GLOBAL PERFORMANCE FACTSHEET

OAM Global Balanced Portfolio

Technical Details

- Base currency: GB Pounds
- Benchmark: FTSE 100 (2003 - 2018); 60% FTSE 100, 40% FTSE World Broad Investment Grade Bond (2019 -)
- Asset Allocation: Flexible mix of closed-end funds, bonds and cash
- Individual portfolio representing Global Income investment style
- All performance figures include income and are net of fees and expenses

Investment Objective

- Conservative growth using medium risk strategy
- Consistent annual returns

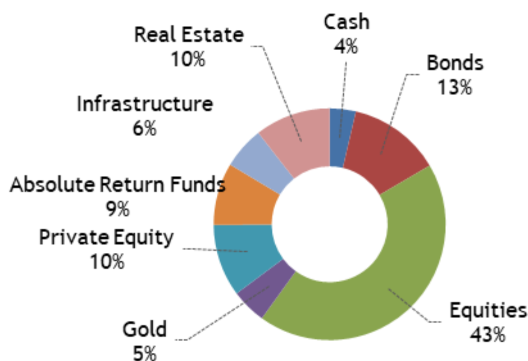
2019 Q2

Annualised Growth (%)	OAM	Bench
Inception 2003	7.52	3.79
10 years	10.22	6.22
7 years	9.72	3.90
5 years	8.27	1.55
3 years	12.30	3.85
2019 YTD not annualised	10.33	8.26

Annualised Income Yield	1.45

Top 5 Holdings	
BH Macro	
Ruffer Investment Company Ord	
RIT Capital Partners	
3I Infrastructure	
Schroder European Real Estate Investment Trust	
Total number of holdings	25

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
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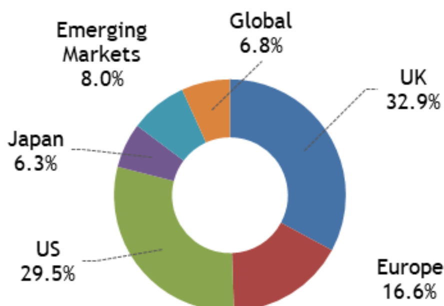

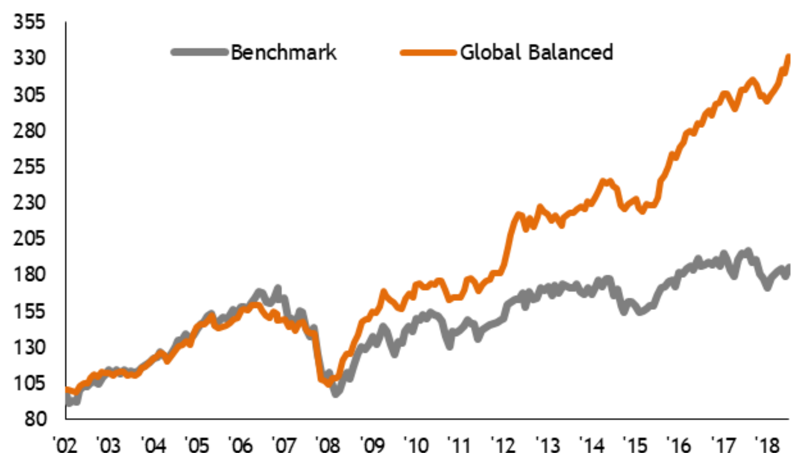

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overberg
asset management

GLOBAL PERFORMANCE FACTSHEET

Global Market Review and Strategy Outlook

Despite being beset by numerous challenges including an escalation in the trade war between the US and China, a continuation of the Brexit impasse and numerous downgrades to global economic growth forecasts, equity markets around the world enjoyed broad-based gains in the second quarter (Q2). The S&P 500 Index gained a further 3.47% lifting its performance in the year-to-date (YTD) to a solid 18.60%. In Q2 and YTD, respectively the Nikkei 225 gained by 0.19% and 8.69%, the FTSE 100 by 1.90% and 12.35%, and the German Dax by 4.49% and 18.64%. The US/China trade war crimped the Shanghai Composite and Hang Seng indices, which during Q2 suffered losses of 3.62% and 3.70%, although for the YTD held onto gains of 20.81% and 13.22%, respectively. The winning equity market in Q2 was Russia's MOEX Index, helped by a recovery in commodity prices in particular the oil price. The index gained a massive 10.73%, lifting its YTD increase to 16.42%. The MS World Index gained 2.59% in Q2 and 16.70% YTD, while the MS Emerging Market Index lagged with a Q2 loss of 1.50% and a YTD gain of 10.15%.

Just ahead of what had been expected to be the successful closing phase in trade talks between the US and China, president Trump called the talks off accusing China of backsliding on previous agreements relating to intellectual property protection, compulsory technology transfers and subsidies to state-owned enterprises. Trump raised tariffs on $200 billion in Chinese imports from 10% to 25% and threatened to impose tariffs of 25% on the remaining $325 billion of Chinese imports which had not yet been taxed. In retaliation, China announced plans to set tariffs at an average of 25% on $60 billion worth of US imports. Washington then proceeded to sanction Chinese telecoms giant Huawei, after which Beijing announced it would target foreign companies which undermine the "legitimate rights and interests" of Chinese groups, identifying US logistics company FedEx in its first salvo. Fortunately, as had been expected Trump and his Chinese counterpart President Xi Jinping gave a commitment at the G20 summit in Japan at the end of July to resume trade talks. While not guaranteeing a successful negotiated outcome, the resumption of trade talks is encouraging.

Trade uncertainty continued to undermine global economic growth prospects. The Organisation for Economic Cooperation and Development (OECD) cut its global economic growth forecast for 2019 from its previous estimate of 3.5% made in the fourth quarter last year to 3.2%, citing trade tensions as the principal culprit. In its semi-annual review, the World Bank also cited trade tensions as the biggest culprit, cutting its forecasts for global economic growth and global trade growth for 2019 from a previous 2.9% to 2.6% and from 3.6% to 2.6%, respectively. According to World Bank President David Malpass, "There's been a tumble in business confidence, a deepening slowdown in global trade, and sluggish investment in emerging and developing economies." In its latest report the World Trade Organisation (WTO) warned that trade growth could be as little as 1.3% in 2019. However, the WTO also observed that a successful resolution to the US/China trade conflict could lift trade growth to as high as 4% this year.

The yield curve, which measures the yield distribution of US Treasury bonds across different maturities, inverted once more. The significance of the so-called yield curve inversion, which occurs when the yield on the 10-year US Treasury bond falls below the yield of the 3-month Treasury Bill, is that it always precedes a recession. However, there have been many instances in which a recession has not followed a yield curve inversion. Furthermore, the yield curve inversion has not yet become entrenched. In addition, many economists including former Fed chairman Ben Bernanke, are arguing that due to the unprecedented volume of central bank quantitative easing and asset purchases, the yield of long-dated sovereign bonds has become distorted. Hence the yield curve cannot be relied upon as an accurate barometer. Other economists disagree, arguing that quantitative easing is itself symptomatic of excess liquidity and a lack of demand in the economy. Meanwhile, negative yields once again abound, approaching the levels

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last seen in 2016. Currently, around $12 trillion worth of sovereign bonds, predominantly Japanese and European government bonds, are in negative yield territory, raising the specter of deflationary risk.

An inverted US yield curve and negative sovereign bond yields around the world have caught the attention of the world's central banks and raised the prospect of concerted easing in global monetary policy. The Federal Reserve (Fed) has committed itself to a U-Turn in monetary policy, first signaling a pause to any further interest rate hikes and at the June policy meeting hinting strongly at an imminent 25 basis-point rate cut at the July policy meeting. Fed funds futures are predicting three 25 basis-point rate cuts before the end of the year. While there is no threat of an imminent recession, the Fed appears to be opting for "insurance" rate cuts, similar to those implemented in 1995 and 1998. Fed chairman Jay Powell cautioned that business confidence is being affected by continued uncertainty over trade policy, which could impact business investment and employment. He said that "an ounce of prevention is worth more than a pound of cure." Besides the Fed, the European Central Bank (ECB), Bank of Japan (BOJ), and People's Bank of China (PBOC) are all guiding financial markets for further easing, which is boosting global liquidity and buoying financial markets.

US GDP grew in Q1 by a stronger than expected 3.2% quarter-on-quarter annualised up strongly from 2.2% in Q4 of last year. However, the headline figure was powered by a sharp decline in imports following the front-loading which occurred at the tail-end of last year ahead of the imposition of new tariffs. Inventories, which have risen rapidly for three straight quarters, also contributed strongly to the GDP figure. A normalisation in inventory levels in future quarters will equally detract from GDP growth as will a normalisation in trade patterns. By contrast, consumer spending which contributes two-thirds of GDP increased in Q1 by just 1.2% down sharply from 2.5% in Q4, indicative of weakening domestic demand. However, despite financial market volatility and the escalating trade dispute, US consumer confidence surged higher in May. The Conference Board consumer confidence index increased from 129.2 to 134.1 the highest since November when the index hit 137.9 its strongest level since 2000. Survey respondents were upbeat about job prospects, business conditions, current conditions and future conditions. Personal consumption expenditure, which contributes three-quarters of US GDP growth, should therefore stay on a firm footing helped by accommodative interest rates, record low unemployment and robust wage growth. In further good news, productivity, which measures the output of goods and services per hour worked, increased strongly during Q1 by 3.6% quarter-on-quarter annualised up from 1.3% in Q4 of last year. On a year-on-year basis productivity improved by 2.4% its strongest yearly improvement since Q3 of 2010. Productivity enhancement is the key to enabling faster economic growth without being inflationary, especially in a state of full employment. After years of sub-par productivity growth, the trend finally appears to be changing. Productivity improvements tend to be global in nature once they start and productivity cycles, once started usually last for prolonged periods of up to ten years.

China's GDP grew in Q1 by a stronger than expected 6.4% year-on-year, which although below the 6.8% growth rate achieved in Q1 2018, matched the growth rate in Q4 of last year. Despite the crackdown on credit extension and uncertainty stemming from the trade dispute with the US, growth in industrial production and retail sales accelerated during Q1. Surprisingly, the FTCR China Consumer confidence survey index increased between May and June from 73.0 to 73.4 rising further above the 12-month average of 72.1. On the upside consumers cited a strong housing market, faster income growth and better financial conditions, and on the downside expressed the most concern over rising inflation due largely to the sharp increase in pork prices. Remarkably, the trade dispute with the US did not feature heavily, appearing close to the bottom among consumers' concerns. However, although resulting in a relatively upbeat consumer confidence reading, a large proportion of survey respondents were inclined to save, lifting to its highest level since 2013. The Caixin manufacturing purchasing managers' index (PMI) fell sharply in June from

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50.2 to 49.4 surrendering the key 50-level which demarcates expansion from contraction for the first time in four months. Unfortunately, the forward-looking total new orders and new export orders sub-indices both fell below 50 into contractionary territory, indicating continued weakness in the manufacturing sector over the next few months. The PMI data should prompt authorities to step-up the pace of fiscal and monetary stimulus, which so far has been relatively constrained compared with previous economic cycles.

Japan's GDP unexpectedly grew 2.2% annualised in Q1, beating analysts' expectations of a modest contraction and outpaced Q4 growth of 1.6%. The economy expanded despite the ongoing impact of the US/China trade dispute. However, the upbeat figure was primarily due to an increase in inventories and an improved trade balance, which points to lower domestic demand. Inflation remained obstinately low and far below the BOJ's 2% target. Wage growth, the key to pulling Japan sustainably from its decade long fight with deflation, was also disappointing. The BOJ decided to keep its short-term policy interest rate at -0.1% and to continue with its quantitative easing program of ¥80tn a year. In its economic outlook the BoJ noted that despite Japan's economy expanding moderately there remain significant headwinds from lower growth in global economies. However, domestic demand is expected to improve in both corporate and private households, helped by "accommodative financial conditions". During Q1, Japanese emperor Akihito was the first emperor in 200 years to abdicate, passing on his responsibilities to his eldest son, Naruhito and ushering in a new era that will be known as Reiwa. In the preceding Heisei era, which spanned 30 years, Japan saw significant changes to its position in the global economy. The Nikkei 225 hit an all-time high shortly after emperor Akihito ascended to the throne in 1989 lifting the market capitalisation of Japanese stocks to ¥600tn or 1.4 times that of the US stock market. The price-to-earnings (P/E) ratio was 58x compared with 16x today. The bubble finally burst in 1990. The Japan that Naruhito inherits today is vastly different to the one at the end of the eighties, but the stark comparison reflects the value which has developed in the Japanese market.

Like other regions, the Eurozone also surprised to the upside recording GDP growth in Q1 of 0.4% quarter-on-quarter, double the 0.2% achieved in Q4 of 2018. Italy came out of recession with growth of 0.2% for the quarter. Germany grew by 0.4% and France by 0.3% while Spain came in ahead of expectations, growing by 0.7%. The better than expected growth reflects the resilience of domestic demand, which is benefitting from a strong labour market and accommodative monetary policy. Unemployment across the Eurozone continued to fall and stood at 7.7% in March, a level last seen before the 2008/09 global financial crisis. However, dark clouds remain on the horizon, with the conclusion of both Brexit and the China-US trade talks still hanging in the balance and both having the potential to derail progress in Europe. The Economic Sentiment Indicator (ESI) compiled by the European Commission (EC) showed that economic sentiment across all big European economies deteriorated in June driven by a broad-based weakening in confidence. Both the ESI and purchasing managers' indices measuring conditions in the manufacturing and services sectors of the economy, point to an economic slowdown in the second half to the year. Inflation in the Eurozone has reverted to the weaker trend exhibited earlier in the year with consumer price inflation (CPI) of 1.2% in the year to May compared with 1.7% in April. Core CPI, which excludes the more volatile energy and food prices, fell from 1.3% to 0.8%. The outlook for inflation remains weak, making it likely that the ECB's target of just below 2% will be out of reach for some time still.

UK GDP grew by 0.5% quarter-on-quarter in Q1 ahead of the 0.2% growth in Q4 of 2018. The growth acceleration was largely attributed to households and businesses stockpiling ahead of the initial 29th March Brexit deadline, driven by fear of a no-deal Brexit and supply chain disturbances. Economists have warned that the outlook for the rest of year will be subdued as there will be no repeat of the stockpiling seen in the first quarter and that uncertainty regarding Brexit remains. Household consumption however remains strong and could be the main driver of growth this year.

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Despite the uncertainty surrounding the exit from Europe, the UK has the lowest unemployment rate in more than four decades, measuring 3.8% in Q1, which combined with strong earnings growth should keep household expenditure on a firm trajectory. UK consumers will have a key role to play in keeping the economy ticking over once the boost from inventory stockpiling earlier in the year starts to unwind. Prime Minister Theresa May finally resigned opening the way for former London mayor and foreign secretary, Boris Johnson, who is widely seen as the favourite in the race for the Conservative Party leadership. The looming 31st October Brexit deadline is now seen as a date that is unlikely to be postponed, even if no deal is agreed upon. The Bank of England kept its benchmark interest rate unchanged at 0.75%, but its comments were less accommodative than other developed economies when it stated that further rate hikes “at a gradual pace and limited extent” were likely to be required.

Lead economic indicators for emerging markets have risen above the same forward-looking measures for the developed world for the first time since 2013 and point to a divergence in economic growth in favour of emerging markets. The emerging market composite purchasing managers’ index produced by IHS Markit currently stands at 52.4 points, well above the expansionary 50-level and indicative of growth of 5.5%, according to an IHS Markit report. Traditionally a higher PMI reading for emerging markets compared with developed markets has led to a flow of funds into emerging market assets. A resolution to the US-China trade war will be key to unlocking the potential for sustained emerging market growth and equity market outperformance. Most notably among key emerging markets, Indian equity markets surged in expectation of more pro-business structural reforms after Narendra Modi was re-elected with an overwhelming majority. Furthermore, India’s central bank cut interest rates for a third time this year to the lowest level since 2010. The benchmark rate was reduced by 25 basis points to 5.25% in a move to arrest declining economic growth. With the new governor of the Reserve Bank of India, Shaktikanta Das, seemingly more sympathetic to Mr. Modi’s cause, there is optimism that India can return to GDP growth of above 7%.

A likely de-escalation of trade risks combined with expected resilience in economic data in the second half of the year at the same time that global central banks, led by the Fed, start to reverse the interest rate cuts of the past two years, should help world equity markets to new highs in Q3. While many commentators are concerned about the duration of the US economic expansion, which has run uninterrupted for ten years qualifying as the longest US expansion on record, it should be noted that business cycles do not die of old age. There are very few signs of excess in the world economy. Pricing power is weak, economic risk taking remains moderate, private credit growth is not excessive, balance sheets have improved substantially over the past ten years since the 2008/09 global financial crisis, and equity market valuations are not stretched. The overall benign environment indicates continued moderate equity market gains over the next quarter and the second half of the year.

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