MARKET UPDATE

July 2017

July was a very strong month for Emerging Markets and Asia, which were helped by a weak US dollar and rebounding earnings. This provided a boost to our higher risk strategies which have more exposure to these areas, but all strategies delivered a positive return.

We have seen growth momentum in the first half of 2017, with positive global export growth and PMIs (Purchasing Managers' Index) showing continued strength. According to JP Morgan, 95% of reporting countries are now showing levels above 50, signaling expansion. The global synchronicity of expansion has been supportive of equity performance so far this year and is likely to persist for the near term, providing a benign back drop for investment markets. A summer thunderstorm though is not unheard of.

A particular bright spot among developed markets is the Euro area, which is an area we added to in our medium and higher risk strategies at the last rebalance. In July 2012 the ECB assured the market that it would do "whatever it takes" to preserve the Euro, and the markets believed it. While monetary accommodation is still required because of weaker than desired core inflation, over the last five years the economy has made meaningful progress in many areas. Even Greece has just issued a 'comeback bond' at 4.6%. The region's positive growth surprises have outpaced the US.

Over in the US, labour market strength and a softening of inflation expectations have left the outlook for Fed policy hanging in the balance. However, we anticipate ongoing gradual rate hikes and for balance sheet normalisation to begin in 2018. As the Trump factor has waned (all those tweets and not a lot to show for it!) the market has had to rely on some positive sales surprises to boost earnings. The latest dent to his legislative plans saw changes to the Obamacare programme out-voted by his own party. In the meantime North Korea has been undertaking inflammatory missile tests, yet the VIX (often referred to as the fear index, representing one measure of the market's expectation of stock market volatility over the next 30-day period) remained very low at around 10.

This month a change in MPC membership saw a slight change in the voting pattern of the Bank of England with a 6/2 split in favour of maintaining the status quo for interest rates. The bank downgraded its growth and inflation outlook for the UK though, with the grey clouds of Brexit uncertainty building. Commercial Property values can be sensitive to GDP moves and business and consumer confidence, as we saw just after the referendum vote last summer. Overseas investors however, remain active buyers and represent a large proportion of transactions. In most sectors there continues to be a general picture of low levels of vacancies coupled with a limited development pipeline. With the exception of High Street Retail, rental values are likely to continue to edge up despite the ongoing political wrangling over Brexit. Taking all this into consideration, annualised total returns for commercial property are likely to be in the mid-single digits over the next three years, predominately composed of rental income. UK commercial property remains attractive relative to fixed income and is a useful, often inflation linked, income building block in lower risk portfolios, with risks being mitigated by having experienced managers at the helm and a diverse blend of assets and tenants.

OLD MODEL NAME	NEW MODEL NAME
Defensive Mixed Assets	Defensive Mixed Assets
Income	Defensive Balanced Mixed Assets
Social Impact Portfolio	Social Impact Portfolio
Income & Growth	Balanced Mixed Assets
Growth	Focused Growth Mixed Assets

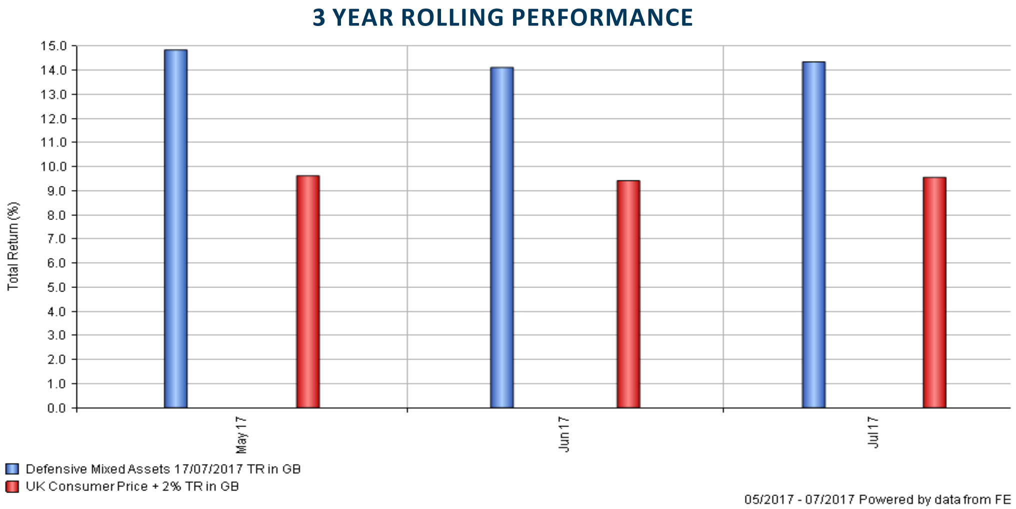
SOCIAL IMPACT MODEL

31/12/2015 - 31/07/2017 Data from FE 2017

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS



*Last 3 months of 3 year rolling performance of Defensive Mixed Assets versus benchmark.

DEFENSIVE BALANCED MIXED ASSETS

BALANCED MIXED ASSETS

FOCUSED GROWTH MIXED ASSETS

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

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