MODEL PORTFOLIO SERVICE
MONTHLY COMMENTARY

SUCCESSION
MODEL PORTFOLIOS
POWERED BY
7IM

DECEMBER 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.

	Q4/2018 - Q4/2019	Q4/2019 - Q4/2020	Q4/2020 - Q4/2021	Q4/2021 - Q4/2022	Q4/2022 - Q4/2023	3 Year Ann. Return	5 Year Ann. Return	Succession Matrix Expected Parameters – Ann. Return
Defensive	7.09%	5.99%	1.74%	-8.39%	4.51%	-0.87%	2.03%	3.0 – 4.5%
Cautious	8.78%	6.48%	4.40%	-7.22%	5.46%	0.71%	3.42%	4.5 - 6.0%
Balanced	11.28%	6.03%	8.47%	-6.08%	5.85%	2.54%	4.93%	5.2 – 7.5%
Moderately Adventurous	13.47%	5.98%	11.27%	-4.41%	5.77%	4.00%	6.23%	6.0 – 8.0%
Adventurous	15.65%	5.28%	14.36%	-4.91%	5.58%	4.71%	6.93%	7.0 - 10.0%
Income	11.22%	2.23%	7.11%	-5.78%	4.60%	1.82%	3.72%	

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

After an extremely positive November for most financial markets, there was some apprehension that December 2023 would prove to be a damp squib (or worse). As it turned out, the good vibes from November continued…

The major global central banks kept policy unchanged – and although the European Central Bank and the Bank of England did their best to communicate a lingering sense of caution, markets largely ignored their comments, preferring to focus on the Federal Reserve's implication that the battle with inflation might be coming to an end.

As such, 10-year US government bond yields fell under 4%, continuing their decline from a high of 5% in October. The UK gilt market followed a similar course, with 10-year bonds now yielding less than 3.5%.

Of course, falling yields are difficult to get excited about; we need to see the price movement to feel the real impact and get the context. The most vivid example is the UK Gilt maturing in 2061, which has seen a 25% gain in value over the last month! As we've been saying for most of 2023, bonds look like a good investment at this point of the economic cycle, with yields at these levels. We're starting to see why.

Equity investors also had a good time of it. The large cap US equity market rose 5%, but in a shift from the prevailing narrative of this year, this wasn't all down to the Magnificent Seven. Small cap US stocks have sprung back into life, the Russell 2000 index rose 14% as investors started to see the opportunities available to them. For many of the 7IM positions in the US – equal weight, climate transitions, healthcare innovations – this is what we've been expecting to see for some time. It's not all about the big tech stocks – there are thousands of other great businesses to invest in!

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One notable laggard in the equity space during December was Japan. Rather than anything being wrong with the businesses though, this was largely to do with the strength of the Yen as investors started to reconsider the direction of travel for interest rates next year (likely higher in Japan, and lower in the US). Again, this was good news for 7IM funds which have an allocation to the Japanese Yen for just this reason.

As we look ahead to 2024, we don't see a need to change portfolios. Many of the stories which have started in December are likely to continue into next year – and we're already well placed to benefit.

Portfolio Positioning and Changes

In December, 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.

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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 Markets 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 Bonds	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.