

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.

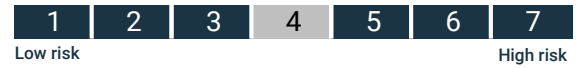
Performance

Growth	OAM*	Benchmark**	FX Rate	OAM
Annualised (%)	GBP	GBP	GBP/ZAR	ZAR
Inception 2003	7.02	6.56	1.94	9.70
10 years	6.48	7.00	2.98	9.66
5 years	6.74	6.74	4.93	12.00
3 years	1.68	3.66	5.06	6.83
YTD	4.34	10.14		
Yield***	1.73			

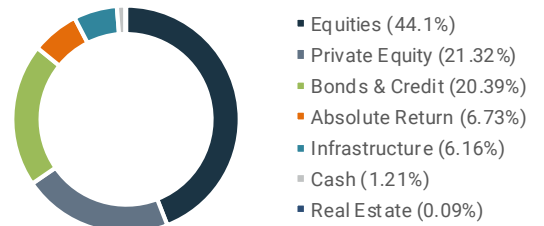
* Performance figures are based on a typical portfolio.
 * Performance figures are net of all fees. (Including asset management, platform, trading, and advisor fees).
 ** The Benchmark is comprised of 60% MSCI ACWI, 40% WorldBIG index
 ***Income yield since inception



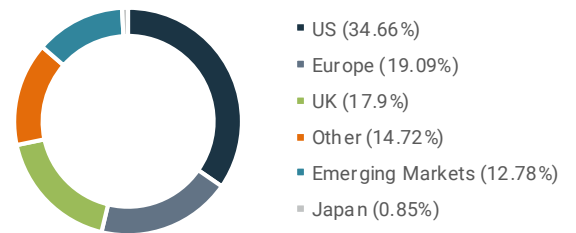
Risk Rating



Asset Allocation (see through basis)



Global Allocation (see through basis)



Top 5 Holdings





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

2023 proved to be a rollercoaster year for global financial markets. The year began with an almost unanimous view that the US and global economy would enter recession and that central banks would be obliged to cut interest rates. Instead, the world's economy continued to expand, and central banks kept interest rates "higher for longer". Equity markets showed decent returns, although these were led by outsized gains in the so-called "Magnificent Seven" (M7) large-cap US technology stocks (Apple, Microsoft, Amazon, Nvidia, Alphabet, Tesla and Meta), which accounted for 80% of the gains in the US S&P 500 index. Massive sector rotation over 2022 and 2023 frustrated most investors in balanced portfolios. In 2022, only the energy sector delivered positive gains, while technology suffered a substantial drawdown. The drawdown was made up in 2023, but only enough to recover the previous year's losses. On an aggregate level, equity markets have yet to make any progress beyond their end-2021 levels. Meanwhile sovereign bonds suffered their worst two-year performance in 150 years, with the S&P G7 Sovereign Bond index sliding 16.5% over the period.

The fourth quarter (Q4) started badly due to the continued surge in bond yields amid indications the Federal Reserve and other central banks would continue hiking interest rates. At one point in mid-October the US 10-year Treasury bond yield exceeded 5.0%, a tremendous increase from 3.88% at the start of the year. The yield is the benchmark for the global cost of capital and the basis for valuing all financial assets. Rising bond yields increase the market's required rate of return from equities, putting pressure on share prices. Rising Treasury bond yields also sap global liquidity. Global liquidity is crucial to keeping financial assets buoyant.

Confidence was restored in November by lower-than-expected inflation data which led to lower bond yields and implied a peak in central bank interest rates. The Fed, ECB and BOE have not lifted their benchmark interest rates since July, September and August, respectively. At its December policy meeting the Fed signalled that interest rate cuts would come, amounting to 75 basis points in 2024 and a further 100 basis points in 2025. Despite falling inflation and high interest rates, economies continued to sidestep recession, raising hopes of an eventual soft landing in the US and only mild cyclical recessions in the UK and Eurozone. US GDP grew at an annualised rate of 4.9% in Q3, matching China's growth rate over the same period. The UK recorded 0.0% growth in Q3 and the Eurozone not much better at 0.1%, but both avoided recessions. Japan's GDP shrank 2.1% in Q3 giving back some of its strong growth of 3.7% in Q1 and 4.5% in Q2 but is expected to resume its growth trend in Q4. Economies were helped by lower energy prices, both in taming inflation and stimulating growth. Fortunately, the Middle East conflict remained confined to Gaza, causing the Brent oil price to fall from \$95.3 per barrel at the end of Q3 to \$77.1 by year-end.

In Q4, the US 10-year Treasury bond yield fell sharply from 4.57% to 3.87%. The S&P G7 Sovereign Bond index rallied by 7.4% in Q4 putting the index in positive territory for the year by 2.4%. Japan's Nikkei 225 index was the best performing market for the year, rising by 28.2%, helped by substantial yen depreciation. The S&P 500 index gained 24.2% but excluding the M7 shares, its increase would have been under 6%. The German Dax gained over the year by 20.3% although the UK FTSE 100 only gained by 3.8%, hindered by a strengthening pound and the relative absence of technology shares in the index. The pound appreciated versus the dollar by 6.3% over the year. China's CSI 300 index trailed with a loss of 11.4% due to disappointment over the scale of economic stimulus and continued correction in the residential property market. China's performance undermined the MSCI Emerging Market index, which only gained 3.6% compared with the MSCI All Country World index, which returned a substantially higher 17.7%. To illustrate the impact of the M7 shares, that collectively have an 18% weighting in the MSCI All Country World index, the MSCI ACWI Equal Weighted index, which has an equal rather than weighted allocation to its constituents, only increased 2.3% over the year.



The 2024 outlook for equity markets and financial assets is encouraging. The strong market recovery that started in Q4 is expected to be maintained by further falls in inflation and the start of interest rate cuts, led initially by the Fed and followed by the ECB and BOE. Inflation is the most important variable in the current market cycle. The faster inflation comes down, the greater the chances of an economic “soft landing”. The inflation surge, which is more akin to the inflation shock which followed WW2 than the 1970s, is likely to come to an end in 2024, led by the US where shelter costs are due to come down sharply over coming months. The latest figures show shelter as the sole component keeping inflation elevated. On a 3-month and 12-month annualised basis, core US CPI excluding shelter is at 1.5% and 2.1% respectively. As the shelter component of CPI lags the sharp decline in the housing and rental markets, a significant inflation decline is in prospect. The sceptics believe tight labour markets will prevent inflation returning to central bank targets, but improved labour productivity is providing sufficient relief, especially in the US. In the US, labour productivity growth has risen to 2.4% from a dramatic low of -2.4% during the pandemic. This means the “inflation residuals” of wage growth, defined as wage growth minus productivity growth, have already fallen to 1.4%, in line with pre-pandemic levels. It is likely that Artificial Intelligence (AI) will entrench these productivity gains.

It is quite possible that only a small reduction in demand will be sufficient to tame inflation, which means central banks may not need to wait for a recession before cutting interest rates. Falling policy rates will allow bond yields to decline across advanced economies. Lower policy rates and lower bond yields will stimulate economic growth, ushering in a new economic and investment cycle. According to economists’ forecasts, there is only a 50% chance that the US economy will enter recession. Although rare and achieved more by luck than careful planning, there is a strong chance the US will enjoy a “soft landing”, in which the economy slows enough for unemployment to rise and inflation to decline but without tipping into recession. Europe and the UK are expected to enter recession in 2024 but in the absence of structural imbalances the recessions are likely to be mild and short-lived. China should achieve its targeted growth rate of 5%.

Equity markets could suffer mild losses from current levels if economic activity slows due to the lagged impact of monetary tightening, but markets are forward looking and will tend to look through the mild recessions towards falling interest rates and economic recovery. The US should maintain pole position based on its AI dominance and being first in the falling inflation and monetary easing queue. A bubble may well develop in AI-related stocks, which could continue into 2026. Parallels have even been drawn with the productivity boom of the 1920s, which followed WW1, the 1918 Spanish Flu pandemic and a brief recession in 1920/1921. This period was followed by booming business activity, and game changing new technologies and innovations such as electricity, the automobile, and the telephone. The 2020 Covid pandemic unleashed “Work from Home” and in the past year AI technology has accelerated, which has the potential to bring widespread economic benefits and increased labour productivity. Rising productivity will bolster economic growth while bringing down inflation.

There are always risks. The hoped for soft landing may elude the US and recessions elsewhere may be harsher than expected but risks are low given the extent of deleveraging since the 2008/09 Global Financial Crisis. Private sector balance sheets are in good shape. Alternatively, inflation may plateau above central bank targets, for instance if recent productivity gains are a once-off phenomenon, but this is unlikely given the transformative potential of AI. On balance, there is a good chance that inflation drops below central bank targets. So far, the inflation decline has been driven by non-cyclical supply-driven effects. Once cyclical demand-driven effects gather pace in response to the lagged impact of monetary tightening, the inflation decline may well accelerate. While continuously mindful of the risks, we are confident that the next two years will provide solid returns in equity markets as well as bond markets. Bond markets, for the first time in many years, are now offering attractive yields.