ESTATE CAPITAL INVESTMENT PORTFOLIOS

OUTLOOK

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Is the market signalling an end to this economic cycle?

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ESTATE CAPITAL

Is the market signalling an end to this economic cycle?

Equity, credit and bond markets around the world have posted negative returns in the first five months of 2022. This has been driven by a combination of historic re-pricing of asset values due to the tightening of monetary policy in response to raising inflation and geopolitical risks over Russia's invasion of Ukraine

Since Q3 of 2021, The Federal Reserve policy position has moved from pricing in two interest rate hikes in 2022 to now up to seven consecutive rate increases leading to the Fed Funds interest rate hitting 2.5% by the end of 2022. Monetary policy has become tighter around the world as governments seek to limit the impact of high inflation.

At the heart of broad asset market volatility is the fall in the bond markets. Usually, if equities are facing a challenging period, bond yields tend to fall, meaning their prices rise. However, the rise in inflation has reversed the usual equity-bond relationship. This time the rise in yields is driving equity markets lower. We have therefore endured both the re-pricing of equities at the same time as the re-pricing of bonds.

These developments along with the high increase in energy and agricultural commodities raises the question – is the market signalling an end to this economic cycle?

Despite the many headwinds, fund management groups feel that the global economy will muddle through but investors will have to expect lower returns and high inflation rates that will last into 2023. Commentators feel that the evidence in the economy shows little chance of a recession in 2022. The levels of employment, liquidity, government investment and consumer savings rates suggest a global growth opportunity once inflation has peaked. The war in Ukraine has further complicated the global outlook.

Household incomes are being squeezed and this is likely to affect the spending habits of lower income families more than those who saved money through Covid. There is large excess savings across the developed world and households are catching up on travel and holidays.

While a recession in 2022 is seen as unlikely, as there is still strong activity in the world economy. A recession in 2023 is a possibility as US interest rates increase the threat of a policy error. The Federal

Open Markets Committee (FOMC) look set on further rate rises and a recession is a possible trade off for lower costs. The Fed will seek to restore the balance between supply and demand so there is sufficient slack to ease price pressure and wage demands.

When we researched our Edition 36 portfolios in November 2021, we were expecting just two rate rises from the Fed in 2022, with the first in July. Perceptions started to change soon after. In January 2022 the FOMC announced that QE would end in March so that the first-rate rises could start. The Fed suggested 4-5 rate hikes which has now risen to 6-7 hikes.

The Feds QE programme has provided liquidity easing on a massive scale. The total QE spend was US$3tn or 20% of GDP. This programme of monthly bond purchases has now ended and maturing bonds sold back. The US employment market is as good as it has been for the past 50 years so this gives confidence to the Fed about tightening. If we assume that wages are likely to rise due to inflation and high employment levels then the Fed could not delay its actions.

US assets responded well to the rate cut by rising 3% but declined the next day by -4.5% due to the overall economic outlook.

A key issue is how the war in Ukraine will affect growth and inflation. Russia was the world largest exporter of gas, wheat, palladium and nickel in 2020 and the second largest exporter of oil. Ukraine was a top five exporter of wheat, barley, corn and millet. Europe is the most vulnerable region to a prolonged conflict and has the most to gain from a rapid resolution. At present the most likely is a prolonged conflict but whatever the outcome, governments will be committed to higher defence spending and an accelerated drive to new and alternative energy sources. This will give a boost to the defence and industrial sector as well as traditional and clean energy providers.

The majority of fund groups feel that recession will be avoided. The peak of US inflation is expected in Q3. This will be a key moment as will the change in outlook in China.

The economic outlook is one of slowing growth and raising inflation.

The economic outlook for 2022, as predicted recently by both the Bank of England (BoE) and the US Federal Reserve (Fed) is one of slowing growth and raising inflation. The Fed is expected to see inflation peak first and is advancing interest rate hikes faster than the BoE is at present. We can expect rate rises throughout the summer and autumn as central banks seek to slow demand and control prices. As a result, bond yields will rise and prices fall. This should also push down equity values particularly for those companies with heavy borrowing and in sectors where the cost-of-living squeeze is hitting demand.

The markets we have been invested in have been hurt by the re-pricing of assets this year. At this rebalance we have assessed which assets we wish to hold and those we will relinquish.

Markets have been hurt by high inflation, interest rate rises, soaring energy costs and the Russian invasion of Ukraine. This cocktail of uncertainty has driven down the value of bonds and equity.

Usually, if equities are facing a difficult period, bond yields tend to fall and their prices rise. However, the rise in inflation has reversed the usual equity-bond relationship. This time the rise in yields is driving equity markets lower. We have therefore endured both the re-pricing of equities at the same time as the re-pricing of bonds.

Despite this outlook, certain sectors have prospered and in particular funds investing in natural resources, commodities, infrastructure, insurance and property have done well. Overall, the UK FTSE 100 has also done relatively well as it is made up of high- quality international businesses in these sectors.

Gold funds have done well this past three months in particular but with bond yields raising and the US$ strengthening gold may lose its shine.

Analysts expect better returns over the next twelve months from equities over bonds. The forecast for bonds remains poor. For this reason, we will again reduce our weighting in fixed interest and where we have holding, they are either short dated, inflation linked, floating rate in nature, high yielding or hedged. These features should cope with the current circumstances better.

We have extended our positions in infrastructure funds, property securities, natural resources and maintained our holdings in sustainable energy. We have sold out of gold as we expect it to weaken on a stronger US$. Our defensive asset of choice is cash and we are overweighted for duration of the Edition 37.

For central banks to avoid a policy mistake, rate rises and quantitative tightening has to be communicated well and implemented gradually. With both the Fed and BoE have only really started their tightening recently and they have some catching up to do to get inflation in check. The Fed is expected to make 6-7 more rate rises this year. The Fed Futures are predicting six hikes. However, the squeeze on real incomes may do some of the Fed's work for them and as a result only four hikes may occur. All eyes will be on inflation and job numbers.

Analysts are not expecting a recession in 2022 and if the Fed gets its rate rising programme right and we could avoid one in 2023 too. A high proportion of western consumers have enough excess savings to

cushion the squeeze on real earnings and the cost-of-living rises. As the world continues to emerge from Covid restrictions then spending should continue.

As the Fed is raising rates at a faster pace than the BoE, sterling has weakened and may continue to devalue against a strengthening US$. The pound has lost 9% against the dollar so far this year. This devaluation will add additional inflationary pressures as commodities, for example, are priced in US$.

The BoE has predicted that UK growth will be 3.75% this year and -0.25% next year. The Bank expect inflation to hit 9% in Q2 and 10% in Q3 when the Ofgem energy cap is renewed, but fall back to 7% in Q1 2023. The BoE then expect UK inflation to be back to under 2% in 2024.

Of particular importance is the behaviour of the UK consumer. Households are under pressure from high energy, utility bills and recently increased NIC contributions. However, many households have built up excess savings over the past two years which will help. UK equities are currently attractive, particularly the high-quality cash generating international businesses. For these reasons we have increased our FTSE 100 and FTSE All stock holdings. The FTSE 100 will also benefit from a weakened pound.

Some fund managers are of the view we are at peak, peak war, peak US inflation, peak Covid in China and that things should improve from Q3 onwards. High inflation rates are painful for everyone not least those on lower incomes or benefits. Consumer confidence is falling but has the capacity to recover.

Inflation can be a good thing for goods manufacturers and services providers as companies can raise prices collectively which helps with longer term profits. The challenges are more towards heavily indebted sectors where there is insufficient growth or pricing power. In these times greater exposure to dividend producing large cap companies makes sense.

There has been a 10-year bull rally for growth style stocks over value style stocks. Now there is a catch up occurring with analysts suggesting an 18-month value rally ahead. The winning sectors would be the infrastructure, financials, commodities, energy and the underlying facilitators of growth. Value stock has better protection against inflation and interest rate rises.

Inflation and interest rate rises are less of an immediate issue in Asian economies. We expect China to start easing monetary and fiscal policy. Over the next few quarters, we can expect to see the effects of Chinese easing and investment as they come out of the Covid lockdowns. We have retained our modest Chinese holdings and have raised our Asian allocations.

While our equity holdings have slightly increased, we have significantly reduced fixed interest and hold more cash. Within the equity holdings we have reduced our exposure to Europe, Japan and emerging markets, but increased our holdings in the UK. Overall, we are more invested in income generating value stocks and large cap and mega large businesses. Examples of these holdings would be JP Morgan US equity income, T Rowe Price US large cap, Schroder Asian Income, HSBC FTSE 100 index and the L&G Global 100 index.

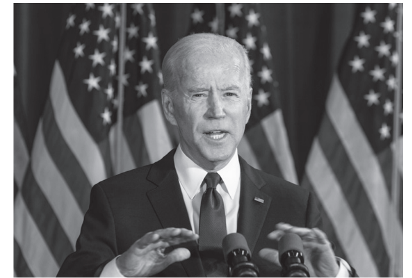
High spending and debt funded expansion has its consequences.

The election of Joe Biden in November 2020 was expected to become the start of a massive reinvestment in America programme that paved the way for the decarbonisation of the USA and the upgrading of the country's faltering infrastructure. The programmes were aimed at growing jobs and tackling climate change. Productivity was expected to improve as the US reversed decades of under investment in roads, bridges, railways as well as water and sewer systems. The US$1.9tn American Covid Recovery Plan was ambitious and unprecedented as was the US$2tn Green New Deal programme.

President Biden's American Recovery and Reinvestment Act (ARRA) included spending on infrastructure and roads, child care provision, job re-training programmes, improved unemployment benefits and stimulus cheques for US$1,400 sent to every US adult citizen earning less than US$75,000 even those living abroad. This was the foundations of the US economic bounce back.

It is now over a year since the ARRA programmes were first passed into law in March 2021 as the biggest investment programme since WW2. This was followed by the Green New Deal aiming at reducing greenhouse gases and move the USA to clean forms of energy by 2030. In that year the US economy has seen GDP growth fall from 5.5% in the rolling 12-month period to Q4 2021 to 3.4% in the rolling 12-months to Q1 2022. The US economy shrunk by -1.4% in Q1. Twelve months on and this state spending has filtered through to a US cost of living crisis with inflation running at 8.5% in March. For President Biden the reality of high spending and debt funded expansion has its consequences.

The Q1 GDP figures for US growth were less than expected at -1.4% which is the first quarter of decline since the Covid pandemic in March 2020. However



US imports have surged on the back of consumer demand. The US consumer remains resilient despite a cost-of-living crisis. The US consumer spending index is a key economic indicator if American continues to expand.

A second quarter of reduced growth would technically tip the US into recession which concerns for the global economy as historically when the US slows so does the rest of the world. Businesses are expecting harder times and that growth will be difficult, however analysts are expecting a stronger Q2 performance with a 3% annual GDP growth rate for 2022.

For President Biden the reality of high spending and debt funded expansion has its consequences.

Markets are pricing in further rate rises.

The Federal Reserve as expected, raised the Federal Funds Rate by 0.5% to 1% on May 4th in order to combat rampant inflation. Jerome Powell, the Fed Chairman has in the past stated that he thought inflation to be 'transitory' and now admits it is 'much too high' and that a further 0.5% rise should be expected soon.

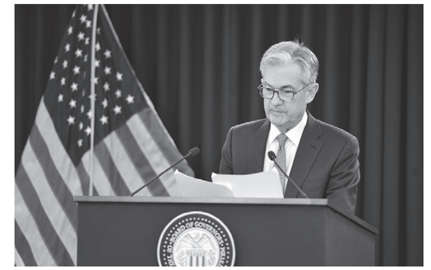
Markets responded positively to the 0.5% increase as it was well publicised and expected, and was less than a 0.75% rise which could have been recommended. The S&P 500 rose 3% on the news but the economic forecast of a slowdown then hit markets the next day and depressed markets further. US 10 Year treasury yields have risen 83% from 1.65% to 3.03% in the past 12 months. Analysts still feel that 10-year treasury yields have further to go from the current positions and that equity markets will struggle until inflation starts to decline.

The Fed believes that the USA has strong underlying economic momentum and that the economy can take the rate rises despite shrinking -1.4% in Q1. Hiring in the US remained strong in April. The US Labor Department said employers added 428,000 jobs, which was more than expected and marked the 12th month in a row of job increases. The jobless rate held steady at 3.6%. The gains bolstered the views at the Fed that the economy is well positioned as it starts to raise rates to try to curb inflation.

The Fed is also aware of wage growth pressure as well as strong household and business savings rates mean that somewhat uniquely the US can handle higher borrowing costs without a major downturn.

These rate rises will be seen as the Fed seeking to push down wage growth and inflation without slowing the economy and a reversal of the unemployment trends. Some analysts feel that if the Fed focuses upon inflation control, then the price the US may pay is a recession. Other analysts feel that the Fed should have risen rates sooner and that this rate rise should have been higher at 0.75%.

Markets are pricing in further rate rises with an expectation that rates will rise on seven occasions until they hit 2.25% - 2.5% by the end of the year. However, if the Fed remains focused on inflation



and front loads the rate rises at 0.5% per FOMC meeting we may see less rate rises at four or five this year. Interestingly, inflation may soon start to decline in the US which will be good news for investors.

The current 8.5% inflation rate is a 40-year high and has been stoked by high government spending, a strong labour market and supply weakness. The US is self sufficient in energy so is not suffering the same pressures as Europe. For this reason, the US inflation rate may start to decline earlier than Europe does.

Inflation is already at a 30 year high of 9% and could yet hit 10%.

The Office of National Statistics (ONS) have confirmed that UK food prices have risen by 5.9% year on year due to the increased cost of fertilizer, fuel and animal feed.

The Ukrainian conflict has increased energy costs and restricted access to a major source of wheat and sunflower oil. The UK's major supermarkets have warned that food prices will remain high for quite some time to come.

The extensive Covid lockdowns in mainland China will also have an impact upon supply and delivery times. This will further extend the cost-of-living crisis and result in greater pressure for wage rises which in themselves further boost inflation.

The Bank of England (BoE) Monetary Policy Committee (MPC) met on Thursday 5th May and voted for an interest rate rise of 0.25% from 0.75% to 1%. Critics are saying that the BoE have been slow to respond and done little to offset the financial difficulties facing low-income families.

The weakness of sterling against a strengthening US dollar is also putting additional pressure on prices in the UK. Over the past three months, the pound has fallen from US$1.36 to US$1.25, an 8.8% fall in value. As global commodities are priced in US$ this makes them more expensive to UK buyers. It has been suggested that this currency devaluation could add 0.4% to inflation this year.

US analysts are predicting that the Federal Reserve will raise US interest rates at a faster pace than the BoE are intending to raise UK rates and in doing so will continue to strengthen the US$. Capital Economics have stated that 'A weak pound is another source of inflation at a time when inflation is already at a 30 year high of 9% and could yet hit 10%'

For investors holding US assets, the conversion of value from dollars to sterling will be improved as a result of the fall in sterling.

Sterling could come under further pressure if the MPC shows a restrained approach to rate increases. If the BoE MPC focus on the growth slowdown and an inflation outlook over the longer term rather than the spike period we are in, it may pause and step back from its rate rising intentions. Other economists feel that Sterling's recent slide against the US$ will not be seen as good news by the BoE. The markets could sell off Sterling further if they think the BoE is neglecting inflation. The BoE have to balance and manage these conflicting objectives. This is a

challenge that the Fed has less difficulty with as the US economy is running hot with almost full employment. The US jobless figure is 3.6%.

Some MPC members voted for a 0.5% rise at their last meeting. A 0.5% rise will signal that the BoE are addressing the immediate cost of living crisis, while if no rise takes place, it is because of the concerns any new rate rise will have on the economy. The danger of recession being more prominent over the control of inflation.

Critics of the BoE suggest that the BoE should focus more on its main mandate of controlling inflation and raise interest rates to in excess of 2% by the end of 2022. Others caution that the causes of current inflation will not be fixed by higher interest rates and the BoE need to be worried about the risk of recession.

The BoE are in new territory, previously the bank slashed interest rates and pumped money through QE bond purchasing programmes into the economy. Now the UK is facing a very different and far harder challenge. UK inflation is at 9% and expected to rise to 10%, the highest for 30 years. Rate rises will hurt the economy as household and business costs are not helped by interest rate rises.

Lessons from history are that if inflation is ignored and left unchecked then the actions needed by central banks as a consequence are much greater and last far longer as a result.

UK inflation is at 9% and expected to rise to 10%, the highest for 30 years.

The Bank of England expect inflation to peak at 10% in Q3.

As recently as last summer, when talk of inflation pressures were starting to be foreseen and raised as a concern, the Bank of England was inactive on rate rises.

The Government had also not wanted to raise rates as that would mean higher mortgage costs for some and that the servicing cost of the UK national debt will increase. For evert 1% rise in UK interest rates the UK national debt interest payments go up by £20.8bn per year.

The BoE started raising rates in December and again in February and March, each time by 0.25%. The Governor of the Bank of England, Andrew Bailey has now warned of higher inflation and a shrinking economy to come. Six members of the MPC voted for a 0.25% rate rise while 3 voted for a 0.5% rise. All agreed that further tightening is needed, meaning we can expect higher borrowing costs along with general price rises. Markets are now expecting UK interest rates to hit 2.25% to 2.5% by the end of 2022. This is higher than previously expected.

The BoE announced a 0.25% interest rate rise one day after the Fed announced their 0.5% hike. As a result, sterling fell against the dollar from US$1.26 to US$1.23. The pound is now 9% down on the dollar since January. Just like the Fed, the BoE set out a disappointing economic forecast and an expectation of further rate rises to come. Markets are now expecting a further 5 interest rate rises over the next twelve months.

The BoE has predicted that UK growth will be 3.75% this year and -0.25% next year. They expect inflation to hit 9% in Q2 and 10% in Q3 when the Ofgem energy cap is renewed, but fall back to 7% in Q1 2023. The BoE then expect inflation to be back to under 2% in 2024.

The cost-of-living crisis is impacting these forecasts. Price rises will eat into household income and cut business profits with consumers starting to reduce their spending. The BoE predict that household spending growth will fall from 4.75% in 2021 to 1% growth in 2022. The slowing UK economy is expected to shed jobs and the unemployment rate rise from 3.85% now to 5.5% over the next 3 years. When unemployment starts to rise will be a signal to stop rate rises.

Families on low incomes will be most exposed to rising prices and interest rate hikes as they are least likely to have savings to fall back on. The government is under pressure to do more to help families through this inflation spike.

Andrew Bailey has called for a covid vaccine like approach to make sure the UK is ready for the winter. He believes that the UK must focus upon resilient energy supply including new sources of energy and in particular LNG.

Fund managers are expecting fading inflation as the cost-of-living crisis hits spending. Today's outlook for inflation suggests that bond yields will keep raising for a period. This could favour the cheaper value style stocks over the more expensive growth stocks.That said growth companies with high quality, profitable and inflation resistant businesses are still attractive.

While the future is uncertain and when economic growth weak and inflation high, it is the large cap defensive stock in the pharmaceutical, energy, supermarkets, commodities and industrial sectors that have done well and able to pass on rising costs.

Stagflation is haunting Europe.

Just like the UK, Europe is starting to fall into low growth and high inflation. The combination of these features is a major challenge to governments and central banks as they seek to stop prices running higher but not causing recessions through their actions.

The UK rate of growth in Q1 was 1.3% and 0.2% in the Eurozone. Inflation is now running at 7% in the UK and 7.5% in the Eurozone. Europe has caught up and passed the UK on inflation rates. The highest eurozone inflation is Spain at 8.3% and Germany on 7.8% but far higher are Estonia on 19%, Lithuania at 16.6% and Latvia at 13.2%.

While inflation has risen so the economy has slowed. Germany had 0.3% growth in Q1 but France and Italy fell to -0.2%.

With the pressure on inflation and growth, The ECB are expected to take action but the fear of recession and stagflation is making the ECB hesitant. Europe does not have low unemployment rates as yet and the economy may not easily take interest rate rises. Eurozone unemployment is 6.8% while the US is 3.5% and UK is 3.8%.

It is expected that the supply shortages due to the lockdowns in China and cautious consumer spending in reaction to high energy and food prices could also hit Q2 growth in the eurozone.

These figures on growth and inflation come at a time when there are rifts over how the EU should respond to the ongoing conflict in Ukraine. Both Poland and France want a ban on importing both oil and gas from Russia but Germany is reluctant to agree to this due to its dependency particularly on Russian gas imports and the impact such a ban would have not just on Germany but throughout Europe. Germany is weaning itself off Russian oil and is expected to agree to a ban on oil by the end of 2022 but not on gas.

A sanction over Russian oil is easier to deal with as alternative sources are available. As we enter the summer, the German government has time to resolve this supply problem. As the conflict goes on Germany will need to act and the West and its allies will need to help.

A full ban on Russian oil and gas would force Europe into recession.

The onset of milder weather has helped European countries to cut the use and on-going reliance upon Russian oil and gas.

Gas sales have fallen over the past three consecutive months. Eurozone countries have as a result of weaker demand from China, have also been able to buy up discounted liquid natural gas (LNG).

Russia shipped 50bn cubic metres of gas in the first four months of 2022. This is 27% less than the same four-month period in 2021. The Chinese took advantage of a discounted price and bought 60% more than they did from Russia last year.

Gazprom was exporting 387m cubic metres of gas per day in April which is down 22% from March. Gazprom expects a 4% fall in demand. However, its net profits have risen to a record high of £23bn in 2021 as a result of last year's soaring gas prices. Even with reduced demand the elevated energy costs have resulted in the increased profitability of production. Europe is effectively paying Moscow around £1bn per day for energy and these profits are funding the Russian invasion of Ukraine.

Moscow has threatened both Poland and Bulgaria with shutting off their gas supplies unless payments for this gas were made in roubles. They did not cave in on these demands and so Gazprom shut the supply down. Russia's decision to cut off gas supplies to Poland and Bulgaria was a serious escalation in Russian hostilities outside of the military invasion of Ukraine. Perhaps few thought that Moscow would follow through on the threat but the Kremlin is losing the war and becoming more desperate for success. This move is likely to fail just as other Russian moves have. The West will further support Poland and Bulgaria while Russia is seen again as the aggressor.

The price of wholesale gas jumped 20% to €117 per megawatt hour soon after Gazprom closed the pipeline supplying Poland and Bulgaria. Gas prices are now close to seven times higher than they were 12 months ago. Brent Crude Oil is up 60% over that same period.

The Polish government had foreseen these events and had built up its gas reserves to 75% of its capacity. Back in 2005, Poland built an LNG terminal on its Baltic Sea coast at Swinoujscie which can now import LNG from both the USA and the Gulf states. Poland has also built a pipeline to Norway which will be operational from October 2022.

Europe has spent €44bn on Russian oil and gas since the invasion at the end of February. This money

is Russia's main source of revenue and funds the war. Germany is the leading purchaser of Russian gas. As a result of this funding and dependency, the leading German newspaper Die Welt has accused the German government of guilt over the Russian atrocities.

The EU is now planning in response to Russia's actions over Poland and Bulgaria, a new wave of sanctions expected to target Russian oil companies, Russian banks and corporations as well as more influential individuals. The EU is moving to a full ban on Russian oil. Germany has reduced the proportion of imported oil it gets from Russia from 35% to 12% over the past eight weeks. This is good news for the German government as they have been stalling on a full ban in order to find alternative sources. The simple reality facing the German government is that a ban on both Russian oil and gas would inevitably force the whole of Europe into recession.

These new sanctions must go further, in order to help bring about an end to the conflict. The current levels of sanctions have not been enough to influence Moscow. The Central Bank of the Russian Federation originally raised its interest rates to 20% to protect the rouble, but has in the past month cut interest rates, firstly to 17% and now to 14% as evidence that sanctions are only having a limited impact.

Russian oil and gas have until now been excluded from the sanctions introduced by the EU. It has however banned Russian flagged tankers from entering Europe's ports. Shipping has become a useful weapon in the Wests efforts against Russia. Russian import volumes are down 70% as a result on pre-invasion levels.

Diesel prices have soured over the past 3 months and are now trading at their highest premium since 2011. This price hike has not been helped by tankers carrying Russian diesel being banned from entering European ports.

Russia has just avoided its first foreign debt default as the Kremlin used their domestic US$ reserves to pay interest on Russian sovereign debt to foreign investors. This is another U turn over fixed interest payments to bond holders that Putin refused to pay unless paid and accepted in roubles. Such payments will erode Russia's domestic cash reserves.

The longer-term impact upon the Russian economy is that existing customers will view the Kremlin as an unreliable trading partner and will lose its established customers for its most valuable export. This shift from Russian oil and gas will not just be about alternative providers but also alternative sources of energy.

We expect harsher sanctions upon Russia and a speeding up of the ending of the reliance upon Russian energy.

President Xi Jinping is facing some major problems.

President Xi Jinping is expecting the 20th Chinese Communist Party Congress held in October this year to grant him another 5 years as President of China. He is therefore determined that all goes well in the run up to such a coronation. He is however facing some major problems.

China's zero covid policy is forcing both regions and major cities into long and heavyhanded lock downs, the Sinovac vaccination programme has not worked that well amongst the elderly who remain in their majority unvaccinated. Still 40% of Chinese over age 60 have not been fully vaccinated and these are their most vulnerable citizens. The slowing Chinese economy and China's association with Russia are additional concerns.

Xi has placed 43 Chinese cities that between them produce 40% of all of China's GDP in some form of lockdown at a time when the West is ending Covid protocols as their vaccination programmes have proved to work. There does not seem to be any reversal or easing of the zero covid policy because Xi is trapped in a failed policy that state television portray as a great success in the same way that Russian television praises Putin and the special operations in Ukraine as a great success. The Chinese equivalent of the UK Covid Task Force called the zero covid policy 'An insurance for 1.4 billion people'. No mention was made of the fact that the state has failed to fully vaccinate the mass population and in particular its most vulnerable.

While the rest of the world seems to have moved on due to vaccination programmes, China is stuck back in 2020. Shenzhen started its lockdown in January and Shanghai in March. This resulted in a total lockdown with travel restrictions, a strict quarantine regime, mass testing and the closure of offices, schools and factories.

300 people per day died of Covid in Hong Kong alone in March. The figures for the whole of China are not available but could be twenty times higher at 6000 deaths per day.

The 24 million citizens of Shanghai are now in their 6th week of lockdown. Shanghai is the world's busiest port and this lockdown have affected shipping and supply. While in Beijing, the news of 400 new covid cases recorded has resulted in panic buying as people fear the same. The Beijing authorities have banned access to public places without proof of a negative test with 22 million residents having undergone three rounds of mandatory tests. The authorities in Beijing have reopened a mass coronavirus isolation centre, the latest in a raft of measures to try to stave off a citywide lockdown. The move to start using the recently constructed Xiaotangshan relief hospital, which has more than 1,000 beds, appears to be aimed at avoiding the fate of Shanghai.

These mass lockdowns are impacting on consumer confidence, corporate profits and GDP growth. £40bn was lost off the value of FTSE 100 companies on 26th April as it fell 1.9% due to the concerns over the Chinese zero covid policy. Economists are asserting that China may be in recession. The fall off in Chinese demand saw the price for crude oil fall below US$100pb as cities and factories have been shut down for weeks. This will have the knock-on impact on manufacturing and shipping causing further inflationary goods shortages in the West. Currently 5% of all global container shipping are stuck in a Chinese port.

Lockdown have hurt the economy and Chinese stock markets as you cannot make microchips, cars or phones working from home. When omicron hit, China was under prepared, too arrogant to purchase western vaccines and too slow to vaccinate the elderly.

As Chinese GDP growth is published by the Chinese authorities and is prone to manipulation, western economists tend to run their own proxies for Chinese GDP growth. They measure activities such as long-distance travel apps, new house building and construction machinery sales as examples. Under such proxies, China's economy is similar in size as it was in 2019 while the US economy has grown significantly over the same period. Very few may have predicted this after the remarkable recovery China made initially from Covid in 2020. Beijing has targeted GDP growth of 5.5% this year. Chinese analysts think this to be more likely to be under 4% given that major cities are in lockdown.

The good news that the combination of lockdown and mass vaccinations do work and Shenzhen, the country's tech hub is now fully re-open. Shanghai will follow and Beijing may avoid a full lockdown. By Q3 these lockdowns will be over and China back open and productive again.

The gap between US and Chinese GDP has widened with the USA at US$20,937bn and China at US£14,723bn. The desire for China to overtake the US as the worlds largest economy has taken a step backwards. With the Chinese workforce shrinking by 3 million a year due to their population demographics they will also struggle to close this gap.

China is now planning a large-scale fiscal stimulus to offset the impact of the lockdowns in their major cities. It is very difficult for an economy in lockdown to grow with factories and ports closed. Unlike the West, China is not planning to raise interest rates. Chinese inflation is 1.5% and interest rates are 3.7% and more likely to fall than rise. This is a very different picture than in the West.

President Xi has now promised an 'all out' spending

spree on infrastructure, railways, ports, airports, roads energy and water projects. Xi wishes to ramp up construction on a range of projects to stimulate growth. This is a reversal of policy from tightening an over heated economy to now one of relaxing credit controls, tax cuts and State investment. All of this new activity should support Chinese equities.

President Xi is right to support the economy but heavy stimulus may lead to a boom bust model. He will need to resolve the covid problems and the use of external vaccines may help as they have in the West. China may also wish to reset its orbit and start working with the West to build a more stable economic model for the world.

While the rest of the world seems to have moved on due to vaccination programmes, China is stuck back in 2020.

A period of stagflation is now a real outcome.

The war in Ukraine and the associated sanctions placed upon Russian institutions, companies and individuals is increasing the risk of a greater shock in commodities and supply chains. This adds to the case for longer term high inflation and slower growth. A period of stagflation is now a real outcome as growth is hampered by a squeeze on consumers disposable income.

Some fund managers are therefore underweighting equity and credit with this outlook. The main reason is that central banks are focused on bringing inflation down and successfully achieving this will involve hiking interest rates to reduce demand which will impact company cashflows and profits. If, however the Fed relaxes its rate rising as inflation peaks because the cost-of-living rises have dampened demand, then markets could rebound.

We have underweighted European equities as Europe is at greatest risk of recession. The US markets are being hit now by the Fed rate rises but will be the first to bounce back once inflation is in decline so we have maintained our overweight USA position. The US has defensive qualities and we expect the US dollar to strengthen. We have also kept our holdings in Asia but reduced emerging markets and Japan. We have maintained our direct China holdings despite this year's losses as we expect Beijing to commence a stimulus programme as soon as lockdown ends. Many of the constraints on China's growth have been priced into falling asset values this year already.

China's weakened PMI scores have led to a range of policy reactions including interest rate cuts, a lifting of the coal mining restrictions so easing energy prices and a new stimulus package of infrastructure spending. Despite monetary easing, Chinese mortgage demand remains weak as the property sector is not being targeted.

The Fed is likely to front load the interest rate hikes through the summer but any scare over growth could result in a reduction in the expected rate rises. Many fund managers now expect 4-5 hikes not 7.

The ECB are in a very different position to the Fed. The Ukraine war has hit growth and even with inflation in the eurozone averaging 7.5%, we do not expect any rate rises in the eurozone this year.

It is against this background we make our recommendations.

11th May 2022.

A meaningful reduction in fund costs without a compromise in performance.

We have been conducting a comprehensive review of our investment portfolios in terms of comparison, composition, selection and performance. This review has been made against benchmarks and alternative managers. We wish to share with you our thoughts on how we propose to manage our portfolios going forward. Your thoughts and feedback will be very welcome.

Our existing portfolios are managed on an advisory basis, meaning we recommend any changes and seek your prior agreement before rebalances and updates are made. Clients who do not respond stay in the previous edition(s) until agreement is confirmed in writing. At each rebalancing exercise we review the asset allocation and fund selection for the next edition. These rebalances may include some significant or rather minor changes depending upon the global economy. Our process is as proactive as it can be on an advisory basis, and we will (on occasion) wish to make changes to the portfolios in light of big economic occurrences. However, we cannot act on any portfolio switches without a client's written consent, which can in turn cause delay.

Over the past 18 years we have developed an advanced comparison matrix tool for the sourcing and selection of funds using Financial Express (FE) Analytics. Our asset allocation tool is powered by Willis Towers Watson via Quilter and we have been using this tool from inception. The Willis Towers Watson asset allocation errs on the side of caution and traditionally holds an overweight position in cash. FE offers us the functionality to test and measure funds from every sector against one another using our selection matrix. Each portfolio is matched to a corresponding risk score out of 10, an expected rate of return and range of returns to two standard deviations.

We currently produce and manage six portfolios running from risk 3 to risk 8 and benchmark each portfolio to the most relevant Investment Association (IA) Mixed Investment sector averages. This is a well-established national average performance measure for funds with similar equity content.

Historically we feel we have, on a risk related basis, performed well against these benchmarks, but we are conscious that for much of 2021 we lagged these benchmarks in our Alpha portfolios.

Our portfolios are split between Alpha portfolios that are made up of active funds and Beta portfolios that are primarily made up of passive index tracking funds. The Alpha range include our Cautious, Conservative Alpha, Balanced Alpha and

Speculative Alpha portfolios. The current portfolios have underlying fund manager costs of 0.51%, 0.59%, 0.69% and 0.77% per annum respectively. The Beta range is our Balanced Beta and Speculative Beta. They currently have underlying fund costs of 0.39% and 0.47% per annum respectively.

There has always been a robust debate between investment academics and practitioners over which offers the best option to investors. Many passive funds do perform as well as a large number of active funds but at lower cost. The better active funds do out-perform and earn their higher fees particularly in less developed markets and specialist sectors. For this reason, we feel we have the means and ability to select better performing active funds. Some of these selections are added to the Beta portfolios to add diversity and a partial hybrid approach.

We have over the past 18 years run our portfolios on an advisory basis, rebalancing and updating every six months. This service does not attract VAT so our overall offering is competitive.

The alternative to advisory portfolios is discretionary management. Discretionary management services do attract VAT for personal portfolios but just recently HMRC have removed VAT from managed portfolios and therefore both services are now VAT exempt.

Our sister company Crossing Point Investment Management is a FCA authorised discretionary investment manager. Their portfolios are managed by myself, Tomiko Evans and Mike Buckle. All changes are made without reference to the investor so they can react more swiftly to market changes. This is something that Crossing Point are able to do and often use these permissions to aid returns.

Estate Capital Investment Portfolios

Instrument	*3m*	*6m*	*1y*	*3yrs*	*5yrs*	*01/06/2018 to 14/04/2022*
C Cautious FE Scan 09/11/2021 TR in GB	-1.90	-2.26	-1.23	8.48	17.80	10.34
E IA MIxed Investment 0-35 TR in GB	-3.93	-3.60	-2.62	5.95	9.27	7.02

Instrument	*3m*	*6m*	*1y*	*3yrs*	*5yrs*	*01/06/2018 to 14/04/2022*
D Conservative Alpha FE ScanTR in GB	-2.10	-2.74	-1.67	12.82		14.28
B Balanced Beta FE Scan 09/11/2021 TR in GB	-0.59	0.76	3.16	16.73	26.40	18.37
F IA MIxed Investment 20-60 TR in GB	-3.51	-2.36	-0.29	11.44	16.79	12.37

Instrument	*3m*	*6m*	*1y*	*3yrs*	*5yrs*	*01/06/2018 to 14/04/2022*
A Balanced Alpha FE Scan 09/11/2021 TR in GB	-1.92	-2.62	-0.16	22.40	36.42	22.56
H Speculative Alpha FE Scan 09/11/2021 TR in GB	-2.20	-2.90	-1.58	21.98	38.64	22.97
I Speculative Beta FE Scan 09/11/2021 TR in GB	-0.63	0.81	3.58	22.05	32.93	23.38
G IA MIxed Investment 40-85 TR in GB	-3.50	-2.03	0.90	18.18	27.50	19.27

*excluding chart selection

The above performance tables are produced by data from Financial Express Analytics. The tables are a proxy to our actual portfolio performance as they do not include adviser and platform charges nor accurately reflect the actual dates that individual investor portfolios are rebalanced from one edition to another. The rebalance lag could amount to 8 weeks per rebalance. The proxy portfolio performance reflects the fund selection in each consecutive edition of our portfolios.

With our recent Edition 36 selections we underweighted our equity exposure and focused our fixed interest on short dated and index linked credit, knowing inflation and interest rate rises were expected. At that time were not expecting the Russian invasion of the Ukraine but those selections have paid off during this uncertain time. Throughout the past 3 months of hostilities in Eastern Europe and cost of living rises, our portfolios have held up reasonably well against the IA Mixed Investment national averages as illustrated above.

We have made comparisons between our portfolios and it is clear that when comparing the risk related returns over the past one and two years that our Beta portfolios have performed better than their Alpha alternatives. However, over the longer periods that has not been the case.

Usually at times of uncertainty, Alpha portfolios being actively managed, have the ability to navigate a course that should outperform a passive tracker fund. This has however not been the case. Our Alpha portfolios have traditionally been more actively updated and changed as compared to our passive portfolios. Passive funds track indexes so there is little benefit in changing providers for the same index tracking and therefore are more often maintained. The observation here is that less intervention has benefited portfolios and that reacting to events can result in inefficiencies.

The Alpha portfolios have in recent years had more exposure to specialist sectors than the Beta portfolios. These sectors would include such assets as gold, infrastructure, clean energy, technology, insurance, hedge funds, commodities and financials. During an economic cycle differing specialist sector would do well and should be held. Currently we have holdings in gold, infrastructure, commodities and energy as these are relevant for the times. In the past technology stock has been a beneficial holding.

Over the past year the performance of our Conservative Alpha, Balanced Alpha and Speculative Alpha portfolio has lagged behind the national averages mainly as a result of a selection error in Edition 34. We did however make this up during the past three months. Despite this we do want consistently better returns and this has prompted our review of asset allocation, fund selection and rebalancing.

Our overall conclusion is to firstly reduce some of the cash holdings in the portfolio and move this allocation to risk assets. We would expect this move to improve longer term returns. We will in our next Edition 37 hold less fixed interest securities as the bond markets are being challenged by both interest rate rises and inflation. We also wish to adopt a greater buy and maintain position by holding more passive funds across the portfolio range. Our objectives here are to establish active and passive blended portfolios aimed at achieving a more consistent, better than benchmark return at lower cost.

We are therefore proposing that we change our portfolios from their current content and move to a hybrid form of portfolio across the range. We are proposing that we end the separate Alpha and Beta portfolios and in future blend the best of both, but

keep fund total numbers to around 30 holdings. The passive section is unlikely to change very much portfolio to portfolio other that in weightings. The active funds will also be maintained if at review they meet our performance and selection criteria. Well selected funds will do this and this has often been the case in our Alpha portfolios. The specialist section will vary by weighting as the economic cycle dictates.

We are proposing an even balance between active and passive funds with each holding justifying its inclusion on selection criteria, performance merit and diversity of asset class. We expect after the first changes there to be less movement at rebalances and more consistent and slightly higher equity weightings to improved longer term returns.

We propose to run five rather than six portfolios as the Alpha and Beta range are merged.

The new portfolios will be;

Portfolio Name	Risk Score	Equity %	Portfolio Cost
Cautious	3	30%	0.43% pa
Conservative	4	40%	0.47% pa
Balanced	6	55%	0.47% pa
Strategic	7	70%	0.48% pa
Speculative	8	80%	0.50% pa

These new costs of fund management represent an average reduction in fees of 36% on our current range. Our lowest cost portfolio is currently 0.51% pa and the highest 0.77% pa. This change represents a meaningful reduction in fund costs without we believe a compromise in performance.

On top of this proposal

We wish to extend our investment offering to you further. We will be running these new portfolios on both an advisory and a full discretionary basis. The new portfolios will be established by both Estate Capital and Crossing Point Investment Management. All the platforms we use to hold our portfolios have the functionality to switch with ease between Estate Capital and Crossing Point for the management of your portfolio. Crossing Point charge an additional 0.3% p.a. for their discretionary management for all the portfolios in their range, however for this additional cost, an ad-hoc fund switch can take place more effectively and efficiently than it can for an Estate Capital advisory managed portfolio. A discretionary approach has been beneficial so far this year as Crossing Point used their discretionary permissions and traded out of falling assets and into cash, so protecting capital values. This is not something that Estate Capital has the permissions to do.

Equity and bond markets are currently looking difficult to invest in.

2022 has been unprecedented in terms of the challenges facing the world economy. The post covid boost in asset values due to massive government stimulus funding and interest rate cuts has been replaced by tightening, high inflation and interest rate rises. We have over the past six months seen a historic re-pricing of asset values in response to the tightening of monetary policy due to raising inflation.

Covid is still hurting economies where the vaccine roll out has not been extensive enough to avoid further lockdowns. Added to this, is the on-going conflict in Ukraine which is likely to continue for many months to come. The only real game changer looks to be the ending of European purchases of Russian gas as this is what is funding Putin's war.

A negotiated settlement over the land that includes Mariupol and the Donbas region is very unlikely given the defence the Ukrainian army has put up to retain the city and surrounding areas. This war could rumble on for many more months until cutting off Russian funding becomes a reality. The implications to Germany and wider Europe would be recession and higher unemployment and that is why it is being resisted. This war has been a difficult lesson for many European governments over their energy supply.

We should expect the development of far greater investment in new energy sources but this cannot happen overnight. The move from coal, gas and oil will happen but investment in theses energy sources will continue at least until the alternatives are more advanced in supply volumes and reliability.

Looking ahead, equities often continue to rise when economic growth is slowing but positive. The big question now is whether there will be a recession. When markets fall and no recession occurs, the recovery tends to take a matter of months. However, market falls associated with recessions often take a much longer to recover from. While the chance of recession this year is higher than it was a few months ago, it's still not likely in many fund managers opinion. For this reason, we are staying invested in sectors that show some attraction even in a difficult environment.

Edition 37 of our portfolios is different than past editions. We asked investors their view over the merging of our Alpha and Beta portfolios into a combined hybrid range of both active and passive funds. This proposal was made on the back of our desire for more consistent investment returns and a reduction in fund management costs.

Edition 36, launched in December 2021 was overall a cautious edition as we were expecting inflation, interest rate rises and some challenges over growth. This has proved to be the case. All equity assets have been challenged while the bond market at every duration has fallen in value as interest rates and yields increased.

We are generally reluctant to make big sell downs of assets at a low valuation but there are assets and sectors that we feel are unlikely to recover for a while and that capital is better allocated elsewhere.

Markets we are cautious about are:

US Tech and growth stock

This sector has had a very good run and much of the returns since the March 2020 Covid correction were a result of our over weight position in US growth and tech stock. With the Federal Reserve having announced a 0.5% rate rise and indicated more significant rate rises to come through the summer it will mean debt will be more expensive and this will impact growth stock, tech stock and green energy stock. We could see US interest rates hit 2.25% -2.5% by the end of the year. The alternative to US growth stock is US equity income value stock which invest in traditional cash flow focused businesses benefiting from post Covid activity. The JP Morgan US Equity Income Fund is our recommendation.

Long Dated Bonds and Government Bonds

As interest rates rise, bond yields will follow and, in many cases lead. The US 10 -year treasury yields have risen 83% from 1.65% to 3.03% in the past 12 months. Analysts still feel that 10-year treasury yields have further to go from the current positions and that bond markets will struggle until inflation starts to decline. Bond holdings have been seen as the safe haven asset but the cocktail of inflation and rising interest rates are forcing down prices. The longer the duration of a fixed interest security the more exposed to real return loss there will be. Government gilts and index linked gilts offer longer durations and are loss making assets at the moment. While all blended portfolios would include a bond holding, ours are currently in hedged, floating rate, short dated, inflation linked or high yielding in nature to minimise losses. The Royal London Diversified Assets Fund is a hedged bond fund and one of our recommendations. Our play on interest rate rises is the inclusion of the M&G Floating Rate High Yield Fund which invests in fixed interest where yields follow the base rate. We are also holding higher weightings in cash for the duration of this 37th Edition.

Gold

Gold is selected when markets are under pressure and inflation a threat. We are in these times now and have been holding gold for these reasons. However, interest rate rises are pushing up bond yields so making bonds more attractive. The strengthening of the US$ is making the currency an alternative to gold as well. If inflation does peak in Q3 then gold is likely to become less attractive.

Europe

Europe and in particular Germany, has got itself into an energy supply crisis of its own making. Decades of trading with Russia has resulted in over dependency. The Russian annexation of Crimea in 2014 should have been a warning and started the search for new and diversified sources of energy. European governments will need to invest in alternative reliable sources of energy. The continent

is feeling the energy cost spike which is unlikely to be resolved soon. The longer the Ukraine conflict goes on for will have a growing negative impact upon Europe. As no one cannot foresee any early settlement to Russian actions we feel that a greatly underweighted position in Europe is justified.

Markets that we remain neutral on are:

China

China has been a great growth story and has been held in our portfolio for many editions. We are conscious that China has a number of challenges over its zero Covid policy, the mass regional and city lockdowns and the low level of the elderly population vaccinated. This has resulted in low production and stalling exports. The harsh lock downs are expected to start ending and Beijing is determined to ease monetary and fiscal policy to encourage growth. While we have seen significant falls in Chinese equity values the government stimulus and low interest rates are likely to come through with improving returns for China and the Asia region. We have retained our holdings in FSSS Greater China Growth and added Schroder Asian Income.

Japan

The factors that influence returns in Japan is the relative strength of the Yen. The Japanese government seek to weaken the ¥ in order to boost export sales. The ¥ to £ has weakened recently and that investment returns have been undermined by the currency exchange. In future to counter this problem we will hold a hedged version of a Japanese equity index. This potential of improvement in China will aid Japanese companies. We are holding a modest holding in Fidelity Index Japan Hedged Fund.

Clean Energy

We believe that clean energy funds are a force for global good and that economics will drive change quicker than politicians. The clean energy sector is set to grow significantly over the years ahead as the world moves away from fossil fuels. We are cautious on this sector, due to the levels of debt in clean energy stocks that will be hit by higher borrowing costs. For this reason, we have closed our position in Baillie Gifford Positive Change Fund but retained our holdings in Guinness Sustainable Energy Fund.

Markets we are more attracted to are:

UK

The UK equity markets and particularly the FTSE 100 has been undervalued and hold companies in the banking, energy, commodity mining, supermarkets, pharmaceuticals and defence sectors. These are seen as defensive sectors and collectively earn US$ income abroad which is beneficial while the US$ is strong. We have maintained our positions in the UK in funds like the HSBC FTSE 100 index and Vanguard FTSE All Share index.

US Equity Income

We are actively avoiding exposure to US growth and tech stocks while we go through a period of interest rate rises, we are happy to invest into the value side of the US stock markets and into American companies with strong cash flows and needed services. This again is a defensive play. The alternative to US growth stock is US Equity Income value stock which invest in traditional cash flow focused businesses benefiting from post Covid activity. We are holding the JP Morgan US Equity Income Fund and T. Rowe Price US Large Cap Growth and HSBC American Index.

Alternatives

We have always sought to diversify our portfolios with the inclusion of alternative assets to provide diversity to our portfolios. That diversity is as important as ever at the moment. The specialist sectors that have done well over recent months when other equity has declined have been property funds, listed infrastructure, natural resources and commodities, energy and listed insurance markets. We have held all of these assets and each has provided at different times positive returns to the portfolios. The recent Fed rate hike falls dragged some particularly property down but overall, these sectors have enjoyed growth over the past three and six months.

We are invested in the iShares Global Property Securities, Franklyn Templeton Clearbridge Listed Infrastructure, JP Morgan Natural Resources, Polar Capital Global Insurance.

The historic re-pricing of all main asset classes due to the tightening of monetary policy in response to raising inflation is likely to continue and investors can expect difficult times at least until inflation is declining and investors have something to comfort them.

As of the 10th May 2022, the best performing funds held in our portfolios over the past 6 months have been:

JP Morgan Natural Resources	32.03%
FSSS Global Listed Infrastructure	11.71%
Polar Capital Global Insurance	10.59%
JP Morgan US Equity Income	5.86%
Blackrock Gold and General	4.37%
HSBC FTSE 100 Index	3.18%

These are the only funds that have shown growth in the past 6 months and that is because they hold assets in sectors of industry in demand in the post Covid tightening period.

As of the 10th May 2022, the poorest performing funds held in our portfolios over the past 6 months have been:

Baillie Gifford American	-48.75%
JP Morgan Japan	-29.83%
Baillie Gifford Positive Change	-29.16%
Allianz Continental Europe	-26.93%
Baillie Gifford International	-24.90%
Jupiter Financial Opportunities	-23.32%
Polar Capital Global Technology	-21.76%
Veritas Asia	-21.28%

All the above funds are leading managers in their sectors and have in the past generated envious returns. All have been hit by the cost of borrowing and economic downturn but all will in time recover. Many have been long term holds in the portfolio but are now not as attractive for the conditions we face.

As far as the 37th Edition of our portfolios are concerned, across all five new portfolios, five new funds have entered our selections while sixteen funds have either been dropped or substituted
We have done this for several reasons the most significant being that we are merging our portfolios

into a hybrid active and passive portfolio and at this point in time significant changes will happen but far less in future. Other reasons for changes being performance related, cost related, or that a fund has lost an analysis rating. There are also sectors that we no longer wish to invest in.

The funds removed are: -	TER
Artemis Target Return Bond	0.40%
L&G All Stocks Index Linked Gilts	0.15%
Baillie Gifford America	0.54%
Baillie Gifford International	0.63%
Veritas Asia	1.84%
Allianz Continental Europe	0.82%
Baillie Gifford Positive Change	0.77%
Black Rock Gold and General	1.61%
BNY Mellon Real Return	1.15%
Jupiter Financial Opportunities	1.69%
Lindsell Train UK Equity	0.72%
Threadneedle American Smaller Companies	2.13%
Vanguard Global Bond Index	0.31%
Vanguard Government Bonds	0.15%
Comgest Growth Europe	1.02%
Stewart Investors Indian Subcontinent	1.14%

The funds added are: -	TER
Franklyn Templeton Clearbridge Global Infrastr. Income	1.60%
L&G Global 100 Index	0.14%
Schroder Asian Income	1.07%
iShares Continental European Equity	0.07%
Vanguard Pacific ex Japan Index	0.20%

PORTFOLIO PERFORMANCE

The Estate Capital Investment Portfolios

The balance of investments across different asset classes is the primary driver of portfolio returns.

The Estate Capital Investment Portfolios now offer five risk related investment strategies designed for medium to long-term investors seeking capital growth and income from a portfolio of leading investment funds. The individual funds that make up our diversified portfolios are selected on the quality of the fund manager and both the quality and consistency of past performance.

There is a wide range of asset classes across global markets available to investors. Our portfolios bring together a diversity of global equities, fixed interest securities, cash deposits, commodities, precious metals, infrastructure and property. The global balance of investments across differing asset classes is the primary driver of portfolio returns.

Our asset allocation is built using a fully modelled asset allocation tool. This system is powered by research from actuaries Willis Towers Watson and investment data from Financial Express.

This modelling system offers us great accuracy to build and test the most efficient blend of assets for our five model portfolios. Each new edition of our portfolios is published on our website with fact sheets, performance figures, risk ratings and range of returns.

We benchmark and publish our portfolio performance against the most relevant national averages and are happy to say that our selections have enjoyed an enviable track record.

Cumulative Portfolio Performance from 22nd April 2022.

Below are the past five year's gross investment returns for each of our portfolios from 22nd April, 2022.

Portfolio	*6 months*	*1 year*	*2 years*	*3 years*	*5 years*
Cautious	-2.77%	-0.93%	7.79%	8.29%	18.52%
Conservative Alpha	-3.48%	-1.22%	11.67%	12.61%	
Balanced Beta	0.25%	3.77%	20.08%	16.63%	28.40%
Balanced Alpha	-3.74%	0.39%	22.24%	22.21%	38.10%
Speculative Beta	0.26%	4.46%	26.65%	22.12%	35.41%
Speculative Alpha	-4.28%	-0.67%	22.74%	21.68%	40.62%

Discrete Portfolio Performance from 22nd April 2022.

Below are the gross investment returns for each of our portfolios for each 12-month period over the last five years from 22nd April, 2022.

Portfolio	*2022*	*2021*	*2020*	*2019*	*2018*
Cautious	-0.93%	8.81%	0.46%	3.96%	5.28%
Conservative Alpha	-1.22%	13.05%	0.84%		
Balanced Beta	3.77%	15.72%	-2.87%	4.00%	5.86%
Balanced Alpha	0.39%	21.76%	-0.03%	4.07%	8.59%
Speculative Beta	4.46%	21.25%	-3.58%	4.37%	6.24%
Speculative Alpha	-0.67%	23.56%	-0.86%	5.43%	9.62%

The above performance tables are produced by data from Financial Express Analytics. The tables are a proxy to our actual portfolio performance as they do not include adviser, manager and platform charges nor accurately reflect the actual dates that individual investor portfolios are rebalanced from one edition to another. The rebalance lag could amount to 8 weeks per rebalance. The proxy portfolio performance reflects the fund selection in each consecutive edition of our portfolios.

The value of investments can fall as well as rise. Past performance is not a guide to future performance. Cumulative and discrete performance charts show % growth from 12th November 2021 calculated using bid prices with income reinvested into the fund net of tax.

Asset Allocation June 2022 - Edition 37

Portfolio	*Risk*	*Money Markets*	*Fixed Interest*	*Property*	*UK Equity*	*US Equity*	*Europe Equity*	*Asian Equity*	*Japan Equity*	*Global Equity*	*Other Assets*
Cautious	3	21%	41%	5%	7%	10%	2%	5%	0%	4%	5%
Conservative	4	20%	34%	7%	6%	17%	3%	2%	0%	6%	5%
Balanced	6	12%	25%	7%	9%	21%	4%	4%	2%	5%	11%
Strategic	7	9%	18%	7%	9%	25%	5%	6%	3%	5%	13%
Speculative	8	8%	13%	7%	10%	27%	5%	5%	2%	15%	8%

Perspective Range of Return & Volatility

Portfolio	*Risk*	*Return*	*High*	*Low*
Cautious	3	2.67%	14.20%	-8.86%
Conservative	4	3.35%	18.92%	-12.22%
Balanced	6	4.65%	28.00%	-18.70%
Strategic	7	5.24%	32.13%	21.65%
Speculative	8	5.94%	37.00%	-25.13%

Investment Ratios

Portfolio	*Risk*	*Beta*	*Alpha*	*Sharpe Ratio*	*Info Ratio*
Cautious	3	1.12	0.34	0.32	1.39
Conservative	4	0.88	0.29	0.37	1.51
Balanced	6	0.86	0.23	0.40	0.91
Strategic	7	0.94	0.30	0.49	1.77
Speculative	8	1.00	0.31	0.50	1.80

Maximise your returns with a level of risk you're entirely comfortable with.

Financial Advice & Wealth Management

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