QUARTERLY REBALANCE COMMENTARY
NOVEMBER 2022

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

Overview

The past quarter has been yet another volatile period for markets, with a lot of economic and political events for investors to digest.

During August, global equity markets were flat to down, despite rallying slightly at the start of the month. Stocks took a plunge following Fed Chair Jay Powell's largely hawkish comments at the Jackson Hole economic symposium. UK and European markets also struggled to deal with ongoing issues created by inflated gas prices.

The UK took to the headlines in September as Queen Elizabeth II passed away and Liz Truss was chosen as the country's new prime minister. Soon after her ascent, Truss' chancellor, Kwasi Kwarteng, gave a market-shaking mini-budget. The expansionary (but unfunded!) nature of many of the policies announced led to a fall in confidence in the UK, leading to a sell-off in both equity and gilt markets.

October was yet another busy month for markets and current events. Liz Truss resigned, and Rishi Sunak took office as UK PM. Across the pond, the S&P rallied a massive 8.1% over the month despite some shaky economic data. Europe also performed well as large stimulus packages were announced in Germany.

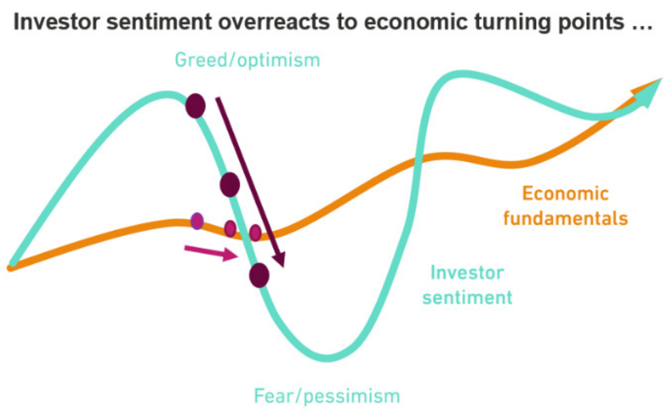
So far, November has been a pretty good month for markets. The most recent US inflation print came in lower than expected, causing a wave of positive sentiment around a potential Fed pivot. In China, the marginal easing of Xi's zero covid policy was taken as good news by markets.

Core investment 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. Economic data isn't likely to stabilise until next year, 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.

Our headline views on the asset classes this rebalance have not changed:

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

Tactical Themes

Long term: Thematic
Healthcare companies: the future of humanity
Climate changing companies: investing in a greener world
Alternatives: help solve the bond problem
Medium term: Equity opportunities
Being smart about US Equity; avoiding US mega-cap tech and finding the new winners
UK Large Cap: buy quality international businesses, avoid small-cap domestic uncertainty
Medium term: Finding returns in fixed income
AT1s: European banks will pay their debts

Asset allocation changes

The headline beta and duration exposures of our portfolios have not changed this quarter. We were well positioned to transition into the economic conditions we are currently experiencing.

We have, however, made several changes to our tactical positioning this quarter:

- **Removed our emerging market equity overweight** – the case for this position before was that China looked to be the first country to recover from COVID. Uncertainty around China remains, and going into a global recession, being overweight emerging markets tends not to be a good trade

- **Removed our tilts towards value companies** – the original case for this trade was that in the booming post-COVID economy, cheap stocks would benefit from a rotation out of expensive tech. This trade played out while the economy was doing well, but the economic outlook has now deteriorated

- **Increased our allocation to put selling** - We have increased this allocation as our world view of sideways and volatile markets exactly aligns with the world in which this trade does well. On top of this, with volatility as elevated as it is, the premium that we collect from selling insurance has further increased

- **Removed our residential mortgage-backed securities position** – the original case for the trade was based on US mortgage prepayment rates being high. This has been killed by the rates hiking cycle. Meanwhile global corporate bonds look the most attractive in ages, with the yields on offer meaningfully higher than the start of the year. This is a better place for investor capital in this environment

- **Added to AT1s in higher risk profiles** - With the move up in rates, AT1s are now yielding around 12%, we think it is appropriate to scale up our allocation in higher risk portfolios as these yields make them an appropriate equity replacement

- **Rotated some of our UK allocation from FTSE All-Share to FTSE 100** – this tilt gives us more exposure to cheaper large cap stocks in sector we like: energy, materials, and healthcare.

Manager changes

This quarter, we have:

- **Added Vanguard FTSE 100 Index Unit Trust** – A cheap and efficient option for tilting the portfolios more towards larger companies in the UK equity space
- **Added Vanguard Emerging Markets Stock Index Fund** – Introduced to portfolios as the new preferred vehicle for accessing the equity of emerging market companies.