MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

JUNE 2023

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.

	Q2/2018 - Q2/2019	Q2/2019 - Q2/2020	Q2/2020 - Q2/2021	Q2/2021 - Q2/2022	Q2/2022 - Q2/2023	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	2.84%	3.35%	4.61%	-5.95%	-1.55%	-1.05%	0.58%	3.0 – 4.5%
Cautious	2.45%	2.74%	8.37%	-5.50%	0.36%	0.92%	1.59%	4.5 - 6.0%
Balanced	2.08%	1.96%	12.90%	-5.09%	2.80%	3.28%	2.77%	5.2 – 7.5%
Moderately Adventurous	1.59%	0.44%	17.07%	-4.27%	5.04%	5.59%	3.73%	6.0 – 8.0%
Adventurous	1.45%	-0.95%	20.11%	-3.83%	5.63%	6.86%	4.16%	7.0 - 10.0%
Income	5.40%	-2.60%	11.95%	-4.99%	1.19%	2.48%	2.02%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end May 2023. Market returns have been poor in absolute terms since the beginning of 2020 with the Covid pandemic and then the inflationary shock of 2022. While portfolios have held up well relative to peers, the 3 and 5 year absolute returns are lower than average, even though the since inception longer term numbers are in line with expected parameters..

Summary

This June, the world was more captivated by riots in France, Prigozin's short-lived rebellion in Russia, and a certain missing submersible. Financial markets were relatively well behaved, bringing to a close a very positive first six months of the year.

Despite the *most forecasted recession in history* supposedly being just around the corner, stock markets indices have performed very well over the first half of 2023:

Index	June performance	H1 Performance
S&P	5.4%	15.9%
Nasdaq	5.1%	38.8%
FTSE 100	0.6%	1.1%
Eurostoxx 50	3.3%	16.0%
TOPIX	6.5%	21.0%

Highly mixed economic data combined with a huge amount of excitement around AI/tech has resulted in strong index-level performance driven by a small number of stocks. In May, it was NVIDIA, in June it was Apple. This has resulted in the tech-heavy Nasdaq having its best H1 in 40 years, not something you would necessarily have expected in a rising-rate environment where a recession is being forecasted.

The best-performing regional equity index was the Topix which has had a stellar start to the year rallying over 20% year to date. A few factors have been at play, one of which has been a weak Yen that has helped many Japanese stocks.

If you read enough headlines, you can come up with some sort of narrative behind any market move, but here are some reasons why the market has moved in the way it has in H1:

<u>Good headline figures</u>

Rates have risen, US inflation has fallen from 9% to 4%, the labour market seems fine, and nothing catastrophic has happened. If you had forecast this at the start of the year, you'd have been accused of being too optimistic. Usually, the rate rises that are needed to bring inflation down this quickly would bring about a lot of unemployment and break some other parts of the economy along the way. Yes, the banking sector had a wobble, but what has happened so far has still been pretty moderate.

<u>Something, something, AI</u>

AI will no doubt have a big impact on all of our lives and 2023 has been the year that the world has got really excited about it. ChatGPT and similar releases, such as Google's Bard, have made people think much more seriously about how AI might impact our lives and productivity.

This got a lot of analysts very excited and resulted in a very narrow rally in some names that might benefit from this AI revolution – Microsoft, Alphabet, Apple, NVIDIA, and Meta. Fortunately for index investors, these are already the largest companies in the world… so they managed to drag the whole of the US market up.

Portfolio Positioning and Changes

During June, we did not make any major changes to portfolios.

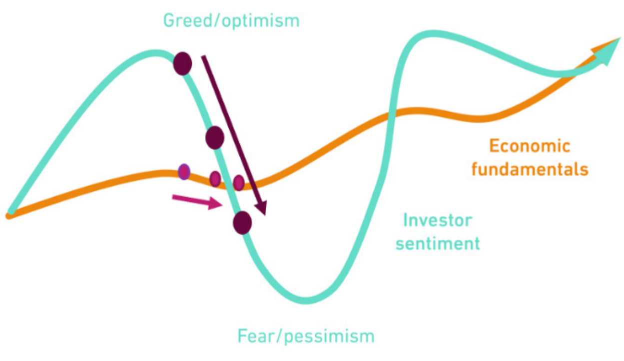
Core views

At 7IM, we have several long-term core views that help to guide our investment decisions and allocations within portfolios.

Over the next 12 months, we think that the global economy will slide into a recession. 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:

- Inflation will come down. Goods inflation is slowly normalising, and supply chain pressures are going
- Central banks are getting close to the end of their hiking cycles, but there is still a bit more work to do
- A US recession is highly likely. Most leading indicators are pointing towards a recession, but the recession shouldn't be too long or deep.

Investor sentiment overreacts to economic turning points …



… 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. Economic data isn't likely to stabilise until next year. Equity markets are unlikely to perform well.

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.

ASSET ALLOCATION

Detailed asset allocation

	Cautious TAA	Moderately Cautious TAA	Balanced TAA	Moderately Adventurous TAA	Adventurous TAA	Income TAA
UK Equities	6.25%	8.00%	16.75%	19.75%	22.25%	10.50%
US Equities	3.50%	6.00%	10.75%	11.50%	11.75%	8.00%
European Equities	2.75%	3.25%	3.75%	6.00%	6.75%	3.75%
Japan Equities	2.25%	3.25%	4.50%	7.00%	8.75%	2.50%
Emerging Markets Equities	1.75%	2.75%	2.25%	4.75%	8.00%	2.50%
Global Themes	5.00%	6.50%	10.50%	14.50%	18.50%	4.00%
Global Government Bonds	26.00%	13.00%	8.50%	0.00%	0.00%	13.00%
Gilts*	11.00%	3.00%	2.50%	0.00%	0.00%	6.00%
UK Corporate Bonds	5.00%	8.50%	5.00%	0.00%	0.00%	10.00%
Global Corporate Bonds**	6.25%	12.75%	4.00%	0.00%	0.00%	18.75%
Global High Yield Bonds	3.50%	3.50%	4.50%	5.00%	5.00%	6.00%
Emerging Markets Bonds	3.00%	6.00%	6.00%	5.00%	0.00%	11.00%
Global Inflation Linked Bonds	6.00%	3.00%	0.00%	0.00%	0.00%	0.00%
Real Assets***	0.75%	4.00%	3.25%	2.75%	4.50%	4.75%
Alternatives/Hedge Funds	20.50%	17.50%	15.00%	14.50%	12.00%	0.00%
Cash	-3.50%	-1.00%	2.75%	9.25%	2.50%	-0.75%

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.