MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

AUGUST 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	Q2/2018 - Q2/2019	Q2/2019 - Q2/2020	Q2/2020 - Q2/2021	Q2/2021 - Q2/2022	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	1.4%	2.8%	3.4%	4.6%	-6.0%	0.1%	1.0%	3.0 – 4.5%
Cautious	1.8%	2.5%	2.7%	8.4%	-5.5%	1.7%	1.8%	4.5 - 6.0%
Balanced	3.3%	2.1%	2.0%	12.9%	-5.1%	3.5%	2.9%	5.2 – 7.5%
Moderately Adventurous	4.9%	1.6%	0.4%	17.1%	-4.3%	5.1%	3.8%	6.0 – 8.0%
Adventurous	6.1%	1.5%	-1.0%	20.1%	-3.8%	6.2%	4.5%	7.0 - 10.0%
Income	1.6%	5.4%	-2.6%	12.0%	-4.9%	1.6%	2.2%	

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

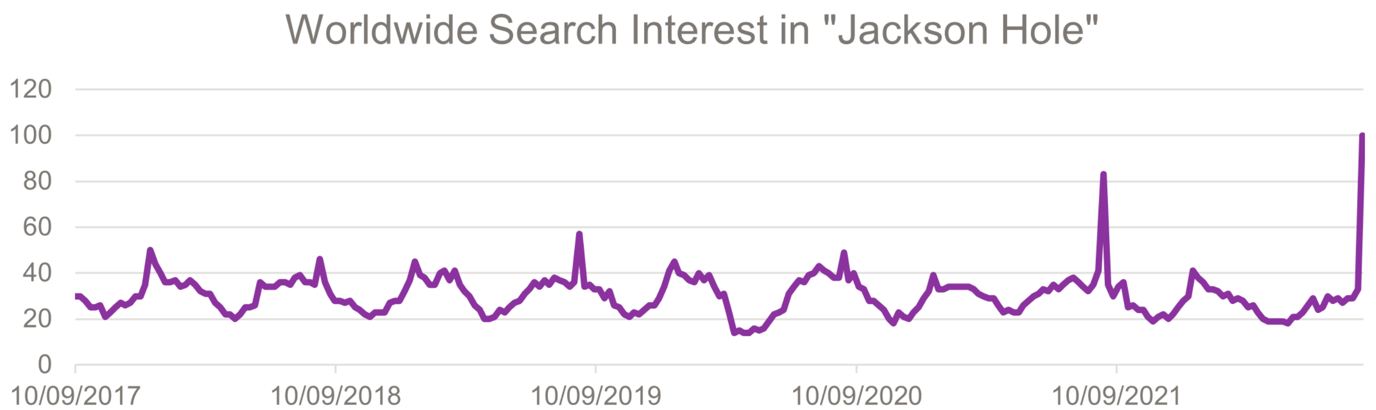
Summary

2022 has been a frustrating year for investors. Where inflation and rates are heading have dominated the market's attention so far. August was no exception to this.

The Jackson Hole Economic Symposium was the major talking point. This is essentially a big meet-up for macroeconomic heavy hitters from all around the world. A topic for discussion is chosen and central bankers, finance ministers, and high-profile economists share their thoughts on the issue. Markets closely follow the event and unexpected remarks can have the potential to significantly impact asset prices.

The title of this year's symposium was "Reassessing Constraints on the Economy and Policy". To the rest of us, this can be translated to "Inflation has become a problem for the first time in a long while, what the hell can we do to fix it?".

Usually, people don't take much interest in the event. After all, a bunch of economists pontificating doesn't scream prime time television. This year, however, interest was high since inflation is genuinely impacting people's lives and central bankers see it as their job to bring it under control.



Source: Google Trends

Jay Powell, who heads up the US Federal Reserve, took centre stage at this year's symposium and his message was clear. He stated that the "overarching focus" of the fed is to bring inflation back to its 2% goal and that another "unusually large" increase in rates could be appropriate in upcoming meetings. Markets took note.

In July, equities had bounced at the prospect of rates coming back down in the future, so there was a lot for the market to digest here.

As one would expect, the dollar was up at the prospect of rising US rates. Globally, markets were flat to down over the month, with equities most sensitive to rates (growth stocks) taking a larger hit while those which benefit from rising rates (value stocks) holding up better. The S&P fell 4.2% over the month, with the Nasdaq sliding slightly more.

As well as dealing with the takeaways from Jackson Hole, European markets had to battle with the ongoing issues around Russian gas. This meant Europe stocks, excluding the UK, were down over 5% for the month.

Japan and emerging markets were the best performers over the month as these markets are more separated from developed market central banks.

Portfolio Positioning and Changes

During August, we rebalanced our model portfolios. The details of this can be found in our separate Succession model rebalance commentary **here**.

Core views

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

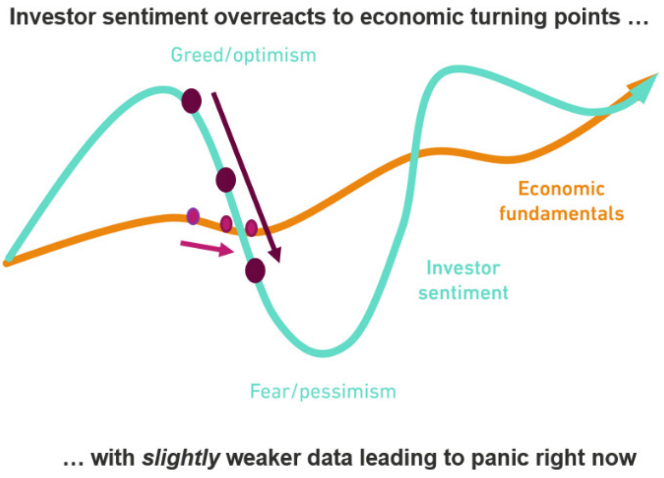
Over the next twelve months, we think markets will generally move sideways with volatility. In this environment, it is important to rely on a stable identity. Economic uncertainty creates fear and investor sentiment tends to overreact to economic turning points. Going forward, we believe that:

• 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.