MARKET UPDATE

BECKETT ASSET MANAGEMENT

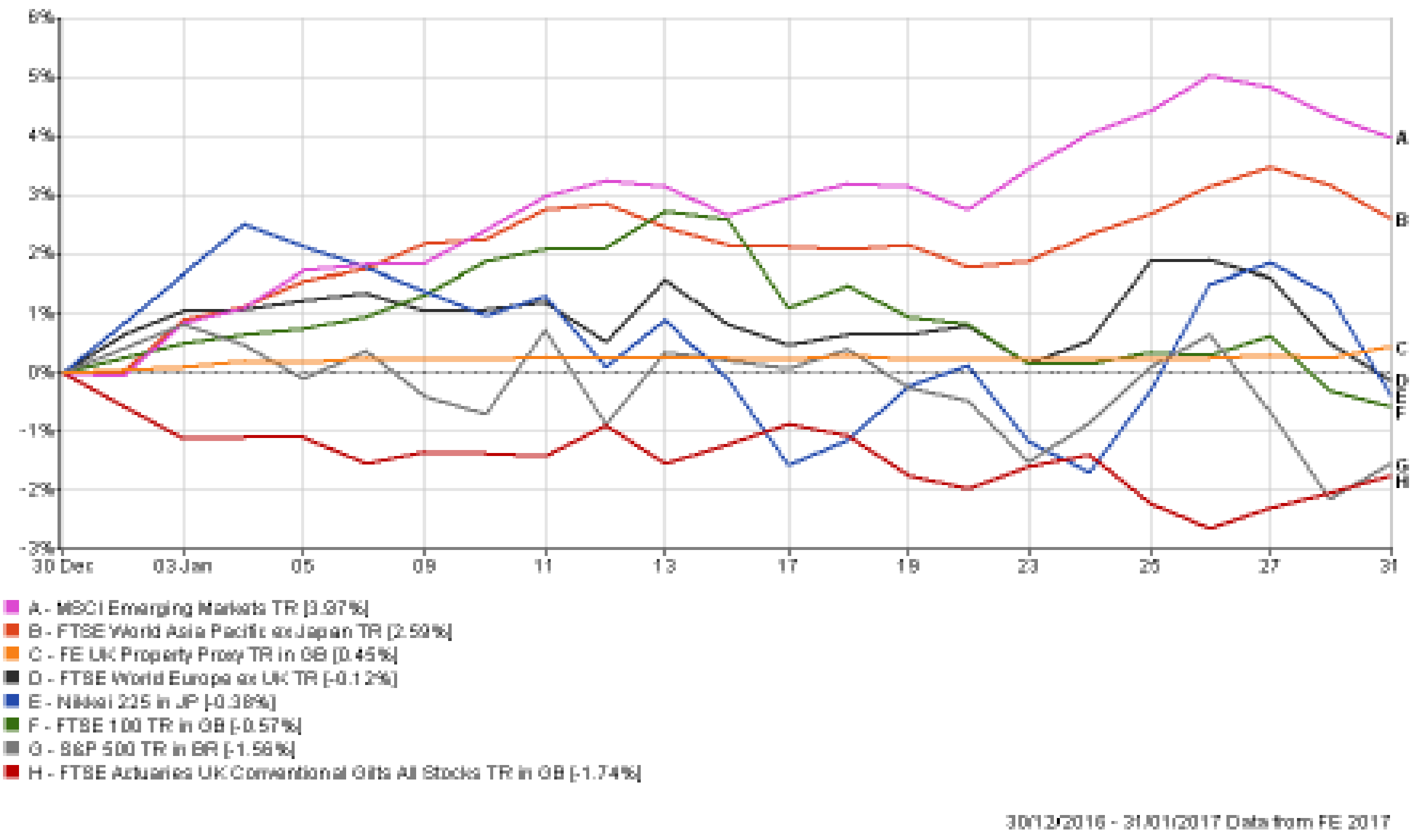
January 2017

This time last year, financial markets were in turmoil, Commodity prices had crashed and risk assets were tumbling. Thankfully, 2017 has started on a much brighter note with several equity indices surpassing all-time highs (the FTSE 100 went through 7300 and the Dow Jones went through 20,000) before falling back slightly by the end of January. We are almost halfway through the US earnings season and the main message so far is that earnings growth is on track, marking an impressive recovery from the earnings recession fears this time last year. Business and consumer confidence is strong, as well as factory activity and there are low unemployment numbers.

The portfolio strategies all had a positive return in January. Higher risk strategies with a greater exposure to international equities fared best. Asia, Emerging Markets and Europe were the strongest drivers of returns in January as can be seen from the chart. The macroeconomic improvement in Emerging Markets and Asia is positive, but the expected US interest rate rises and protectionist policies may offset this effect. India for example is a closed economy with an underdeveloped manufacturing sector that should be relatively immune to Trump's protectionist agenda.

Theresa May became the first foreign leader to meet the new US President in January. She is eager to strike new trade deals but support from Trump is no more than symbolic, as it will take years before the UK is actually in a position to strike new deals, even with Article 50 in March. The UK economy has remained resilient post-EU referendum but the uncertainty remains surrounding its future relationship with the EU. Consumption is the engine of the UK growth and despite warnings of a 'Leave' vote triggering a sharp slowdown in GDP, economic expansion accelerated in the aftermath of the referendum. In November, consumer credit expansion clocked up its fastest annual pace in 11 years, but by January, monthly credit growth (seasonally adjusted) had slumped to its slowest in two years. We will monitor UK consumption data over the next few months.

As we have previously highlighted, much of the current pessimism around Europe comes from political risks, with elections either due or likely in every major country except Spain.



Stronger growth in the region though could tilt the balance away from the populists and towards the status quo. A victory for Marine Le Pen looks to be the biggest risk, but the binary choice in the final round of the French elections is likely to work against her, yet we are not complacent and are watching proceedings. Should we have a centrist outcome, Europe appears to be one of the best places to take advantage of a cyclical upswing.

After many months of deflationary fears we see inflationary forces picking up, not just in the price of goods and services prices but also in housing and wages. We wouldn't be surprised to see more "Marmite-gate" stories this year. Inflation, along with increasing interest rates, is generally considered one of the enemies of Fixed Income.

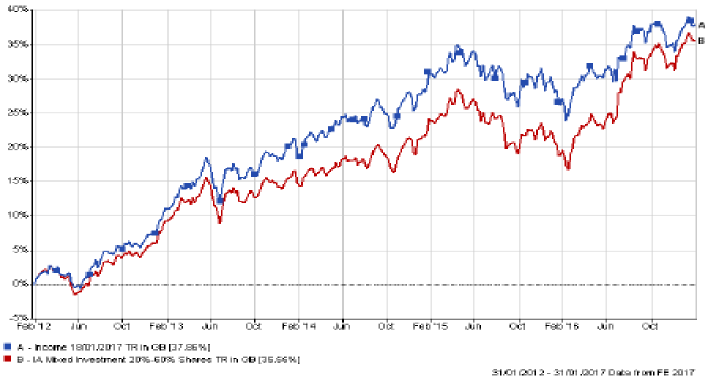
5 YEAR MODEL PERFORMANCE VS BENCHMARK

DEFENSIVE MIXED ASSETS MODEL

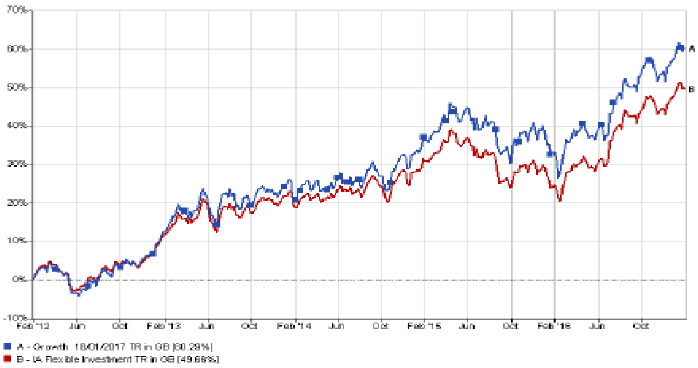
This is why, where we hold it in portfolios, we have reduced the interest rate sensitivity and altered the blend of assets. Also with the pockets of political volatility and uncertainties in 2017 we also continue to favour active managers and are more globally positioned and are ready to make further changes should the facts change. You can find details of all our current positioning and portfolio constituents in our Portfolio strategy factsheets.

The Chinese New Year, Year of Rooster begun at the end of January. May our endeavours avoid "poultry" returns in 2017.

INCOME MODEL

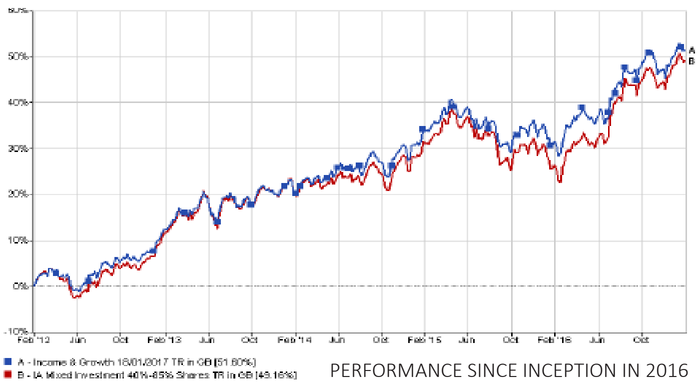


GROWTH MODEL



INCOME & GROWTH MODEL

SOCIAL IMPACT MODEL



PERFORMANCE SINCE INCEPTION IN 2016

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