

Overview

Since the model rebalance in mid-February, markets have had a huge amount of news to digest.

During February, markets struggled despite some economic data that would usually be considered positive. The stagflationary environment that we find ourselves in can make it hard to know what to make of some data points. An example of this in February was the lower-than-expected US unemployment figure wasn't seen as a positive. If unemployment is the necessary evil to bring inflation down, it's hard to know whether low unemployment figures are a good thing.

March was an extremely eventful month for markets. At the start of the month, Silicon Valley Bank collapsed as their poorly managed balance sheet risk led to a loss of confidence in the bank and ultimately, heavy deposit flight. Then, the seemingly unrelated Credit Suisse also experienced deposit flight to the point that they could not meet redemptions leading to the Swiss government brokered deal with UBS.

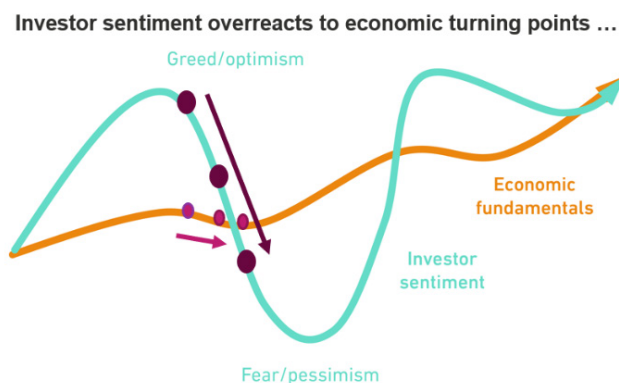
After a manic Q1 for markets, an uneventful April and May have been a relief. Equities posted modest gains, with the FTSE 100 leading the way on account of some positive signs from inflation data. There was some noise around the potential issues that the US debt ceiling might create, but markets did not respond much.

Core investment views

At 7IM, we have several 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 slide into a recession. 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 will come down. Goods inflation is slowly normalising, and supply chain pressures are going
- Central banks are getting close to the end of their hiking cycles, but there is still a bit more work to do
- A US recession is highly likely. Most leading indicators are pointing towards a recession, but the recession shouldn't be too long or deep.



... with *slightly* weaker data leading to panic right now

Source: 7IM

And so, investors are starting to worry about what's next for financial markets. Economic data isn't likely to stabilise until next year. Equity markets are unlikely to perform well.

We know our investment identity helps us to deliver in just these kinds of environments. We have positions that can generate returns despite this volatile backdrop.

At a headline asset class level, our portfolio positioning has remained the same since last quarter:

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

7IM Responsible Choice long term themes

Portfolio themes	Comment
The world is getting older	The healthcare sector is best placed to take advantage of this. The sector still trades at a discount and we believe that the sector is starting to be recognised for its strengths – especially given its importance during the Covid pandemic.
Fighting Climate Change	Climate change is one of the biggest threats that humanity faces in the future. Without drastic action, the planet will warm by more than the 1.5% level agreed at the Paris Agreement. The Responsible Choice Models target companies that are managing their environmental risks and investing in a cleaner future.
Emerging markets will drive change	The funding gap to meet the Sustainable Development Goals by 2030 is between USD 6-8 Trillion and 70% of that is needed in emerging markets. This creates opportunities which we access in equity and fixed income markets.
Global impact	Impact investments are those that lead to a material and measurable improvement to environmental and social problems. The Responsible Choice Models have access to companies that are driving positive change around the world.
Sustainable finance	The private sector will be increasingly leaned on to drive environmental change and find solutions for an ageing population. The Responsible Choice Models have exposure to both green bonds and social bonds, which are linked to sustainable projects.

Asset allocation changes

We have made the following tactical changes to portfolios in this quarterly rebalance:

- **Reduced our weight in AT1s.** We still have a lot of conviction in AT1s as an asset class. European banks are fundamentally sound, and AT1s are offering very attractive yields. However, given recent volatility, we believe that downsizing the position is prudent from a risk management point of view.
- **Added to our climate change position.** The long-term case of this position remains very strong, and we believe now is an opportune time to add, given recent market moves.

Manager changes

This quarter, there have not been any major manager changes across our model portfolios.

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.

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 investments are included for information purposes only and are not intended to provide stock recommendation or investment recommendations to individual investors.

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