overberg
asset management

Global Balanced Portfolio

Q2 2024

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.

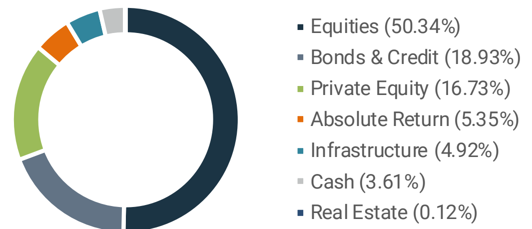
Performance

Growth	OAM*	Benchmark**	FX Rate	OAM
Annualised (%)	GBP	GBP	GBP/ZAR	ZAR
Inception 2003	7.24	6.78	2.39	9.80
10 years	7.28	7.66	2.37	9.83
5 years	6.30	5.98	5.17	11.80
3 years	2.69	4.38	5.21	8.05
YTD	8.12	8.04		
Yield***	1.73			

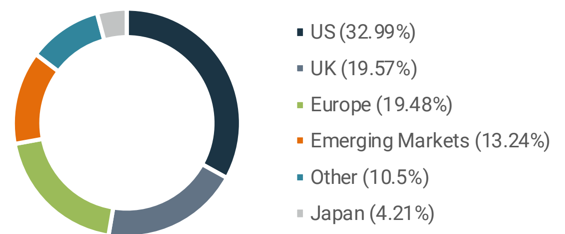
* Performance figures are based on a typical portfolio.
* **Performance figures are net of all fees**. (Including asset management, platform, trading, and advisor fees).
** The Benchmark is comprised of 60% MSCI ACWI, 40% WorldBIG index
***Income yield since inception

Risk Rating

Asset Allocation (see through basis)



Global Allocation (see through basis)



Top 5 Holdings

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Disclosure: There is a risk associated with investing in our financial products. The value of the investments and income may rise and 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 factors. Past performances are not necessarily indicative of future performances.

Global Market Review and Strategy Outlook for the quarter ended June 2024

Cyclical economic momentum picked up in the second quarter (Q2), as represented by the global manufacturing purchasing managers' index (PMI) which returned to expansionary territory for the first time in two years. Growth is broadening globally amid rising goods demand and trade volumes. GDP growth has accelerated in the more cyclical economies. Eurozone GDP grew in Q1 by 0.3% quarter-on-quarter compared with -0.1% in Q4 last year, helped by rising export demand. UK GDP grew by 0.7% in Q1 compared with -0.3% the previous quarter, while China's economy grew by 5.3% annualised compared with 5.0% in 2023. The US has exhibited signs of slowing, its GDP growth slowed in Q1 to 1.4% annualised from 3.4% the prior quarter, but economic data remains consistent with growth in the 1-2% range. This should be slow enough for inflation to return to target, while avoiding recession.

Global earnings have risen steadily over the past year and the gains in economic momentum have led to upgrades in consensus 12-month forward earnings forecasts. Equities are well supported by rising earnings and easing financial conditions. During the quarter, the European Central Bank, Swedish Riksbank and Bank of Canada each cut their policy interest rate by 0.25%. These rate cuts together with an earlier rate cut by the Swiss National Bank in Q1, mark the beginning of a new global monetary easing cycle which is expected to continue into 2025. The Bank of England and Federal Reserve are expected to initiate their rate cutting cycles in Q3.

Most equity markets gained further ground in Q2, helping the MSCI All Country World index notch up its third straight quarter of gains. The index increased 2.4% in Q2 and 10.3% year-to-date (YTD). Strong earnings growth powered US based technology shares, which pushed the technology heavy Nasdaq Composite index higher in Q2 by 8.3 and 18.1% YTD, benefitting the S&P 500 index, which gained by 3.9% and 14.5%, respectively. Other markets lagged the US although still fared well. The UK's FTSE 100 index gained 2.7% and 5.6% in Q2 and YTD, respectively, while the German Dax returned -1.4% and 8.9% over the periods. The Nikkei suffered a setback after its stellar performance in Q1 as its GDP unexpectedly shrank 2.9% annualised in the quarter, pulling the index down 1.9%, but YTD remains the best performing market with a return of 18.1%. Its economy will benefit from the improving trade cycle and the end of its decades' long battle with deflation. Japan's company profit margins are at a record high.

China's CSI 300 index was the laggard among major equity markets, despite solid earnings growth in the consumer discretionary and communication services sectors, which make up 50% of its market. The index fell 2.1% in Q2 resulting in a meagre 0.9% YTD return as global investors remained wary of the ongoing decline in its residential market. The MSCI Emerging Market index gained 4.1% in Q2 and 6.1% YTD despite China's weak performance, as other emerging markets benefited from improving growth conditions and compelling valuations. While equity markets were lifted by improving growth and rising earnings, government bonds fared less well due to nagging concerns over inflation which caused yields to rise. As bond yields rise, prices drop. The US 10-year Treasury bond yield ended the quarter at 4.34% up from 4.21% at the end of Q1 and 3.87% at the end of December. The S&P Global Developed Sovereign Bond index (USD) lost 2.7% in Q2 resulting in a YTD loss of 7.1%.

The US exhibited the strongest earnings growth with S&P 500 earnings expanding at a solid pace for the second straight quarter in Q1. Earnings grew 8% and expected to grow by roughly 11% in Q2 according to consensus forecasts, while 12-month forward earnings have continued to climb leading to rising forecasts for 2024 and 2025. However, most of the earnings growth is concentrated in a small number of mega-cap technology shares. The so-called Magnificent 7 shares account for 33% of the S&P 500 market capitalisation and they continue to enjoy superior operating margins and sales growth compared with the rest of the market. However, the level of market concentration may decrease as Fed easing leads to a re-rating of cheaper areas of the market, such as small cap shares which tend to outperform in falling interest rate cycles.

Equity markets are poised to continue rising, if as appears likely, recessions are avoided and at the same time financial conditions ease. Inflation remains a nagging concern especially in the US, but even there it appears to have resumed its downtrend. Following disappointing inflation data earlier in the year, US CPI fell in May to a new cyclical low of 3.4% year-on-year. Shelter inflation, which continues to be the main component propping up core CPI, remained sticky at 5.4% but lags from market rents to shelter inflation signal a further deceleration in shelter inflation over coming months. Core CPI excluding shelter registered just 1.9%, below the Fed's target. A softening labour market showing an increase in the unemployment rate

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to 4.0% in May, in line with the Fed's year-end forecast, suggests a greatly reduced risk of a wage price spiral. The Fed's 2024 year-end target for its core PCE inflation measure of 2.8% has also already been met, and the measure fell further from 2.8% to 2.6% in May paving the way for the start of interest rate cuts.

There is some concern that the AI-fuelled technology bubble will burst, bringing down financial markets. Although the valuations of AI-related sectors have risen to elevated levels, most of the rally has been backed by strong earnings growth, which shows no sign of slowing. Conditions are in place for the AI-boom to follow a similar trajectory to the dotcom boom of the 1990s. By comparison with the dotcom bubble and its duration, AI-related shares are cheap, and the rally is still in its relatively early phase with the potential to continue through to the end of 2025.

Geopolitics has the potential to sour investor sentiment, especially the US presidential election in November, which could be unusually divisive. However, markets usually ignore US political unrest and historically have gained even during tense years. In 1968 for instance, US financial markets were unaffected by the massive political shocks that year, including the assassinations of Martin Luther King and Robert F. Kennedy, the Tet offensive in Vietnam and anti-war protests. The S&P 500 index went on to gain 8%. The wars in Ukraine and the Middle East have the potential to intensify, leading to a recessionary oil price spike, but the world has become steadily less dependent on fossil fuels, which would limit the impact, especially in the US which is energy independent and therefore unaffected by global energy supply disruptions.

The more likely risk for financial markets is to the upside, involving a productivity led disinflationary boom which could unfold this year and beyond. A synchronised global expansion driven by rising labour productivity may result from major AI-related investment spending, which could rival the internet revolution of the 1990s. The internet lifted US labour productivity by 1-1.3% per year from the second half of the 1990s to the first half of the 2000s, creating a disinflationary boom. Investment in AI technology could achieve similar productivity led growth over coming years. In the US, which has been the largest beneficiary so far, non-financial sector productivity is already rising at a substantial 3.5% annual rate. Productivity gains have been a key factor behind the solid earnings recovery since 2023.

A disinflationary expansion bodes well for equities. While US earnings growth maintains the upper hand, led by AI-related sectors, the rest of the world is rebounding which should result in more regions and sectors participating in the equity bull market. Provided inflation continues to decline, the world's central banks, including the Fed, will stick to their monetary easing cycles, benefiting small-cap shares and other sectors which have been left behind and offer especially attractive valuations.

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