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

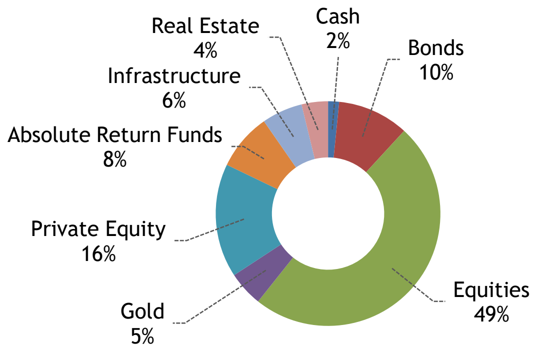
2020 Q2

Annualised Growth (%)	OAM	Bench
Inception 2003	**7.17**	**3.00**
10 years	7.66	3.00
7 years	6.86	0.88
5 years	6.89	0.27
3 years	5.77	-3.32
2020 YTD not annualised	-1.24	-12.26

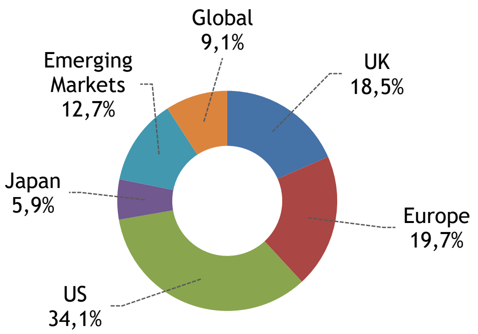
Annualised Income Yield	1.37		
	$	€	R
2020 YTD return in (%)	-7.64	-7.83	14.54
	£/$	£/€	£/R
Forex Rate	1.24	1.10	21.53

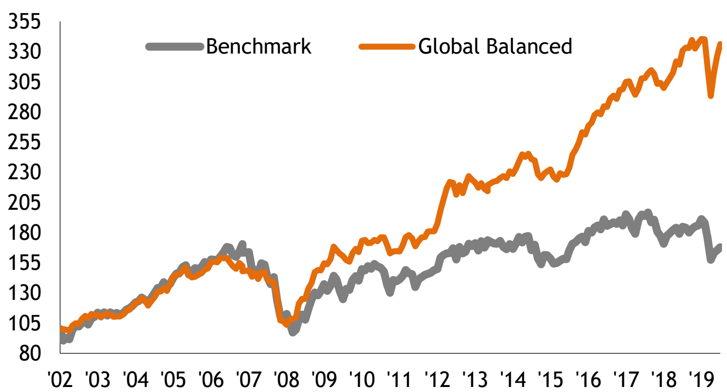
Top 5 Holdings	
BH Macro	
Ruffer Investment Company Ord	
3I Infrastructure	
Scottish Mortgage Trust	
RIT Capital Partners	
Total number of holdings	25

ASSET ALLOCATION
(see through basis)



GLOBAL ALLOCATION
(see through basis)





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

Equity investors were rewarded for sticking it out during the global market turmoil at the start of the year. While some investors panicked astute investors bought at the lows. During the second quarter (Q2), equity markets around the world posted their best quarterly performance in decades, trimming their overall losses for the year to date (YTD). The US S&P 500 index rocketed by 25.49% in Q2, trimming its YTD loss to just 4.04%. Other developed markets enjoyed similar recoveries. Japan's Nikkei 225 and the German Dax indices surged by 23.37% and 28.98% over the quarter, with YTD losses trimmed to 5.78% and 7.08%. The UK FTSE 100 gained more modestly due to the impact on exporters of a stronger pound with the index gaining 13.11% over the quarter but still losing 18.20% YTD. By contrast, the tech-laden Nasdaq index, was up by 12.11% YTD after surging 36.66% over Q2, helped by the tech giants' ability to generate strong earnings despite the lockdowns. The Shanghai and Shenzhen CSI 300 index only increased by 11.13% in Q2 but had been the outperformer in Q1 and YTD was down fractionally by 1.62%. The MS World Index and MS Emerging Market Index mirrored the global equity market rebound, with Q2 gains of 23.61% and 20.29%, respectively, moderating their YTD losses to 6.64% and 10.73%.

The market moves were in stark contrast to doomsday predictions of a slow and uncertain economic recovery. Fund managers remain broadly skeptical of market gains, expressing doubt over projected earnings growth and concern over perceived overvaluation. The S&P 500 index trades on an expected forward price earnings multiple of 22 versus its long-term average of 17. However, some analysts are confident that equity markets could gain substantially, even from lofty current levels, citing the positive effect of record low interest rates on equity valuations. With the 10-year US Treasury bond yield anchored by Fed policy at less than 1%, the high valuations of dependable company earnings can be more easily justified. Price-earnings multiples may be extended, but equity earnings yields continue to show compelling value relative to the Treasury bond yield, especially while across the world, government fiscal spending and central bank money supply growth are surging at an unprecedented rate. At the same time, fund managers remain pessimistic and under-invested. Counter-intuitively, heightened pessimism tends to be a reliable indicator of strong upward market moves, as money sitting on the side-lines is forced back into the market from fear of missing out.

In its latest World Economic Outlook report, the IMF downgraded its forecast for the world economy. It forecasts global GDP will contract in 2020 by 4.9%, a worse outcome than its earlier forecast of 3% contraction, made in April. According to the report, "the steep decline in activity comes with a catastrophic hit to the global labour market" with the world economy suffering an "adverse aggregate demand shock from social distancing and lockdowns, as well as a rise in precautionary savings." However, the IMF also indicated that most economies were already on the mend and praised the stabilisation in global capital markets. It urged a continuation of bold monetary and fiscal stimulus, despite its prediction that global government debt as a percentage of GDP would rise over the course of the year from 82% to a record high 101%. The IMF predicts that the world economy will not regain its pre-pandemic GDP output before the end of 2021. However, some economists are less pessimistic, with behavioural economists especially encouraged by the level of social activity since lockdowns have been eased. A report from Morgan Stanley predicts global economic output will regain pre-pandemic levels as early as the end of this year.

For the first time in history, the price of West Texas Intermediate (WTI), the benchmark US oil price, fell below zero. In a bizarre twist, the price for May delivery fell on Monday 20th April to -$37.63 per barrel. Amid a lack of storage, producers were paying buyers to take their oil. The pricing aberration was blamed on a build-up in excess supplies amid the lockdown-related collapse in oil demand. Since then, the oil price has rebounded and stabilized. Global demand is recovering as lockdown measures are being eased across the world. Opec+ provided further impetus to the recent oil price rally after agreeing to extend the 9.7 million barrel per day (bpd) output cut, which amounts to around 10% of global output.

The US economy's 11 years of uninterrupted growth came to a sudden halt in Q1, with GDP contracting at a quarter-on-quarter annualised rate of 5%, the steepest decline since Q4 2008 when GDP fell by 8.4%. However, the lockdown only affected the final two weeks of the quarter. A far worse contraction is likely in Q2 although most recent economic data have been stronger than expected. The May nonfarm payroll numbers beat all expectations. The consensus forecast had been for an additional 8 million job losses, adding to the 21.4 million lost in March and April, taking the unemployment rate from 14.7% to 19.5%. Instead the unemployment rate fell to 13.3% and a net 2.5 million jobs were created. Moody's Analytics forecasts the unemployment rate will fall steadily as the year progresses, ending the year at 8.5%. Household spending increased in May by a record 8.2% month-on-month, and retail sales surged higher by 17.7% on the month, ending three straight months of contraction and more than reversing April's 14.7% decline. Durable goods orders surged higher by 15.8% while auto vehicle orders gained by a massive 28%. The outlook for further growth in household spending, which contributes over two-thirds to US GDP, is brightened by prospects for additional employment gains. Surprisingly, household disposable income has surged despite the sharp increase in unemployment, with the fall in salaries and wages from job losses more than made up by government grants and additional unemployment benefits. According to a study by the University of Chicago, almost 70% of Americans have received more from state-provided income than when they worked prior to the pandemic. Meanwhile financing costs for making large purchases have dropped to record lows in line with the Federal Reserve's zero interest rate policy. Yet, consumers remain cautious. Although the household savings rate dropped from a record 32.2% in April to 23.2% in May, it remains considerably above the long-term average of 5-7%. However, buoyant mortgage application data indicate rising consumer confidence, which signals a pullback in the savings rate. The latest data shows mortgage applications to purchase a new home increased by a massive 21% year-on-year, while mortgage refinancing, to take advantage of the record low 3.3% 30-year mortgage rate, surged by 106%.

The IHS/Markit composite purchasing managers' index (PMI), measuring conditions in both the manufacturing and services sectors of the economy, corroborates the upbeat US economic readings. The composite PMI strengthened sharply in June, rising from 37.0 to 46.8, only marginally below the neutral 50-level, demarcating expansion from contraction. The services PMI gained from 37.5 to 46.7 and the manufacturing PMI from 39.8 to 49.6. The Federal Reserve and the government's fiscal support are credited for restoring stability to US economic activity and financial markets. Through asset purchases, the Fed has increased the size of its balance sheet from $4 trillion to $7 trillion over the past six months and based on pledged asset purchases it could reach $10 trillion by the end of the year. Republicans are inclined to take a wait-and-see approach to determine the effect of the $2.9 trillion CARES Act, passed on 19th March but with the emergency $600 per week unemployment grants due to expire at the end of July, a supplementary fiscal package is likely to be tabled soon. Besides upbeat economic data, a positive signal is being emitted by the bond yield curve. The yield spread between 3-month treasury bills and 10-year treasury bonds, which had turned negative in 2019, is now positive by over 50 basis-points. A negative yield curve is a reliable barometer of recession while a positive yield curve tends to signal economic expansion. The yield spread between 5-year and longer-dated 30-year treasury bonds has increased to over 120 basis points, its steepest spread since 2017.

China's GDP shrank in the first quarter by 6.8% year-on-year, its first contraction since the National Bureau of Statistics (NBS) first started reporting quarterly GDP data in 1992. On a quarter-on-quarter basis, GDP shrank by 9.8%. China's authorities broke with a long-standing tradition, in place since 1994, of announcing an economic growth target at the annual National People's Congress. The Premier Li Keqiang, making the announcement at the start of the Congress, said officials would instead prioritise employment growth and social stability, targeting the creation of 9 million new jobs in 2020 and capping the unemployment rate at 6.0%. Many economists are encouraged that authorities are abandoning the growth at any cost mantra, focusing instead on quality and sustainability of growth. Stimulus measures announced at the Congress were surprisingly modest, although it may be that China is keeping its powder dry in case the pandemic enters a second wave. Economic data showed a significant improvement by May, as production and demand continued to normalise, prompting economists to revise upwards their GDP growth forecasts for the full year. The Caixin non-manufacturing purchasing managers' index (PMI), measuring conditions in the service sectors of the economy, which comprise around 60% of China's economic output, surged higher in May from 44.4 to 55.0, its highest since October 2010. The PMI hit a record low of 26.5 in February at the height of coronavirus lockdown restrictions. Industrial production increased in May by 4.4% year-on-year up from its 3.9% expansion in April. While fixed-asset investment fell in the January-May period by 6.3% on the year, the rate of decline slowed sharply from the 10.3% contraction in the January-April period. Consumers also started spending, which tempered the year-on-year decline in retail spending to 2.8% from 7.5% in April. The overall data is consistent with GDP growth of 2-2.5% in 2020 and the economic recovery is likely to gain further momentum over coming months, helped by the combination of additional fiscal stimulus and continued monetary policy support. However, trade relations with the US are also key, and likely to become increasingly contentious as the US November presidential election approaches.

Japan's economy contracted in Q1 by 0.9% quarter-on-quarter or 3.4% on an annualised basis, marking the second consecutive quarter of negative growth following the 1.9% contraction in Q4 2019. A spokesperson for the Cabinet Office painted a grim picture for Q2 saying "It is certain that the economic growth in the second quarter will fall considerably…. It will be the biggest post-war contraction." Economists are forecasting a contraction in output for Q2 of as much as 20% annualised although not all commentators are as downbeat about Japan's outlook. Japanese companies entered the pandemic with healthy cash reserves, which have been steadily rising over the past decade, placing Japanese companies in a strong position to weather the Covid-19 storm. Japan is also better placed than most to make a swift recovery as the country never went into a full lockdown. Nonetheless, government announced a bold coronavirus fiscal rescue package of ¥117 trillion ($1.1 trillion) including unconditional payments of ¥100,000 to every individual in the country. The Bank of Japan (BOJ) also provided substantial policy support holding the benchmark interest rate at -0.1% and maintaining the cap on 10-year yields at 0%. The BOJ also indicated that rates are likely to be stuck at current levels at least until 2022 and even as far out as 2023. Haruhiko Kuroda, governor of the BOJ, pledged to raise the Covid-19 programme, which offers zero interest loans to banks, from ¥75tn to ¥110tn ($1.02tn). Survey data confirmed that the economic rebound began in the final stages of Q2. Although the Jibun purchasing managers' indices remained in sub-50 contractionary territory, the level of contraction was markedly slower, and Japan's Consumer Confidence Index rebounded in May to 24.0 from April's record low of 21.6. Sentiment has improved markedly according to Japan's latest Economy Watchers Survey conducted at the end of May, with the Current Index almost doubling from its April low. Respondents to the survey are employed in jobs most sensitive to economic conditions. The Economy Watchers Outlook Index looking two to three months ahead, jumped from 16.6 in April to 36.5 in May indicating optimism that a certain level of normality will return before the end of the summer.

In the Eurozone, GDP contracted in Q1 by 3.8% quarter-on-quarter, the sharpest decline since the time series began in 1995. Year-on-year, GDP fell 3.3%, marking the sharpest decline since the end of 2009. Philip Lane, chief economist at the European Central Bank (ECB), warned that it could take a minimum of three years to recover from the economic fallout from the coronavirus. The ECB kept its benchmark rate unchanged at negative 0.5% but lowered the rate it is willing to lend to banks to -1%, essentially paying banks to borrow money. The ECB also announced an increase in the pandemic emergency purchase programme (PEPP) of €600bn, bringing the total pledge to €1.35tn and extending it to June 2021. The ECB forecasts that the Eurozone is likely to experience an economic contraction of 8.7% for the year, followed by growth of 5.2% and 3.3% in the following two years. Meanwhile, the EU pledged fiscal support equivalent to 8% of the region's 2019 GDP. Even Germany, which has historically been staunchly committed to a balanced budget, decided to open the fiscal taps, announcing a stimulus package of €235bn, equivalent to 6.9% of GDP. The standout fiscal development was the Eurozone's plan to create a €750bn recovery fund to support the currency bloc's hardest hit economies via grants. If approved, the recovery fund will enhance the region's fiscal capacity and strengthen investor confidence in the permanence of the monetary union. ECB president Christine Lagarde concluded that "fiscal and monetary policy is working hand-in-hand" to safeguard jobs and support economic growth. Economic sentiment in Europe improved during June following a widespread lifting of lockdown measures. Although business activity still slowed, it was at a much slower pace than in May. The IHS Markit Eurozone Composite PMI jumped from 31.9 in May to 47.5 in June well above the low point of 13.6 in April. The European Commission's

Eurozone Economic Sentiment Indicator (ESI) improved in May by 2.6 points to 67.5 while the Employment Expectations Indicator (EEI) rebounded by 11.3 points to 70.2. The improvement in the ESI was attributed to better industry and consumer confidence, helped in turn by healthier financial conditions and household finances.

UK GDP slumped in a coronavirus-ravaged Q1 by 2.2% quarter-on-quarter, its worst slump since 1979. Economists warn that April's massive 20.4% month-on-month fall in GDP means that Q2 is guaranteed to be worse than Q1 although economic survey data suggests that output recovered more quickly than initially expected in May and June. The UK government's fiscal response to the Covid-19 pandemic will total at least £350bn, equivalent to a massive 15% of 2019 GDP, while Andrew Baily, governor of the Bank of England (BoE) admitted that the BoE is effectively financing the government's response to the virus. However, he defended the drastic steps taken by stressing the importance of "calming financial markets and smoothing the profile of government borrowing". Despite massive fiscal and monetary support, the BoE is expecting the UK economy to shrink by nearly 30% annualised in the first half of the year, marking the deepest recession in 300 years. The BoE expects unemployment to spike at 9% by 2021 despite the government's assistance to help retain jobs and predicts inflation to ease to 0.5% in 2021, well below the 2% target which it believes will only be achieved by 2022. Despite the gloomy outlook for this year, the BoE expects "only limited scarring to the economy" and expects a V-shaped recovery. Fortunately, banks are much better capitalised now than before the 2008/09 Global Financial Crisis and are able to absorb losses. Economic activity showed signs of bottoming towards the end of Q2, with the IHS Markit/CIPS Composite purchasing managers' index (PMI), although still in sub-50 contractionary territory, surging higher from 30.0 in May to 47.6 in June. The manufacturing output index returned to growth, rising from 40.7 to 50.1, while the services sector increased from 29.0 to 47.0. The Brexit transition expires at the end of the year and is likely to apply added stress on business confidence unless some breakthroughs occur soon. Fortunately, the UK has made progress with a post-Brexit bilateral trade agreement with Japan., which may be concluded within weeks, boosting the tone for other trade negotiations.

The World Bank's latest Global Economic Prospects report paints a bleak picture for emerging and developing markets predicting the first contraction in emerging and developing economies in nearly six decades. As many as 100 million people are expected to be plunged into extreme poverty in the developing world. The World Bank and IMF have announced a raft of rescue programmes to support vulnerable nations and are coordinating plans for debt-relief for countries grappling with the pandemic. Following the example set by the world's largest central banks, emerging market central banks have also cut interest rates in dramatic fashion. However, conditions have varied widely across emerging markets. On the one hand, Argentina defaulted on its sovereign debt. The country is burdened by a 50% inflation rate and an 88% debt to GDP ratio, which is forecast to rise to 146% by 2020. The government has proposed to halt all debt repayments for 3 years and to reduce the average coupons from 7% to 2.3%. On the other hand, South Korea is using the Covid opportunity to further modernize its economy. Its government announced a "New Deal" spending plan of $62bn to help improve the economy by creating 550,000 new jobs in 2020, including 100,000 in artificial intelligence and software programming. Other initiatives will focus on 5G and the digitalisation of South Korea's less developed areas. In aggregate, recent economic data releases in developing economies have surprised on the upside, increasing investors' risk appetite and causing funds to flow into emerging markets. Emerging market assets have recovered sharply from their sell-off in March, benefitting from a wave of liquidity from central banks in the developed world. Analysts predict that much of this liquidity will flow to emerging markets, especially to countries that have kept their sovereign debt in check in recent years and have policy room to stimulate their respective economies.

Although the massive equity market returns in Q2 are unlikely to be matched over the remainder of the year, investors can look forward to further gains as the year progresses. The vast money creation by central banks and fiscal support from governments are likely to continue even as economic activity rebounds. Policy makers are committed to avoiding a deflationary spiral from developing and are prepared to remain behind the inflation curve to ensure that this is achieved. Asset markets are therefore likely to continue rising despite concerns over stretched valuations. There are risks, as always, including a second wave of infections, delays in rolling out a vaccine, reemergence of trade tensions between the US and China, and the potential that the Democrat party controls both the House of Representatives and the Senate, come the US November election. This would usher-in corporate tax increases and extra regulatory burdens on the economy. Given the risks and opportunities, portfolios remain well diversified across both growth oriented and defensive asset classes, and different currencies, including gold bullion which continues to make ground in the current environment of zero interest rates and open-ended quantitative easing.