MARKET UPDATE

January 2018

The year began positively but performance ebbed away toward month end as Bond yields ticked up beyond certain key levels. The start to the year could certainly be considered somewhat exuberant given that the MSCI AC World index, which represents global equities, had risen by over 3% in just 11 days.

CARILLION AND INFRASTRUCTURE INVESTMENT

Early January saw the news that Carillion, the facilities management, construction and civil engineering company, went into liquidation after a protracted period of financial difficulties that began in Summer 2017 with notifications of impairments and profit warnings. The impact of this is yet to be fully understood given Carillion's wide ranging involvement in government contracts which will now need to be taken over by other providers. We saw the UK Infrastructure market take a hit from this event and a resurgence in the nationalisation debate and renewed calls to end Private Finance Initiatives. We engage with a number of specialists in the Infrastructure sector and, via discussions with them, our view is that nationalising these PFI contracts and the government undertaking the work and providing the finance would be prohibitively expensive. In addition the liquidation of Carillion may create opportunity for some of the other contractors. We still see opportunity in investing in Infrastructure assets, particularly given the attractive, and often inflation linked, yields available.

JEROME POWELL TAKES HIS SEAT AT THE US FEDERAL RESERVE

The new Federal Reserve Chairman has taken his seat. As we have noted before, the appointment of Jerome Powell was seen as one which was unlikely to dramatically alter the monetary policy path set out by Janet Yellen during the last 12 months or so of her time in the position. The market appears to be pricing in what the Federal Reserve has outlined. Mr Powell will have much to focus on in his first months in the role. The US is seemingly in robust shape from an economic standpoint, but now with meaningful wage growth beginning to appear, along with a fiscal stimulus at a time of already tight labour markets, could put upward pressure on inflation and force a change of course.

BREXIT NEGOTIATIONS IN FINANCIAL SERVICES

In Europe we saw the EU reject the suggestion of a special trade deal for the UK financial services sector post-Brexit. The EU's rejection was not completely unexpected given that a number of cities across the EU could stand to benefit from any business which has to leave London. This issue will continue to be a top priority for the UK as the financial services sector is vital to the economy in terms of exports and tax revenues. The ongoing negotiations are likely to continue to be difficult to predict and could be an ongoing source of volatility, likely played out via the currency markets.

INCREASE IN MARKET VOLATILITY

The end of January and beginning of February saw a sell-off in risk assets as markets digested the impact of steadily rising bond yields and better than expected wage data from the US, which sparked concerns for investors around inflation and the path of US rates.

For the last 18 months we have seen staggeringly low levels of volatility in equity markets, which was certainly abnormal compared to what you would expect to see in a normal year. In fact, last year saw the lowest intra-year decline in the FTSE All-Share index since the early 90's. We had been flagging for some time that we expected volatility to return to markets as cheap and abundant money available from accommodative monetary policy is removed. However, we believe that this move in markets has been exacerbated by a range of factors, including some of the algorithmic trading strategies, rather than being based on a significant deterioration in corporate fundamentals or the economic backdrop.

It is important to put these recent market falls into context of the longer-term gains investors have seen in equities. Although the recent falls have felt dramatic, this has so far been more of a minor correction in the upward trend we have seen for a number of years.

Diversification continues to be a vital tool in the arsenal of any portfolio manager and this period of volatility is no exception. Despite falls in equity markets we have not seen this sentiment bleed over too meaningfully into corporate credit markets thus far. Also, within our model strategies we utilise funds that have very low or zero correlation with equity markets and are therefore able to provide an element of risk mitigation at times like this. Finally, whilst the latter part of January and the first couple of days of February saw government bond yields rise (prices fall) along with equity price falls, we saw government bonds reverse course as the sell-off picked up pace and behave more like the safe haven asset they should be and rally as equities fell sharply.

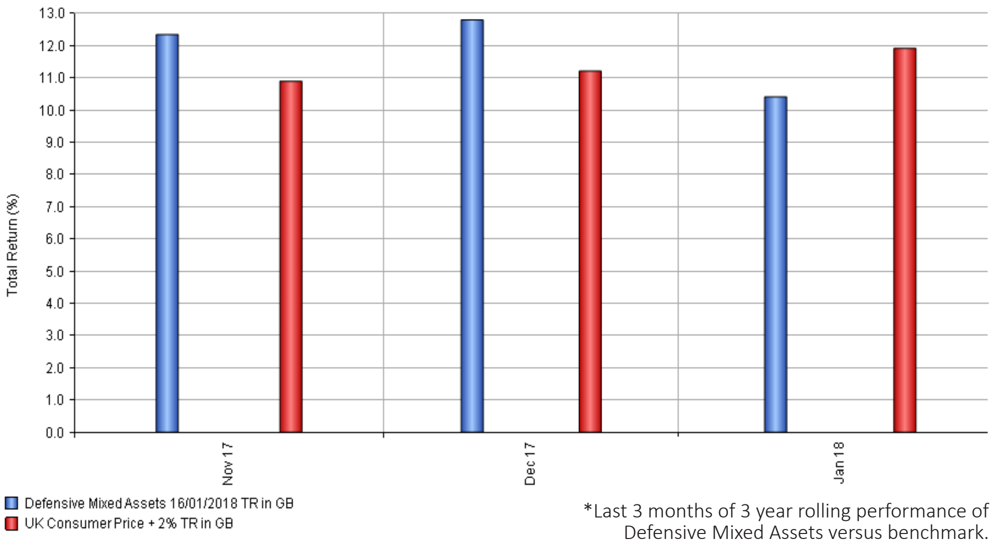
Overall, we believe that the economic cycle has not yet turned, the global economy still appears robust and synchronised growth is still present. With this economic backdrop we believe that, although this bout of selling in the market could persist in the short-term, opportunities could likely present themselves to us and the managers we use in the model portfolio strategies. The portfolio diversification in our model portfolio strategies allows us to mitigate some of the falls in equity markets to varying degrees depending on the strategy.

SOCIAL IMPACT MODEL

PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

DEFENSIVE MIXED ASSETS MODEL



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

DEFENSIVE BALANCED MIXED ASSETS MODEL

BALANCED MIXED ASSETS MODEL

FOCUSED GROWTH MIXED ASSETS MODEL

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.