

MODEL PORTFOLIO SERVICE

MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS

POWERED BY

7IM

JULY 2022

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.

	Q2/2017 -	Q2/2018 -	Q2/2019 -	Q2/2020 -	Q2/2021 -	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters - Ann. Return
	Q2/2018	Q2/2019	Q2/2020	Q2/2021	Q2/2022			
Defensive	1.4%	2.8%	3.4%	4.6%	-6.0%	0.7%	1.5%	3.0 – 4.5%
Cautious	1.8%	2.5%	2.7%	8.4%	-5.5%	1.9%	2.2%	4.5 – 6.0%
Balanced	3.3%	2.1%	2.0%	12.9%	-5.1%	3.3%	3.3%	5.2 – 7.5%
Moderately Adventurous	4.9%	1.6%	0.4%	17.1%	-4.3%	4.4%	4.1%	6.0 – 8.0%
Adventurous	6.1%	1.5%	-1.0%	20.1%	-3.8%	5.1%	4.7%	7.0 – 10.0%
Income	1.6%	5.4%	-2.6%	12.0%	-4.9%	1.6%	2.6%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end July 2022. The extreme COVID-19 related drawdown at the start of 2020 means performance should continue be viewed with caution. Portfolios are towards the lower end of their ranges for the five-year returns, with the more defensive end struggling a little in the face of low interest rates.

Summary

The past month has seen more than its fair share of change - both in politics and in markets. We had Boris announce his resignation; the shocking assassination of former Japanese Prime Minister Shinzo Abe; and the resignation of Italian PM, Mario Draghi.

Market moves during the month were a great illustration of how market expectations can be more powerful than what is actually going on in the world when determining asset class returns.

The ECB delivered its first rate hike in a decade, the Fed increased rates by 75 basis points, and recession fears gripped treasury markets as the US yield curve inverted between 2 and 10 years. There were also negative signs in other key indicators. Real wage growth was negative, largely due to inflation-beating expectations, fears that Russia would shut off supplies gripped commodity markets once again, and July's PMIs suggested that the US is going into contraction.

Despite all of these negative indicators, markets began to focus on the prospect of interest rate cuts next year, with most asset classes rallying and longer duration assets performing best.

The graphic below from JP Morgan shows asset class and style returns. With the exception of emerging markets continuing to underperform, there has been an almost perfect flip in which asset classes have performed best.

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	July '22
Small cap 26.6%	Global Agg 5.6%	Global REITs 23.0%	Small cap 32.9%	Global REITs 22.9%	Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITs 32.6%	Crdty 23.5%	Growth 11.5%
Global REITs 22.8%	Global REITs 2.3%	MSCI EM 18.6%	Value 27.5%	Growth 6.5%	Global REITs 0.6%	Value 13.2%	Growth 28.5%	Global REITs -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Crdty 27.1%	Value -7.7%	Small cap 9.1%
MSCI EM 19.2%	Value -4.9%	Small cap 18.1%	DM Equities 27.4%	DM Equities 5.5%	Small cap 0.1%	Crdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -12.1%	Global REITs 8.4%
Crdty 16.8%	DM Equities -5.0%	Growth 16.6%	Growth 27.2%	Value 4.4%	DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.3%	Global REITs -13.3%	DM Equities 8.0%
Growth 14.9%	Growth -5.1%	DM Equities 16.5%	Global REITs 2.3%	Small cap 2.3%	Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	DM Equities -13.9%	Value 4.6%
DM Equities 12.3%	Small cap -8.7%	Value 16.4%	MSCI EM -2.3%	Global Agg 0.6%	Value -4.1%	Global REITs 6.5%	Global REITs 8.0%	Crdty -11.2%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	Small cap -15.3%	Crdty 4.3%
Value 9.8%	Crdty -13.3%	Global Agg 4.3%	Global Agg -2.6%	MSCI EM -1.8%	MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Crdty 7.7%	Crdty -3.1%	MSCI EM -2.2%	MSCI EM -17.6%	Global Agg 2.1%
Global Agg 5.5%	MSCI EM -18.2%	Crdty -1.1%	Crdty -9.5%	Crdty -17.0%	Crdty -24.7%	Global Agg 2.1%	Crdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -20.5%	MSCI EM -0.2%

Source: Bloomberg Barclays, FTSE, MSCI, Refinitiv Datastream, J.P. Morgan Asset Management. DM Equities: MSCI World; REITs: FTSE NAREIT Global Real Estate Investment Trusts; Crdty: Bloomberg Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSCI World Small Cap. All indices are total return in US dollars. Past performance is not a reliable indicator of current and future results.

Factor performance fed through to regional returns as you would expect, with the S&P rallying over 9% for the month.

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	July '22
MSCI Asia ex-Japan 19.9%	US S&P 500 2.1%	MSCI Asia ex-Japan 22.7%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE All-Share 16.8%	MSCI Asia ex-Japan 42.1%	US S&P 500 -4.4%	US S&P 500 31.5%	MSCI Asia ex-Japan 25.4%	US S&P 500 28.7%	UK FTSE All-Share -0.4%	US S&P 500 9.2%
MSCI EM 19.2%	UK FTSE All-Share -3.5%	Japan TOPIX 20.9%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex-UK 9.1%	US S&P 500 12.0%	MSCI EM 37.8%	UK FTSE All-Share -9.5%	MSCI Europe ex-UK 27.5%	MSCI EM 18.7%	MSCI Europe ex-UK 24.4%	Japan TOPIX -1.2%	MSCI Europe ex-UK 7.0%
US S&P 500 15.1%	MSCI Europe ex-UK -12.1%	MSCI Europe ex-UK 20.0%	MSCI Europe ex-UK 24.2%	MSCI Europe ex-UK 7.4%	US S&P 500 1.4%	MSCI EM 11.6%	Japan TOPIX 22.2%	MSCI Europe ex-UK -10.6%	UK FTSE All-Share 19.2%	US S&P 500 18.4%	UK FTSE All-Share 18.3%	MSCI Europe ex-UK -11.5%	UK FTSE All-Share 4.4%
UK FTSE All-Share 14.5%	Japan TOPIX -17.0%	MSCI EM 18.6%	UK FTSE All-Share 20.8%	MSCI Asia ex-Japan 5.1%	UK FTSE All-Share 1.0%	MSCI Asia ex-Japan 5.8%	US S&P 500 21.8%	MSCI Asia ex-Japan -14.1%	MSCI EM 18.9%	Japan TOPIX 7.4%	Japan TOPIX 12.7%	US S&P 500 -12.6%	Japan TOPIX 3.7%
MSCI Europe ex-UK 5.1%	MSCI Asia ex-Japan -17.1%	US S&P 500 16.0%	MSCI Asia ex-Japan 3.3%	UK FTSE All-Share 1.2%	MSCI Asia ex-Japan -8.9%	MSCI Europe ex-UK 3.2%	MSCI Europe ex-UK 14.5%	MSCI EM -14.2%	MSCI Asia ex-Japan 18.5%	MSCI Europe ex-UK 2.1%	MSCI EM -2.2%	MSCI Asia ex-Japan -17.1%	MSCI EM -0.2%
Japan TOPIX 1.0%	MSCI EM -18.2%	UK FTSE All-Share 12.3%	MSCI EM -2.3%	MSCI EM -1.8%	MSCI EM -14.6%	Japan TOPIX 0.3%	UK FTSE All-Share 13.1%	Japan TOPIX -16.0%	Japan TOPIX 18.1%	UK FTSE All-Share -9.8%	MSCI Asia ex-Japan -4.5%	MSCI EM -17.6%	MSCI Asia ex-Japan -1.1%

Source: FTSE, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. All indices are total return in local currency, except for MSCI Asia ex-Japan and MSCI EM, which are in US dollars. Past performance is not a reliable indicator of current and future results.

All of this highlights the importance of what the market is pricing in. If you asked someone with a blank piece of paper what will happen to markets if rates rise, they would most likely say the opposite to what has happened. So, as an investor, forming a view on whether the market is adequately pricing in changes is just as important as taking a view on the changes themselves.

Actions taken

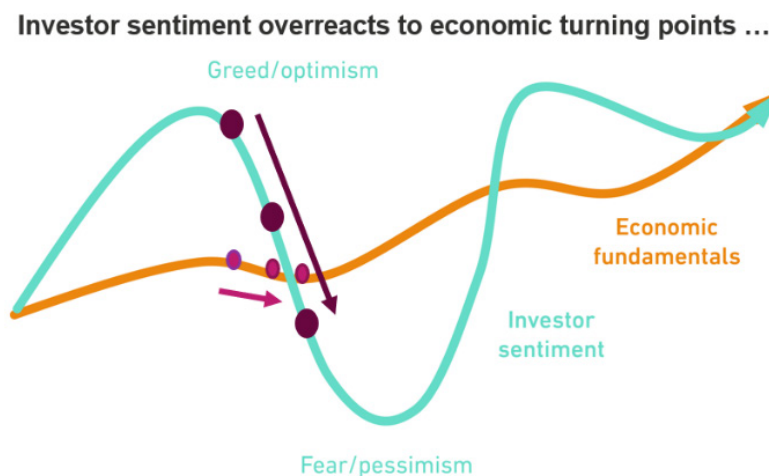
During July, no major changes were made to the AAP portfolio.

Core views

At 7IM, we have a number of long-term core views that help to guide our investment decisions and allocations within portfolios:

Over the next twelve months, we think markets will generally move sideways with volatility. In this environment, it is important to rely on a stable identity. Economic uncertainty creates fear and investor sentiment tends to overreact to economic turning points. Going forward, we believe that:

- A global manufacturing downturn is unavoidable... but the service sector should be resilient
- Inflation will fall eventually... but the short-term outlook is less clear
- Central bankers are under pressure... so the interest rate outlook changes frequently
- Corporate profit margins have peaked... but most companies will keep growing earnings



... with *slightly* weaker data leading to panic right now

Source: 7IM

And so, investors are starting to worry about what's next for financial markets. The next economic data aren't likely to stabilise until the end of 2022, so 'sideways with volatility' is the most likely scenario for the next few months.

We know our investment identity helps us to deliver in just these kinds of environments. We have positions that can generate returns despite this volatile backdrop.

Detailed asset allocation

	Defensive	Cautious	Balanced	Moderately Adventurous	Adventurous	Income
UK Equities	3.0%	5.5%	13.0%	15.5%	19.0%	18.0%
US Equities	4.0%	5.0%	10.0%	10.5%	13.0%	8.5%
European Equities	2.0%	2.5%	4.0%	8.5%	9.0%	5.0%
Japan Equities	1.5%	2.5%	3.5%	8.0%	9.0%	3.5%
Emerging Markets Equities	4.0%	6.5%	8.5%	11.5%	16.5%	8.5%
Global Equities	5.0%	8.5%	13.0%	17.5%	22.0%	5.0%
Global Government Bonds	20.0%	9.5%	3.5%	0.0%	0.0%	5.0%
Gilts*	7.0%	1.0%	1.0%	0.0%	0.0%	1.0%
Global Inflation Linked Bonds	6.0%	3.0%	0.0%	0.0%	0.0%	0.0%
Global Corporate Bonds	6.5%	12.0%	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%	14.0%
Emerging Markets Bonds	3.0%	6.0%	7.0%	7.0%	0.0%	11.0%
Real Estate***	0.0%	2.5%	2.5%	3.5%	3.5%	6.0%
Alternatives/Hedge Funds	21.0%	18.0%	16.5%	12.0%	6.0%	0.0%
Cash	7.0%	4.0%	2.5%	2.5%	2.0%	5.5%

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.

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