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Global Balanced Portfolio

Q4 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.

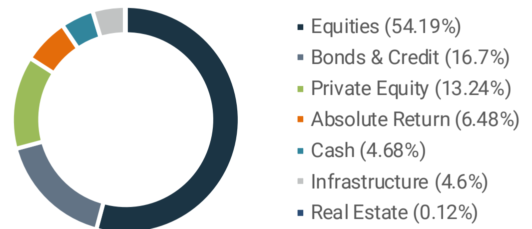
The portfolio is flexible and fully global in nature, providing exposure to a broad range of geographies, industries, economic sectors, and currencies. The base currency is British Pound Sterling.

Investor Criteria

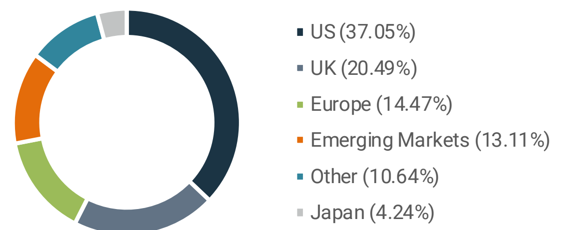
- Seek meaningful long-term capital growth and income.
- Recognise the benefits of direct offshore exposure, in foreign currency.
- Are comfortable with a medium level of risk and short-term market fluctuations.
- Typically aim to invest for a period of 5 years or longer.

Risk Rating

Asset Allocation (see through basis)



Global Allocation (see through basis)

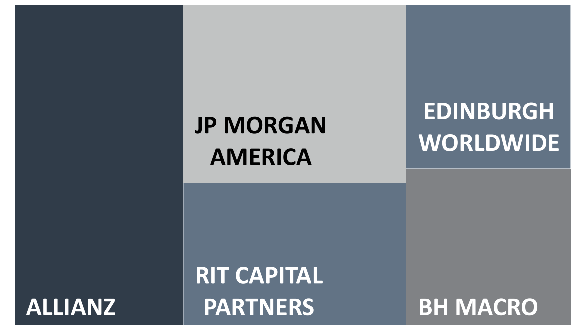


Performance

Growth	OAM*	Benchmark**	FX Rate	OAM
Annualised (%)	GBP	GBP	GBP/ZAR	ZAR
Inception 2003	7.35	6.87	1.93	9.99
10 years	7.60	7.55	2.75	10.56
5 years	6.92	6.72	4.95	12.21
3 years	3.18	4.39	3.11	6.38
YTD	14.54	13.60		
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

Top 5 Holdings



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

Equity markets continued their strong run during the fourth quarter (Q4) amid continued economic growth and positive earnings. Central bank monetary easing lent further support to market sentiment. The US economy stood out, reporting 2.8% quarter-on-quarter annualised growth in Q3. Eurozone growth picked up in Q3 to 0.4% Q/Q up from 0.2% in Q2, although the UK only eked out 0.1% growth compared with 0.5% the previous quarter. In Asia, Japan's GDP grew 0.2% in Q3 and in China GDP grew in Q3 by 4.6% year-on-year. The World Bank expects China to achieve 4.9% growth in 2024 helped by increased government stimulus. Central banks normally cut interest rates to avert recession but this time round rates are being cut despite solid growth. The US Federal Reserve implemented the third rate cut of its easing cycle in December culminating in 100 basis points so far. The European Central Bank cut for a fourth time in December, but the Bank of England refrained due to residual concerns over inflation. The UK's key inflation measure increased from 2.3% in October to 2.6% in November.

Donald Trump's re-election added extra fuel to the equity bull market, especially in the US which will benefit most from his pro-growth reform agenda. His initiatives to cut taxes, deregulate and eliminate wasteful government expenditure should enhance investment spending and productivity. Notwithstanding the threat of increased tariffs, Trump's economic policy is similar to the supply-side stimulus successfully implemented by Thatcher and Reagan in the early 1980s which paved the way for the US and UK economic booms in the 1990s. Trump's pledges to curb immigration and his threat of trade wars would undermine the benefits but he will want to maintain market and economic stability. Market performance has long been the key measure of his own governing success, and he is keenly aware of the damage a spike in inflation would wreak on his popularity. Immigration curbs and import tariffs are inflationary.

US equity markets were the clear outliers in 2024 despite their significant premium to other markets, benefiting from better earnings prospects and growing enthusiasm for Artificial Intelligence. The strength of the US dollar belied the extent of US market outperformance. The dollar index rallied 7.64% in Q4 mostly after Trump's re-election capping a 5.93% gain for the year. The S&P 500 increased 2.07% in Q4 and 23.31% over the year. By comparison the global ex-US benchmark (measured in dollars) gained only 5%. Many markets showed strong gains in local currency terms but less so when translated into dollars. Japan's Nikkei performed well amid solid earnings growth and decades' high profit margins, powering the index higher by 5.21% in Q4 and 19.22% over the year. Despite political and structural impediments, the German Dax strengthened 3.02% over the quarter and 18.85% over the year, helped by keen valuations. The UK's FTSE 100 performed poorly, due to its heavy weighting in resources and limited exposure to technology, with the index losing 0.78% in Q4 and returning a relatively modest 5.69% in 2024. Resources were held back by China's housing slump. China's CSI 300 index lost 2.06% in Q4 but came off its worst levels in response to government stimulus pledges, lifting the full year return to 14.68%.

The MSCI All Country World index (USD based) eased 1.23% in Q4 but gained 17.60% for the full year, and the MSCI Emerging Market index (USD based) lost 8.14% in Q4 while gaining 5.05% over the year. Emerging markets were the worst affected by Trump's tariff threat. While equity markets ended the year on solid ground, bonds fared less well. Higher than expected inflation data and Trump's pro-growth agenda caused the 10-year US Treasury bond yield to rise over Q4 from 3.80% to 4.57%, well above the end 2023 level of 3.87%. As bond yields rise their prices fall. The S&P Global Developed Sovereign Ex-US Bond index mirrored the US Treasury market decline with a Q4 loss of 8.12% and 6.64% loss over the year.

The sustained outperformance of US equities has resulted in their markets accounting for approximately 67% of the global total. This is the highest weighting in over 50 years. Recent dominance is largely due to growing enthusiasm for the AI theme. Technology shares now comprise a 31% weight in US markets. Indeed, US technology shares comprise 83% of global technology market capitalisation. If communication services, interactive media and online retailing sectors are included with technology, the combined weighting of these sectors comprises 41% of US markets compared with a 17% weight in global ex-US markets. More broadly, the US economy has enjoyed greater productivity growth than its peers. In contrast with other economies, US productivity growth has accelerated since the pandemic and is expected to gain further momentum with Trump's deregulation and tax incentives likely to quicken the pace of AI adoption.

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US equity valuations are at decades' high premia to other markets. Since the current bull market began in September 2023, the 12-month forward price: earnings multiple of US equities has risen from 18x to 23x. Over the same period, the global ex-US benchmark rating has barely budged. Despite its high valuation, an expanding productivity gap with the rest of the world reduces the odds of a sustained downturn in relative US earnings superiority. The US is the only major economy embracing supply-side economic policies, and tariff measures are more likely to weigh on its trading partners than itself. The common refrain is that US equity valuations have become stretched and ripe for correction. Yet valuations are much cheaper than during the internet revolution of the late 1990s, the last time there was a productivity enhancing technology boom. In the case of tech related sectors, valuations today are still only at levels after the Dotcom bubble had finished deflating.

US markets are expected to continue outperforming boosted by tech related sectors as enthusiasm for the AI theme grows, but it would be a mistake to ignore other markets, which should enjoy improving earnings as the global cyclical recovery takes hold. Ex-US markets have the added benefit of being relatively cheap. A modest upturn in global trade began in early 2024 and is expected to gather momentum in 2025, helping more cyclical economies including the Eurozone, Japan and emerging markets. The political climate in the Eurozone's two largest economies, Germany and France, is poor but there is scope for positive surprises. China's economy has already begun re-accelerating in response to stronger stimulus and the residential property slump there appears to be bottoming out. The spectre of export tariffs looms over the US's largest trading partners but the cost of tariff increases should be mitigated by local currency depreciation and possibly greater stimulus measures, especially in China and Germany, which may reignite domestic business and consumer confidence.

The bull market in risk assets is on a sound footing backed by the combination of broadening global economic recovery and monetary easing. Key risks include a resumption in inflationary pressure as witnessed recently in the UK, which may halt further central bank interest rate cuts. Government bond yields would rise as a result, undermining the solvency of heavily indebted companies and the valuation multiples of equity markets. Trump's tariff threats could lead to protracted trade wars if other countries react aggressively. The growing bubble in US tech shares may end abruptly if tech companies produce disappointing earnings. These risks may, if at all, only manifest to a smaller extent, causing a temporary market setback without disrupting the overall bull market.

Today's key upside risks have a greater probability of occurring. Some economists expect oil prices to fall sharply. OPEC+ has been unsuccessful in firming the oil price via supply constraints. Saudi Arabia and others may shift from a strategy of trying to prop up prices to one of capturing market share. Such an outcome would provide major benefits to financial markets. A sharply lower oil price would reduce inflationary pressure and gift consumers and businesses with the equivalent of a tax cut, thereby boosting economic growth. Global economic growth could even exceed consensus forecasts if productivity growth continues along its current trajectory, bank lending which has been notably weak during the current economic expansion, begins to pick up, or if China launches stronger than expected stimulus.

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