SUCCESSION
MODEL PORTFOLIOS
POWERED BY 7IM

Quarterly Rebalance Commentary

MARCH 2025

Overview

So, Trump's back. And this time, it's personal...

Who are we kidding? It has always been personal with Trump; nothing like using the Oval Office to settle old scores. But there's definitely a sense that this time, there are no seatbelts or guardrails or adults in the room. Perhaps no surprise given the relationship between him and ~~Vice-President~~ Special Government Employee Elon Musk* - someone who thinks **more** chaos is *always* better.

In hindsight, the first two months of 2025 have made December 2024 seem a long time ago. Back in those days, stock markets were focused on the interest rate environment. But central bank caution in the US, Europe and UK meant that the festive month finished with a bit of a slump – although not enough to take the gloss off a year where most equity markets saw double-digit total returns.

The first half of January was all about AI, and in particular, DeepSeek. A side-project of a Chinese hedge-fund billionaire, DeepSeek demonstrated that AI results didn't need lots of super-microchips – which led to some very different reactions in the prices of the big US tech companies. Understandably, the chipmakers like Nvidia and Broadcom saw sharp falls in value – but so did Microsoft and Alphabet, who have been relying on the high cost of entry to keep competition away. The laws of capitalism still apply – if you have a big pie, someone else is coming to take a slice!

Of course, all of that became just a footnote to the new President. After a thankfully peaceful inauguration, the fireworks started. Trump's machine gun production of Executive Orders each day has left the world braced for a new surprise at breakfast time. We're up to 76 orders as of the start of March; more than one a day, including weekends! Tariffs, obviously. But also, leaving the World Health Organisation. Declassifying the files on JFK. And, of course, stopping using paper straws; *"they break, they explode"*.

On tariffs, the announcements have been in line with what was said before the election. Big, sweeping tariffs on all trading partners, which might then be up for one-on-one negotiation in the future. The immediate effect will be inflationary for US citizens, in an environment that's much less acceptable than it was eight years ago.

The unexpectedly big shift has been in US policy towards the Ukraine. As we write this, the world is still digesting the ramifications from the Trump/Zelenskyy meeting at the White House. Will it prompt a break-up of NATO? Or will it foster a sense of European unity, and joint focus on defence? What does it mean for American guarantees in places such as South Korea and Taiwan? These are big questions, and right now, there are no answers.

Caveat though. We've often said that you shouldn't pay attention to politics when investing. And it's true. It just never *feels* true in the moment. In Trump's first term, it was the economics (plus COVID) which dictated the outcomes for markets. But at the time, everything felt important and scary – remember North Korea? So, our inclination is to take a deep breath or three and focus on the fundamentals.

*Musk's genuine job role – which allows him to work for the US Federal government for only 120 days a year – which must be a relief for the four or five other companies he's also CEO of!

And fiscally, it's not actually a bad picture. Our economic models are suggesting that there's at least as much to be happy about as sad. Consumer confidence isn't high, but retail sales remain robust, and manufacturers are seeing an increase in orders. And, if there is a period of sluggish growth, households and companies have some of the highest cash balances this century, *and* the lowest debt service costs (less true for governments, admittedly).

In the markets, there's certainly been a shift away from the big US companies, with investors perhaps taking some of their profits and recycling into cheaper options (after all, if the world starts to get a little uncomfortable, it's the big winners who have furthest to fall). So, we've seen the NASDAQ down around 5% this year while the UK, French and German stock markets are up by nearly 10%. It's far too early to suggest that this is a genuine rotation away from the US equity market – but it does imply that some investors are looking for an excuse to cash in their tech chips and reallocate.

7IM portfolios have done quite nicely so far this year – getting paid our income on our bond allocations and having some significant non-US equity holdings which have benefitted from the rotation so far. We're not seeing lots of glaring threats nor any particularly juicy opportunities. Which is just fine.

Core investment views

Whisper it, but we might be heading back to a more conventional world for economic cycles. As manufacturing restarts thanks to reshoring and defence spending, the established patterns of growth and demand should reassert themselves.

And in those patterns, the economic world spends most of the time between extremes. There will be a mixture of good and bad data, and policy responses; but only rarely will these result in large market shifts.

Over the next 12 months, we expect to see economic growth to be positive but slowing as rate rises and political uncertainty weigh on confidence. We wouldn't be surprised to see US GDP growth at 2%, rather than 2.8%, for example. But 2% isn't bad! We'd also expect to see investors re-engage with businesses outside the tech sector – which probably means looking further afield than the United States. So how should we invest for a world which isn't at extremes, and where diversification is rewarded?

Happily, that's what our portfolios are built for - letting market forces do the work. Spreading our allocations widely before there's a reason to do so – because by then, it will be too late. So, despite the scary headlines, we've seen no reason to cut equity allocations. And we haven't felt the need to suddenly sell all of our US tech stocks, because we've been diversifying away from them for some time. The first few months of 2025 have made us look like smart short-term asset allocators – but really, this is a long-term process that's just starting to play out.

As we said last quarter, we want to act like ducks. Go with the current most of the time, look for opportunities but not at the expense of doing something stupid. The world's ok. Some companies are cheaper than others. Make sure you've got some of those, as well as the recent winners. See you next quarter!

Tactical Asset Allocation

Macro	Headline risk allocations, reflecting 6-12 month macro outlook
Equity	**Neutral:** Most fundamental economic signals are around neutral; concerns around high valuations are balanced with a robust outlook for economic growth. Our model signals suggest that there aren't any obvious risks or opportunities to position for – so we won't.
Government Bonds	**Small overweight:** Government bonds are, for the first time in over a decade, offering a real yield that's compelling. In addition, they offer protection during market downturns. Getting paid for protective assets is never a bad idea – even if disaster doesn't happen.
Credit	**Underweight:** Corporate bond spreads (the higher rate that companies pay to borrow compared to governments) are at the lower end of their historical range. Against this backdrop, we prefer to reallocate to government bonds. No point taking risk and not getting paid for it.
Diversification	**Evidence-based diversifiers, which outperform through multiple market cycles**
US Equal-weight	A diversifying strategy with a higher expected return than market-cap weighting over the long term, with recent underperformance accelerating the likelihood of that outperformance being frontloaded. A sensible, simple way to diversify away from US tech stock concentration.
Put Selling	Another diversifying strategy focused on generating income through selling put options on the S&P 500 Index, as a means of earning premiums, aiming for stable returns with reduced exposure to equity volatility.
Alternatives	A diversified basket of strategies which aren't correlated to bonds or equities. Continuing to deliver cash-plus returns while markets are stable but will tend to perform best during dislocations.
Tactical Opportunities	**Mispriced areas of the market with the potential to deliver meaningful excess returns**
Global Financials	Investors and analysts are finally becoming re-interested in financial companies (European banks have beaten big tech over the last two years!). And why wouldn't they? Banks and insurers have rock-solid balance sheets, and there's a lot of money sloshing around in the financial system. Despite the recent good performance, there's still a decades-worth of lost ground to make up on the wider market.
Communication Services	Demand for connection and content aren't going anywhere – and should continue to grow alongside the global economy. Lots of the big businesses are well run, with low-debt and solid cashflows.

Asset allocation changes

At the March model rebalance, 7IM has undertaken the following changes to portfolios:

• Closed out the allocation to Healthcare companies

• Closed out the Metals & Mining position

• Initiated an overweight position in Global Financial companies

• Initiated an overweight position in Global Communication Services companies

• Added to the US Equal Weight position.

Manager changes

This quarter, the following holdings have been introduced to portfolios:

• A number of **Xtracker MSCI World Sector ETFs** to implement the updated Global Sector positioning.