

Liz Truss and the three P's; politics, portfolios and perspective

20 October 2022

AUTHOR

Ben Kumar
Senior Investment
Strategist



Liz Truss' time as Prime Minister was basically a flash fire – over quite quickly, but causing a lot of damage while it burnt."

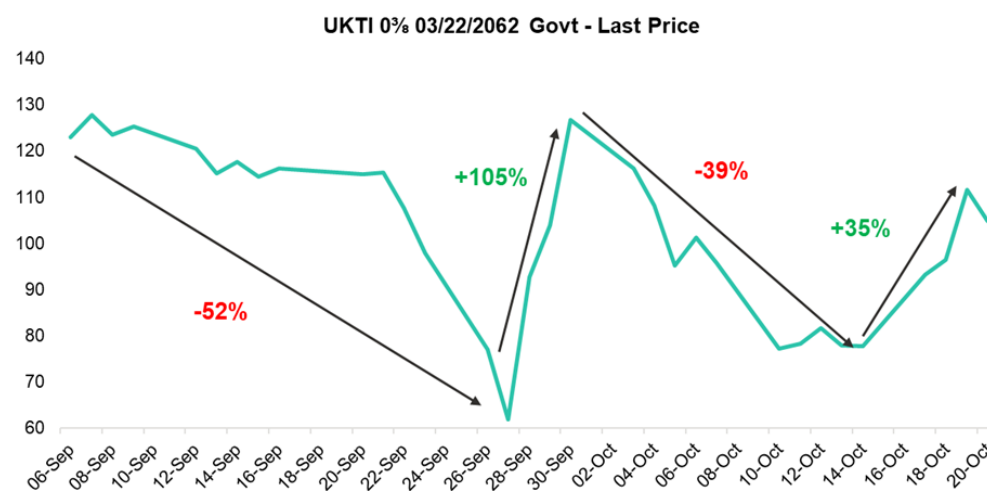
Politics

There's a Taoist proverb; *"The candle that burns twice as bright, burns half as long"*.

Liz Truss' time as Prime Minister was basically a flash fire – over quite quickly, but causing a lot of damage while it burnt.

The chart below shows her 44 days in office, and the price movements of the 40 year UK inflation-linked bond. Technically, the bond 'only' lost 15% in value over the course of her time in Number 10 (although that's not exactly a five star review...).

But really the story has been about the journey. For the debt of an established Western democratic nation to fall and rise by double and triple digit percentages *multiple times* over a six week period is unprecedented. It leaves the next holder of the office an even harder task than Truss was faced with – all of the previous challenges remain (inflation, energy prices, growth, climate change, healthcare) but with the added issue of a lack of confidence – from financial markets and from the electorate.



Source: 7IM, Bloomberg Finance L.P./7IM. Past performance is not a guide to future returns, chart(s)/data for illustration purposes and are not for further distribution.

Since the beginning of summer, we've had four chancellors, three home secretaries and two prime ministers. And we're not even done yet. By the end of next week those tallies will change again. It's too early to say what the next iteration of UK government will look like. While we only have to wait a week, as we keep finding out, that can be a loooong time in politics.

Portfolios

From an investment point of view, nothing changes for us. We've repeated these messages a lot this year, but they're still just as true.

Our portfolios are structurally diversified away from UK exposure. As we've said time and time again, having all of our eggs in one basket has never been our approach:

- **Currency:** Holding foreign currency offers protection against specific local shocks – whether natural disasters or political uncertainty. In our Balanced portfolios, 40% of the portfolio is in non-Sterling currency. We can (and do) tactically increase or decrease this weight if needed – but it's certainly a reassuring starting point.

For more information call 020 7760 8777

- **Equity:** Our equity holdings are also extremely diversified; only around 10% of the sales of the companies we hold comes from the UK – the economic health of the global economy is far more important to returns.
- **Bonds:** Similar to our equity positions, our bond holdings are also globally diversified. In a balanced portfolio, around 2% of the total portfolio is in UK-based fixed income securities, and even in the Cautious profile, the overall weight to UK bonds is less than 10%.

Perspective

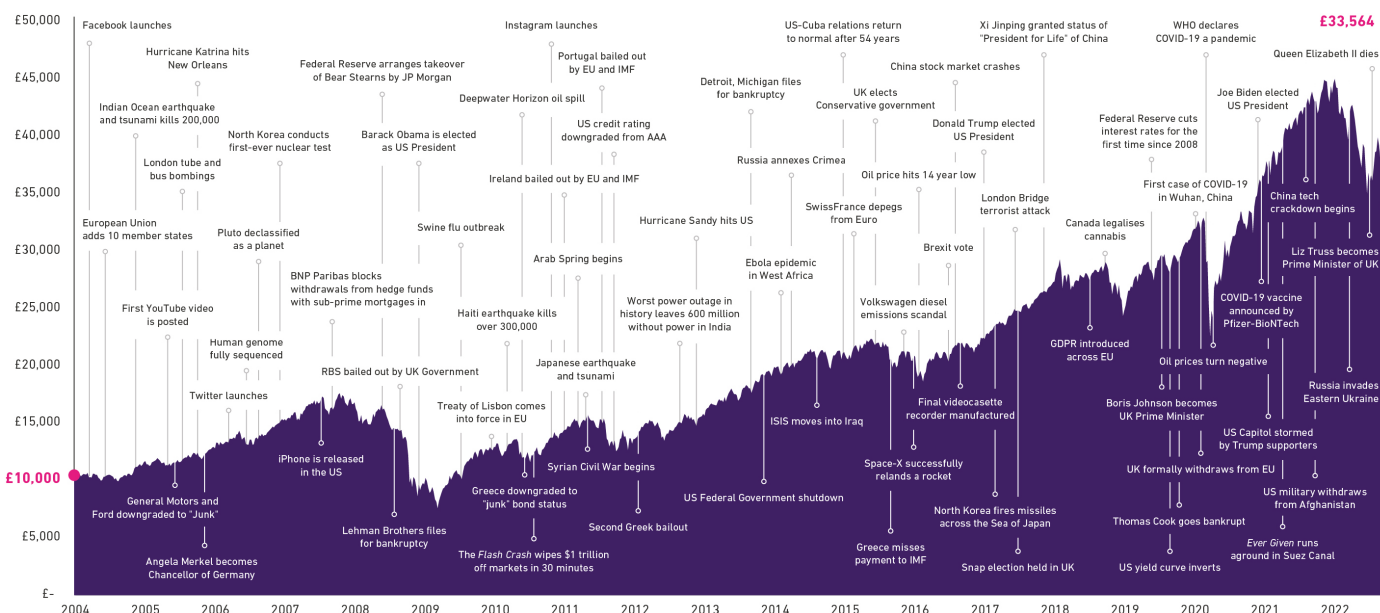
It's always hard to keep perspective. I like to keep the chart below up to date (haven't quite done so for Liz Truss' exit, but you'll see her entrance on there). It shows the long-term growth of markets since 7IM began managing money.

A lot happens in the world. Lots of it can seem scary. Terrorist attacks, wars, diseases, elections and natural disasters. You'll see them all below. And they all feel terrifying.

But there's a lot of good news too. And it's that which keeps things moving, and keeps markets rising in the long term. So I've included some of the positives as well. The sequencing of the human genome. The launch of the iPhone. Peace treaties. The birth of Instagram (there's probably good and bad in that one...).

If you're invested globally, time is a great healer. And our process does just that.

Growth of £10,000 invested in S&P 500



Source: 7IM, Bloomberg Finance L.P./7IM. Past performance is not a guide to future returns, chart(s)/data for illustration purposes and are not for further distribution.

This piece is intended for educational purposes only and does not constitute financial or investment advice. Please be aware that past performance is not an indicator of future performance and the value of your investments can go up as well as down. Any reference to specific instruments within this article does not constitute an investment recommendation.

For more information call 020 7760 8777