MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

JANUARY 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.

	Q4/2016 - Q4/2017	Q4/2017 - Q4/2018	Q4/2018 - Q4/2019	Q4/2019 - Q4/2020	Q4/2020 - Q4/2021	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	3.1%	-3.9%	7.1%	6.0%	1.7%	3.7%	2.6%	3.0 – 4.5%
Cautious	4.7%	-5.3%	8.8%	6.5%	4.4%	5.0%	3.4%	4.5 - 6.0%
Balanced	7.4%	-6.7%	11.3%	6.0%	8.5%	6.4%	4.5%	5.2 – 7.5%
Moderately Adventurous	10.7%	-8.4%	13.5%	6.0%	11.3%	7.4%	5.5%	6.0 – 8.0%
Adventurous	12.8%	-9.7%	15.6%	5.3%	14.4%	8.3%	6.2%	7.0 - 10.0%
Income	6.0%	-4.6%	11.2%	2.2%	7.1%	5.0%	3.9%	

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

Market and portfolio review

Some of the trends we saw last year seem to have turned on their head. The past month has been a reminder that sometimes, it really is too good to be true as most developed markets took a beating. The US was the worst hit as the S&P, Dow Jones, and Nasdaq were down 5.3%, 3.3% and 8.9% respectively for the month. The notable exception has been the FTSE 100; unloved throughout the last decade, but suddenly back in demand as energy companies, big banks and airlines found favour once more.

Identifying the exact cause of this selloff is more of an art than a science, but there are a couple of likely culprits. Fears over inflation and tensions in Eastern Europe likely contributed, but the reason the US suffered most was because of the concerns around central bank tightening.

What can we take from it?

Counterintuitively, the past month has been a good reminder that staying invested is the right strategy over the long term. People have been saying that US tech stocks are too expensive for a very long time, but others have been saying that these companies have changed the world and can justify high relative valuations.

Knowing for sure which camp is right is hard, but knowing for sure who will be right and exactly when they will be right is near impossible. Trying to time the market by disinvesting to avoid losses, is a fool's game. More often than not, you'll end up wasting effort.

We often talk about our 'equal-weight bias', recent events illustrate when this is beneficial. The US is the biggest economy and market in the world and has been one of the hardest hit in the recent drawdown. But the UK market is actually up! Different markets and geographies are all exposed to different risks so rarely move in exactly the same way. By having an equal-weight bias, you are less likely to be hit hard when specific markets go down.

Portfolio positioning and changes

During January, no changes were made to the Succession models. They will be rebalanced in line with our quarterly schedule in February.

Core views

Growth will be stronger than the last decade:

Strong consumers, confident businesses and supportive governments mean one thing; stronger growth. The mushy, slow, volatile growth of the last decade will vanish, to be replaced with a more confident and self-sustaining growth cycle.

Inflation will be higher than the last decade:

The stronger demand does mean higher inflation too. To be sure this does not mean worryingly high, but higher, nonetheless. This will have huge implications for interest rates and savers need to be ready.

7IM portfolios are positioned for the new cycle. We are:

- Positioned away from mega-cap US internet stocks and towards cyclical companies in developed markets, and high emerging market equity allocations.
- Underweight government bonds in a rising rate environment; seeking higher returns in specialist fixed income.
- Overweight alternatives to offer defensive qualities
- Longer-term investments in climate change and healthcare.

Detailed asset allocation

	Defensive	Cautious	Balanced	Moderately Adventurous	Adventurous	Income
UK Equities	2.0%	3.0%	9.0%	11.0%	13.0%	17.5%
US Equities	5.0%	7.5%	13.5%	15.5%	19.0%	13.5%
European Equities	2.0%	2.0%	3.5%	8.0%	8.5%	5.0%
Japan Equities	2.0%	2.5%	3.5%	8.0%	8.5%	4.0%
Emerging Markets Equities	3.0%	5.5%	7.0%	10.0%	13.5%	7.0%
Global Equities	4.0%	8.0%	12.0%	16.0%	20.0%	0.0%
UK Mid Cap	0.0%	1.0%	2.0%	3.0%	3.5%	0.0%
Global Government Bonds	18.0%	4.5%	2.5%	0.0%	0.0%	4.0%
Gilts*	6.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Global Inflation Linked Bonds	6.0%	3.0%	0.0%	0.0%	0.0%	0.0%
Global Corporate Bonds**	6.5%	14.0%	5.0%	0.0%	0.0%	7.0%
UK Corporate	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%
Global High Yield Bonds	10.0%	10.0%	10.0%	3.5%	0.0%	14.0%
Emerging Markets Bonds	6.0%	9.5%	10.0%	7.0%	3.0%	14.0%
Real Estate***	0.0%	2.5%	2.5%	3.5%	3.0%	6.0%
Alternatives/Hedge Funds	18.5%	18.0%	14.0%	12.0%	6.0%	0.0%
Cash	11.0%	9.0%	5.5%	2.5%	2.0%	6.0%

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.