BOWMORE ASSET MANAGEMENT

Market Review

Published December 2022

MAIN MARKET MOVERS

RECESSION PROSPECT

INFLATION

MONETARY TIGHTENING

UKRAINIAN WAR

"After a tough year for nearly all asset classes, will the statistical pre-Christmas rally occur? The headwinds driving markets are China and their Covid policy, central banks, inflation numbers along with a stubbornly tight labour market. Looking ahead into next year, we have expectations for a more relaxed Covid policy in China combined with supportive government actions to hit the 5% expected growth target, better manufacturing data from Japan and the potential that the US or Canadian central banks hike rates by less than market expectations into next year. The terminal rate for US rates remains the key metric driving market direction over the next quarter."

Jonathan Webster-Smith, Chief Investment Officer

LATEST VIEWS

Investment Grade

Recent volatility has led to a significantly wider spread in the asset class, which creates an attractive entry point. With investment grade yields moving to higher levels, fund managers have a broader opportunity set from which to generate returns. Although slowing growth is on the horizon, the quality of investment grade companies should mean they weather the storm, with stronger balance sheets.

US Short Duration High Yield

Anxiety over inflation, rate hikes and low growth have propelled high yield bond spreads to very high levels, causing a significant correction in the market. Looking forward, we believe the sector remain solid and that current valuations do not reflect underlying strength. In September, US high yields were close to 8% when the 10 year average for the sector is closer to 5%, illustrating this opportunity.

US Dollar

After rallying through the year to September, the US Dollar's pullback has extended through October and November. The Euro and sterling have now reached their highest levels vs the greenback since June. This rotation is mainly caused by the growing conviction that the Federal Reserve's tightening cycle is reaching its peak. In the past couple of months, we have decreased our exposure to the Dollars by allocating to hedged currency funds.

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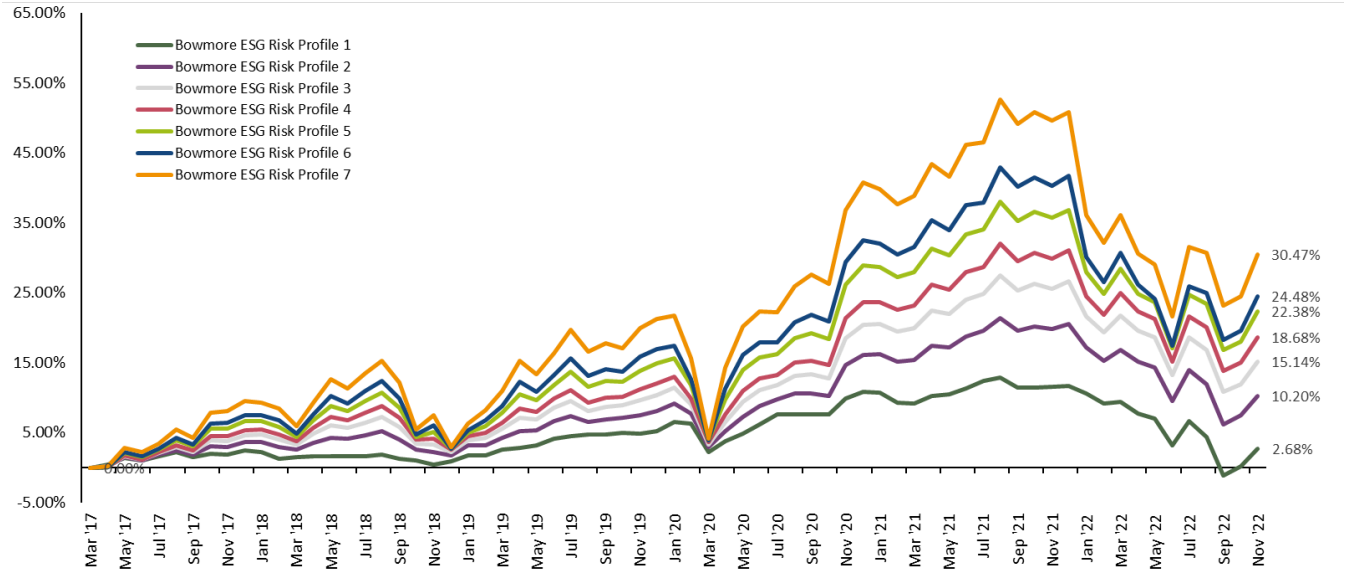
3 month fund performance

- Top performers
- Worst performers

TOP PERFORMING FUNDS	ASSET CLASS	PERFORMANCE		COMMENTS
Vanguard SRI European	Equity (Europe)	3 month 1 year 3 year	+8.67% -2.64% +18.62%	European value stocks are currently cheap and this makes European equities more sensitive to positive news. The risks of running out of gas this winter in Europe has subsided further in the recent weeks. Indicators of economy activity in the eurozone surprised to the upside in November.
Guinness Sustainable Energy	Equity (World)	3 month 1 year 3 year	+5.11% +4.03% +123.88%	Guinness continues to benefit from the Inflation Reduction Act of 2022 signed by Joe Biden during the month of August. The act includes a $369bn package providing financial support and tax credits to companies associated to reducing emissions.
Premier Miton Responsible UK	Equity (UK)	3 month 1 year 3 year	+5.06% +-16.94% +9.00%	Economic activity in the UK slightly improved from depressed levels. Retail sales and consumer confidence also improved, compared to mid-year.
WORST PERFORMING FUNDS	**ASSET CLASS**	**PERFORMANCE**		**COMMENTS**
Aberdeen European Logistics	Alternative (Property)	3 month 1 year 3 year	-24.38% -32.63% -8.94%	European logistics has also experienced drawdowns as investors continue to price in recession. Higher interest rates across developed economies puts a squeeze on companies and therefore appetite for expansion or renewal.
Brown US Sustainable Growth	Equity (US)	3 month 1 year 3 year	-4.97% -16.40% +48.88%	The U.S. economic outlook remains uncertain, despite softer comments from the Fed. Recessionary risks have spooked investors toward more defensive areas of the market and away from growth-oriented stocks.
Picton Property Income	Alternative (Commodity)	3 month 1 year 3 year	+1.05% -10.16% +2.92%	As recessionary risks have built this year, real estate has come under pressure. With the expectation of reduced activity and growth, demand is expected to suffer and property assets often reflect sentiment for the wider economy.

OUR SEVEN RISK PROFILES

1 2 3 4 5 6 7



PERFORMANCE	3 month	1 year	3 year	Since Inception
Bowmore ESG 1	-1.69	-8.45	-3.56	0.16
Bowmore ESG 2	-1.67	-8.49	1.15	7.78
IA Mixed Investment 0-35%	-1.37	-8.83	-2.63	4.47
Bowmore ESG 3	-1.55	-8.78	3.73	12.78
Bowmore ESG 4	-1.28	-9.10	5.45	16.33
IA Mixed Investment 20-60%	-1.15	-7.69	1.54	11.08
Bowmore ESG 5	-0.93	-10.35	6.14	19.96
Bowmore ESG 6	-0.51	-11.85	6.14	22.05
IA Mixed Investment 40-85%	-1.05	-7.49	8.49	23.40
Bowmore ESG 7	-0.31	-13.28	7.53	28.14
IA Flexible Investment	-1.05	-6.80	11.48	25.91

Source: Bowmore Asset Management, Morningstar Direct as at 30/11/2022

HOW DID OUR PORTFOLIOS PERFORM?

As we move into the final month of 2022, bond and equity markets have recently been able to recover some of the steep losses from September's lows. Investors' primary focus now is on the possibility of a coming recession in the developed markets. Despite remaining above central banks' target ranges, inflation has started to stabilise and even fallen in the US as the economy slows.

Positive contributors within portfolios include structured products, healthcare, UK equities and our exposure to European value has been our best performer in the last three months. Meanwhile, property holdings have significantly underperformed, reflecting a expectation of slowdown in growth and demand.

We have made changes to our portfolio composition over the period, restructuring some of our fixed income allocation. We increased exposure to US short duration high yield, which we feel has a positive outlook in the coming months where spreads have widened.

MARKET REVIEW

Equity and bond markets started to recover from the end of Q3 2022. During the month of November, concerns about inflation and further central bank tightening were at the forefront of the investors' minds. Both the Federal Reserve and the Bank of England raised policy rates by 75 basis points to 4% and 3% respectively. However, despite the outlook for tighter monetary policy, US inflation numbers for October were below consensus, bringing hope that inflation could have reached its highest level, giving a boost to stocks and bonds for developed markets. We are starting to see a slowdown in housing activity and home sales have showed a further decline, mostly due to a sharp increase in the fixed mortgage rate over the year, making housing affordability to low levels last seen in 2006.

Inflation in the Eurozone has reached a new high of 10.6%, year on year. Europe continues to be impacted by the war in Ukraine and the energy crisis. However, the risk of running out of gas this winter has slightly reduced due to better than expected temperatures in Q3. Economic activity and consumer confidence in the Eurozone has surprised positively during the month of November.

Volatility has brought bond yields to extreme levels, making the asset class more attractive. Anxiety over inflation, rate hikes and low growth pushed prices for all assets, including bonds, to low levels while fundamentals remain strong. This suggests that investment grade and high yield bonds are becoming cheap compared to historical averages and offer a compelling buying opportunity.

Xi Jinping was re-elected as Communist Party of China general secretary, the first to hold the post for three terms. Since, policy makers in China announced new measures to relax covid restrictions, Asian equity markets have rallied following the news. A strong recovery in China demand would be beneficial not only for China but trading partners.

Index Performances

September 22 | October 22 | November 22

	US 500		AC ASEAM		Europe 50
	UK 100		UK Gilt	Source: Refinitiv	

FOR FURTHER INFORMATION

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The value of your investments can go down as well as up, so you could get back less than you invested
Performance shown net of management fees and net of underlying fund costs. Performance is shown to 30.11.2022
Past performance is not a reliable indicator of future results
This document is suitable for private clients and professional advisers