MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

OCTOBER 2023

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.

	Q3/2018 - Q3/2019	Q3/2019 - Q3/2020	Q3/2020 - Q3/2021	Q3/2021 - Q3/2022	Q3/2022 - Q3/2023	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	5.06%	1.25%	4.73%	-9.22%	0.45%	-1.78%	0.32%	3.0 – 4.5%
Cautious	4.30%	1.30%	8.66%	-8.68%	2.46%	0.34%	1.56%	4.5 - 6.0%
Balanced	3.34%	0.32%	13.88%	-7.40%	4.10%	3.04%	2.86%	5.2 – 7.5%
Moderately Adventurous	2.42%	-0.60%	18.06%	-6.03%	5.70%	5.50%	4.03%	6.0 – 8.0%
Adventurous	1.56%	-1.36%	21.60%	-5.64%	5.26%	6.38%	4.37%	7.0 - 10.0%
Income	7.24%	-4.76%	13.19%	-8.60%	4.29%	2.46%	1.90%	

Source: 7IM/FE. Annualised return is defined as 'Ann. Return' in the performance table above and is as at end October 2023. 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

Inflation, rates, and escalating geopolitical uncertainty... October was a gloomy month, further spooking investors as global markets continued their downward trend.

Mediocre quarterly earnings prompted the fall in global equity markets this month, despite stronger-than-expected economic growth data. The Big Tech names that previously drove the summer's artificial intelligence enthusiasm dragged the market lower in the last two weeks of October. Google, Apple and Facebook all had enough negativity and uncertainty in their results to drive the S&P 500 to return -2.1% over the month. The FTSE 100 exhibited similar weakness as global demand concerns dragged the performance of oil and commodity-linked stocks down, ending the month at -3.7%.

The ongoing increase in bond yields has not helped equity performance either. Long-end treasury yields continued to climb, with the US 10-year yield briefly touching 5% for the first time in 16 years and pulling back shortly after.

We see plenty headlines highlighting bond yield surges, but why has that happened and what does that mean? Here's a quick breakdown:

1. Persistent inflation on the back of Covid and the Russia/Ukraine conflict...
2. ...Caused central banks to raise interest rates to control inflation.
3. Resilient economic outlook suggests that rates need to stay high for some time...
4. ...Just as government debt levels are rising.

All of the above means that bond yields have been volatile in 2023 and much of that reflects the economic environment. While central banks control short-term interest rates, longer-term rates are out of their reach. This means supply and demand factors and expectations of future inflation have a greater influence on bond prices with longer maturities. So, when the market has to contend with this, it tends to get reflected in higher 'long-end' yields.

However, there is some good news. October ended with a focus on interest rates as the Federal Reserve, the Bank of England, and the European Central Bank all maintained unchanged rates. Now, this might not be the *end* of rate hikes, but it might be the beginning of the end.

Looking ahead, it is said that markets tend to rebound in November. Markets are already upbeat as the S&P 500 recorded its highest weekly gain in a year. Meanwhile, the volatility index, also known as the 'fear gauge', plummeted from its seven-month high at the end of October.

Halloween is now over, which means we are heading into holiday season, patiently waiting for the Christmas light switch-ons. Let's see if markets also pick up on the festivities… will there be a 'Santa rally' at the end of the year?

Portfolio Positioning and Changes

In October, 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.

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%	20.50%	23.50%	20.50%
North American Equity	6.00%	10.00%	16.00%	17.00%	15.50%	12.50%
European Equity	3.00%	3.50%	4.00%	6.00%	6.50%	5.00%
Japan Equity	2.00%	2.50%	4.50%	7.00%	8.50%	3.50%
Emerging Market Equity	2.00%	3.00%	2.00%	4.50%	8.00%	4.00%
Global Themes	5.50%	7.00%	10.50%	16.00%	20.50%	6.50%
Global Govt Bond	23.50%	7.00%	6.50%	0.00%	0.00%	9.00%
Gilts	6.50%	3.50%	1.50%	0.00%	0.00%	1.00%
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%	4.00%	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	20.50%	17.50%	15.00%	13.50%	6.00%	0.00%
Cash & Money Market	2.00%	3.50%	3.00%	3.00%	3.00%	2.50%
Infrastructure	0.00%	0.00%	0.00%	0.00%	0.00%	5.00%

Source: 7IM.