QUARTERLY REBALANCE COMMENTARY
FEBRUARY 2021

SUCCESSION
MODEL PORTFOLIOS
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Overview

During the last three months, our conviction in the strength of the economic recovery has continued. Huge stimulus packages in the US and Europe, coupled with continued growth in China give us every reason to believe growth in 2021 will be strong.

As well as this stimulus, the production and approval of vaccines over the past 3 months are another overwhelming reason to be positive. It is increasingly clear that COVID is no longer an unknown problem. The challenges are much clearer. They involve vaccine production, distribution and rollout, all of which are difficult, but solvable.

As things begin to return to normal, the conditions for a strong period of global growth are firmly in place – so our portfolios have decent allocations to equities in order to benefit. Once growth becomes really embedded, attention will turn to the low level of interest rates, and at some point, central banks will have to begin a hiking cycle. That day is a long way off, but we still think that government bonds are unattractive, and prefer to invest in alternative assets which can still offer defensive qualities.

Core investment views

The recovery is almost over – growth comes next... The world has never seen as much coordinated stimulus as in the past nine months. We 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, we want to be exposed to it. *Positive for credit and equity.*

Our portfolios are positioned for the new economic cycle... We think that the new cycle will require new leaders. Large US and Chinese technology companies will still be crucial as part of the growth cycle, but other industries are now better positioned to benefit, with the low cost of debt and a cash-rich consumer desperate for products and services. We think that smaller, more nimble businesses can ride the wave best. *Positive for lagging equity.*

The virus hasn't derailed growth... Lockdowns are unlikely to be as severe and as widespread as previously. At the same time the vaccine offers a concrete way to end this crisis. Looking at the long term and looking globally, there is more economic good news than bad news – despite how it can feel in the UK at the moment. *Positive for credit and equity.*

	Strongly negative	Negative	SAA	Positive	Strongly positive
Equity				x	
Credit				x	
Bonds		x			
Alternatives				x	
Cash			x		
GBP			x		

TAA themes	Implementation
The world is getting older	Healthcare companies
Bond safety has disappeared	Alternatives
East Asia is returning to normal	Asia high yield
A US housing boom is underway	US mortgages
European banks are immune from COVID	European alternative tier 1s
COVID-19 bounce-back	Recovery basket

Please turn over

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Asset allocation changes

Headline risk. The overall risk of the portfolios has not changed this quarter, with an overweight to equities and an underweight to government bonds.

Adding global mid-cap companies. In order to further benefit from our conviction in an economic bounce-back from COVID-19, we have added a mid-cap position into portfolios. We sell small parts of our developed market large-cap allocations to do so.

As has been the case in previous economic cycles, we believe that these mid-cap companies are better placed to be benefit from the economic recovery than their large and mega-cap counterparts that have been stealing the headlines. Another benefit we see is the fact that valuations in the space are more attractive than larger caps, and these smaller, nimbler companies will be able to take advantage of the opportunities offered.

Increase alternatives. Given current interest rates, we don't believe that bonds provide adequate protection to portfolios. This has led us to reduce our allocation to credit and increase our allocation to alternatives this quarter, while keeping our allocation to equity broadly the same. We believe that a well-constructed alternatives basket will generate higher returns than corporate bonds, whilst providing strong defensive properties through drawdowns.

Please note: All of the comments in this document refer to the models we run on the 7IM platform, but the models are also available on a range of other platforms. As much as possible, we try to replicate the models we run of the 7IM platform across all platforms, but due to differing security availability, not all of the points outlined in this document may be relevant across these platforms. If you are unsure whether certain changes apply to models on a specific platform, please reach out to a member of the team.