PRESS RELEASE

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7IM PUBLISHES LATEST SCENARIOS – FOUR POTENTIAL DIRECTIONS OF TRAVEL FOR MARKETS

- **Glass half full on equities (but don't drink too quickly)**

Seven Investment Management's (7IM) latest scenario planning from its investment management team maps out four main potential directions of travel for global markets this year and into next.

These are: *Long Cycle (inflation down, growth up); Heading for Late Cycle (inflation up, growth up)*; *Inflation Shock (inflation up, growth down)* and *Uphill Struggle* (inflation down, growth down).

The **7IM** team is tempering their optimism, and what it sees as a strong global economic landscape, with some portfolio protections, with volatility seen as a headwind which may continue. Whilst government bond yields are at more attractive levels than they were, the team still consider them unappealing in absolute terms.

Ben Kumar, Investment Manager, Seven Investment Management (7IM): "The job of any multi asset manager is to pack for all eventualities, and as we move into quarter two, we have sunglasses, an umbrella, and some portfolio insurance in place in the form of a put option on the Euro Stoxx and the S&P 500. Whilst we are planning for a range of scenarios, the scenery looks good, with US fiscal stimulus adding to already strong growth, a recovery stretching to the weakest parts of Europe and with Japan and China stable. Whilst there may be stronger inflation pressures as a result of stronger growth, these should be contained.

"However, our analysis sees potential for continued volatility as investors grapple with higher bond yields. The market's reaction last week to US trade tariff talks, which we felt had all the hallmarks of ill-judged bluster and backtracking, played to our 'uphill struggle' scenario. Here, trade disputes become a greater preoccupation for markets as they become more skittish. Yet already there are signs of rapprochement from the US and it is perhaps no surprise to see the US rallying this week.

"We are currently *'glass half full – but don't drink too quickly'* on equities: holding a neutral overall position, but looking to add protection against large, sharp falls. In terms of regions, we prefer those economies that are most exposed to positive global growth – Japan and Europe. Whilst inflation fears are likely to move bond yields more than interest rates, actual inflation data is likely to be underwhelming, which should be a benign environment for risky assets. Government bond yields are at more attractive levels than they were, but still unappealing in absolute terms."

7IM latest scenarios

1. **Long Cycle (inflation down, growth up)**

- Synchronised global trade expansion remains robust.
- Confidence in an extended economic cycle stays high for businesses allowing corporate earnings growth to continue strongly.
- Combination of business investment in new capacity, productivity gains, low energy prices and structural trends (demographics, technology and globalisation) keep a lid on inflationary pressures.

- Fiscal stimulus in the US carries some inflationary risk, but offset by deregulation. The Fed feels able to wait until the impact is seen before changing currently expected hiking trajectory.
- In Europe, business and consumer surveys remain broad-based and positive, supported by looser fiscal policy and increased wage growth. Europe is reflating, but inflation risk is seen as contained: the ECB stays dovish.
- Japan benefits from positive external environment. The Bank of Japan has room to manoeuvre on policy adjustment.
- China rebalancing continues, supported by the positive global environment.

2. Heading For Late Cycle (inflation up, growth up)

- Synchronised global trade expansion remains robust.
- Consumer confidence stays high and firms gain pricing power allowing corporate earnings growth to continue strongly.
- Wage growth in Developed Markets and other input costs drive inflation expectations upwards – fears of an overheating economy?
- In the US, the impact of fiscal stimulus in an economy near capacity increases inflation and deficit concerns. Expectations build for a more aggressive monetary policy stance.
- In Europe, business and consumer surveys remain broad-based and positive, supported by looser fiscal policy and increased wage growth. The ECB is nervous about inflation coming through more quickly than expected.
- Positive external environment improves Japanese domestic situation – the Bank of Japan can consider a change to yield targeting and may face greater market pressure to do so.
- China rebalancing continues, supported by the positive global environment.

3. Inflation Shock (inflation up, growth down)

- Growth vs inflation mix deteriorates.
- Higher input costs (perhaps driven by commodity prices or a result of trade skirmishes) underpin inflation pipeline pressures
- US fiscal stimulus delivers less growth but more inflation than expected. “Twin Deficit” narrative starts to take hold. The US Dollar continues to weaken.
- Bond markets mistake transient inflation pressures for embedded inflation, and fear the Federal Reserve is behind the curve.
- Cost of debt starts to weigh, confidence comes under pressure, firms pull back investment and employment intentions.
- Earlier stage EU/Japan recovery cycles curtailed by loss of global momentum.
- This scenario does not see recession in 2018, but central bank induced recession in 2019 becomes a worry.

4. Uphill struggle (inflation down, growth down)

- One or more regions loses growth momentum, threatening synchronised cycle.
- In the US, the drag from existing monetary tightening greater than expected. Fiscal stimulus impact more subdued than hoped.
- In Europe, the recent run of negative surprises and softer purchasing manager index precedes a more significant stutter in the expansion – and old worries resurface.
- In China, the housing/construction slowdown is deeper than expected, with policy response delayed or less effective than hoped.
- In this environment, trade disputes become a real concern for markets.
- Against a cyclical slowdown, structural disinflation trends reassert themselves.

- Central banks move towards a more dovish stance – rate hikes are deferred, concerns build about policymakers' toolkit for the next downturn.
- This scenario sees a low probability of recession in 2018 but opens the possibility for 2019. Growth is however still underpinned by policy and could regain momentum.

Ends

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Notes to Editors:

About 7IM

It all began in 2002, with seven of us in a basement establishing Seven Investment Management (7IM) because we couldn't find anywhere we wanted to invest our families' money. Our assets under management now stand at around £12bn (more than doubling since 2013), and we have moved from 'basement' to 'Bishopsgate' in the City of London. There are now around 240 of us.

Radical common sense

We manage money aiming to meet people's medium to long term return expectations. Fundamentally, we believe in active asset allocation in both active and passive investments (where we were one of the first to offer actively managed passive portfolios). We build global portfolios based on that allocation, and include alternative assets where appropriate to manage the risk reward trade off. Active currency management is also at the core of what we do.

7IM provides investment services to professional wealth managers, planners, advisers and private investors. These include: Discretionary investment management, a range of multi-asset portfolios, an investment and open architecture trading platform and a fantastic app, 7IMagine, which brings client portfolios to life.

Multigenerational investing

We do our best to pass on economies of scale, reducing fees so more investors within a family save with us. Grandparents, through to parents and their children can invest as individuals with one charging structure – whether they live under the same roof or not.

A story of continuous innovation.
In 2013, we launched 7IMagine, an app allowing investors and advisers to keep up to date with their portfolio. The brainchild of some clients – professional 'gamers' uninspired by their paper statements – 7IMagine was enriched in February 2016, with My Future. Again using gaming technology, My Future allows advisers and investors to capture details about family or individual finances, including any number of streams of income, properties, other assets and expenses, to help identify how sustainable their finances are and if / when their retirement income will run out.

Our funds

– Our **AAP fund range (Asset Allocated Passive)** is populated largely with passive structures to keep costs to a minimum. Asset allocation is actively managed to help exploit opportunities and reduce risk across the spectrum: **7IM AAP Adventurous, 7IM AAP Moderately Adventurous, 7IM AAP**

Balanced, 7IM AAP Moderately Cautious, 7IM Cautious and 7IM AAP Income. Some of these risk profiles have an offshore version of the fund.

- Our **Multi-Manager fund range** invests in a range of active and passive vehicles. Costs still matter, but if we think an actively managed fund can outperform a passive alternative we have the freedom to choose it. Asset allocation is actively managed. Again, there are different funds for different profiles: **7IM Adventurous**, **7IM Moderately Adventurous**, **7IM Balanced** and **7IM Moderately Cautious**. Again, some of these risk profiles have an offshore version of the fund.
- We also have a selection of funds designed to meet specific needs, such as the **7IM Personal Injury Fund**, the **7IM Real Return Fund** or the SRI focussed **7IM Sustainable Balance Fund**.
- We also have a range of 'smart passive' funds known as the equity value funds. The range includes: the **7IM UK Equity Value Fund**, the **7IM US Equity Value Fund**, the **7IM European (ex. UK) Equity Value Fund** or the **7IM Emerging Markets Equity Value Fund**. These are entirely systematically managed based solely on company fundamentals, the aim being to outperform the relevant passive market cap-weighted alternative by selecting profitable, high-quality, cash-flow generating companies that trade at a discount to their intrinsic value.

Our Model Portfolios

The 7IM Model Portfolios are a range of risk rated portfolios and are available within our discretionary investment services and standalone on the 7IM platform and other platforms. The Models use the same investment process and asset allocation as our funds.

Our range of Model Portfolios are available across the risk profiles: **7IM Adventurous Model Portfolio, 7IM Moderately Adventurous Model Portfolio, 7IM Balanced Model Portfolio, 7IM Moderately Cautious Model Portfolio, 7IM Cautious Model Portfolio and 7IM Income Model Portfolio**.

The 7IM funds and Model Portfolios are available through the 7IM Discretionary, Managed Investment, Platform, and Self Invest services, as well as on other platforms.

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