MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

OCTOBER 2021

Portfolio Performance

At 7IM, we believe that taking a long-term view is essential when investing. We can't always avoid the short-term bumps and shocks that the financial world has in store, but a well-diversified portfolio goes a long way towards smoothing out some of the journey. The long-term nature of our strategic and tactical process is a good complement to the Succession Matrix Expected Parameters.

	Q3/2016 - Q3/2017	Q3/2017 - Q3/2018	Q3/2018 - Q3/2019	Q3/2019 - Q3/2020	Q3/2020 - Q3/2021	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	1.3%	1.1%	5.1%	1.3%	4.7%	4.2%	2.7%	3.0 – 4.5%
Cautious	3.7%	1.2%	4.3%	1.3%	8.7%	5.5%	3.6%	4.5 - 6.0%
Balanced	7.0%	2.3%	3.3%	0.3%	13.9%	7.0%	5.0%	5.2 – 7.5%
Moderately Adventurous	10.8%	3.6%	2.4%	-0.6%	18.1%	8.0%	6.1%	6.0 – 8.0%
Adventurous	13.4%	4.5%	1.6%	-1.4%	21.6%	8.9%	7.0%	7.0 - 10.0%
Income	4.9%	1.1%	7.2%	-4.7%	13.2%	5.6%	3.9%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end October 2021.
The extreme COVID-19 related drawdown at the start of 2020 means performance should continue be viewed with caution. Most portfolios are within their ranges for the five year returns.

Market and portfolio review

October was a far more tranquil month than many had been expecting – and a good reminder that most of the time, once economic problems hit the headlines, they're already well on the way to being solved.

In the UK, petrol stations are back to normal – although anecdotally, electric car inquiries went through the roof during the two weeks of chaos. And the problem of higher energy prices is being resolved by government support, and by a flattening of prices. In fact, wider global supply chain concerns are slowly disappearing, as manufacturers ramp up production and as ships continue to make their way into ports across the world. Of course, once Christmas shopping gets going in earnest, we might well hear some more noise about specific goods – but for now, public attention is elsewhere.

Much of October served as the prelude to the UN Climate Change Conference being held in Glasgow. Whether it was the Insulate Britain protests on the M25, or by the seemingly daily statements from Downing Street, or the endless analysis of those statements in the press, it's been clear that something important is happening. Given that one of our portfolio positions is a specific allocation to Climate changing companies, we'll be watching COP26 closely – shifts in government policy often create opportunities for innovative companies.

Of course, the other domestic event in October was the UK Budget. We summarised the main points just after the event – ultimately, there wasn't much to learn, with the UK government still dealing with the after-effects of the pandemic, rather than really looking to the future.

In fact, most key policy decisions globally are still waiting for more clarity as the COVID-19 effects diminish. Central banks are looking for signs one way or the other on the extent to which inflationary impacts are temporary, while government treasury departments are trying to establish how much growth can be relied on to fund future spending.

Our view remains that both growth and inflation are likely to be higher than in the past decade, and that gradually, all of the evidence is going to point in that direction. Our portfolios are already set up to benefit from this, with low allocations to conventional government bonds, and increased exposure to more cyclical areas of the equity market.

Portfolio positioning and changes

During October, no changes were made to the Succession model portfolios, but they will be rebalanced in line with the quarterly process in November.

Core views

A new wave of economic growth… For the past decade or so, the virtuous circle of consumption and investment has just not been able to get going. The scars of the financial crisis were too deep – people bought less while governments reined in spending. As a result, companies kept putting off investing in longer-term projects.

The 2020 recession hit the reset button. People are willing to spend again, while governments have ditched austerity. And so, companies are starting to invest for the future. We are now at the start of a sustained period of growth, fueled by confidence and expansion across all sectors of the global economy.

And a little inflation won't hurt… Economists tend to dislike thinking about the psychology of inflation, but in a lot of ways, someone's inflation expectations are a good proxy for their confidence levels. With the right amount of price and wage growth, people are encouraged to make life decisions which are positive for the economy. We haven't heard the word "Goldilocks" for some years now, but there really is an amount of inflation which is just right to keep things humming.

7IM portfolios are positioned for a changing environment… For this coming growth phase, we believe a more selective exposure will be better than a large overweight to the broad equity market. A more robust consumer-driven cycle will see different winners emerge. Regions and industries which have struggled to attract investors over the past decade are better positioned to capitalise than the huge US tech giants (although there are lots of small US companies which will do well).

We've also made sure that our fixed income positioning isn't unnecessarily exposed to rate rises, using allocations to alternatives and to non-mainstream asset classes.

Detailed asset allocation

	Defensive	Cautious	Balanced	Moderately Adventurous	Adventurous	Income
UK Equities	3.5%	4.5%	11.0%	13.5%	17.0%	16.5%
US Equities	5.0%	7.0%	13.0%	14.5%	18.5%	13.0%
European Equities	2.0%	2.5%	4.0%	8.5%	9.0%	5.0%
Japan Equities	2.0%	2.5%	4.0%	8.5%	9.0%	4.0%
Emerging Markets Equities	3.5%	6.0%	7.5%	11.0%	14.5%	7.5%
Global Equities	4.0%	8.0%	12.0%	16.0%	20.0%	0.0%
UK Mid Cap	0.0%	1.5%	2.5%	3.5%	4.0%	4.0%
Global Government Bonds	18.0%	4.5%	2.5%	0.0%	0.0%	4.5%
Gilts*	6.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Global Inflation Linked Bonds	6.0%	3.0%	0.0%	0.0%	0.0%	0.0%
Global Corporate Bonds**	6.5%	10.5%	5.0%	0.0%	0.0%	7.0%
UK Corporate	0.0%	3.5%	0.0%	0.0%	0.0%	2.0%
Global High Yield Bonds	10.0%	10.0%	10.0%	3.5%	0.0%	13.0%
Emerging Markets Bonds	6.0%	9.5%	10.0%	7.0%	0.0%	15.0%
Real Estate***	0.0%	2.5%	2.5%	4.0%	3.5%	6.5%
Alternatives/Hedge Funds	17.5%	16.0%	14.0%	8.0%	2.5%	0.0%
Cash	10.0%	8.5%	2.0%	2.0%	2.0%	2.0%

Source: 7IM. *Includes Short Term Sterling Bonds **Includes Convertible Bonds ***Includes Infrastructure

The past performance of investments is not a guide to future performance. The value of investments can go down as well as up and you may get back less than you originally invested.