MARKET UPDATE

February 2018

The weakness seen at the end of January continued into February as markets digested the impact of steadily rising bond yields and better than expected wage data from the US. This sparked concerns for investors around inflation and the path of US interest rates.

NEW FED CHAIR SWORN IN

Jerome Powell had a tough first day when he was sworn in as the head of the Federal Reserve on Feb 5th which coincided with large market falls. Fiscal stimulus via tax reform at a time of already tight labour markets could put upward pressure on inflation and force a change of course on the interest rate path. The Underlying Inflation Gauge (UIG), which looks at trend inflation derived from a larger data set, displays greater forecasting accuracy than measures of core inflation and has been higher than CPI for some time. His testimony to Congress at the end of February was a bit more ‘Hawkish’ (aggressive) than expected and four rate rises are now likely this year.

MARKET FLUCTUATIONS

Markets regained some composure as the month progressed with overseas markets generally doing somewhat better than the FTSE 100 which closed the month down 3.40%.

Overseas Index returns were somewhat flattered by the moves in Sterling, though. Currency moves turned a negative performance of the Nikkei of-4.46% in local currency into a positive one of +0.87% in Sterling.

None of the BAM portfolios were immune from these market gyrations but all fared better than the FTSE 100 return. As expected from the portfolio positioning, our lower risk strategies did a better job of protecting capital, having more in Alternative assets like Property where BMO Real Estate Partners are forecasting circa 5% total return for 2018 primarily driven by income. However, even our more risky strategies benefited from geographical diversification with a greater skew towards overseas markets.

DARK CLOUD OF BREXIT

International investors have shied away from investing in UK equities as a result of the political uncertainty and associated impacts on economic growth. As the political fog clears during 2018 investors may well reappear depending on how the negotiating goes. From a global multi-asset portfolio perspective, Brexit is somewhat a sideshow and will not be able to derail the global recovery if it does not go well.

PRESIDENT FOR LIFE IN CHINA

Over in Asia, an increasingly large and important part of world GDP and investment markets, the Winter Olympics were a catalyst to allow a thawing of relations in the Korean peninsula. Also, China’s communist Party cleared the way for President Xi Jinping to rule indefinitely by announcing its intention to abolish presidential term limits.

Mr. Xi seeks to strengthen the party’s control over a modernising society and restore China to what he considers its rightful place as a global power. The full effects of the new power won’t be visible immediately and although this might not seem right ethically and morally, from an economic and investment perspective it could be a good thing, as so far he has steered the economy in the right direction, has begun to address the debt problem and clamped down on corruption.

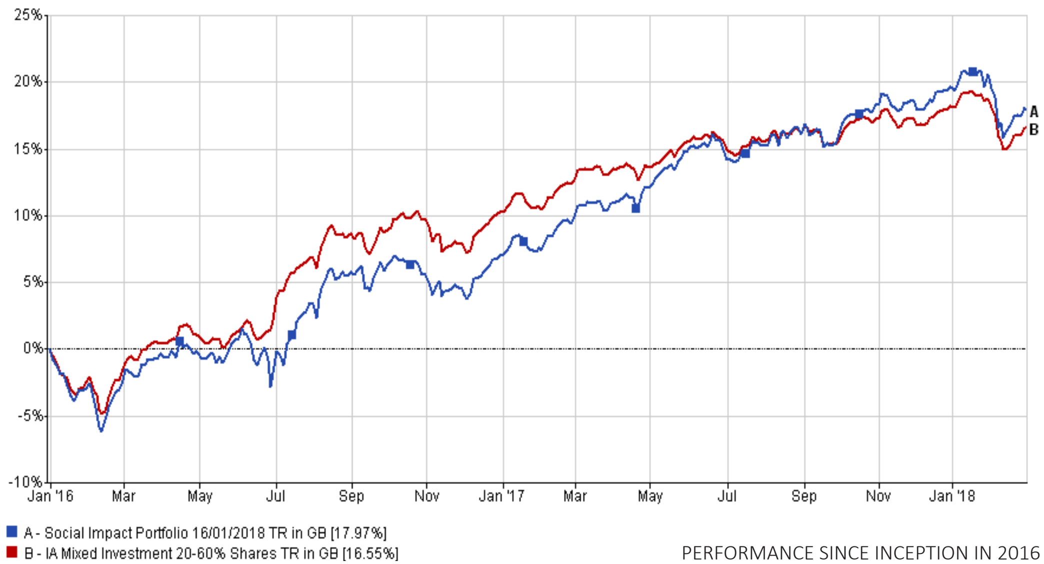
BUSINESS CYCLES

We recognise that there are some late-stage features to the economic recovery, but it is very hard to predict a regime change until you are experiencing it.

Research shows that markets tend to price in recessions about 12 months in advance so, if the cycle is extended by the weakness of the US dollar and the US fiscal stimulus to 2020, we could be in for a tricky 2019- and 2018 could see a few more red days than we have been used to for the last few years.

The choppy nature of markets supports our belief in staying the course and in diversification.

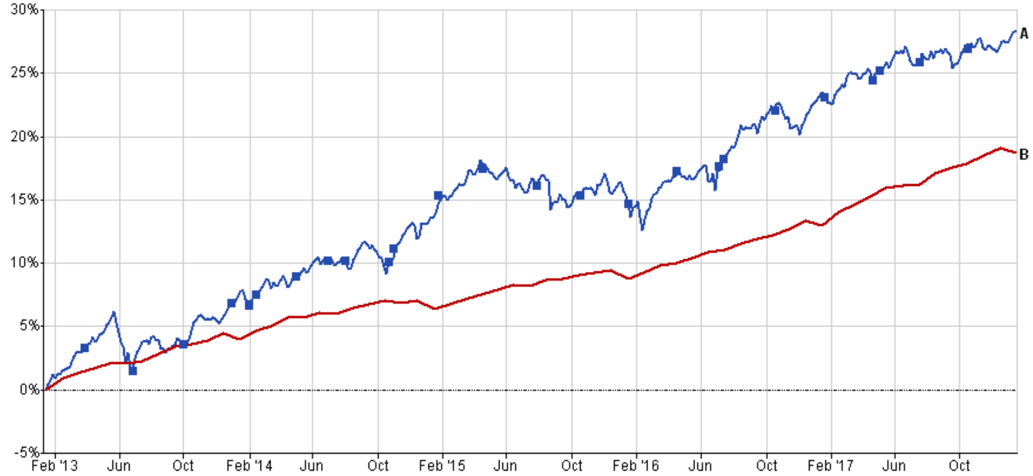
SOCIAL IMPACT MODEL



PERFORMANCE SINCE INCEPTION IN 2016

5 YEAR MODEL PERFORMANCE VS BENCHMARK*

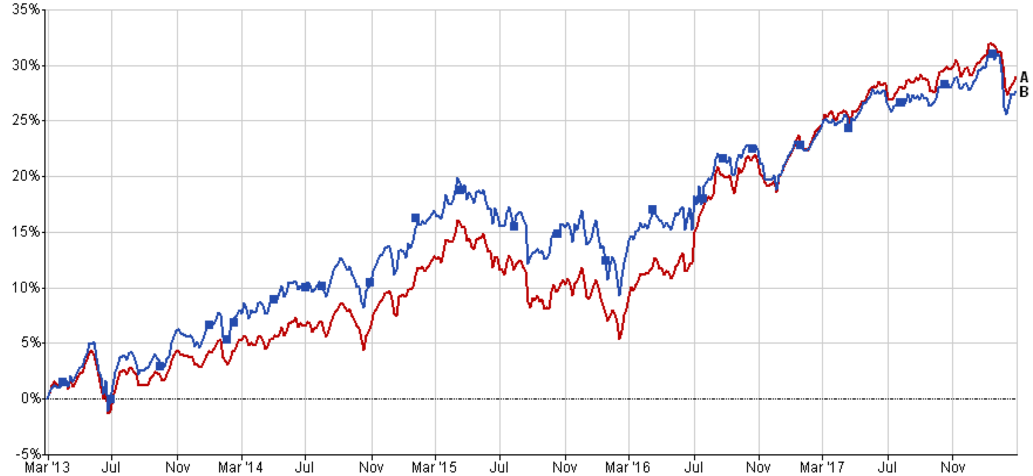
DEFENSIVE MIXED ASSETS MODEL



■ A - Defensive Mixed Assets 16/01/2018 TR in GB [28.24%]
■ B - UK Consumer Price + 2% TR in GB [18.71%]

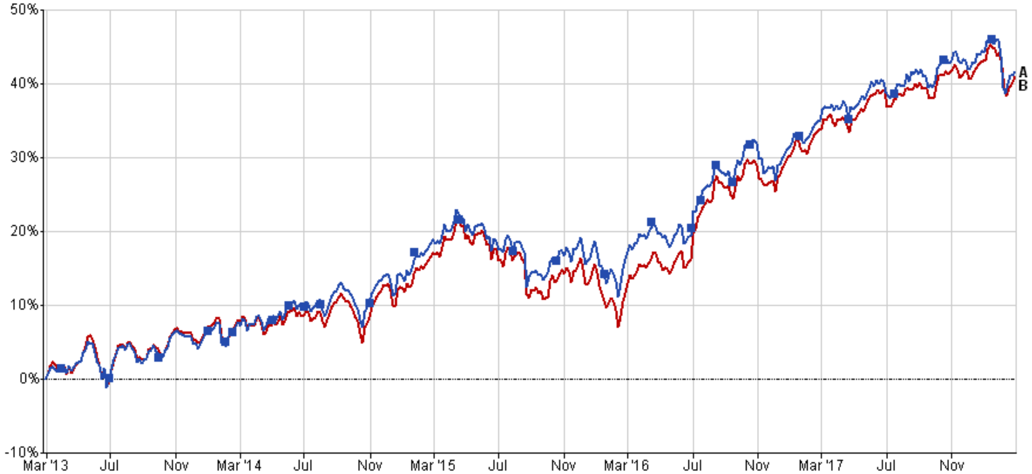
*5 Years to 15/1/18 (last CPI point)

DEFENSIVE BALANCED MIXED ASSETS MODEL



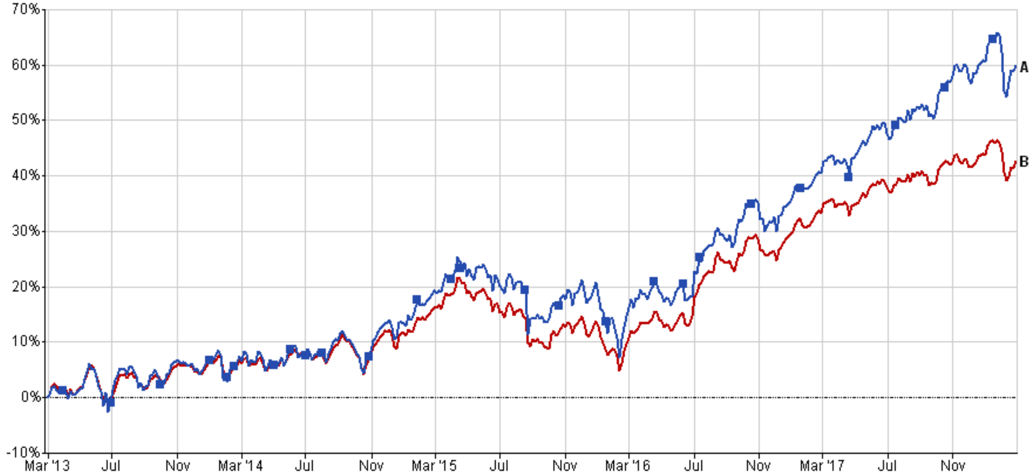
■ A - IA Mixed Investment 20-60% Shares TR in GB [28.97%]
■ B - Defensive Balanced Mixed Assets 16/01/2018 TR in GB [27.72%]

BALANCED MIXED ASSETS MODEL



■ A - Balanced Mixed Assets 16/01/2018 TR in GB [41.68%]
■ B - IA Mixed Investment 40-85% Shares TR in GB [40.94%]

FOCUSED GROWTH MIXED ASSETS MODEL



■ A - Focused Growth Mixed Assets 16/01/2018 TR in GB [60.05%]
■ B - IA Flexible Investment TR in GB [42.60%]

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