# MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

**NOVEMBER 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% | -1.81% | 1.01% | 3.0 – 4.5% |
| Cautious | 4.30% | 1.30% | 8.66% | -8.68% | 2.46% | -0.17% | 2.25% | 4.5 - 6.0% |
| Balanced | 3.34% | 0.32% | 13.88% | -7.40% | 4.10% | 1.81% | 3.48% | 5.2 – 7.5% |
| Moderately Adventurous | 2.42% | -0.60% | 18.06% | -6.03% | 5.70% | 3.38% | 4.50% | 6.0 – 8.0% |
| Adventurous | 1.56% | -1.36% | 21.60% | -5.64% | 5.26% | 3.96% | 4.86% | 7.0 - 10.0% |
| Income | 7.24% | -4.76% | 13.19% | -8.60% | 4.29% | 0.95% | 2.50% | |

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

It's a familiar Grinch-like moan that Christmas seems to start earlier and earlier every year. We mentioned last month that markets tend to rebound in November and so it proved, with lots of commentators eagerly discussing the 'Santa Rally' as both equity and fixed income markets finished November with a flourish. As ever, there were lots of possible catalysts, but certainly, early signs of economic moderation in the US and decreasing inflation in developed markets helped calm nerves:

- The S&P 500 closed the month with a gain of 9%, one of the best November gains in 100 years. This results in a staggering 21% return year-to-date. Likewise, the NASDAQ 100 soared almost 11%. This marks a swift turnaround from the three-month losing streak, and aligns with the consistent pattern observed throughout 2023, the unending dominance of Big Tech. Other segments of the stock market, such as small caps and cyclical stocks, have also picked up positively. But the leader of year-to-date regional index performance is Japan TOPIX, returning over 28% in local currency terms as Japan finally deals with deflation.

- Accompanying the equity rally, global bonds also experienced their swiftest surge since the 2008 financial crisis on the back of anticipated rate cuts next year. The 10-year treasury yields are down from their October peak of 5%, sitting at 4.35% at the end of November. Debt instruments in emerging markets also experienced a favourable month, attributed to a depreciation of the US dollar.

The main economic act this month was inflation data…

Another decline in inflation figures prompted widespread belief that both the US Federal Reserve and the European Central Bank have concluded their rate hikes in the current cycle. The Consumer Price Index released on 14 November showed inflation cooling. The Personal Consumption Expenditures Price Index, the central bank's favourite inflation indicator showing the cost of living for households, released a couple of weeks later demonstrated a similar pattern with a lower-than-expected headline and core inflation of +3% and +3.5% year-on-year, respectively. These figures are less than half the peak rate seen in June 2022. UK inflation growth also fell, showing price pressures gradually receding.

As we head into the final month of a rollercoaster year, will the 'Santa Rally' continue – or has the man in red already emptied his sack? We think there's a good chance that most markets will struggle to repeat the positive behaviour of November, especially with a shorter month, and a light economic calendar.

**Portfolio Positioning and Changes**

Overall, fairly minor changes this quarter. At the lower end of the risk spectrum, the allocation to Long Duration Gilts was increased, funded by a reduction in Alternative Strategies. In higher risk profiles, the Equity component of the portfolio was increased marginally, funded primarily from cash.

**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% | 21.00% | 24.00% | 20.50% |
| North American Equity | 6.00% | 10.50% | 17.00% | 18.00% | 18.00% | 12.50% |
| European Equity | 3.50% | 4.00% | 4.50% | 6.50% | 7.50% | 5.00% |
| Japan Equity | 2.00% | 2.50% | 4.50% | 7.50% | 9.50% | 3.50% |
| Emerging Market Equity | 2.00% | 3.00% | 2.50% | 5.00% | 8.50% | 4.00% |
| Global Themes | 5.00% | 6.00% | 9.00% | 14.00% | 18.00% | 6.50% |
| Global Govt Bond | 23.50% | 8.50% | 7.00% | 0.00% | 0.00% | 7.50% |
| Gilts | 10.50% | 6.50% | 3.50% | 0.00% | 0.00% | 3.00% |
| 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% | 2.50% | 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 | 16.50% | 14.50% | 13.00% | 13.50% | 5.50% | 0.00% |
| Cash & Money Market | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |

Source: 7IM.

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. Any reference to specific instruments within this article does not constitute an investment recommendation.

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