overberg asset management

GLOBAL PERFORMANCE FACTSHEET

OAM Global Balanced Portfolio

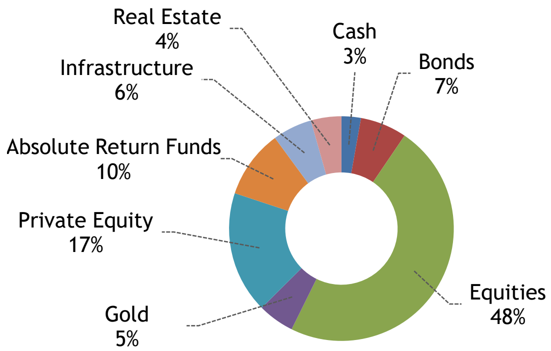
Technical Details

- 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
- Low volatility

ASSET ALLOCATION
(see through basis)



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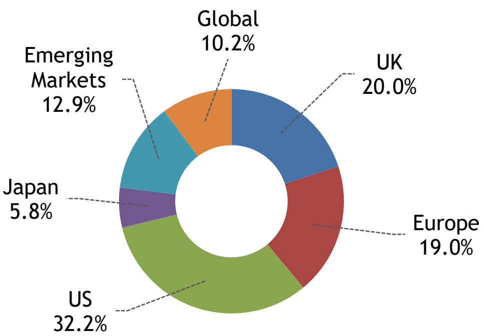
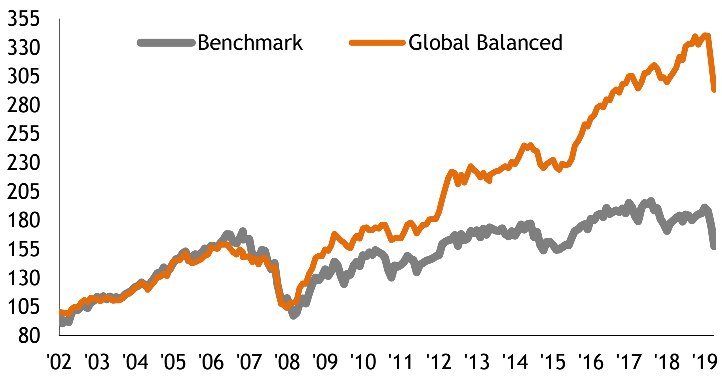


2020 Q1

Annualised Growth (%)	OAM	Bench
Inception 2003	**6.44**	**2.67**
10 years	5.71	0.89
7 years	4.41	-0.47
5 years	3.67	-1.74
3 years	1.61	-5.37
2020 YTD not annualised	-13.85	-17.62

Annualised Income Yield	1.36		
	$	€	R
2020 YTD return in (%)	-19.34	-18.05	2.91
	£/$	£/€	£/R
Forex Rate	1.24	1.13	22.17

Top 5 Holdings	
BH Macro	
Ruffer Investment Company Ord	
RIT Capital Partners	
3I Infrastructure	
Wisdomtree Physical Gold	
Total number of holdings	24



Global Market Review and Strategy Outlook for the quarter ended March 2020

The global bull market came to an abrupt end in March. Global financial markets were rocked by the combination of the global coronavirus pandemic and a collapse in the oil price. Equity markets across the world suffered similar declines, with few falling less than 30% from their peaks in early February. Efforts to contain the virus, including travel bans, school closures, enforced and voluntary social distancing, will likely help to slow its spread, but at huge short-term economic cost. Vitor Constancio, a former vice president of the ECB said “We are going into a global recession. The necessary measures to contain the spread of the virus make that unavoidable.” However, unlike the 2008/09 global recession, which lasted for four straight quarters, this recession is likely to last for two quarters only. Gita Gopinath, chief economist at the IMF, said “this should be a transitory shock if there is an aggressive policy response that can stop it morphing into a major financial crisis.” David Krostin, chief US equity strategist at Goldman Sachs forecasts a strong recovery in the second half of the year, with the S&P 500 index ending considerably above its current level. Krostin states that “by year-end, economic and earnings growth will be accelerating, the fed funds rate will be at the zero lower-bound, and the impact of any fiscal stimulus will be flowing through to consumers.” He reports that “A new bull market will likely be born later this year.”

Although good news for long-term investors, the sharp first quarter (Q1) declines in equity markets have been painful over the near-term. Q1 declines do not make for happy reading: US S&P 500 (-20%), Japan’s Nikkei 225 (-20.04%), UK FTSE 100 (-24.80%), German Dax (-25.01%). The MS World Index and MS Emerging Market Index reflect the declines, falling by 21.44% and 23.87%. Surprisingly, given the impact of the virus on its economy during February, the Shanghai and Shenzhen CSI 300 Index was by far the best performing equity market with a Q1 loss of just 10.02%. The Hang Seng also fared relatively well with a loss of 16.27%. The Brent Crude oil price plummeted by 65.59% over the quarter to $22.76 per barrel with dramatically lower demand exacerbated by a price war between Saudi Arabia and Russia.

It is hard to believe that the year started on such a strong footing. On 15th January, the US and China signed the so-called “phase-one” trade deal. Although the deal did not cover the more contentious issues of China’s subsidies of state-owned enterprises and the forced transfer of technology, these issues will be covered in supplementary deals. The phase-one deal is a symbolic victory for both sides and importantly calls a halt to further escalation in the two-year trade conflict, providing comfort to global financial markets. According to Tom Donahue, chief executive of the US Chamber of Commerce, “The deal provides much-needed certainty to American businesses as they start the new year.”

Unfortunately, the trade deal is where the goods news ends. The World Health Organisation (WHO) named the coronavirus outbreak a Public Health Emergency of International Concern on 30th January and on 11th March declared it a Pandemic after it had spread to over 110 countries. By the end of March confirmed cases were reported in 204 countries and territories. The virus has come at huge humanitarian cost. The economic cost is also massive. The Organisation for Economic Cooperation and Development (OECD) forecasts GDP in developed countries could decline over a three-month period at an annualised rate of between 20-25% due to virus containment measures. Service-related sectors affected by lockdowns typically comprise around 30-40% of GDP in developed economies. Even if the impact lasts for just 3 months, countries will inevitably suffer an economic contraction for the year as a whole.

On 9th March the oil price suffered its worst daily fall since the first Gulf War in 1991, pushing Brent Crude lower by 30% to $31 per barrel. The oil price collapsed after Saudi Arabia failed to persuade Russia to accept an OPEC+ production cut. As a result, Saudi Arabia entered an effective price war by pledging instead to ramp-up production from its considerable spare capacity. The combination of a supply surge and stall in demand, linked to the coronavirus, is almost unprecedented. The falling oil price prompted steep declines in oil company share prices, also raising concerns over debt defaults in the sector, especially amongst marginal shale producers.

Prior to the onset of the pandemic, the US economy had been enjoying a strong recovery from its temporary slowdown in the second half of 2019. Non-farm payrolls increased in February by the most since May 2018 bringing the unemployment rate back down from 3.6% to 3.5%, a fifty-year low. Wage growth was also robust, growing year-on-year by 3.0%. January's durable goods orders were far better than expected, enjoying a boost from improved business and consumer confidence following the initial trade deal with China. The data signaled a turning point in the business investment cycle. Buoyed by record low interest rates, a strong labour market and rising consumer confidence, existing home sales increased in February at the fastest annual rate since 2007. The Institute for Supply Management (ISM) Services Purchasing Managers' Survey, measuring two thirds of the US economy, jumped in February to its highest level since February 2019. Then the virus arrived. The rapidly escalating economic impact of the pandemic has prompted economists to dramatically lower their economic forecasts. The contraction in Q2 will be massive, by as much as 25% quarter-on-quarter annualised, according to some economists' forecasts. However, there appears to be a consensus view that the recovery will be far quicker than after the 2008/09 Global Financial Crisis, as unlike then the economy has no glaring structural imbalances. Although corporate debt is elevated, household and bank balance sheets are considerably healthier. What will determine the speed and size of the economic recovery? The answer lies in the degree to which the virus outbreak can be contained, the level of governmental fiscal support and the amount of central bank monetary intervention.

Congress ratified an unprecedented $2.2 trillion fiscal stimulus package. The Emergency Aid Bill amounts to a massive 10% of GDP dwarfing the $800 billion American Recovery and Reinvestment Act of 2009, post the Global Financial Crisis. Senate majority leader Mitch McConnell called the aid package "a wartime level of investment into our nation". Although he pledged even more aid if necessary, Treasury Secretary Steven Mnuchin was optimistic that "the sooner we can execute on this package and the sooner we can win this war against the virus, the economy will bounce back very quickly", indicating the likelihood of a 5% growth rate by the fourth quarter.

The Federal Reserve's monetary policy has followed a similar all-in approach to keeping the financial system liquid, not just in the US but across the world. The Fed created swap lines with major central banks to ease disruptions in overseas dollar funding markets. Domestically, the Fed cut the benchmark fed funds rate from 1.50-1.75% to 0-0.25% over two unscheduled "emergency" policy meetings. Within a week of launching $700 billion of quantitative easing (QE), the Fed also provided a backstop to the $3.8 trillion municipal debt and $1.1 trillion commercial paper markets, and on 23rd March, the Fed launched QE-Infinity, pledging unlimited amounts of asset purchases. The sheer volume of QE and the unprecedented broadening of asset purchases from just Treasury bonds and mortgage-backed securities to also include corporate, state and municipal debt show a commitment by the Fed to do "whatever it takes" to prevent the coronavirus crisis from developing into a credit contagion.

China's economy grew in 2019 by 6.1%, which although its slowest pace since 1990 is within the government's target range of 6-6.5%. There were signs of a pick-up in activity towards the end of the year with a slight acceleration in December in industrial production and fixed-asset investment, and a firming in the residential property market, which together with the easing in trade friction with the US, boded well for a stabilisation in the economy in early 2020. However, as a result of the coronavirus outbreak, key economic data for the months of January and February were far worse than expected. Industrial output fell in the period by 13.5% year-on-year, fixed asset investment by 24.5% and retail sales by 20.5%. Services production fell 13% on the year. China's exports fell by 17.2%. The data is consistent with a sharp contraction in GDP in Q1, potentially as much as 10-14% on an annualised basis. However, the People's Bank of China (PBOC) deputy governor, Chen Yulu, said the most likely scenario for China's economy was a "rapid recovery, with the total economic impact relatively contained". To safeguard the recovery and to assist companies especially affected by the coronavirus, the PBOC conducted substantial liquidity injections and numerous regulatory adjustments and preferential loan terms. Helped by a rapid containment of the virus, economic survey data rebounded in March. The official manufacturing purchasing managers' index (PMI) jumped higher from February's record low of 35.7 to 52.0, back above the expansionary 50-level, suggesting a rapid normalisation in manufacturing businesses. Although still below 50, the Caixin services PMI rebounded from February's record low of 26.5 to 43. Surprisingly, despite dramatic cuts to GDP forecasts by private sector economists, the government is yet to alter its official 2020 GDP growth target of 5.6%, which suggests considerable additional monetary and fiscal stimulus may be in the offing. Authorities will be determined to keep the temporary slowdown from becoming cyclical.

Unfortunately, Japan's economy was shrinking even before the onset of the coronavirus. In Q4 2019, Japan suffered the worst fall in economic output since 2014 with GDP contracting by 1.6% quarter-on-quarter or 6.3% annualised. The sales tax hike in October had a much bigger impact than initially expected despite initiatives to mitigate the effects. Raising the consumption tax has been devastating to economic growth on two occasions during prime minister Shinzo Abe's term, in both 2014 and in 2019. In an effort to mitigate the impact of the sales tax increase, the government announced its first stimulus package since 2016. Described as a 15-month budget, the headline figure was about 1.9% of Japan's expected GDP over the period and one of the largest spending plans since 2009. The pandemic struck an already vulnerable economy. The IHS composite purchasing managers' index (PMI), measuring conditions across both manufacturing and service sectors of the economy, fell even further into sub-50 contractionary territory, from 47 in February to 35.8 in March. The services PMI, especially affected by social distancing, plummeted the most from 46.8 to 32.7, the lowest reading since the data series began in 2007. However, the government pledged that bold policies would be implemented to restore the economy to good health and the Bank of Japan (BOJ) pledged liquidity for the financial markets, launching its single largest daily asset purchases since the program began in 2010. Authorities postponed the Olympic games until next year. Although a further blow to short-term economic prospects, the event will be a catalyst to kickstart the economy in 2021 once the effects of the coronavirus have dissipated.

The Eurozone economy, like Japan, also entered the coronavirus outbreak on a poor footing. In Q4 2019, the region recorded its slowest economic growth since the Eurozone debt crisis in 2013, with GDP expanding by just 0.1% quarter-on-quarter, putting the annual growth rate for 2019 at 1.2% and 1.4% for the larger European Union (EU). Germany, the largest economy in the EU, had zero growth in Q4. Despite the gloomy GDP data, forward-looking survey data had indicated a recovery from the slow patch. Business confidence strengthened to its highest level since September 2018. Manufacturing showed welcome signs of stabilising after the heavy downturn seen last year and services growth remained encouragingly resilient, due largely to the improving labour market. However, economic data unraveled quickly following efforts to contain the pandemic. In March, the European Commission's Economic Sentiment Indictor (ESI) suffered its worst monthly drop since records began 35 years ago. In Germany, government advisors forecast the economy will shrink between 2.8% and 5.4% this year. After a slow start, European governments adopted an all-in commitment to mitigating the impact of the virus. Germany relinquished its dogged determination to maintain a "black zero" balanced budget, announcing instead the provision of unlimited liquidity to businesses via loans from the state development bank. In addition, businesses would also be allowed to defer tax liabilities worth billions of euros. Similar pledges of state financial support for businesses and employees were made by other countries in the region. French president Emmanuel Macron said his government is ready to nationalise French companies if necessary, to safeguard jobs. The European Central Bank (ECB) launched an initial €750bn bond-buying programme and lifted the ante to a "no limits" asset purchase pledge covering both sovereign bonds and corporate debt, in the process bringing immediate relief to the debt markets.

The United Kingdom experienced zero economic growth in the final quarter of last year, held back by political uncertainty in the lead-up to the general election and the Brexit deadline. Although the economy slowed in the quarter, there was an uptick in activity after the election. Business activity picked up in January and February and the composite purchasing managers' indices (PMI) measuring activity in manufacturing, construction and services sectors returned firmly into expansionary territory, while business confidence increased to the highest level in eight months. However, soon after the UK finally left the European Union on 31st January, business and consumer confidence deteriorated markedly following the outbreak of the coronavirus. The IHS Markit composite PMI plummeted from 53.0 in February to 37.1 in March, deep in sub-50 contractionary territory and the worst reading since the data series began more than 20 years ago. Like other developed nations, the government and central bank adopted an all-in approach to protecting businesses and households, and to maintain liquidity in the financial markets. The Bank of England (BOE) cut the benchmark interest rate by 50 basis-points to 0.25% and launched different lending programmes, designed to keep firms in business and people in jobs. Furthermore, the BOE pledged unlimited liquidity to the economy via its new commercial paper facility, which is available to both large and small companies. Andrew Bailey, the new governor of the BOE also signaled the potential use of helicopter money whereby the central bank monetises government debt. The government's combined fiscal stimulus package and government-backed loans and guarantees amounted to a massive £360 billion, with pledges to increase these amounts if necessary.

Emerging market equities have been the worst affected by the pandemic. Although detrimental over the short-term the impact on emerging market equities provides shrewd investors with an excellent entry point in an asset class which has long been undervalued. Central banks from emerging markets have joined the developed world in buying government and private sector bonds. Quantitative easing is well known in the developed world but now, for the first time, developing nations are employing the same tactics in an emergency effort to soften the impact from the virus. The central banks of Poland, the Czech Republic, Brazil, Colombia, Philippines and South Africa recently announced bond purchase programmes. Brazil's central bank announced monetary stimulus of $233bn making it the largest quantitative easing across emerging markets. These central banks hope that the increase in liquidity will allow banks to keep lending to businesses, keeping then afloat and increasing the likelihood of a V-shaped economic recovery. However, emerging markets do not have the same capacity to implement countercyclical fiscal measures as developed economies. Hence the importance of institutions like the IMF and World Bank. The IMF announced that it has $1tn ready to lend to emerging markets to help them weather the storm brought on by the coronavirus.

The global economy is expected to contract more sharply for two quarters than it did during the Global Financial Crisis but then will recover more rapidly. The impending recession is self-induced and not related like normal recessions to structural imbalances, and therefore the economy's ability to recover is not fundamentally impaired. Policy makers are deploying every tool available to mitigate the economic impact of the pandemic and limit long-lasting structural damage. The fiscal stimulus announced by the US, China, Germany, France, Italy, Spain, the UK and Japan is equivalent to 8.6% of their combined GDP, twice the 2008 fiscal spend. Total global fiscal stimulus so far amounts to a massive 5% of global GDP. Central bankers have adopted extreme reflationary policies, cutting interest rates in advanced economies to zero. More importantly, central bankers have become lenders of last resort and committed to unlimited asset purchases. The list and size of central bank and policy actions will expand until the markets are satiated with enough liquidity.

While the short-term outlook for financial markets remains uncertain, equity investors with a 12-month view or longer are being presented with a valuable entry point. Share purchases by corporate insiders in the US measured a staggering $1.19 billion in the first three weeks of March, compared with a monthly average of $235 million. Corporate insiders, who know more than the market about their own companies see value in their shares. Insiders are evidently confident that the humanitarian and economic impact of the coronavirus will pass and are aware that the strongest returns in any bull market, once resumed, are in the early stages, usually before a recession ends or unemployment peaks. In the past quarter, taking advantage of the sharp sell-off in equity markets, we have reduced exposure to bonds, which are extremely over-priced, to purchase high quality equities, which in contrast to bonds are undervalued.