run of the mill and therefore mild and short-lived. Meanwhile, inflation is expected to return to central bank target levels, even in the absence of recession, which will allow monetary policy to pivot from interest rate hikes to interest rate cuts. Monetary policy easing, declining bond yields and the transformative benefits of AI, should lend support to equity market earnings as well as higher price-earnings multiples.

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