

OCTOBER 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	5 Year	Succession Matrix
	-	-	-	-	-	Ann.	Ann.	Expected Parameters
	Q2/2018	Q2/2019	Q2/2020	Q2/2021	Q2/2022	Return	Return	- Ann. Return
Defensive	2.21%	5.66%	-3.74%	3.46%	-9.22%	-0.73%	0.32%	3.0 – 4.5%
Cautious	6.06%	1.14%	0.52%	-4.92%	-8.68%	0.55%	0.99%	4.5 – 6.0%
Balanced	11.87%	4.84%	5.78%	-0.77%	-7.40%	2.36%	2.05%	5.2 – 7.5%
Moderately Adventurous	16.94%	12.94%	10.27%	10.94%	-6.03%	3.96%	2.90%	6.0 – 8.0%
Adventurous	20.14%	9.31%	13.19%	5.45%	-5.64%	4.79%	3.36%	7.0 – 10.0%
Income	6.80%	12.94%	-1.47%	10.94%	-8.59%	0.23%	1.28%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end October 2022. 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

It feels like we have said this every month, but... October has been yet another exciting month for markets and current events. To put this in context, if you were born in the UK at the beginning of July, you would have already lived through two monarchs, three prime ministers, and four chancellors! No other rolling four-month-old babies in British history can say they have seen this combination of political and monarchical change.

Things outside of the UK haven't been vanilla either. In the US, Musk has finally closed in on his \$44bn leveraged buyout of Twitter. And in China, Xi tightened his grip on the country as he cemented his third term despite growing discontent.

What has been going on in markets? At a headline level, October was a great month for developed market equities but a rough one for emerging markets. The reason for poor emerging market performance is pretty clear cut. Xi's economic plans and commitment to zero COVID are unpopular with investors, and him being in power for another five years further damages investor confidence.

The S&P rallied a massive 8.1% over October despite some shaky economic data. PMIs disappointed and inflation continued to rise, but markets *somehow* found reasons to be positive. Employment came through at a record low, but with inflation where it is, low unemployment isn't *really* what policymakers are after.

After the US, Europe was the second-best performing market. The ECB continued to hike rates, and new plans to address the energy crisis were unveiled. On top of this, pretty large fiscal stimulus packages were announced, with Germany committing 200 billion euros to support households and businesses.

In the UK, the FTSE all-share rallied 3.1%, with bonds also rallying. Gilt markets appreciated at the potential of a more stable regime without Truss and Kwarteng and returned around 3% over the month. This is despite some noise from the ongoing liability driven investment market moves.

## Portfolio Positioning and Changes

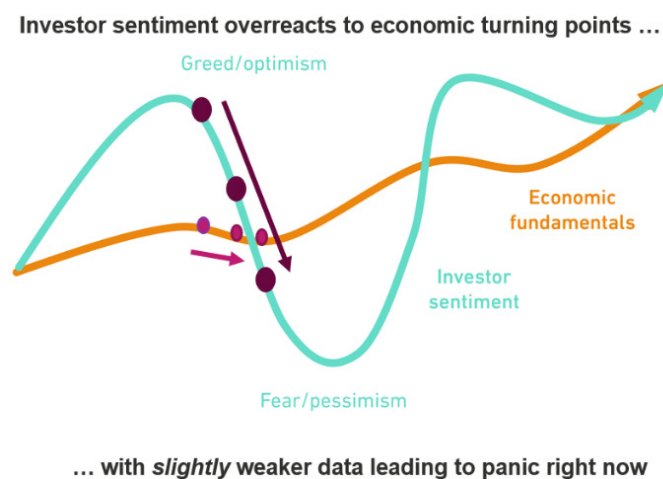
During October. No changes were made to our model portfolios. they will be rebalanced in November in line with our quarterly rebalancing schedule.

### 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.

# ASSET ALLOCATION

## 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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