MARKET UPDATE

BECKETT ASSET MANAGEMENT

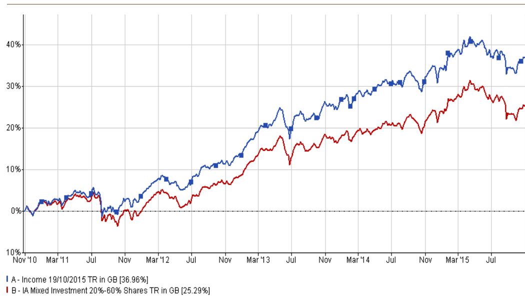
October 2015

5 YEAR MODEL PERFORMANCE* VERSUS BENCHMARK

DEFENSIVE MIXED ASSETS MODEL

*Defensive Mixed Asset model performance since inception as not 5 years old

INCOME MODEL



INCOME & GROWTH MODEL

GROWTH MODEL

BAM figures take into account normal dealing costs BUT NOT BAM fees.
Source: FE Analytics – Total Return.
IA: Investment Association

October saw a rather sharp reversal of the 'risk-off' mood that had appeared to grip the market from the end of August. The Fed decided against raising rates and, although the initial market reaction was negative, this was soon a positive driver of markets as the cheap and easy monetary environment was then expected to persist for a little longer. The expectation of a December rate rise in the US waned throughout October with the market seeming to price in a 50/50 chance.

Data from Europe has still shown the region to be growing and improving but appears a rather mixed bag. In terms of monetary policy, Mario Draghi gave a speech towards the end of the month which suggested that he and the ECB stood ready to step up their QE program and cut interest rates further if necessary to stave off any economic slump and help to drive inflation towards target. It is hard not to draw comparisons here with his "Whatever it takes" speech, which gave markets the confidence that they required at the time – perhaps the will to do more QE and cut rates will have the desired effect without having to actually take the step of implementing it.

As mentioned above, the impact of the Fed inaction in September, a continued recovery in the UK, Draghi's words and China cutting rates again all led to a strongly positive month for equity markets. Both developed and emerging markets had a strong rebound after a difficult end to Q3.

In this environment the models all performed positively but had a rather mixed month against their benchmarks. The models which take about as much risk as the peer group outperformed their benchmarks (Growth and Income), whereas the two models where we typically have less risk than the peer group slightly underperformed their benchmarks for the month (Defensive Mixed Assets and Income & Growth).

In this month, which saw a very strong and sharp upswing in markets, it is to be expected that where we have a reduced equity weighting vs peer group we may show underperformance. This was a very broad based rally whereby we saw everything rise again due to some of the main drivers being continued loose monetary policy (as noted above, Fed inaction, Draghi speech and China rate cut).

As ever, we remain focused on longer-term performance rather than discrete months in isolation, which we believe is demonstrated by our track record.

Our US and Japan exposure in the Growth model was particularly impressive in October, with the US funds both returning over 9% in October vs the S&P 500 returning around 6.3% and our Neptune Japan holding returning over 10% vs the Nikkei 225 which returned around 6.8% for the month.

We made a number of changes to the models in mid-October, which are highlighted in our updated factsheets, and we hope to see the benefits of these changes over the coming months.

UPDATE: 6TH NOVEMBER 2015

The aforementioned waning expectation for a December rate rise the US changed on 6th November due to the much stronger than expected US non-farm payrolls (271k vs 185k expected), unemployment (now down to 5% from 5.1%) and wage growth (0.4% rise- a 2.5% rise year on year). Many economists are now back in the December rate rise camp. The US Treasury market and the US Dollar had immediate reactions, with the former seeming to price in a dramatically increased probability of a December rate increase (2 year Treasury yields now up at May 2010 levels!) and the latter showing material appreciation against many developed and emerging market currencies.

We had felt for a little while that some kind of catalyst was required to really help put more confidence back into markets after that tough end to Q3 and perhaps we have it in the latest US jobs numbers. Also, it is important to note that the Fed raising rates is a signal that the US economy has materially improved and is now robust enough to withstand the rise. So even though we may be about to see tightening monetary policy, this does not mean the recovery or the economic cycle is over. We feel that this will work to increase the disparity in equity markets between the winners and the losers and help our managers produce alpha.

The investments mentioned in this report are intended as long-term investments. Some of them may go down as well as up and you therefore may not get back the full amount invested. Where investments are denominated in foreign currencies, changes in the rate of exchange may have an adverse effect on the value or price of the investment in Sterling terms. Past performance is not necessarily a guide to future performance. This document should not be construed as an offer document or solicitation and is circulated because the contents may be of incidental interest. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.