MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

JANUARY 2024

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.

	Q4/2018 - Q4/2019	Q4/2019 - Q4/2020	Q4/2020 - Q4/2021	Q4/2021 - Q4/2022	Q4/2022 - Q4/2023	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	7.09%	5.99%	1.74%	-8.39%	4.51%	-0.94%	1.45%	3.0 – 4.5%
Cautious	8.78%	6.48%	4.40%	-7.22%	5.46%	0.64%	2.74%	4.5 - 6.0%
Balanced	11.28%	6.03%	8.47%	-6.08%	5.85%	2.54%	4.12%	5.2 – 7.5%
Moderately Adventurous	13.47%	5.98%	11.27%	-4.41%	5.77%	4.03%	5.25%	6.0 – 8.0%
Adventurous	15.65%	5.28%	14.36%	-4.91%	5.58%	4.51%	5.67%	7.0 - 10.0%
Income	11.22%	2.23%	7.11%	-5.78%	4.60%	1.81%	2.91%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end January 2024. 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

The January effect, which dictates sentiment for the year based on how well (or badly) financial markets do in that month, is set to fill superstitious investors mostly with optimism.

Markets have enthusiastically responded to economic developments over the month. The US, for instance, reported stronger-than-expected GDP growth, confounding those who have been expecting a recession for a year. At the same time, major central banks like the Federal Reserve and the Bank of England have signalled the end of the rate rise cycle as inflation continues its downward trend.

But in the meantime, China has surprised on the downside. The country that not so long ago was seen as easily on the path to becoming the world's largest economy has been lagging behind the US, burdened by an economy struggling with deflation.

Add in the high market valuations following 2023, then there are a couple of reasons that too much of an optimistic stance might be dangerous. In fact, there are still doubts about whether the US will achieve a soft landing, and the UK and Europe are still flirting with recession.

All told, there was little surprise to take note of in January – signs are increasingly pointing towards Donald Trump winning a US re-election (now the firm favourite at the bookies), in a year where half of the global population will have elections; in the equity markets, the usual suspects (aka technology stocks) continued to drive the S&P 500's upwards trend. The December rally flowed into January, pushing the US benchmark index to an all-time high. It was only at the very end of the month that investors had a brief reality check – with the Federal Reserve making it clear that rate cuts weren't as close as many had hoped; certainly unlikely before Easter.

Please scroll down

On the other side of the Atlantic, recent purchasing managers index (PMI) data indicates the UK and Europe travelling in opposite directions. Despite increasing pressures from disruption to the supply chain stemming from the Red Sea, the UK has seen further manufacturing growth in January; the eurozone has continued to grapple with a contracting manufacturing sector.

Much as we might like it to be, the January effect is not a reliable predictor of the year (right about half the time). So, how this year will unfold for the financial markets is anyone's guess. But we've been consistently preparing for these scenarios, believing that proper diversification is the key to generating sustainable growth for our clients. We have prepared our portfolios to do just that.

Portfolio Positioning and Changes

In January, there were no changes.

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 12 months, we think that **the global economy will slow down – prompting bouts of 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:

- **Inflation is coming down:** Across the developed world, inflation has peaked, and is mostly falling. Supply-chain disruptions have eased, energy prices are a little more settled, and companies are no longer reporting issues with finding workers. Of course, slower inflation still means rising prices – so the cost of living pain isn't going away quickly
- **Interest rates are high:** We're now over a year into the rate hiking cycle. Interest rates are unambiguously high when compared with the past decade. The impact of higher rates is always the same – although time-to-effect changes in every cycle
- **The economy is slowing:** For consumers and companies, day-to-day life is getting harder – whether it's rising costs or increased debt, there's less money left at the end of the week or month. As the flow of money around the economy slows, strong growth is more difficult to achieve. The world may or may not slip into a 'technical' recession in the next three months, but a sluggish growth environment is already here.

Sluggish and sideways... 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.

There's no one answer... When managing a diversified long-term portfolio, there shouldn't be a single 'big' call. For an outlook that calls for selectivity, especially in the medium and short term, we're finding lots of different opportunities – both to protect capital and to grow it.

Please scroll down

ASSET ALLOCATION

Detailed asset allocation

	Defensive TAA	Cautious TAA	Balanced TAA	Growth TAA	Aggressive TAA	Income TAA
UK Equity	7.50%	9.50%	17.50%	21.00%	24.00%	20.50%
North American Equity	6.00%	10.50%	17.00%	18.00%	18.00%	12.50%
European Equity	3.50%	4.00%	4.50%	6.50%	7.50%	5.00%
Japan Equity	2.00%	2.50%	4.50%	7.50%	9.50%	3.50%
Emerging Markets Equity	2.00%	3.00%	2.50%	5.00%	8.50%	4.00%
Global Themes	5.00%	6.00%	9.00%	14.00%	18.00%	6.50%
Global Govt Bonds	23.50%	8.50%	7.00%	0.00%	0.00%	7.50%
Gilts	10.50%	6.50%	3.50%	0.00%	0.00%	3.00%
Sterling Corporate Bonds	0.00%	3.50%	0.00%	0.00%	0.00%	4.00%
Global Corporate Bonds	7.50%	13.00%	6.00%	0.00%	0.00%	9.00%
Global High Yield Bonds	3.50%	3.50%	4.50%	5.00%	2.50%	7.50%
Emerging Market Bonds	1.50%	3.00%	3.00%	2.50%	0.00%	4.50%
Emerging Market Bonds Local	1.50%	3.00%	3.00%	2.50%	0.00%	4.50%
Global Inflation Linked Bonds	6.00%	3.00%	0.00%	0.00%	0.00%	0.00%
Real Estate	1.50%	4.00%	3.00%	2.50%	4.50%	6.00%
Alternative Strategies	16.50%	14.50%	13.00%	13.50%	5.50%	0.00%
Cash & Money Market	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Source: 7IM

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 reference to specific instruments within this article does not constitute an investment recommendation.

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