MARKET UPDATE

October 2017

GROWTH REVISED UPWARDS

There wasn't too much to spook markets this month as the improvement in the world economic growth has been given the seal of approval by the IMF (International Monetary Fund) which has just revised projections upwards. Despite this growth, inflation levels puzzle policymakers whose models have predicted a pick-up in wage and price pressure. The combination of steady growth and low inflation means we remain in a goldilocks environment for the time being which is favorable for risk assets and client investment portfolios.

THE NUANCES OF BREXIT IMPACT ON THE CITY

Domestically though it is expected that the UK will slow and inflation to remain elevated given the fall we have seen in the pound and the Brexit conundrum. One interesting Brexit related piece of information brought to our attention by AXA Framlington was a report from the European Central Bank (ECB) on the future of euro currency trading post 2019. London accounts for 43% of foreign transactions involving the euro. The ECB report acknowledged the City's big inbuilt advantage which are the submarine fibre-optic cables – laid in the 1980s – that carry the majority of internet traffic. Financial centres located next to oceans have an advantage "because they are directly connected to the internet backbone, at the expense of landlocked cities like Zurich". Because electronic trading has transformed the forex market, the report continued that "by one estimate, cable connections have boosted the share of global turnover in London, the world's largest trading venue, by as much as one-third". This indicates a city exodus is not clear cut.

EUROPE STILL HAS ITS POLITICAL WORRIES

2017 so far has seen its fair share of political obstacles and the recent events in Spain, plus the Austrian election which saw a shift to the right, reminds us that it will be no plain sailing. Risk assets though have performed reasonably well with the liquidity provided by central bank policies seemingly masking the underlying political risk. The European Central Bank is set to keep QE going into 2018, but will eventually phase out the policy. We retain our Active European managers in portfolios.

ABE WINS SNAP ELECTION

Japanese markets had a particularly strong month with the Nikkei 225 in Sterling terms up some 8.22%. Prime Minster Abe's snap election paid off and the Liberal Democratic Party (LDP) reported a landslide victory in the Lower House election. The outcome favours stability and gives PM Abe a new term to pursue "Abenomics". Foreign investors, who have until recently been net sellers of Japanese stocks, look to be reassured by the increased political stability. This coupled with momentum in the Japanese economy and positive earnings growth for corporates led the market higher, which our higher risk strategies directly benefited from.

RISK ASSETS AND A LONG-TERM MINDSET

After another good month for risk assets, concerns do creep in and may put people off from making investment decisions. Premier Fund Managers have published a piece of analysis looking back to 2007. Just as they are now, markets were hitting new highs in summer 2007. We now know the financial crisis was beginning to kick off- the run on Northern Rock happened in September 2007- but that was not widely appreciated at the time. There's a crucial difference though the rate of interest payable on cash. In August 2007 the UK Base rate was 5.75% and inflation was 1.8%. However since 2007, cash has underperformed CPI, meaning a real loss to anyone who'd spent the whole period hiding in cash. The UK stock market, meanwhile, produced very useful nominal and real returns, thereby rewarding anyone who was prepared to risk switching their cash for equities and then hold firm. 18 months in though, this would have felt like terrible timing, as markets nosedived. Investors who bought in the summer of 2007 though still made respectable absolute and real returns over the following decade. This was in spite of buying at the worst point for several years (before or after) and having to sit through the most brutal financial crisis since 1929. The lesson? A long-term perspective is perhaps the most important weapon in any investor's armory.

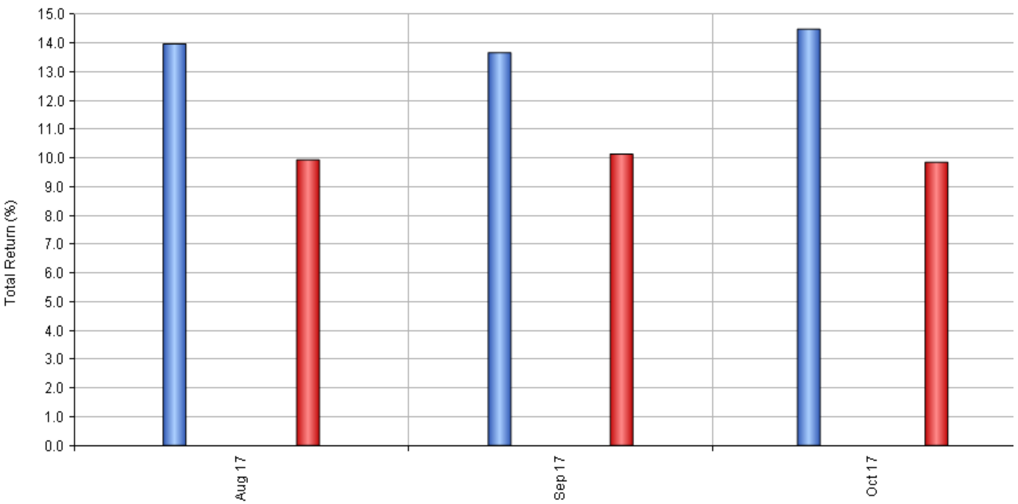
Based on today's base rate and inflation figures, investors are risking a meaningful real loss if they leave their money in cash and conditions stay the same, and an even steeper opportunity cost if equities do produce mid single-digit returns. They argue that this simple fact alone may well explain why this bull market has run for twice as long as its 2003-07 predecessor and could run further. We are not in the business of chasing returns though and whilst we are pleased when strategies are outperforming benchmarks, as most are year to date, we are as pleased if they show consistency over time with less volatility, which we trust to be a rewarding outcome for our long term investors.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



Defensive Mixed Assets 16/10/2017 TR in GB
UK Consumer Price + 2% TR in GB

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

DEFENSIVE BALANCED MIXED ASSETS MODEL

A - IA Mixed Investment 20-60% Shares TR in GB [37.57%]
B - Defensive Balanced Mixed Assets 17/10/2017 TR in GB [36.57%]

BALANCED MIXED ASSETS MODEL

A - IA Mixed Investment 40-85% Shares TR in GB [54.55%]
B - Balanced Mixed Assets 17/10/2017 TR in GB [54.23%]

FOCUSED GROWTH MIXED ASSETS MODEL

A - Focused Growth Mixed Assets 16/10/2017 TR in GB [76.55%]
B - IA Flexible Investment TR in GB [56.80%]

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.