MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

MARCH 2021

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.

	Q1/2016 - Q1/2017	Q1/2017 - Q1/2018	Q1/2018 - Q1/2019	Q1/2019 - Q1/2020	Q1/2020 - Q1/2021	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	11.2%	-0.1%	1.4%	-0.8%	9.3%	3.2%	4.1%	3.0 – 4.5%
Cautious	13.9%	0.7%	0.7%	-2.5%	14.0%	3.8%	5.1%	4.5 - 6.0%
Balanced	17.0%	1.6%	1.2%	-5.1%	19.8%	4.8%	6.5%	5.2 – 7.5%
Moderately Adventurous	21.1%	2.9%	1.1%	-8.1%	26.1%	5.4%	7.8%	6.0 – 8.0%
Adventurous	22.8%	3.5%	1.6%	-10.6%	30.8%	5.9%	8.6%	7.0 - 10.0%
Income	16.6%	0.5%	3.3%	-8.7%	19.0%	3.9%	5.6%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end March 2021.
The extreme COVID-19 related drawdown at the start of 2020 means performance should continue be viewed with caution. All portfolios are within their ranges for the five year returns, with the more defensive end showing particularly strong numbers.

Market and portfolio review

March marked the one-year anniversary of the first COVID lockdown. Although it might not feel like it, the end is very much in sight. The 'third wave' COVID headlines will dominate, but 7IM believe that the ongoing vaccine programmes still offer an overwhelming reason to be positive.

In the UK, cases are still falling and deaths are plummeting as most of those that are at risk of death have had at least one shot. On Sunday 28 March, London celebrated its second day this year with no deaths. In the US, Biden has announced that 90% of adults in the US will be eligible for the vaccine by 19 April. This is why COVID is falling away from investors consciousness.

On 3 March, Sunak delivered the UK budget. Although our portfolios are globally diversified, the overall message fits with our conviction that a strong economic recovery is on its way. The Office for Budget Responsibility predicted 4% growth this year, followed by 7.3% in 2022. The result of this would be that the economy would return to its pre-COVID level by the middle of 2022, much sooner than most economists expected this time a year ago. On top of this, unemployment is expected to peak at 6.5% massively down from estimates of 11.9% from July last year. This means 1.8 million fewer people without a job.

Shortly after the budget, Biden's $1.9 trillion stimulus package won final approval in congress. The Organisation for Economic Co-operation and Development then revised up their estimate of global economy growth from 4.2% in December to 5.6%, thanks in large to Biden's stimulus package.

Biden's spending plans also caused a sell-off in bonds as treasury yields hit 14-month highs. Investors are worried the Federal Reserve will shift away from expansionary monetary policy. But, as 7IM have said before, the world is not yet fully out of a crisis, let alone 'running too hot'.

Things are returning to normal, and the conditions for a strong period of global growth are firmly in place – so our portfolios have decent allocations to equities which should benefit. Once growth becomes really embedded, attention will turn to the low level of interest rates. At some point, central banks will have to begin a hiking cycle, despite what short-term signals they are giving. That day is still some way off as though.

Portfolio positioning and changes

No changes were made to the Succession model portfolios during March.

Core views

Policymakers will stay supportive… The world has never seen as much coordinated stimulus as in the past year – and the impact is yet to come. 7IM believe this sets the stage for a strong economic recovery across the world in 2021. The return to growth will occur at slightly different paces in different places – much of Asia is already back on track, the US should have a vibrant start to the year, with Europe finishing strongly. As the recovery continues, and turns into an expansion, 7IM want to be exposed to it.

The post-COVID consumer will make up for lost time… Vaccination rollouts make the end of lockdowns real, and people are making big plans. Through a combination of savings, government support and job growth, consumers have never had more firepower following a crisis.

Our portfolios are positioned for the new economic cycle… 7IM think that the new cycle will require new leaders. Large US technology companies will still be crucial as part of the growth cycle, but other regions and industries are now better positioned to benefit, as economies re-open and consumers are desperate to spend. We think that smaller, more nimble businesses can ride the wave best.

ASSET ALLOCATION

Detailed asset allocation

	Defensive	Cautious	Balanced	Moderately Adventurous	Adventurous	Income
UK Equities	7.0%	8.5%	15.5%	19.5%	21.0%	18.0%
US Equities	4.5%	7.5%	18.5%	21.5%	29.0%	13.0%
European Equities	2.5%	4.0%	3.0%	4.0%	5.0%	7.5%
Japan Equities	2.0%	3.0%	4.0%	11.0%	12.0%	4.0%
Emerging Markets Equities	3.0%	4.5%	6.0%	9.5%	13.0%	6.0%
Global Government Bonds	9.5%	4.5%	3.5%	0.0%	0.0%	3.0%
UK Mid Cap	0.0%	2.0%	3.0%	4.0%	6.0%	4.5%
Gilts*	6.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Global Inflation Linked Bonds	5.0%	3.0%	0.0%	0.0%	0.0%	0.0%
Global Corporate Bonds**	27.5%	22.0%	9.0%	0.0%	0.0%	10.0%
UK Corporate	10.0%	8.5%	3.5%	0.0%	0.0%	0.0%
Global High Yield Bonds	4.0%	5.0%	5.0%	3.5%	0.0%	10.0%
Emerging Markets Bonds	5.0%	8.5%	9.0%	7.0%	0.0%	16.0%
Real Estate***	0.0%	3.0%	3.0%	5.0%	5.0%	6.0%
Alternatives/Hedge Funds	12.0%	12.0%	15.0%	13.0%	7.0%	0.0%
Cash	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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.