

## Overview

Our last portfolio rebalance in November 2023 was followed by upbeat and positive sentiment across the market.

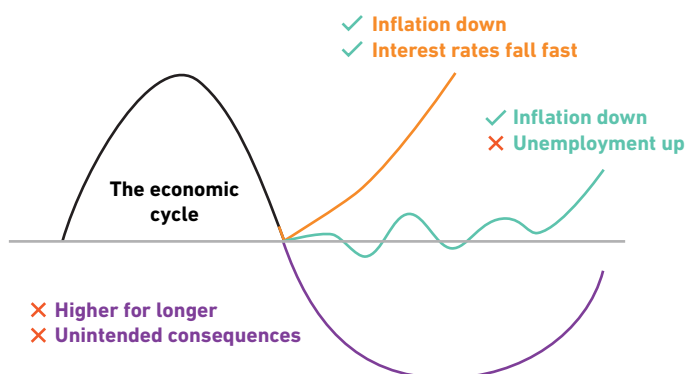
Economic data released in November brought optimism back to markets. As inflation showed signs of softening, central banks signalled the end of the hiking cycle, allowing investors to breathe a sigh of relief. This translated into a generous equity market with a month-end gain of 9% in the S&P 500, which marks one of the best November gains in a century for the index. Thanks to the large technology stocks, the Nasdaq 100 also grew almost 11% in the month, up from three consecutive months of losses. Equally, the fixed income market reacted positively to the promise of rate cuts in 2024, and global bonds underwent their fastest surge since the 2008 financial crisis.

The healthy backdrop continued into December, as fixed income and equities maintained their upwards trends. In the bond market, falling yields started providing significant capital gains; for instance, the Gilt maturing in 2061 saw a 25% appreciation in the month. In the equity market, large cap in the US climbed 5%, but with slightly less help from the Magnificent Seven; small cap also shone, proof of which was the Russell 2000 index's 14% rise. This "Santa Rally" moved all major asset classes into positive territory for the year, a stark reversal of the disappointing returns available for investors in 2022.

In January, economic data continued to convince investors that central banks have reached the end of the rate hike cycle. Data out of the US showed stronger-than-expected GDP growth, and equity markets soared once more, seeing the S&P 500 reach a new all-time high. Meanwhile in Europe the Red Sea disruptions added to an already struggling manufacturing sector and economic growth in China continued to slow, with deflation adding more pressure to the country's property crisis.

## Core investment views

Despite the general optimism, it would be foolish to adopt a fully positive stance at any point in time. Even in a largely positive market, it is important to make sure no stone is left unturned to avoid any surprises on the downside. That is what we're doing at 7IM - our properly diversified portfolios enable us to grow in every kind of environment:



### Back to growth – policymakers nail it Possible, but a lot needs to go right

Inflation falls faster than expected, the demands for higher wages tail off and central banks find the space to reduce interest rates. This allows the world economy to fire on all cylinders again and profits resume growing.

### Sluggish and sideways – uncertainty and scepticism continue Most likely, until inflation is under control

A continuation of the last 12 months... will it be a recession? Won't it? High inflation and interest rates will keep that question going.

Whether growth is just above zero (not a recession) or below zero (recession) is not the point. The uncertainty will keep investors cautious – creating choppy markets, prone to sharp sell-offs and rapid rallies. This environment requires careful selection to find the right opportunities and avoid risks.

### Deep recession – policymakers DON'T nail it Unlikely, but important to watch

Inflation continues to remain too high for comfort and central banks keep policy tighter for longer. Eventually, the lags catch up with the economy, leading to a deeper than expected recession.

## Tactical Asset Allocation

In an environment with lots of uncertainty and a lack of confidence, we want to make sure portfolios are insulated against shocks, while still generating sufficient returns to make investing worthwhile. And we think our portfolios are set up to do just that.

Strongly negative	Negative	SAA	Positive	Strongly positive
	Equity			
	Credit			
		Cash	Bonds	
		GBP		

## 7IM Responsible Choice long term themes

Portfolio themes	Comment
The world is getting older	The healthcare sector is best placed to take advantage of this. The sector still trades at a discount, and we believe that it is starting to be recognised for its strengths – especially given its importance during the Covid pandemic.
Fighting climate change	Climate change is one of the biggest threats that humanity faces in the future; without drastic action, the planet will warm by more than the 1.5°C level agreed on in the Paris Agreement. The Responsible Choice Models target companies that are managing their environmental risks and investing in a cleaner future.
Emerging markets will drive change	The funding gap to meet the Sustainable Development Goals by 2030 is between USD 6-8 Trillion, and 70% of that is needed in emerging markets. This creates opportunities that we can access in equity and fixed income markets.
Global impact	Impact investments are those that lead to a material and measurable improvement in environmental and social problems. The Responsible Choice Models have access to companies that are driving positive change around the world.
Sustainable finance	The private sector will be increasingly leaned on to drive environmental change and find solutions for an ageing population. The Responsible Choice Models have exposure to both green bonds and social bonds, which are linked to sustainable projects.

## Asset allocation changes

We have made the following tactical changes to portfolios in this quarterly rebalance:

- **Small reduction in our Government Bond allocation**, but remain overweight compared with our SAA.
- **Reduction in our Healthcare Innovations position.** This is a position we still like for the growth potential it adds to portfolios, but after positive returns this quarter, we are rotating into other parts of the market.
- **Added some FTSE 250 exposure back into portfolios.** Having favoured focussing on the larger cap FTSE 100 part of the UK market, this quarter we moved some of this allocation back into the mid-cap space.

## Manager Changes

- **Added BlueBay Impact Aligned Bond Fund:** The Fund invests in both ESG-labelled bonds (green and social bonds) and bonds issued by ESG leaders. The strategy will invest in positive impact relating to seven sustainability themes. The investment team is well resourced and experienced in both the ESG space and global corporate bond space.

*Please note: All of the comments in this document refer to the models we run on the 7IM platform, but the models are also available on a range of other platforms. As much as possible, we try to replicate the models we run of the 7IM platform across all platforms, but due to differing security availability, not all of the points outlined in this document may be relevant across these platforms. If you are unsure whether certain changes apply to models on a specific platform, please reach out to a member of the team.*

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. Any references to specific investments are included for information purposes only and are not intended to provide stock recommendation or investment recommendations to individual investors.

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