

MODEL PORTFOLIO SERVICE

MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS

POWERED BY

7IM

SEPTEMBER 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	2.21%	5.66%	-3.74%	3.46%	-9.22%	-1.26%	0.44%	3.0 – 4.5%
Cautious	6.06%	1.14%	0.52%	-4.92%	-8.68%	0.17%	1.18%	4.5 – 6.0%
Balanced	11.87%	4.84%	5.78%	-0.77%	-7.40%	1.89%	2.27%	5.2 – 7.5%
Moderately Adventurous	16.94%	12.94%	10.27%	10.94%	-6.03%	3.31%	3.18%	6.0 – 8.0%
Adventurous	20.14%	9.31%	13.19%	5.45%	-5.64%	4.21%	3.74%	7.0 – 10.0%
Income	6.80%	12.94%	-1.47%	10.94%	-8.59%	-0.49%	3.18%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end September 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

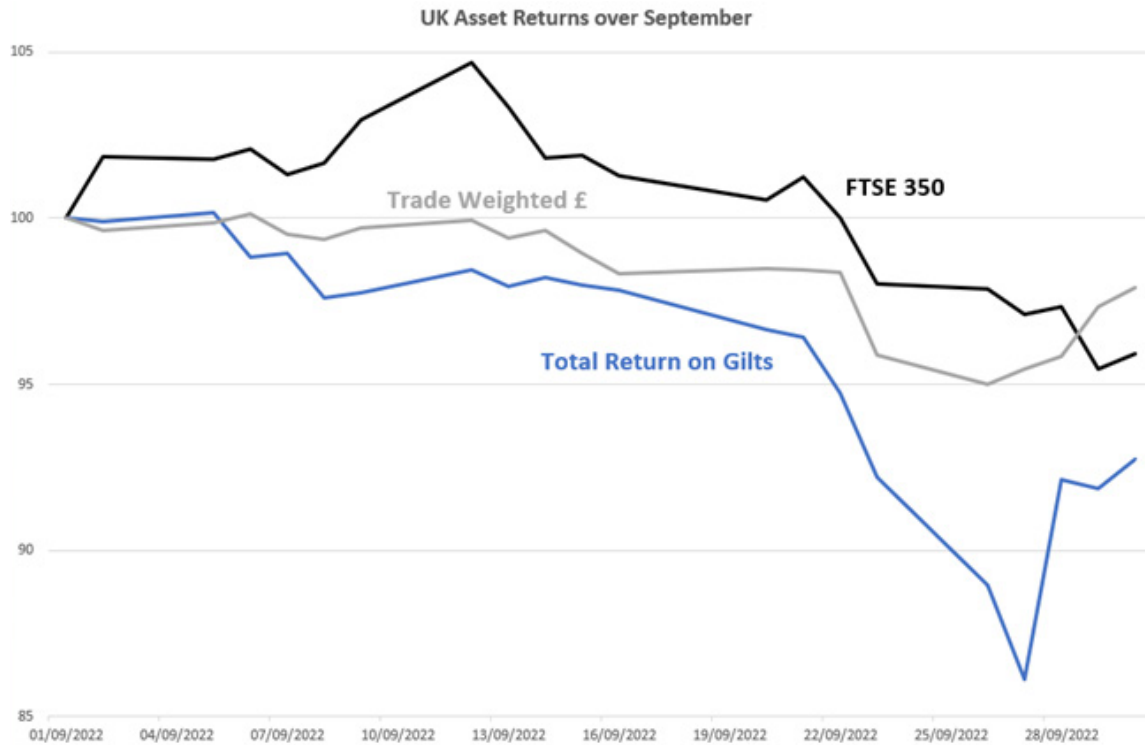
The UK Story

September has been a pretty busy month for, not just markets, but also the real world. Here in the UK, we've had a decade of political and economic events crammed into a few weeks:

At the beginning of the month, Queen Elizabeth II passed away just a couple of days after she received Liz Truss, with the carnage of the mini-Budget ensuing a couple of weeks later. Since most of us live in the UK and spend money in pounds sterling, I think it's worth breaking down some of what has happened.

- The day before the mini-budget, the Bank of England (BoE) raised base rates by 50bps to 2.25%. Despite the rise being largely expected, the fact that the BoE was out-hawked by the FED's 75bps rise did put some downward pressure on the pound.
- The mini-budget was where the drama really began. Chancellor Kwasi Kwarteng outlined the biggest tax cuts since 1972. Income tax, national insurance, and corporation tax were all cut; energy bills were capped, and bankers' bonuses were uncapped. Markets didn't like this – tax cuts need to be paid for. Naturally, the pound took a dip at the prospect of inflationary policy, and Kwasi's economically unconventional thinking led to some negative sentiment around UK assets.
- A few days later, the Bank of England came out with a surprise announcement of a gilt buying program. This was done to halt the selloff in UK assets and represents a divergence in thinking from other central banks who are moving towards quantitative tightening – albeit only in the short-term, according to the BoE. The move worked in stopping the pound's selloff, but the longer-term impact on inflation is unclear.

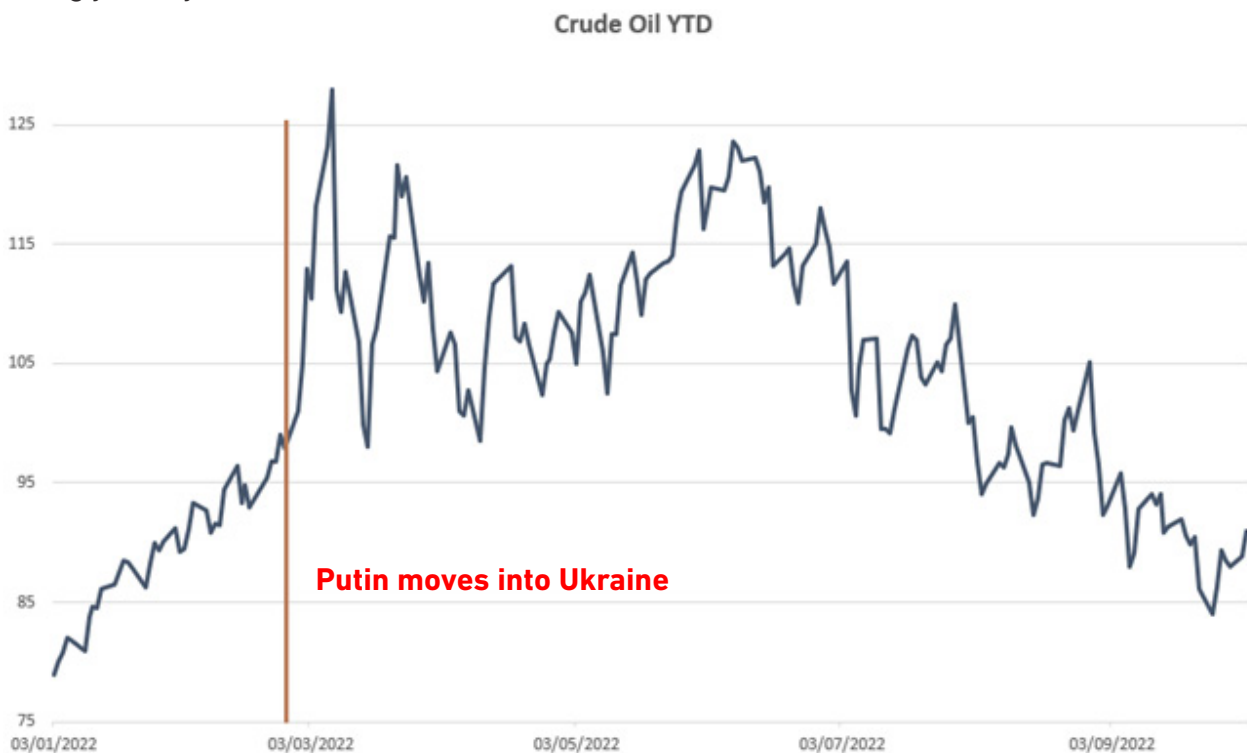
What impact has this all had on UK markets?



Source: Bloomberg Finance L.P.

Despite all these UK-centric dominating headlines, UK markets really haven't performed badly. Gilts are the worst performing UK asset where our exposure in a balanced portfolio is only 1%. And over the month, other markets have also performed poorly. European markets are down 4%, and the S&P is down around 10% - even more than gilts.

Something you may have missed:



Source: Bloomberg Finance L.P.

The chart above shows the crude oil price year to date – something much more important to the global economy than UK assets. When Russia invaded Ukraine, crude oil was at \$86, seven and-a-bit months on and we're back at \$91. What does this tell us?

It's a good illustration of supply and demand working things out. When Russia moved into Ukraine, there was an immediate shortage of supply. Prices surged in response. Fast forward to the summer, where the US and Saudi Arabia were ramping up production and demand has calmed down, and prices are pretty much down to where they were just before the invasion.

This is analogous to inflation. Prices such as the oil price, gas prices, food prices etc., add up to the aggregate price level, and the change in the aggregate price level is inflation. Different prices adjust at different rates, but eventually, they do adjust. This is a good example of that.

Portfolio Positioning and Changes

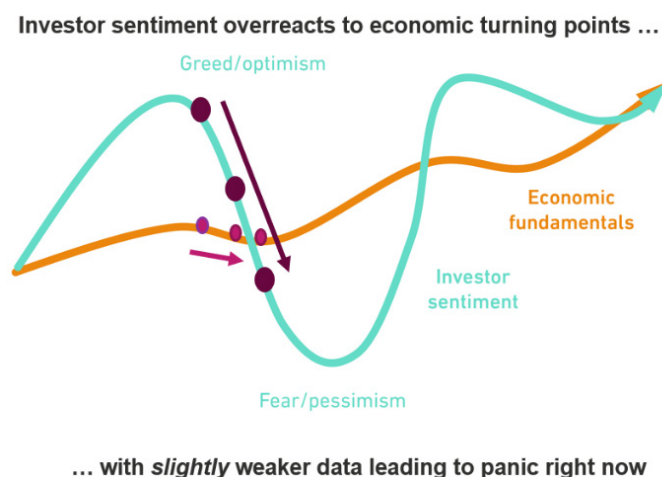
During September. No changes were made to our model portfolios. they will be rebalanced in November in line with our quarterly rebalancing schedule.

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



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	3.25%	6.50%	15.25%	18.50%	21.00%	8.00%
US Equities	3.00%	4.25%	8.50%	9.00%	10.00%	4.50%
European Equities	1.50%	2.25%	3.50%	7.00%	7.75%	2.75%
Japan Equities	1.50%	2.50%	3.50%	7.25%	8.25%	1.75%
Emerging Markets Equities	4.00%	6.50%	6.75%	10.00%	13.25%	6.50%
Global Themes	4.00%	6.25%	9.75%	13.75%	17.75%	3.00%
Global Government Bonds	18.50%	6.75%	3.50%	0.00%	0.00%	9.50%
Gilts*	9.00%	1.50%	1.00%	0.00%	0.00%	4.00%
Global Inflation Linked Bonds	6.00%	3.00%	0.00%	0.00%	0.00%	0.00%
Global Corporate Bonds	13.25%	18.50%	7.00%	0.00%	0.00%	21.50%
UK Corporate	0.00%	3.50%	0.00%	0.00%	0.00%	10.00%
Global High Yield Bonds	10.00%	10.00%	10.00%	5.50%	0.00%	12.50%
Emerging Markets Bonds	3.00%	6.00%	6.00%	5.00%	0.00%	11.00%
Real Assets***	0.00%	2.50%	3.25%	2.50%	3.25%	3.50%
Alternatives/Hedge Funds	21.00%	18.00%	17.50%	16.50%	13.50%	0.00%
Cash	2.00%	2.00%	4.50%	5.00%	5.25%	1.50%

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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