MARKET UPDATE

February 2017

The month of February saw a number of developments in the political world but financial markets continued their positive start to the year and, like last month, is a marked difference to how we started last year. The US, Asia and Emerging Markets were all particularly strong but were all offered support from a slightly weakening British Pound. The FTSE 100 index also had a strong month and also continued to benefit from a weakening of Sterling.

It was certainly a busy month for Donald Trump who saw a number of his cabinet nominations confirmed along with nominating a new Supreme Court judge. However, it was President Trump's Executive Orders which garnered the biggest reaction, the most notable being the now infamous travel ban, which caused a great deal of disruption at airports with border agencies seemingly unsure how to proceed with certain cases, along with large scale protests across the US and the globe. Despite it being a challenging month politically for President Trump, the economic data from the US continues to be robust and there appears an ever increasing likelihood that we may see another interest rate hike from the Federal Reserve in March, particularly given the recent comments from a number of the members.

At the beginning of the year, we increased our exposure to US equities across most models but, as always, we did this in a measured way. This was because, although there could be a number of tailwinds to US equities in the event of Donald Trump being able to enact his fiscal agenda, the political turmoil we saw in February is unlikely to be unique - particularly when one considers the disruption that is being caused as the Republican party go about fulfilling one of the campaign promises of repealing and replacing the Affordable Care Act, more commonly known at Obamacare.

Inflation continues to tick up across the globe with factors which were deflationary a year ago now reversing to provide an inflationary effect. This time last year, the price of oil was bottoming along with a deflationary impulse from China which was seeing its currency devalue and their Producer Price Index (PPI) deeply in negative territory. If we fast forward to today, these factors have flipped completely with China looking more stable and PPI back firmly in positive territory, and the oil price now having doubled. You may have heard the term "reflation" being discussed and this now appears to be the environment we are in. This is characterised by inflation moving higher, supported by the factors noted above, along with wage growth and the potential impact of Donald Trump's fiscal stimulus.

In the UK, the inflationary impact of the significant weakening of Sterling is also yet to be fully felt. In this environment we have seen bond yields rise and we expect to continue to see this albeit on a shallower trajectory, and value and cyclical equities outperform defensive quality and growth equities, which have been the leaders for a number of years. This change in environment is not to be underestimated as it will drive significant change in markets and where the best opportunities are likely to be. It was this change which drove some of the action we took in portfolios at the beginning of the year; we reduced the interest rate sensitivity of our fixed income holdings and increased our exposure to value and cyclical areas of the equity markets.

UK data has continued to be reasonably robust with house price growth continuing and the unemployment rate remaining low. One darker spot was that services and construction moved lower but are both still firmly above the 50 mark, which signifies expansion. The Brexit debate rumbles on with a number of statements and comments during the month only adding to the uncertainty around what the path forward from here will be. With Theresa May committing to triggering Article 50 by the end of March we are sure it will be a busy month of news flow.

The Dutch elections are due to take place in March as well so we will be interested to see if the populist party led by Geert Wilders offers the first political surprise of 2017. With the French elections getting closer this will come into sharp focus, particularly as we have seen an amazing surge by centrist candidate, Emmanuel Macron, along with controversy of the centre right candidate, Francois Fillon. As with last year, these political events do have the potential to cast shadows over the market but we remain focused on building portfolios which are designed to help withstand market volatility and find the areas which offer the most attractive risk reward balance over the medium and long-term.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK

DEFENSIVE MIXED ASSETS MODEL

A - Defensive Mixed Assets 18/01/2017 TR in GB [30.86%]
B - IA Mixed Investment 0%-35% Shares TR in GB [25.33%]

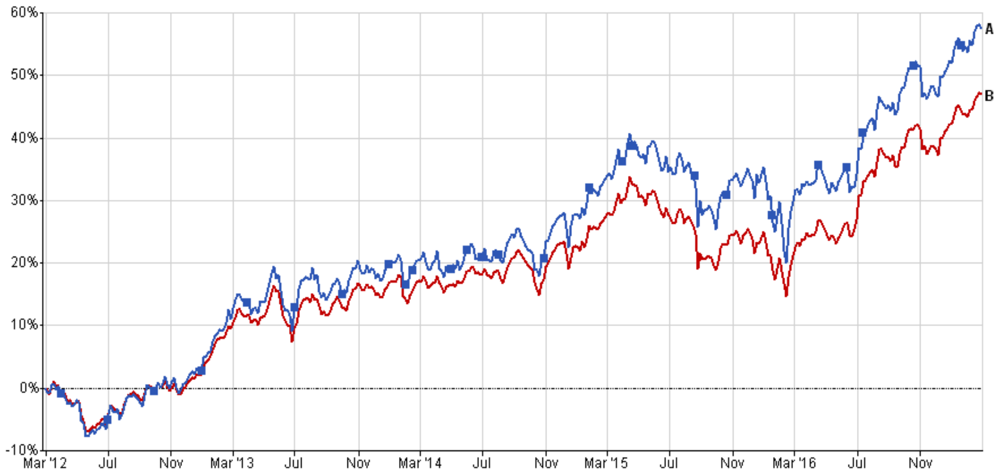
INCOME & GROWTH MODEL

A - Income & Growth 18/01/2017 TR in GB [49.73%]
B - IA Mixed Investment 40%-85% Shares TR in GB [47.31%]

INCOME MODEL

A - Income 18/01/2017 TR in GB [37.37%]
B - IA Mixed Investment 20%-60% Shares TR in GB [34.92%]

GROWTH MODEL



A - Growth 18/01/2017 TR in GB [57.51%]
B - IA Flexible Investment TR in GB [46.95%]

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

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.